

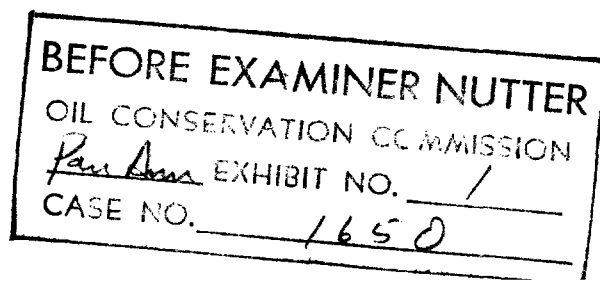
UNIT AGREEMENT FOR THE DEVELOPMENT AND
OPERATION OF THE MARTIN RANCH UNIT AREA
COUNTIES OF CHAVES AND DE BACA, STATE
OF NEW MEXICO

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Exhibit "A" (Map)

Exhibit "B" (Description of interests subject to agreement)



UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
MARTIN RANCH UNIT AREA
COUNTIES OF CHAVES AND
DeBACA
STATE OF NEW MEXICO
No. _____

THIS AGREEMENT, entered into as of the 14th day of April, 1958¹⁹⁵⁹,
by and between the parties subscribing, ratifying, or consenting hereto, and here-
in referred to as the "parties hereto",

WITNESSETH:

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

WHEREAS, the term, "Working Interest" as used herein shall mean the interest
held in unitized substances or in lands containing unitized substances by virtue of
a lease, operating agreement, fee title, or otherwise, which is chargeable with and
obligated to pay or bear all or a portion of the cost of drilling, developing, pro-
ducing, and operating the land under the unit or cooperative agreement. The right
delegated to Unit Operator as such by this agreement is not to be regarded as a
working interest; and

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is
authorized by an Act of the Legislature (Sec. 1, Chap. 62, Laws of 1951, Chap. 7,
Art. 11, Sec. 41, N.M. Stat. 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

1 WHEREAS, the Oil Conservation Commission of the State of New Mexico is 1
2 authorized by an Act of the Legislature (Chap. 168, Laws, 1949) to approve this 2
3 agreement and the conservation provisions hereof; and 3

4 WHEREAS, the parties hereto hold sufficient interests in the Martin Ranch 4
5 Unit Area covering the land hereinafter described to give reasonably effective con- 5
6 trol of operations therein; and 6

7 WHEREAS, it is the purpose of the parties hereto to conserve natural re- 7
8 sources, prevent waste, and secure other benefits obtainable through development 8
9 and operation of the area subject to this agreement under the terms, conditions, 9
10 and limitations herein set forth. 10

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

14 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 14
15 1920, as amended, supra, and all valid pertinent regulations, including operating 15
16 and unit plan regulations, heretofore issued thereunder or valid, pertinent, and 16
17 reasonable regulations hereafter issued thereunder are accepted and made a part of 17
18 this agreement as to Federal Lands, provided such regulations are not inconsistent 18
19 with the terms of this agreement; and as to non-Federal lands, the oil and gas 19
20 operating regulations in effect as of the effective date hereof governing drilling 20
21 and producing operations, not inconsistent with the terms hereof or the laws of the 21
22 State in which the non-Federal land is located, are hereby accepted and made a part 22
23 of this agreement. 23

24 2. UNIT AREA. The following described land is hereby designated and re- 24
25 cognized as constituting the unit area: 25

26	New Mexico Principal Meridian, New Mexico	26
27		<u>Acres</u> 27
28	<u>Township 3 South, Range 22 East</u>	28
29	Section 1: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	639.80 29
30	Sections 12 and 13: (All)	1280.00 30
31	Sections 22 to 27 inclusive: (All)	3840.00 31
32	Sections 34 to 36 inclusive: (All)	1920.00 32

		<u>Acres</u>	
1	<u>Township 3 South, Range 23 East</u>		1
2	Section 1: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.60	2
3	Section 2: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.88	3
4	Section 3: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.32	4
5	Section 4: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.44	5
6	Section 5: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.56	6
7	Section 6: Lots 1, 2, 3, 4, 5, 6, 7, S $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ (All)	622.28	7
8	Section 7: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	630.60	8
9	Sections 8 to 12 inclusive: (All)	3200.00	9
10	Sections 14 to 17 inclusive: (All)	2560.00	10
11	Section 18: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	635.32	11
12	Section 19: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	636.12	12
13	Sections 20 to 23 inclusive: (All)	2560.00	13
14	Sections 27 to 29 inclusive: (All)	1920.00	14
15	Section 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	640.88	15
16	Section 31: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	645.20	16
17	Sections 32 to 34 inclusive: (All)	1920.00	17
18	<u>Township 4 South, Range 22 East</u>		18
19	Section 1: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.40	19
20	Section 2: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.68	20
21	Section 3: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.76	21
22	Sections 10 to 15 inclusive: (All)	3840.00	22
23	<u>Township 4 South, Range 23 East</u>		23
24	Section 4: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.00	24
25	Section 5: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	639.64	25
26	Section 6: Lots 1, 2, 3, 4, 5, 6, 7, S $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ (All)	647.83	26
27	Section 7: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	650.60	27
	TOTAL	35,192.91	
28	Exhibit A attached hereto is a map showing the unit area and the bound-		28
29	aries and identity of tracts and leases in said area to the extent known to the Unit		29
30	Operator. Exhibit B attached hereto is a schedule showing to the extent known to		30
31	the Unit Operator the acreage, percentage, and kind of ownership of oil and gas		31

interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as shown in said map or schedule as owned by such party. Exhibits A and B shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor" and not less than six copies of the revised exhibits shall be filed with the Supervisor, and two copies each with the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner", and the Oil Conservation Commission, hereinafter referred to as "Commission".

The above-described unit area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", or on demand of the Commissioner, after preliminary concurrence by the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Supervisor and the Commissioner, and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor and the Commissioner evidence of mailing of the notice of expansion or contraction 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 expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion

or contraction shall, upon approval by the Director and the Commissioner, become effective as of the date prescribed in the notice thereof.

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys, however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within 5 years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of unit operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 10 years after said first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "Unavoidable Delay" time shall be made by unit operator and subject to approval of the Director and the Commissioner. The unit operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and the Commissioner, and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this subsection 2(e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty

interests of the United States and the State of New Mexico), on a total-nonparticipating-acreage basis, respectively, with approval of the Director and the Commissioner, provided such extension application is submitted to the Director and the Commissioner not later than 60 days prior to the expiration of said 10-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

4. UNIT OPERATOR. Pan American Petroleum Corporation 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 discovery, 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.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, 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 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Director and the Commissioner, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor and the Commissioner, and 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.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established

hereunder is in existence, but, 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 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation 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.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances 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 purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator: Provided, That, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working

1 interest owners shall be required to select a new operator. Such selection shall 1
2 not become effective until 2

3 (a) a Unit Operator so selected shall accept in writing the duties and 3
4 responsibilities of Unit Operator, and 4

5 (b) the selection shall have been approved by the Director and the 5
6 Commissioner. If no successor Unit Operator is selected and qualified as herein 6
7 provided, the Director and the Commissioner at their election may declare this unit 7
8 agreement terminated. 8

9 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Opera- 9
10 tor is not the sole owner of working interests, costs and expenses incurred by Unit 10
11 Operator in conducting unit operations hereunder shall be paid and apportioned among 11
12 and borne by the owners of working interests, all in accordance with the agreement 12
13 or agreements entered into by and between the Unit Operator and the owners of work- 13
14 ing interests, whether one or more, separately or collectively. Any agreement or 14
15 agreements entered into between the working interest owners and the Unit Operator 15
16 as provided in this section, whether one or more, are herein referred to as the "unit 16
17 operating agreement." Such unit operating agreement shall also provide the manner 17
18 in which the working interest owners shall be entitled to receive their respective 18
19 proportionate and allocated share of the benefits accruing hereto in conformity with 19
20 their underlying operating agreements, leases, or other independent contracts, and 20
21 such other rights and obligations as between Unit Operator and the working interest 21
22 owners as may be agreed upon by Unit Operator and the working interest owners; how- 22
23 ever, no such unit operating agreement shall be deemed either to modify any of the 23
24 terms and conditions of this unit agreement or to relieve the Unit Operator of any 24
25 right or obligation established under this unit agreement, and in case of any in- 25
26 consistency or conflict between the unit agreement and the unit operating agreement, 26
27 this unit agreement shall prevail. Three true copies of any unit operating agree- 27
28 ment executed pursuant to this section should be filed with the Supervisor and two 28
29 true copies with the Commissioner, prior to approval of this unit agreement. 29

30 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifi- 30
31 cally provided herein, the exclusive right, privilege, and duty of exercising any and 31
32 all rights of the parties hereto which are necessary or convenient for prospecting 32
33 for, producing, storing, allocating, and distributing the unitized substances are 33

hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if such location is upon lands of the United States, and if upon State or Patented lands, such location shall be approved by the Commission and the Commissioner, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the entire Pennsylvanian System has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor as to wells on Federal lands, or the Commission and the Commissioner as to wells on State lands or Patented lands, that further drilling of said well would be unwarranted or impracticable, provided, however, that the Unit Operator shall not in any event be required to drill said well to a depth in excess of 5500 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 6 months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor, the Commission and the Commissioner, or until it is reasonably proved that the Unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be

1 deemed to limit the right of the Unit Operator to resign as provided in Section 5
2 hereof, or as requiring Unit Operator to commence or continue any drilling during
3 the period pending such resignation becoming effective in order to comply with the
4 requirements of this section. The Director and Commissioner may modify the drill-
5 ing requirements of this section by granting reasonable extensions of time when,
6 in their opinion, such action is warranted.

7 Upon failure to comply with the drilling provisions of this section, the
8 Director and Commissioner may, after reasonable notice to the Unit Operator, and
9 each working interest owner, lessee, and lessor at their last known addresses, de-
10 clare this unit agreement terminated.

11 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after com-
12 pletion of a well capable of producing unitized substances in paying quantities, the
13 Unit Operator shall submit for the approval of the Supervisor, the Commissioner and
14 the Commission an acceptable plan of development and operation for the unitized land
15 which, when approved by the Supervisor, the Commissioner and the Commission, shall
16 constitute the further drilling and operating obligations of the Unit Operator under
17 this agreement for the period specified therein. Thereafter, from time to time be-
18 fore the expiration of any existing plan, the Unit Operator shall submit for the ap-
19 proval of the Supervisor, the Commissioner and the Commission a plan for an addition-
20 al specified period for the development and operation of the unitized land. Any
21 plan submitted pursuant to this section shall provide for the exploration of the
22 unitized area and for the diligent drilling necessary for determination of the area
23 or areas thereof capable of producing unitized substances in paying quantities in
24 each and every productive formation and shall be as complete and adequate as the
25 Supervisor, the Commissioner and the Commission may determine to be necessary for
26 timely development and proper conservation of the oil and gas resources of the
27 unitized area and shall:

- 28 (a) specify the number and locations of any wells to be drilled and
29 the proposed order and time for such drilling; and

(b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor, the Commissioner and the Commission. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and the Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor and the Commissioner, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor and the Commissioner, the Unit Operator shall submit for approval by the Director, the Commissioner and the Commission a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director, the Commissioner and the Commission to constitute a participating area, effective as of the date of completion of such well or the effective date of the unit agreement, whichever is later. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established,

1 and shall govern the allocation of production from and after the date the participat- 1
2 ing area becomes effective. A separate participating area shall be established in 2
3 like manner for each separate pool or deposit of unitized substances or for any 3
4 group thereof produced as a single pool or zone, and any two or more participating 4
5 areas so established may be combined into one with the consent of the owners of all 5
6 working interests in the lands within the participating areas so to be combined, on 6
7 approval of the Director, the Commissioner and the Commission. The participating 7
8 area or areas so established shall be revised from time to time, subject to like ap- 8
9 proval, whenever such action appears proper as a result of further drilling opera- 9
10 tions or otherwise, to include additional land then regarded as reasonably proved to 10
11 be productive in paying quantities, or to exclude land then regarded as reasonably 11
12 proved not to be productive in paying quantities and the percentage of allocation 12
13 shall also be revised accordingly. The effective date of any revision shall be the 13
14 first of the month in which is obtained the knowledge or information on which such 14
15 revision is predicated, provided, however, that a more appropriate effective date 15
16 may be used if justified by the Unit Operator and approved by the Director, the Com- 16
17 mission and the Commissioner. No land shall be excluded from a participating area 17
18 on account of depletion of the unitized substances. 18

19 It is the intent of this section that a participating area shall repre- 19
20 sent the area known or reasonably estimated to be productive in paying quantities; 20
21 but, regardless of any revision of the participating area, nothing herein contained 21
22 shall be construed as requiring any retroactive adjustment for production obtained 22
23 prior to the effective date of the revision of the participating area. 23

24 In the absence of agreement at any time between the Unit Operator and 24
25 the Director, the Commissioner and the Commission as to the proper definition or re- 25
26 definition of a participating area, or until a participating area has, or areas have, 26
27 been established as provided herein, the portion of all payments affected thereby may 27
28 be impounded in a manner mutually acceptable to the owners of working interests, ex- 28
29 cept royalties due the United States and the State of New Mexico, which shall be 29
30 determined by the Supervisor and the Commissioner, respectively, and the amount there- 30
31 of deposited, as directed by the Supervisor, and the Commissioner, respectively, to 31
32 be held as unearned money until a participating area is finally approved and then ap- 32
33 plied as earned or returned in accordance with a determination of the sum due as 33

Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor as to wells on Federal lands, the Commissioner as to wells on State lands, and the Commission as to wells on Patented lands, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, the Commissioner and the Commission, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to

that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the Supervisor, the Commissioner or the Commission, at such party's sole risk, cost, and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The United States and the State of New Mexico 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, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, 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.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Supervisor and the Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by the Supervisor, the Commissioner and the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

15. RENTAL SETTLEMENT. 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 lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental 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

1 approval of the Secretary or his duly authorized representative. Rentals on State 1
2 of New Mexico lands subject to this agreement shall be paid at the rates specified 2
3 in the respective leases, or may be reduced and suspended upon the order of the Com- 3
4 missioner of Public Lands of the State of New Mexico pursuant to applicable laws and 4
5 regulations. 5

6 With respect to any lease on non-Federal land containing provisions 6
7 which would terminate such lease unless drilling operations were within the time 7
8 therein specified commenced upon the land covered thereby or rentals paid for the 8
9 privilege of deferring such drilling operations, the rentals required thereby shall, 9
10 notwithstanding any other provisions of this agreement, be deemed to accrue and be- 10
11 come payable during the term thereof as extended by this agreement and until the re- 11
12 quired drilling operations are commenced upon the land covered thereby or some por- 12
13 tion of such land is included within a participating area. 13

14 16. CONSERVATION. Operations hereunder and production of unitized sub- 14
15 stances shall be conducted to provide for the most economical and efficient recovery 15
16 of said substances without waste, as defined by or pursuant to State or Federal laws 16
17 or regulations. 17

18 17. DRAINAGE. The Unit Operator shall take appropriate and adequate measu- 18
19 res to prevent drainage of unitized substances from unitized land by wells on land 19
20 not subject to this agreement, or pursuant to applicable regulations pay a fair and 20
21 reasonable compensatory royalty as determined by the Supervisor and the Commissioner. 21

22 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and 22
23 provisions of all leases, subleases, and other contracts relating to exploration, 23
24 drilling, development, or operation for oil or gas of lands committed to this agree- 24
25 ment are hereby expressly modified and amended to the extent necessary to make the 25
26 same conform to the provisions hereof, but otherwise to remain in full force and 26
27 effect; and the parties hereto holding interests embracing unitized land of the 27
28 United States or of the State of New Mexico hereby consent that the Secretary and 28
29 the Commissioner, respectively, shall and by their approval hereof, or by the ap- 29
30 proval hereof by their duly authorized representatives, do hereby establish, alter, 30
31 change, or revoke the drilling, producing, rental, minimum royalty, and royalty re- 31
32 quirements of Federal and State leases committed hereto and the regulations in re- 32
33 spect thereto to conform said requirements to the provisions of this agreement, and, 33

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

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract 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 of unitized lands 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 lands pursuant to direction or consent of the Secretary or his duly authorized representative, and on all unitized lands of the State of New Mexico pursuant to the direction and consent of the Commissioner, 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 other than those of the United States 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) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto

1 shall continue in force beyond the term so provided therein or by law as 1
2 to the land committed so long as such lease remains subject hereto, pro- 2
3 vided that production is had in paying quantities under this unit agree- 3
4 ment prior to the expiration date of the term of such lease. 4

5 (f) Each sublease or contract relating to the operation and development 5
6 of unitized substances from lands of the United States committed to this 6
7 agreement, which by its terms would expire prior to the time at which the 7
8 underlying lease, as extended by the immediately preceding paragraph, 8
9 will expire, is hereby extended beyond any such term so provided therein 9
10 so that it shall be continued in full force and effect for and during the 10
11 term of the underlying lease as such term is herein extended. 11

12 (g) The segregation of any Federal lease committed to this agreement is 12
13 governed by the following provision in the fourth paragraph of Sec.17(b) 13
14 of the Act, as amended by the Act of July 29, 1954 (68 Stat. 583, 585): 14
15 "Any (Federal) lease hereafter committed to any such (unit) plan embrac- 15
16 ing lands that are in part within and in part outside of the area cover- 16
17 ed by any such plan shall be segregated into separate leases as to the 17
18 lands committed and the lands not committed as of the effective date of 18
19 unitization: Provided, however, That any such lease as to the nonunitiz- 19
20 ed portion shall continue in force and effect for the term thereof but 20
21 for not less than two years from the date of such segregation and so long 21
22 thereafter as oil or gas is produced in paying quantities." 22

23 (h) Any lease (covering State or privately-owned land), other than a 23
24 Federal lease, having only a portion of its lands committed hereto shall 24
25 be segregated as to the portion committed and the portion not committed, 25
26 and the provisions of such lease shall apply separately to such segre- 26
27 gated portions commencing as of the effective date hereof. In the event 27
28 any such lease provides for a lump-sum rental payment, such payment 28
29 shall be prorated between the portions so segregated in proportion to 29
30 the acreage of the respective tracts. 30

31 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be 31
32 covenants running with the land with respect to the interest of the parties hereto 32
33 and their successors in interest until this agreement terminates, and any grant, 33
34 transfer, or conveyance of interest in land or leases subject hereto shall be and 34

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.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Secretary and the Commissioner or their duly authorized representatives and shall terminate five (5) years from said effective date unless:

(a) such date of expiration is extended by the Director and the Commissioner, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Director and the Commissioner, or

(c) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in paying quantities, i. e., in this particular instance in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or

(d) it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the owners of working interests signatory hereto, with the approval of the Director and the Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

1 21. RATE OF PROSPECTING DEVELOPMENT, AND PRODUCTION. The Director is 1
2 hereby vested with authority to alter or modify from time to time in his discretion 2
3 the quantity and rate of production under this agreement when such quantity and rate 3
4 is not fixed pursuant to Federal or State law or does not conform to any state-wide 4
5 voluntary conservation or allocation program, which is established, recognized, and 5
6 generally adhered to by the majority of operators in such State, such authority be- 6
7 ing hereby limited to alteration or modification in the public interest, the purpose 7
8 thereof and the public interest to be served thereby to be stated in the order of 8
9 alteration or modification. Without regard to the foregoing, the Director is also 9
10 hereby vested with authority to alter or modify from time to time in his discretion 10
11 the rate of prospecting and development and the quantity and rate of production under 11
12 this agreement when such alteration or modification is in the interest of attaining 12
13 the conservation objectives stated in this agreement and is not in violation of any 13
14 applicable Federal or State law; provided, further, that no such alteration or modi- 14
15 fication shall be effective as to any land of the State of New Mexico as to the rate 15
16 of prospecting and development in the absence of the specific written approval there- 16
17 of by the Commissioner and as to any lands of the State of New Mexico or privately- 17
18 owned lands subject to this agreement as to the quantity and rate of production in 18
19 the absence of specific written approval thereof by the Commissioner. 19

20 Powers in this section vested in the Director shall only be exercised 20
21 after notice to Unit Operator and opportunity for hearing to be held not less than 21
22 15 days from notice. 22

23 22. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the working in- 23
24 terest owners nor any of them shall be subject to any forfeiture, termination, or 24
25 expiration of any rights hereunder or under any leases or contracts subject hereto, 25
26 or to any penalty or liability for delay or failure in whole or in part to comply 26
27 therewith to the extent that the said Unit Operator, working interest owners or any 27
28 of them are hindered, delayed, or prevented from complying therewith by reason of 28
29 failure of the Unit Operator to obtain, with the exercise of due diligence the con- 29
30 currence of the representatives of the United States and the representatives of the 30
31 State of New Mexico in and about any matters or thing concerning which it is requir- 31
32 ed herein that such concurrence be obtained. The parties hereto, including the Com- 32
33 mission, agree that all powers and authority vested in the Commission in and by any 33

provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

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

24. NOTICES. 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 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 party sending the notice, demand or statement.

25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, 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.

26 UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator

whether similar to matters herein enumerated or not.

27. FAIR EMPLOYMENT. In connection with the performance of work under this agreement, the operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The above said provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

28. LOSS OF TITLE. 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 re-adjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interest subject hereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of funds due the United States or the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Supervisor and the Commissioner, respectively, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

In order to avoid title failures which might incidentally cause the title to a working interest or interests to fail, the owners of (a) the surface rights to lands lying within the Unit Area, (b) severed minerals or royalty interests in said lands, and (c) improvements located on said lands but not utilized for unit operations, shall individually be responsible for the rendition and assess-

1 ment, for ad valorem tax purposes, of all such property, and for the payment of such 1
2 taxes, except as otherwise provided in any contract or agreement between such owners 2
3 and a working interest owner or owners or in the unit operating agreement. If any ad 3
4 valorem taxes are not paid by such owners responsible therefor when due, the Unit 4
5 Operator may, at any time prior to tax sale, pay the same, redeem such property, and 5
6 discharge such tax liens as may arise through non-payment. In the event the Unit 6
7 Operator makes any such payment or redeems any such property from tax sale, the Unit 7
8 Operator shall be reimbursed therefor by the working interest owners in proportion to 8
9 their percentages of participation; and the Unit Operator shall withhold from the pro- 9
10 ceeds otherwise due to said delinquent taxpayer or taxpayers, an amount sufficient to 10
11 defray the costs of such payment or redemption, such withholdings to be distributed 11
12 among the working interest owners in proportion to their respective contributions to- 12
13 ward such payment or redemption. 13

14 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial in- 14
15 terest in a tract within the unit area fails or refuses to subscribe or consent to 15
16 this agreement, the owner of the working interest in that tract may withdraw said 16
17 tract from this agreement by written notice to the Director, the Commissioner and the 17
18 Unit Operator prior to approval of this agreement by the Director and the Commission- 18
19 er. Any oil or gas interests in lands within the unit area not committed hereto prior 19
20 to submission of this agreement for final approval may thereafter be committed hereto 20
21 by the owner or owners thereof subscribing or consenting to this agreement, and, if 21
22 the interest is a working interest, by the owner of such interest also subscribing 22
23 to the unit operating agreement. After operations are commenced hereunder, the right 23
24 of subsequent joinder, as provided in this section, by a working interest owner is 24
25 subject to such requirements or approvals, if any, pertaining to such joinder, as may 25
26 be provided for in the unit operating agreement. After final approval hereof joinder 26
27 by a non-working interest owner must be consented to in writing by the working in- 27
28 terest owner committed hereto and responsible for the payment of any benefits that 28
29 may accrue hereunder in behalf of such non-working interest. Joinder by any owner of
30 a non-working interest, at any time, must be accompanied by appropriate joinder by 30
31 the owner of the corresponding working interest in order for the interest to be re- 31
32 garded as effectively committed hereto. Joinder to the unit agreement by a working 32
33 interest owner, at any time, must be accompanied by appropriate joinder to the unit 33

1 operating agreement, if more than one committed working-interest owner is involved,
2 in order for the interest to be regarded as effectively committed to the unit agree-
3 ment. Except as may otherwise herein be provided subsequent joinders to this agree-
4 ment shall be effective as of the first day of the month following the filing with
5 the Supervisor and the Commissioner of duly executed counterparts of all or any
6 papers necessary to establish effective commitment of any tract to this agreement un-
7 less objection to such joinder is duly made within 60 days by the Director or Com-
8 missioner.

9 30. COUNTERPARTS. This agreement may be executed in any number of counter-
10 parts no one of which needs to be executed by all parties or may be ratified or con-
11 sented to by separate instrument in writing specifically referring hereto and shall
12 be binding upon all those parties who have executed such a counterpart, ratification,
13 or consent hereto with the same force and effect as if all such parties had signed
14 the same document and regardless of whether or not it is executed by all other parties
15 owning or claiming an interest in the lands within the above-described unit area.

16 31. SURRENDER. Nothing in this agreement shall prohibit the exercise by any
17 working interest owner of the right to surrender vested in such party in any lease,
18 sub-lease, or operating agreement as to all or any part of the lands covered thereby,
19 provided that each party who will or might acquire such working interest by such sur-
20 render or by forfeiture as hereafter set forth, is bound by the terms of this agree-
21 ment.

22 If as a result of any such surrender, the working interest rights as to
23 such lands become vested in any party other than the fee owner of the unitized sub-
24 stances, said party shall forfeit such rights and no further benefits from operation
25 hereunder as to said land shall accrue to such party, unless within ninety (90) days
26 thereafter said party shall execute this agreement and the unit operating agreement
27 as to the working interest acquired through such surrender, effective as though such
28 land had remained continuously subject to this agreement and the unit operating agree-
29 ment. And in the event such agreements are not so executed, the party next in the
30 chain of title shall be and become the owner of such working interest at the end of
31 such ninety (90) day period, with the same force and effect as though such working
32 interest had been surrendered to such party.

33 If as a result of any such surrender or forfeiture the working interest
34 rights as to such lands become vested in the fee owner of the unitized substances,

such owner may:

(1) Execute this agreement and the unit operating agreement as a working interest owner, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(2) Again lease such lands but only under the condition that the holder of such lease shall within thirty (30) days after such lands are so leased execute this agreement and the unit operating agreement as to each participating area theretofore established hereunder, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(3) Operate or provide for the operation of such land independently of this agreement as to any part thereof or any oil or gas deposits therein not then included within a participating area.

If the fee owner of the unitized substances does not execute this agreement and the unit operating agreement as a working interest owner or again lease such lands as above provided with respect to each existing participating area, within six (6) months after any such surrender or forfeiture, such fee owner shall be deemed to have waived the right to execute the unit operating agreement or lease such lands as to each such participating area, and to have agreed in consideration for the compensation hereinafter provided, that operations hereunder as to any such participating area or areas shall not be affected by such surrender.

For any period the working interest in any lands are not expressly committed to the unit operating agreement as the result of any such surrender or forfeiture, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective participating working interest ownership in any such participating area or areas, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized, as to such participating area or areas.

Upon commitment of a working interest to this agreement and the unit operating agreement as provided in this section, an appropriate accounting and settlement shall be made, to reflect the retroactive effect of the commitment, for all

benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered working interest during the period between the date of surrender and the date of recommitment, and payment of any moneys found to be owing by such an accounting shall be made as between the parties then signatory to the unit operating agreement and this agreement within thirty (30) days after the recommitment. The right to become a party to this agreement and the unit operating agreement as a working interest owner by reason of a surrender or forfeiture as provided in this section shall not be defeated by the non-existence of a unit operating agreement and in the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

Nothing in this section shall be deemed to limit the right of joinder or subsequent joinder to this agreement as provided elsewhere in this agreement. The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

32. ROYALTY OWNERS' TAXES. Each royalty owner shall render and pay all ad valorem taxes, including ad valorem taxes measured by production levied against its royalty or mineral interest. Unit Operator shall pay, as an agent for the working interest owners, each royalty owner's share of all taxes other than ad valorem 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 said amounts in settling with its royalty owners in each separately owned tract. No such taxes shall be charged to the United States or the State of New Mexico.

33. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

1 IN WITNESS WHEREOF, the parties hereto have caused this agreement to be ex- 1
2 ecuted and have set opposite their respective names the date of execution. 2

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST: DATE: PAN AMERICAN PETROLEUM CORPORATION

[Signature] Assistant Secretary By [Signature] Attorney in Fact

APPROVED
[Signature]
DJM

Address: P. O. Box 1410, Fort Worth, Texas

WORKING INTEREST OWNERS

ATTEST:

Secretary By _____ President

Address: _____

ATTEST:

Secretary By _____ President

Address: _____

ATTEST:

Secretary By _____ President

Address: _____

ADDRESS:	DATE:	
_____	_____	_____
_____	_____	_____
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_____	_____	_____

OTHER PARTIES

ADDRESS :

DATE :

[illegible]

STATE OF TEXAS)
)
COUNTY OF TARRANT)

On this 4 day of April, 1959, before me appeared Wm. J. Nolte, to me personally known, who, being by me duly sworn did say that he is the Attorney in Fact of PAN AMERICAN PETROLEUM CORPORATION, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said Wm. J. Nolte acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission expires:

6-1-59

Edna M. Ayres
Notary Public in and for Tarrant
County, Texas

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission expires:

Notary Public in and For _____
County, _____.

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____.

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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County, _____.

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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County, _____

STATE OF _____)
COUNTY OF _____)

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County, _____

STATE OF _____)
COUNTY OF _____)

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County, _____

STATE OF _____)
COUNTY OF _____)

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My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

LARGE FORMAT
EXHIBIT HAS
BEEN REMOVED
AND IS LOCATED
IN THE NEXT FILE

EXHIBIT "B"
 SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP
 OF OIL AND GAS INTERESTS IN ALL LAND IN THE MARTIN RANCH
 UNIT AGREEMENT, DE BACA AND CHAVES COUNTIES, NEW MEXICO

Tract No.	Description	No. of Acres	Serial No. And Effective Date of Lease	Landowner and Percent of Royalty	Record Owner of Lease or Application	Name and Percent of Overriding Royalty	Working Interest And Percent
<u>Federal Lands</u>							
1	<u>T-3S, R-23E</u> Sec. 14: N/2 NE/4, SW/4	240.00	SF-080476 11-1-51	U.S.A. - All	Eugene H. Pipkin	Eugene H. Pipkin - 5%	Pan American - All
2	<u>T-3S, R-23E</u> Sec. 14: SE/4 Sec. 23: SE/4	320.00	SF-080478 2-1-52	U.S.A. - All	Earl G. Levick	None	Earl G. Levick - All
3	<u>T-4S, R-22E</u> Sec. 13: E/2 NE/4	80.00	SF-080530 9-1-51	U.S.A. - All	Jack D. Whiteman - $\frac{1}{2}$ E. H. Pipkin - $\frac{1}{2}$	Jack D. Whiteman - $2\frac{1}{2}\%$ E. H. Pipkin - $2\frac{1}{2}\%$	Pan American - All
4	<u>T-3S, R-23E</u> Sec. 11: All Sec. 12: All	1280.00	WM-025221 9-1-56	U.S.A. - All	E. F. Murray	None	Pan American - All
5	<u>T-4S, R-23E</u> Sec. 4: S/2 Sec. 5: Lots 1,2,3,4, S/2 N/2, S/2	959.64	WM-025222 9-1-56	U.S.A. - All	E. F. Murray	None	Pan American - All
6	<u>T-3S, R-22E</u> Sec. 25: S/2 Sec. 26: S/2 Sec. 27: NW/4, N/2 NE/4, SE/4 NE/4, NE/4 SE/4 Sec. 34: N/2 Sec. 35: All	2568.41	WM-025224 9-1-56	U.S.A. - All	Vida V. Murray	None	Pan American - All

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Serial No. And Effective Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner of Lease or Application</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest and Percent</u>
<u>Federal Lands</u>							
6	T-4S, R-22E (Contd.) Sec. 1: Lots 1,2,3,4, S/2 N/2						
	T-4S, R-23E Sec. 6: Lots 3,4,5,6,7, SE/4 NW/4, E/2 SW/4						
7	T-3S, R-23E Sec. 2: Lots 3,4,S/2 NW/4, W/2 SW/4, NE/4 SW/4, NW/4 SE/4 Sec. 7: Lots 3,4,E/2 SW/4, SE/4 Sec. 8: SW/4 Sec. 9: SE/4 Sec. 10: SW/4 Sec. 15: S/2 Sec. 17: NW/4 Sec. 18: Lots 1,2,E/2 NW/4, NE/4 Sec. 21: W/2 NW/4, SE/4 NW/4, E/2 SW/4 Sec. 22: W/2, N/2 SE/4 Sec. 28: NE/4 NW/4	2555.48	NM-025225 9-1-56	U.S.A. - All	Vida V. Murray	None	Pen American - All
8	T-4S, R-22E Sec. 10: All Sec. 12: SW/4, W/2 SE/4 Sec. 13: NW/4, W/2 NE/4 Sec. 14: All Sec. 15: W/2	2405.55	NM-025227 9-1-56	U.S.A. - All	Vida V. Murray	None	Pen American - All
	T-4S, R-23E Sec. 7: Lots 3,4,E/2 SW/4, SE/4						

<u>Treaty No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Serial No. And Effective Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner of Lease or Application</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Federal Lands</u>							
9	<u>T-35, R-22E</u> Sec. 1: Lots 3, 4, S/2 NW/4, N/2 S/2 Sec. 12: NW/4, NW/4 SW/4, SW/4 NE/4 Sec. 13: SE/4 NE/4, N/2 S/2 S/2 Sec. 22: NW/4, N/2 SW/4, N/2 NE/4, SE/4 NE/4, NE/4 SE/4 Sec. 24: S/2 N/2 Sec. 25: N/2 N/2	1799.85	NM-025228 9-1-56	U.S.A. - All	Vida V. Murray	None	Pan American All
10	<u>T-35, R-23E</u> Sec. 20: SW/4 NW/4, W/2 SW/4 Sec. 27: S/2, S/2 N/2, NE/4 NW/4 Sec. 28: NE/4 SE/4, W/2 SW/4 Sec. 29: N/2 NE/4, NE/4 NW/4, SW/4 NW/4, NW/4 SW/4 Sec. 30: Lot 1, NE/4 NW/4, NE/4 SW/4, N/2 SE/4 Sec. 31: Lots 2, 3, 4, E/2 SW/4, SE/4 Sec. 32: NE/4, N/2 SE/4 Sec. 33: W/2 NW/4, E/2 SE/4 Sec. 34: S/2 N/2, S/2	2404.06	NM-025229 3-1-58	U.S.A. - All	Vida V. Murray	None	Pan American All
11	<u>T-4D, R-22E</u> Sec. 12: E/2 SE/4 <u>T-33, R-23E</u> Sec. 33: SW/4 NE/4	120.00	NM-036871 8-27-57	U.S.A. - All	Hoover H. Wright	None	Pan American All

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Serial No. And Effective Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner of Lease or Application</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Federal Lands</u>							
12	<u>T-3S, R-23E</u> Sec. 10: SE/4, SE/4 NW/4	200.00	M4-036872 5-1-58	U.S.A. - All	Hoover H. Wright	None	Pan American All
Total Federal Acreage: 14,932.99 acres, or 42.4318% of Unit Area.							
<u>State Lands</u>							
13	<u>T-3S, R-22E</u> Sec. 36: SW/4 SE/4	40.00	OG-3873 6-3-58	State of New Mexico All	E. F. Luke and H. A. Luke	None	E. F. Luke and H. A. Luke
14	<u>T-3S, R-22E</u> Sec. 36: NE/4 SE/4	40.00	E-4986-24 2-7-51	State of New Mexico All	E. F. Luke and H. A. Luke A. R. Druns and Vera Irene Druns	None	E. F. Luke and H. A. Luke A. R. Druns and Vera Irene Druns
15	<u>T-3S, R-22E</u> Sec. 36: NW/4 NW/4	40.00	E-5787-9 11-19-51	State of New Mexico All	Joe H. King and Maise T. Waters	None	Joe H. King 50% Maise T. Waters 50%
16	<u>T-3S, R-22E</u> Sec. 36: SW/4 NW/4	40.00	E-5787-10 11-19-51	State of New Mexico All	Elizabeth Newman	None	Elizabeth Newman All
17	<u>T-4S, T-22E</u> Sec. 2: Lots 1, 2, 3, 4, S/2 W/2, SW/4	480.68	OG-294 10-18-55	State of New Mexico All	Pan American	None	Pan American All

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Serial No. And Effective Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner of Lease or Application</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>State Lands</u>							
18	<u>T-3S, R-22E</u> <u>Sec. 36: SE/4 NE/4</u>	40.00	OG-302-9 10-18-56	State of New Mexico All	Pan American	None	Pan American All
19	<u>T-3S, R-23E</u> <u>Sec. 16: NW/4 SE/4</u>	40.00	OG-302-3 10-18-56	State of New Mexico All	William M. Corcoran	None	William M. Corcoran All
20	<u>T-3S, R-22E</u> <u>Sec. 30: SW/4 SE/4</u>	40.00	OG-302-4 10-18-56	State of New Mexico All	Luther H. Barker	None	Luther H. Barker All
21	<u>T-3S, R-23E</u> <u>Sec. 16: SE/4 SE/4</u>	40.00	OG-302-5 10-18-56	State of New Mexico All	L. C. Leath	None	L. C. Leath All
22	<u>T-3S, R-23E</u> <u>Sec. 16: NE/4 SE/4</u>	40.00	OG-302-6 10-18-56	State of New Mexico All	Thomas R. Stevens	None	Thomas R. Stevens All
23	<u>T-3S, R-22E</u> <u>Sec. 36: SW/4 SW/4</u>	40.00	OG-302-7 10-18-56	State of New Mexico All	Alice I. Mague	None	Alice I. Mague A.1
24	<u>T-3S, R-23E</u> <u>Sec. 2: SE/4 SW/4, E/2 SE/4, SW/4 SE/4</u> <u>Sec. 16: N/2, SW/4</u> <u>Sec. 32: SW/4 SE/4</u>	680.00	OG-1148 7-11-57	State of New Mexico All	Earl G. Levick	None	Earl G. Levick All

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
28	<u>T-33, R-22E</u> Sec. 1: Lots 1, 2, S/2 NE/4	871.78	8-23-67	W. M. Key - All	Pan American	None	Pan American All
29	<u>T-33, R-23E</u> Sec. 5: Lot 3, SE/4 NW/4 Sec. 6: Lots 1, 2, 6, 7 S/2 NE/4, E/2 SW/4, SE/4 Sec. 7: NE/4	600.00	8-23-67	W. M. Key - All	Pan American	None	Pan American All
30	<u>T-33, R-22E</u> Sec. 12: N/2 NE/4, SE/4 NE/4, W/2 SE/4, NE/4 SW/4, S/2 SW/4 Sec. 13: NW/4, W/2 NE/4, NE/4 NE/4	1393.81	4-17-67	H. J. Sechroers 1/8 H. E. Rorschach 1/4 R. E. Hermes 1/24 E. J. Hermes 1/16 Louise Whittlesey 1/16 E. A. Smith 33/212 R. R. Kirchner 10/212 John G. Phillips 10/212	D. F. Wilson	None	D. F. Wilson All
31	<u>T-33, R-23E</u> Sec. 23: W/2 NW/4	80.00	5-20-67	G. F. Smell - All	Pan American	None	Pan American All

Tract No.	Description	No. of Acres	Expiration Date of Lease	Landowner and Percent of Royalty	Record Owner Of Lease	Name and Percent of Overriding Royalty	Working Interest And Percent
<u>Patented Lands</u>							
32 (1) (2) (3)	<u>T-3S, R-23E</u> Sec. 19: Lots 1, 2, E/2 NW/4	157.45	5-22-67 5-22-67 5-22-67	P. Carter -50% P. Carter, Jr. -25% A. Carter -25%	Pan American Pan American Pan American	None None None	Pan American All
33	<u>T-4S, R-23E</u> Sec. 6: Lots 1, 2, S/2 NE/4, SE/4 Sec. 7: NE/4	479.82	5-14-67	Sacra Ranch Co.-All	Pan American	None	Pan American All
34	<u>T-3S, R-23E</u> Sec. 3: SW/4 SW/4 Sec. 4: S/2 SE/4, NE/4 SE/4	160.00	5-22-67	D. P. Killgo - All	Pan American	None	Pan American All
35	<u>T-3S, R-23E</u> Sec. 18: SE/4	160.00	5-24-67	C. L. Holt - All	Pan American	None	Pan American All
36	<u>T-3S, R-23E</u> Sec. 18: Lot 3	38.73	6-11-67	R. M. DeOliviera All	Pan American	None	Pan American All
37	<u>T-3S, R-23E</u> Sec. 1: Lot 1, S/2 NE/4 Sec. 3: Lots 3, 4, SW/4 NW/4, NW/4 SW/4, SW/4 NE/4, W/2 SE/4 NE/4, NE/4 SE/4 NE/4 Sec. 14: NW/4, S/2 NE/4 Sec. 23: NE/4, E/2 NW/4	830.14	5-10-67	J. D. Shirley All	Pan American	None	Pan American All

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Lendowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
36 (1)	<u>W-35, R-23E</u> Sec. 1: S/2	320.00	5-10-67	J. D. Shirley 33.33% H. M. Hart 66.67%	Pan American	None	Pan American 33.33%
(2)			Unleased				
39 (1)	<u>W-35, R-22E</u> Sec. 13: S/2 S/2 Sec. 22: N/2 Sec. 23: S/2 S/2, NW/4 SE/4, SW/4 NE/4 Sec. 24: N/2 N/2, S/2 Sec. 25: S/2 E/2 Sec. 26: N/2 Sec. 27: SE/4, S/2 SE/4, NW/4 SE/4, SW/4 NE/4 Sec. 34: S/2	5199.62	5-10-67	Stinson Martin All	Pan American	None	Pan American All
	<u>W-35, R-23E</u> Sec. 8: SE/4 Sec. 9: S/2 NE/4, SW/4 Sec. 10: SW/4 NW/4 Sec. 17: E/2 Sec. 18: Lot 4, E/2 SW/4 Sec. 19: SW/4 SE/4 Sec. 20: NE/4, S/2 SE/4, E/2 SW/4, SE/4 NW/4 Sec. 21: SE/4 SE/4, W/2 SW/4, SW/4 NW/4 Sec. 22: SW/4 Sec. 27: N/2 NE/4, NW/4 NW/4 Sec. 30: Lots 2, 3, 4, NW/4, SW/4 NE/4, SE/4 SW/4, E/2 SW/4						

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
40A(1)	<u>T-4S, R-22E</u> Sec. 3: Lots 1, 2, 3, 4, S/2 N/2	320.76	5-10-67	Sterling Martin 50%	Pan American	None	Pan American All
(2)			7-26-67	H. H. Clausing 50%	Pan American	None	
40B(1)	<u>T-4S, R-22E</u> Sec. 15: S/2	320.00	5-10-67	Sterling Martin 50%	Pan American	None	Pan American All
(2)			7-23-67	J. H. Prater 50%	Pan American	None	
41	<u>T-3S, R-23E</u> Sec. 22: S/2 SE/4 Sec. 23: NW/4 SW/4	120.00	5-10-67	J. W. Killgo All	Pan American	None	Pan American All
42(1)	<u>T-4S, R-23E</u> Sec. 4: Lots 1, 2, 3, 4, S/2 N/2	320.00	5-14-67	Sacra Ranch 50%	Pan American	None	Pan American All
(2)			8-26-67	Ida V. Fenton C. W. Fenton, Jr. Iela L. Vans Evers 50%			
43(1)	<u>T-3S, R-23E</u> Sec. 1: Lots 3, 4, S/2 NW/4 Sec. 2: Lots 1, 2, S/2 NE/4	320.81	8-7-67	B. G. Stevens 50%	Pan American	None	Pan American 50%
(2)			Unleased	Clyde Fifer 50%			
44	<u>T-3S, R-23E</u> Sec. 19: N/2 NE/4 SE/4	20.00	8-20-67	J. E. Fuller All	Pan American	None	Pan American All
45	<u>T-3S, R-23E</u> Sec. 31: Lot 1, NE/4 NW/4, N/2 NE/4	160.92	8-9-67	C. W. Boyd Estate All	Pan American	None	Pan American All

<u>Treaty No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
46	<u>T-4S, R-22E</u> <u>Sec. 13: SE/4</u>	160.00	7-29-67	C. L. Landrum All	Pan American	None	Pan American All
47(1)	<u>T-4S, R-22E</u> <u>Sec. 3: SW/4</u>	160.00	7-26-67	W. H. Womack 25%	Pan American	None	Pan American
(2)			1-17-68	H. P. Key 37.50%	Pan American	None	All
(3)			1-23-68	H. E. Andrews 37.50%	Pan American	None	
48(1)	<u>T-3S, R-23E</u> <u>Sec. 4: SW/4, NW/4 SE/4</u>	200.00	5-23-67	NW Osage Co-op. Roy. 37.50%	Pan American	None	Pan American 50%
(2)			6-11-67	C. R. Nixon 2.08334%	Pan American	None	
(3)			6-26-67	Joe Patterson 2.08334%	Pan American	None	
(4)			6-26-67	L. P. Sheets 2.08334%	Pan American	None	
(5)			6-26-67	W. W. Patterson 2.08334%	Pan American	None	
(6)			8-27-67	L. W. Hildt, Angelina Hildt, Julia E. Hildt 4.16667%	Pan American	None	
(7)			Unleased	G. D. Hess 25.00%			
(8)			Unleased	L. L. Beadle 25.00%			
	<u>T-3S, R-23E</u> <u>Sec. 19: NE/4</u>	160.00	6-14-67	Lee Carter All	Pan American	None	Pan American All

Tract No.	Description	No. of Acres	Expiration Date of Lease	Landowner and Percent of Royalty	Record Owner Of Lease	Name and Percent of Overriding Royalty	Working Interest And Percent
<u>Patented Lands</u>							
50A(1)	<u>T-3S, R-23E</u> Sec. 4: Lots 1, 2, 3, 4, S/2 NW/4	560.78	5-22-67	D. P. Killgo 50%	Pan American	None	Pan American All
(2)	Sec. 5: Lots 1, 2, S/2 NE/4, SE/4		7-15-67	Grace Cole 50%	Pan American	None	
50B(1)	<u>T-3S, R-23E</u> Sec. 4: S/2 NE/4	80.00	7-15-67	Grace Cole 50%	Pan American	None	Pan American All
(2)			6-27-67	D. P. Killgo 50%	Pan American	None	
50C(1)	<u>T-3S, R-23E</u> Sec. 5: SW/4	160.00	7-15-67	Grace Cole 50%	Pan American	None	Pan American All
(2)			8-23-67	W. M. Key 50%	Pan American	None	
51	<u>T-3S, R-23E</u> Sec. 1: Lot 2	40.11	Unleased	Lloyd Wright All			
52	<u>T-3S, R-23E</u> Sec. 3: Lots 1, 2, SE/4 NW/4 Sec. 10: NE/4 NW/4	160.22	Unleased	J. K. Dunlap Estate All			
53	<u>T-3S, R-23E</u> Sec. 3: SE/4 SE/4 NE/4 Sec. 19: SE/4 SE/4, S/2 NE/4 SE/4	70.00	Unleased	C. A. Jones All			
54(1)	<u>T-3S, R-23E</u> Sec. 3: N/2 SE/4	80.00	Unleased	Powhatan Carter, Jr. 25.00%			
(2)			Unleased	Anderson Carter 25.00%			
(3)			Unleased	P. Carter 50.00%			

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
	<u>Patented Lands</u>						
55	<u>T-3S, R-23E</u> <u>Sec. 6: Lots, 3, 4, 5,</u> <u>SE/4 NW/4</u>	150.57	4-9-68	B. G. Williams Est. All	Pan American	None	Pan American All
56	<u>T-3S, R-23E</u> <u>Sec. 15: W/2 NW/4</u>	80.00	Unleased	W. D. Hudson All			
57(1)	<u>T-3S, R-23E</u> <u>Sec. 15: E/2 NW/4</u>	80.00	Unleased	W. D. Hudson 50.00% E. G. Jay 50.00%			
(2)	<u>T-3S, R-23E</u> <u>Sec. 15: W/2 NE/4</u>	80.00	Unleased	W. D. Hudson 75% L. C. Scott 25%			
58(1)	<u>T-3S, R-23E</u> <u>Sec. 15: E/2 NE/4</u>	80.00	Unleased	W. D. Hudson 25% E. G. Jay 50% C. W. Rogers 25%	Pan American	None	Pan American 25%
(2)	<u>T-3S, R-23E</u> <u>Sec. 15: E/2 NE/4</u>	80.00	Unleased	W. D. Hudson 25% E. G. Jay 50% C. W. Rogers 25%	Pan American	None	Pan American 25%
59(1)	<u>T-3S, R-23E</u> <u>Sec. 15: E/2 NE/4</u>	80.00	Unleased	W. D. Hudson 25% E. G. Jay 50% C. W. Rogers 25%	Pan American	None	Pan American 25%
(2)	<u>T-3S, R-23E</u> <u>Sec. 15: E/2 NE/4</u>	80.00	Unleased	W. D. Hudson 25% E. G. Jay 50% C. W. Rogers 25%	Pan American	None	Pan American 25%
(3)	<u>T-3S, R-23E</u> <u>Sec. 15: E/2 NE/4</u>	80.00	Unleased	W. D. Hudson 25% E. G. Jay 50% C. W. Rogers 25%	Pan American	None	Pan American 25%
60	<u>T-3S, R-23E</u> <u>Sec. 17: SW/4</u>	160.00	2-28-68	D. F. Reid All	Pan American	None	Pan American All
61	<u>T-3S, R-23E</u> <u>Sec. 19: Lots 3, 4, E/2 SW/4</u>	158.67	2-11-68	L. H. McKnight All	Pan American	None	Pan American All
62	<u>T-3S, R-23E</u> <u>Sec. 19: NW/4 SE/4</u>	40.00	Unleased	W. Crane All			

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
63(1)	<u>T-3S, R-23E</u> <u>Sec. 21: NE/4, N/2 SE/4,</u> <u>SW/4 SE/4</u>	320.00	Unleased	Blanche Trigg 75% Orville O. Glenn 3.125% Cleo F. Dickson and Rena F. Glenn - 3.125% Mary Ida Lansdell 9.375% Theresa M. Lansdell 9.375%			
(2)	<u>Sec. 28: NW/4 NE/4</u>		Unleased				
(3)			Unleased				
(4)			Unleased				
64	<u>T-3S, R-23E</u> <u>Sec. 23: NE/4 SW/4</u>	40.00	2-10-68	Buck Thompson All	Pan American	None	Pan American All
65	<u>T-3S, R-23E</u> <u>Sec. 23: S/2 SW/4</u>	80.00	Unleased	Hal Bogle, Trustee All			
66	<u>T-3S, R-23E</u> <u>Sec. 33: SW/4 SW/4</u>	40.00	8-26-67	Ida Fenton 50% James H. Shanor 50%	Pan American	None	Pan American All
67	<u>T-4S, R-22E</u> <u>Sec. 3: W/2 SE/4</u>	80.00	2-20-68	J. R. Hammons All	Pan American	None	Pan American All
68	<u>T-3S, R-23E</u> <u>Sec. 20: N/2 NW/4, N/2 SE/4</u>	160.00	Unleased	Columbus Brown			
Total Patented Lands 18,099.24 Acres, or 51.4287 of Unit Area.							

<u>Total Acres</u>	<u>Percent of Unit</u>
Federal Land	14,932.99
State Land	2,160.68
Patented Land	18,099.24
TOTAL	35,192.91
	100.0000%

UNIT AGREEMENT FOR THE DEVELOPMENT AND
OPERATION OF THE MARTIN RANCH UNIT AREA
COUNTIES OF CHAVES AND DE BACA, STATE
OF NEW MEXICO

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Exhibit "A" (Map)

Exhibit "B" (Description of interests subject to agreement)

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
<i>Pan Am</i>	EXHIBIT NO. <u>1</u>
CASE NO.	<u>1650</u>

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
MARTIN RANCH UNIT AREA
COUNTIES OF CHAVES AND
DeBACA
STATE OF NEW MEXICO
No. _____

THIS AGREEMENT, entered into as of the 14th day of April, ¹⁹⁵⁹~~1958~~,
by and between the parties subscribing, ratifying, or consenting hereto, and here-
in referred to as the "parties hereto",

WITNESSETH:

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

WHEREAS, the term, "Working Interest" as used herein shall mean the interest
held in unitized substances or in lands containing unitized substances by virtue of
a lease, operating agreement, fee title, or otherwise, which is chargeable with and
obligated to pay or bear all or a portion of the cost of drilling, developing, pro-
ducing, and operating the land under the unit or cooperative agreement. The right
delegated to Unit Operator as such by this agreement is not to be regarded as a
working interest; and

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is
authorized by an Act of the Legislature (Sec. 1, Chap. 62, Laws of 1951, Chap. 7,
Art. 11, Sec. 41, N.M. Stat. 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 Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Chap. 168, Laws, 1949) to approve this agreement and the conservation provisions hereof; and

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

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

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

1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal Lands, provided such regulations are not inconsistent with the terms of this agreement; and as to 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 in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

2. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

New Mexico Principal Meridian, New Mexico

	<u>Acres</u>
<u>Township 3 South, Range 22 East</u>	
Section 1: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	639.80
Sections 12 and 13: (All)	1280.00
Sections 22 to 27 inclusive: (All)	3840.00
Sections 34 to 36 inclusive: (All)	1920.00

		<u>Acres</u>	
1	<u>Township 3 South, Range 23 East</u>		1
2	Section 1: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.60	2
3	Section 2: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.88	3
4	Section 3: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.32	4
5	Section 4: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.44	5
6	Section 5: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.56	6
7	Section 6: Lots 1, 2, 3, 4, 5, 6, 7, S $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ (All)	622.28	7
8	Section 7: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	630.60	8
9	Sections 8 to 12 inclusive: (All)	3200.00	9
10	Sections 14 to 17 inclusive: (All)	2560.00	10
11	Section 18: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	635.32	11
12	Section 19: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	636.12	12
13	Sections 20 to 23 inclusive: (All)	2560.00	13
14	Sections 27 to 29 inclusive: (All)	1920.00	14
15	Section 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	640.88	15
16	Section 31: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	645.20	16
17	Sections 32 to 34 inclusive: (All)	1920.00	17
18	<u>Township 4 South, Range 22 East</u>		18
19	Section 1: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.40	19
20	Section 2: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.68	20
21	Section 3: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.76	21
22	Sections 10 to 15 inclusive: (All)	3840.00	22
23	<u>Township 4 South, Range 23 East</u>		23
24	Section 4: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	640.00	24
25	Section 5: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	639.64	25
26	Section 6: Lots 1, 2, 3, 4, 5, 6, 7, S $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ (All)	647.83	26
27	Section 7: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	650.60	27
	TOTAL	35,192.91	

28 Exhibit A attached hereto is a map showing the unit area and the bound- 28
29 aries and identity of tracts and leases in said area to the extent known to the Unit 29
30 Operator. Exhibit B attached hereto is a schedule showing to the extent known to 30
31 the Unit Operator the acreage, percentage, and kind of ownership of oil and gas 31

interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as shown in said map or schedule as owned by such party. Exhibits A and B shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor" and not less than six copies of the revised exhibits shall be filed with the Supervisor, and two copies each with the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner", and the Oil Conservation Commission, hereinafter referred to as "Commission".

The above-described unit area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", or on demand of the Commissioner, after preliminary concurrence by the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Supervisor and the Commissioner, and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor and the Commissioner evidence of mailing of the notice of expansion or contraction 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 expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion

or contraction shall, upon approval by the Director and the Commissioner, become effective as of the date prescribed in the notice thereof.

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys, however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within 5 years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of unit operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the applicable provisions of this agreement within 10 years after said first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "Unavoidable Delay" time shall be made by unit operator and subject to approval of the Director and the Commissioner. The unit operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and the Commissioner, and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this subsection 2(e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty

interests of the United States and the State of New Mexico), on a total-nonparticipating-acreage basis, respectively, with approval of the Director and the Commissioner, provided such extension application is submitted to the Director and the Commissioner not later than 60 days prior to the expiration of said 10-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

4. UNIT OPERATOR. Pan American Petroleum Corporation 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 discovery, 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.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, 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 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Director and the Commissioner, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor and the Commissioner, and 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.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established

hereunder is in existence, but, 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 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation 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.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances 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 purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator: Provided, That, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working

1 interest owners shall be required to select a new operator. Such selection shall 1
2 not become effective until 2

3 (a) a Unit Operator so selected shall accept in writing the duties and 3
4 responsibilities of Unit Operator, and 4

5 (b) the selection shall have been approved by the Director and the 5
6 Commissioner. If no successor Unit Operator is selected and qualified as herein 6
7 provided, the Director and the Commissioner at their election may declare this unit 7
8 agreement terminated. 8

9 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Opera- 9
10 tor is not the sole owner of working interests, costs and expenses incurred by Unit 10
11 Operator in conducting unit operations hereunder shall be paid and apportioned among 11
12 and borne by the owners of working interests, all in accordance with the agreement 12
13 or agreements entered into by and between the Unit Operator and the owners of work- 13
14 ing interests, whether one or more, separately or collectively. Any agreement or 14
15 agreements entered into between the working interest owners and the Unit Operator 15
16 as provided in this section, whether one or more, are herein referred to as the "unit 16
17 operating agreement." Such unit operating agreement shall also provide the manner 17
18 in which the working interest owners shall be entitled to receive their respective 18
19 proportionate and allocated share of the benefits accruing hereto in conformity with 19
20 their underlying operating agreements, leases, or other independent contracts, and 20
21 such other rights and obligations as between Unit Operator and the working interest 21
22 owners as may be agreed upon by Unit Operator and the working interest owners; how- 22
23 ever, no such unit operating agreement shall be deemed either to modify any of the 23
24 terms and conditions of this unit agreement or to relieve the Unit Operator of any 24
25 right or obligation established under this unit agreement, and in case of any in- 25
26 consistency or conflict between the unit agreement and the unit operating agreement, 26
27 this unit agreement shall prevail. Three true copies of any unit operating agree- 27
28 ment executed pursuant to this section should be filed with the Supervisor and two 28
29 true copies with the Commissioner, prior to approval of this unit agreement. 29

30 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifi- 30
31 cally provided herein, the exclusive right, privilege, and duty of exercising any and 31
32 all rights of the parties hereto which are necessary or convenient for prospecting 32
33 for, producing, storing, allocating, and distributing the unitized substances are 33

hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if such location is upon lands of the United States, and if upon State or Patented lands, such location shall be approved by the Commission and the Commissioner, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the entire Pennsylvanian System has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor as to wells on Federal lands, or the Commission and the Commissioner as to wells on State lands or Patented lands, that further drilling of said well would be unwarranted or impracticable, provided, however, that the Unit Operator shall not in any event be required to drill said well to a depth in excess of 5500 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 6 months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor, the Commission and the Commissioner, or until it is reasonably proved that the Unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be

deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to comply with the drilling provisions of this section, the Director and Commissioner may, after reasonable notice to the Unit Operator, and each working interest owner, lessee, and lessor at their last known addresses, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor, the Commissioner and the Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Commissioner and the Commission, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor, the Commissioner and the Commission a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor, the Commissioner and the Commission may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

- (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and

(b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor, the Commissioner and the Commission. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and the Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor and the Commissioner, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor and the Commissioner, the Unit Operator shall submit for approval by the Director, the Commissioner and the Commission a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director, the Commissioner and the Commission to constitute a participating area, effective as of the date of completion of such well or the effective date of the unit agreement, whichever is later. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established,

1 and shall govern the allocation of production from and after the date the participat- 1
2 ing area becomes effective. A separate participating area shall be established in 2
3 like manner for each separate pool or deposit of unitized substances or for any 3
4 group thereof produced as a single pool or zone, and any two or more participating 4
5 areas so established may be combined into one with the consent of the owners of all 5
6 working interests in the lands within the participating areas so to be combined, on 6
7 approval of the Director, the Commissioner and the Commission. The participating 7
8 area or areas so established shall be revised from time to time, subject to like ap- 8
9 proval, whenever such action appears proper as a result of further drilling opera- 9
10 tions or otherwise, to include additional land then regarded as reasonably proved to 10
11 be productive in paying quantities, or to exclude land then regarded as reasonably 11
12 proved not to be productive in paying quantities and the percentage of allocation 12
13 shall also be revised accordingly. The effective date of any revision shall be the 13
14 first of the month in which is obtained the knowledge or information on which such 14
15 revision is predicated, provided, however, that a more appropriate effective date 15
16 may be used if justified by the Unit Operator and approved by the Director, the Com- 16
17 mission and the Commissioner. No land shall be excluded from a participating area 17
18 on account of depletion of the unitized substances. 18

19 It is the intent of this section that a participating area shall repre- 19
20 sent the area known or reasonably estimated to be productive in paying quantities; 20
21 but, regardless of any revision of the participating area, nothing herein contained 21
22 shall be construed as requiring any retroactive adjustment for production obtained 22
23 prior to the effective date of the revision of the participating area. 23

24 In the absence of agreement at any time between the Unit Operator and 24
25 the Director, the Commissioner and the Commission as to the proper definition or re- 25
26 definition of a participating area, or until a participating area has, or areas have, 26
27 been established as provided herein, the portion of all payments affected thereby may 27
28 be impounded in a manner mutually acceptable to the owners of working interests, ex- 28
29 cept royalties due the United States and the State of New Mexico, which shall be 29
30 determined by the Supervisor and the Commissioner, respectively, and the amount there- 30
31 of deposited, as directed by the Supervisor, and the Commissioner, respectively, to 31
32 be held as unearned money until a participating area is finally approved and then ap- 32
33 plied as earned or returned in accordance with a determination of the sum due as 33

1 Federal and State royalty on the basis of such approved participating area. 1

2 Whenever it is determined, subject to the approval of the Supervisor as 2
3 to wells on Federal lands, the Commissioner as to wells on State lands, and the Com- 3
4 mission as to wells on Patented lands, that a well drilled under this agreement is 4
5 not capable of production in paying quantities and inclusion of the land on which it 5
6 is situated in a participating area is unwarranted, production from such well shall, 6
7 for the purposes of settlement among all parties other than working interest owners, 7
8 be allocated to the land on which the well is located so long as such land is not 8
9 within a participating area established for the pool or deposit from which such pro- 9
10 duction is obtained. Settlement for working interest benefits from such a well shall 10
11 be made as provided in the unit operating agreement. 11

12 12. ALLOCATION OF PRODUCTION. All unitized substances produced from each 12
13 participating area established under this agreement, except any part thereof used 13
14 in conformity with good operating practices within the unitized area for drilling, 14
15 operating, camp and other production or development purposes, for repressuring or 15
16 recycling in accordance with a plan of development approved by the Supervisor, the 16
17 Commissioner and the Commission, or unavoidably lost, shall be deemed to be produced 17
18 equally on an acreage basis from the several tracts of unitized land of the parti- 18
19 cipating area established for such production and, for the purpose of determining 19
20 any benefits accruing under this agreement, each such tract of unitized land shall 20
21 have allocated to it such percentage of said production as the number of acres of 21
22 such tract included in said participating area bears to the total acres of unitized 22
23 land in said participating area, except that allocation of production hereunder for 23
24 purposes other than for settlement of the royalty, overriding royalty, or payment out 24
25 of production obligations of the respective working interest owners, shall be on the 25
26 basis prescribed in the unit operating agreement whether in conformity with the basis 26
27 of allocation herein set forth or otherwise. It is hereby agreed that production 27
28 of unitized substances from a participating area shall be allocated as provided here- 28
29 in regardless of whether any wells are drilled on any particular part or tract of 29
30 said participating area. If any gas produced from one participating area is used for 30
31 repressuring or recycling purposes in another participating area, the first gas with- 31
32 drawn from such last-mentioned participating area for sale during the life of this 32
33 agreement shall be considered to be the gas so transferred until an amount equal to 33

that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the Supervisor, the Commissioner or the Commission, at such party's sole risk, cost, and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The United States and the State of New Mexico 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, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, shall make deliveries of such royalty share taken in kind in conformity with the applicable conditions, 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.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Supervisor and the Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by the Supervisor, the Commissioner and the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

15. RENTAL SETTLEMENT. 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 lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental 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. Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases, or may be reduced and suspended upon the order of the Commissioner of Public Lands of the State of New Mexico pursuant to applicable laws and regulations.

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provisions of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included within a participating area.

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

17. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the Supervisor and the Commissioner.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas of 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 holding interests embracing unitized land of the United States or of the State of New Mexico hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and,

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

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract 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 of unitized lands 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 lands pursuant to direction or consent of the Secretary or his duly authorized representative, and on all unitized lands of the State of New Mexico pursuant to the direction and consent of the Commissioner, 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 other than those of the United States 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) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto

1 shall continue in force beyond the term so provided therein or by law as 1
2 to the land committed so long as such lease remains subject hereto, pro- 2
3 vided that production is had in paying quantities under this unit agree- 3
4 ment prior to the expiration date of the term of such lease. 4

5 (f) Each sublease or contract relating to the operation and development 5
6 of unitized substances from lands of the United States committed to this 6
7 agreement, which by its terms would expire prior to the time at which the 7
8 underlying lease, as extended by the immediately preceding paragraph, 8
9 will expire, is hereby extended beyond any such term so provided therein 9
10 so that it shall be continued in full force and effect for and during the 10
11 term of the underlying lease as such term is herein extended. 11

12 (g) The segregation of any Federal lease committed to this agreement is 12
13 governed by the following provision in the fourth paragraph of Sec.17(b) 13
14 of the Act, as amended by the Act of July 29, 1954 (68 Stat. 583, 585): 14
15 "Any (Federal) lease hereafter committed to any such (unit) plan embrac- 15
16 ing lands that are in part within and in part outside of the area cover- 16
17 ed by any such plan shall be segregated into separate leases as to the 17
18 lands committed and the lands not committed as of the effective date of 18
19 unitization: Provided, however, That any such lease as to the nonunitiz- 19
20 ed portion shall continue in force and effect for the term thereof but 20
21 for not less than two years from the date of such segregation and so long 21
22 thereafter as oil or gas is produced in paying quantities." 22

23 (h) Any lease (covering State or privately-owned land), other than a 23
24 Federal lease, having only a portion of its lands committed hereto shall 24
25 be segregated as to the portion committed and the portion not committed, 25
26 and the provisions of such lease shall apply separately to such segre- 26
27 gated portions commencing as of the effective date hereof. In the event 27
28 any such lease provides for a lump-sum rental payment, such payment 28
29 shall be prorated between the portions so segregated in proportion to 29
30 the acreage of the respective tracts. 30

31 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be 31
32 covenants running with the land with respect to the interest of the parties hereto 32
33 and their successors in interest until this agreement terminates, and any grant, 33
34 transfer, or conveyance of interest in land or leases subject hereto shall be and 34

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.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Secretary and the Commissioner or their duly authorized representatives and shall terminate five (5) years from said effective date unless:

(a) such date of expiration is extended by the Director and the Commissioner, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Director and the Commissioner, or

(c) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in paying quantities, i. e., in this particular instance in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or

(d) it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the owners of working interests signatory hereto, with the approval of the Director and the Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, 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. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; 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 Commissioner and as to any lands of the State of New Mexico or privately-owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commissioner.

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 15 days from notice.

22. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the working interest owners nor any of them shall be subject to any forfeiture, termination, or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability for delay or failure in whole or in part to comply therewith to the extent that the said Unit Operator, working interest owners or any of them are hindered, delayed, or prevented from complying therewith by reason of failure of the Unit Operator to obtain, with the exercise of due diligence the concurrence of the representatives of the United States and the representatives of the State of New Mexico in and about any matters or thing concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any

provisions of this contract are vested in the Commlaction and shall be exercised by 14
pursuant to the provisions of the laws of the State of New Mexico and subject in any 2
case to appeal or judicial review as may now or hereafter be provided by the laws of 3
the State of New Mexico. 4

23. APPEARANCES. Unit Operator shall, after notice to other parties af- 5
fected, have the right to appear for and on behalf of any and all interests affect- 6
ed hereby before the Department of the Interior and to appeal from orders issued un- 7
der the regulations of said Department or to apply for relief from any of said regu- 8
lations or in any proceedings relative to operations before the Department of the 9
Interior or any other legally constituted authority; provided, however, that any 10
other interested party shall also have the right at his own expense to be heard in 11
any such proceeding. 12

24. NOTICES. All notices, demands or statements required hereunder to be 13
given or rendered to the parties hereto shall be deemed fully given if given in 14
writing and personally delivered to the party or sent by postpaid registered mail, 15
addressed to such party or parties at their respective addresses set forth in con- 16
nection with the signatures hereto or to the ratification or consent hereof or to 17
such other address as any such party may have furnished in writing to party sending 18
the notice, demand or statement. 19

25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall 20
be construed as a waiver by any party hereto of the right to assert any legal or 21
constitutional right or defense as to the validity or invalidity of any law of the 22
State wherein said unitized lands are located, or of the United States, or regula- 23
tions issued thereunder in any way affecting such party, or as a waiver by any such 24
party of any right beyond his or its authority to waive. 25

26 UNAVOIDABLE DELAY. All obligations under this agreement requiring the 26
Unit Operator to commence or continue drilling or to operate on or produce unitized 27
substances from any of the lands covered by this agreement shall be suspended while, 28
but only so long as, the Unit Operator despite the exercise of due care and diligenc 29
is prevented from complying with such obligations, in whole or in part, by strikes, 30
acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, 31
uncontrollable delays in transportation, inability to obtain necessary materials 32
in open market, or other matters beyond the reasonable control of the Unit Operator 33

whether similar to matters herein enumerated or not.

27. FAIR EMPLOYMENT. In connection with the performance of work under this agreement, the operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The above said provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

28. LOSS OF TITLE. 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 re-adjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interest subject hereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of funds due the United States or the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Supervisor and the Commissioner, respectively, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

In order to avoid title failures which might incidentally cause the title to a working interest or interests to fail, the owners of (a) the surface rights to lands lying within the Unit Area, (b) severed minerals or royalty interests in said lands, and (c) improvements located on said lands but not utilized for unit operations, shall individually be responsible for the rendition and assess-

1 ment, for ad valorem tax purposes, of all such property, and for the payment of such 1
2 taxes, except as otherwise provided in any contract or agreement between such owners 2
3 and a working interest owner or owners or in the unit operating agreement. If any ad 3
4 valorem taxes are not paid by such owners responsible therefor when due, the Unit 4
5 Operator may, at any time prior to tax sale, pay the same, redeem such property, and 5
6 discharge such tax liens as may arise through non-payment. In the event the Unit 6
7 Operator makes any such payment or redeems any such property from tax sale, the Unit 7
8 Operator shall be reimbursed therefor by the working interest owners in proportion to 8
9 their percentages of participation; and the Unit Operator shall withhold from the pro- 9
10 ceeds otherwise due to said delinquent taxpayer or taxpayers, an amount sufficient to 10
11 defray the costs of such payment or redemption, such withholdings to be distributed 11
12 among the working interest owners in proportion to their respective contributions to- 12
13 ward such payment or redemption. 13

14 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial in- 14
15 terest in a tract within the unit area fails or refuses to subscribe or consent to 15
16 this agreement, the owner of the working interest in that tract may withdraw said 16
17 tract from this agreement by written notice to the Director, the Commissioner and the 17
18 Unit Operator prior to approval of this agreement by the Director and the Commission- 18
19 er. Any oil or gas interests in lands within the unit area not committed hereto prior 19
20 to submission of this agreement for final approval may thereafter be committed hereto 20
21 by the owner or owners thereof subscribing or consenting to this agreement, and, if 21
22 the interest is a working interest, by the owner of such interest also subscribing 22
23 to the unit operating agreement. After operations are commenced hereunder, the right 23
24 of subsequent joinder, as provided in this section, by a working interest owner is 24
25 subject to such requirements or approvals, if any, pertaining to such joinder, as may 25
26 be provided for in the unit operating agreement. After final approval hereof joinder 26
27 by a non-working interest owner must be consented to in writing by the working in- 27
28 terest owner committed hereto and responsible for the payment of any benefits that 28
29 may accrue hereunder in behalf of such non-working interest. Joinder by any owner of 29
30 a non-working interest, at any time, must be accompanied by appropriate joinder by 30
31 the owner of the corresponding working interest in order for the interest to be re- 31
32 garded as effectively committed hereto. Joinder to the unit agreement by a working 32
33 interest owner, at any time, must be accompanied by appropriate joinder to the unit 33

1 operating agreement, if more than one committed working-interest owner is involved,
2 in order for the interest to be regarded as effectively committed to the unit agree-
3 ment. Except as may otherwise herein be provided subsequent joinders to this agree-
4 ment shall be effective as of the first day of the month following the filing with
5 the Supervisor and the Commissioner of duly executed counterparts of all or any
6 papers necessary to establish effective commitment of any tract to this agreement un-
7 less objection to such joinder is duly made within 60 days by the Director or Com-
8 missioner.

9 30. COUNTERPARTS. This agreement may be executed in any number of counter-
10 parts no one of which needs to be executed by all parties or may be ratified or con-
11 sented to by separate instrument in writing specifically referring hereto and shall
12 be binding upon all those parties who have executed such a counterpart, ratification,
13 or consent hereto with the same force and effect as if all such parties had signed
14 the same document and regardless of whether or not it is executed by all other parties
15 owning or claiming an interest in the lands within the above-described unit area.

16 31. SURRENDER. Nothing in this agreement shall prohibit the exercise by any
17 working interest owner of the right to surrender vested in such party in any lease,
18 sub-lease, or operating agreement as to all or any part of the lands covered thereby,
19 provided that each party who will or might acquire such working interest by such sur-
20 render or by forfeiture as hereafter set forth, is bound by the terms of this agree-
21 ment.

22 If as a result of any such surrender, the working interest rights as to
23 such lands become vested in any party other than the fee owner of the unitized sub-
24 stances, said party shall forfeit such rights and no further benefits from operation
25 hereunder as to said land shall accrue to such party, unless within ninety (90) days
26 thereafter said party shall execute this agreement and the unit operating agreement
27 as to the working interest acquired through such surrender, effective as though such
28 land had remained continuously subject to this agreement and the unit operating agree-
29 ment. And in the event such agreements are not so executed, the party next in the
30 chain of title shall be and become the owner of such working interest at the end of
31 such ninety (90) day period, with the same force and effect as though such working
32 interest had been surrendered to such party.

33 If as a result of any such surrender or forfeiture the working interest
34 rights as to such lands become vested in the fee owner of the unitized substances,

such owner may:

(1) Execute this agreement and the unit operating agreement as a working interest owner, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(2) Again lease such lands but only under the condition that the holder of such lease shall within thirty (30) days after such lands are so leased execute this agreement and the unit operating agreement as to each participating area theretofore established hereunder, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(3) Operate or provide for the operation of such land independently of this agreement as to any part thereof or any oil or gas deposits therein not then included within a participating area.

If the fee owner of the unitized substances does not execute this agreement and the unit operating agreement as a working interest owner or again lease such lands as above provided with respect to each existing participating area, within six (6) months after any such surrender or forfeiture, such fee owner shall be deemed to have waived the right to execute the unit operating agreement or lease such lands as to each such participating area, and to have agreed in consideration for the compensation hereinafter provided, that operations hereunder as to any such participating area or areas shall not be affected by such surrender.

For any period the working interest in any lands are not expressly committed to the unit operating agreement as the result of any such surrender or forfeiture, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective participating working interest ownership in any such participating area or areas, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized, as to such participating area or areas.

Upon commitment of a working interest to this agreement and the unit operating agreement as provided in this section, an appropriate accounting and settlement shall be made, to reflect the retroactive effect of the commitment, for all

benefits accruing to or payments and expenditures made or incurred on behalf of such
surrendered working interest during the period between the date of surrender and the
date of recommitment, and payment of any moneys found to be owing by such an account-
ing shall be made as between the parties then signatory to the unit operating agree-
ment and this agreement within thirty (30) days after the recommitment. The right
to become a party to this agreement and the unit operating agreement, as a working
interest owner by reason of a surrender or forfeiture as provided in this section
shall not be defeated by the non-existence of a unit operating agreement and in the
event no unit operating agreement is in existence and a mutually acceptable agreement
between the proper parties thereto cannot be consummated, the Supervisor may pre-
scribe such reasonable and equitable agreement as he deems warranted under the cir-
cumstances.

Nothing in this section shall be deemed to limit the right of joinder or
subsequent joinder to this agreement as provided elsewhere in this agreement. The
exercise of any right vested in a working interest owner to reassign such working
interest to the party from whom obtained shall be subject to the same conditions as
set forth in this section in regard to the exercise of a right to surrender.

32. ROYALTY OWNERS' TAXES. Each royalty owner shall render and pay all ad
valorem taxes, including ad valorem taxes measured by production levied against its
royalty or mineral interest. Unit Operator shall pay, as an agent for the working
interest owners, each royalty owner's share of all taxes other than ad valorem taxes
levied on, or measured by, the unitized substances in and under, or that may be pro-
duced, 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 Opera-
tor for taxes so paid on its behalf and such working interest owner shall make pro-
portionate deductions of said amounts in settling with its royalty owners in each
separately owned tract. No such taxes shall be charged to the United States or the
State of New Mexico.

33. NO PARTNERSHIP. It is expressly agreed that the relation of the parties
hereto is that of independent contractors and nothing in this agreement contained,
expressed or implied, nor any operations conducted hereunder, shall create or be
deemed to have created a partnership or association between the parties hereto or
any of them.

1
2

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

1
2

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

DATE:

PAN AMERICAN PETROLEUM CORPORATION



[Signature]
Assistant Secretary

April 19, 1954 By [Signature]
Attorney in Fact

Address: P. O. Box 1410, Fort Worth, Texas

WORKING INTEREST OWNERS

ATTEST:

Secretary By _____ President

Address: _____

ATTEST:

Secretary By _____ President

Address: _____

ATTEST:

Secretary By _____ President

Address: _____

ADDRESS:

DATE:

_____	_____	_____
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OTHER PARTIES

ADDRESS :

DATE :

[illegible]

STATE OF TEXAS)
)
COUNTY OF TARRANT)

On this 4 day of April, 1959, before me appeared Wm. J. Nolte, to me personally known, who, being by me duly sworn did say that he is the Attorney in Fact of PAN AMERICAN PETROLEUM CORPORATION, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said Wm. J. Nolte acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission expires:

6-1-59

Edna M. Ayres
Notary Public in and for Tarrant
County, Texas

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission expires:

Notary Public in and For _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

LARGE FORMAT
EXHIBIT HAS
BEEN REMOVED
AND IS LOCATED
IN THE NEXT FILE

EXHIBIT "B"

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS IN ALL LAND IN THE MARTIN RANCH UNIT AGREEMENT, DE BACA AND CHAVES COUNTIES, NEW MEXICO

Tract No.	Description	No. of Acres	Serial No. And Effective Date of Lease	Landowner and Percent of Royalty	Record Owner of Lease or Application	Name and Percent of Overriding Royalty	Working Interest And Percent
<u>Federal Lands</u>							
1	<u>T-3S, R-23E</u> Sec. 14: N/2 NE/4, SW/4	240.00	SF-080476 11-1-51	U.S.A. - All	Eugene H. Pipkin	Eugene H. Pipkin - 5%	Pan American - All
2	<u>T-3S, R-23E</u> <u>Sec. 14: SE/4</u> Sec. 23: SE/4	320.00	SF-080478 2-1-52	U.S.A. - All	Earl G. Levick	None	Earl G. Levick - All
3	<u>T-4S, R-22E</u> Sec. 13: E/2 NE/4	80.00	SF-080530 9-1-51	U.S.A. - All	Jack D. Whiteman - $\frac{1}{2}$ E. H. Pipkin - $\frac{1}{2}$	Jack D. Whiteman - $2\frac{1}{2}\%$ E. H. Pipkin - $2\frac{1}{2}\%$	Pan American - All
4	<u>T-3S, R-23E</u> <u>Sec. 11: All</u> Sec. 12: All	1280.00	NM-025221 9-1-56	U.S.A. - All	E. F. Murray	None	Pan American - All
5	<u>T-4S, R-23E</u> <u>Sec. 4: S/2</u> Sec. 5: Lots 1,2,3, ⁴ , S/2 N/2, S/2	959.64	NM-025222 9-1-56	U.S.A. - All	E. F. Murray	None	Pan American - All
6	<u>T-3S, R-22E</u> <u>Sec. 25: S/2</u> Sec. 26: S/2 Sec. 27: NW/4, N/2 NE/4, SE/4 NE/4, NE/4 SE/4 Sec. 34: N/2 Sec. 35: All	2568.41	NM-025224 9-1-56	U.S.A. - All	Vida V. Murray	None	Pan American - All

Tract No.	Description	No. of Acres	Serial No. And Effective Date of Lease	Landowner and Percent of Royalty	Record Owner of Lease or Application	Name and Percent of Overriding Royalty	Working Interest and Percent
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Federal Lands

6 T-4S, R-22E
(Contd.) Sec. 1: Lots 1, 2, 3, 4,
S/2 N/2

T-4S, R-23E
Sec. 6: Lots 3, 4, 5, 6, 7,
SE/4 NW/4, E/2 SW/4

7 T-3S, R-23E
Sec. 2: Lots 3, 4, S/2 NW/4, 2555.48
W/2 SW/4, NE/4 SW/4,
NW/4 SE/4

NM-025225
9-1-56

U.S.A. - All

Vida V. Murray

None

Pen American - All

Sec. 7: Lots 3, 4, E/2 SW/4,
SW/4

Sec. 8: SW/4

Sec. 9: SE/4

Sec. 10: SW/4

Sec. 15: S/2

Sec. 17: NW/4

Sec. 18: Lots 1, 2, E/2 NW/4,
NE/4

Sec. 21: N/2 NW/4, SE/4 NW/4,
E/2 SW/4

Sec. 22: N/2, N/2 SE/4

Sec. 28: NE/4 NW/4

8 T-4S, R-22E
Sec. 10: All 2405.55

NM-025227
9-1-56

U.S.A. - All

Vida V. Murray

None

Pen American - All

Sec. 12: SW/4, W/2 SE/4

Sec. 13: NW/4, W/2 NE/4

Sec. 14: All

Sec. 15: N/2

T-4S, R-23E
Sec. 7: Lots 3, 4, E/2 SW/4, SE/4

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Serial No. And Effective Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner of Lease or Application</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Federal Lands</u>							
9	<u>T-3S, R-22E</u>						
	<u>Sec. 1: Lots 3, 4, S/2 NW/4, N/2 S/2</u>	1799.85	MM-025228 9-1-56	U.S.A. - All	Vida V. Murray	None	Pan American All
	<u>Sec. 12: NW/4, NW/4 SW/4, SW/4 NE/4</u>						
	<u>Sec. 13: SE/4 NE/4, N/2 S/2</u>						
	<u>Sec. 22: S/2</u>						
	<u>Sec. 23: NW/4, N/2 SW/4, N/2 NE/4, SE/4 NE/4, NE/4 SE/4</u>						
10	<u>Sec. 24: S/2 N/2</u>						
	<u>Sec. 25: N/2 N/2</u>						
	<u>T-3S, R-23E</u>						
	<u>Sec. 20: SW/4 NW/4, W/2 SW/4</u>	2404.06	MM-025229 3-1-58	U.S.A. - All	Vida V. Murray	None	Pan American All
	<u>Sec. 27: S/2, S/2 N/2, NE/4 NW/4</u>						
	<u>Sec. 28: NE/4 SE/4, W/2 SW/4</u>						
	<u>Sec. 29: N/2 NE/4, NE/4 NW/4, SW/4 NW/4, NW/4 SW/4</u>						
	<u>Sec. 30: Lot 1, NE/4 NW/4, NE/4 SW/4, N/2 SE/4</u>						
	<u>Sec. 31: Lots 2, 3, 4, E/2 SW/4, SE/4</u>						
	<u>Sec. 32: NE/4, N/2 SE/4</u>						
11	<u>Sec. 33: W/2 NW/4, E/2 SE/4</u>						
	<u>Sec. 34: S/2 N/2, S/2</u>						
	<u>T-4S, R-22E</u>						
	<u>Sec. 12: E/2 SE/4</u>	120.00	MM-036871 8-27-57	U.S.A. - All	Hoover H. Wright	None	Pan American All
	<u>T-3S, R-23E</u>						
	<u>Sec. 33: SW/4 NE/4</u>						

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Serial No. And Effective Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner of Lease or Application</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Federal Lands</u>							
12	<u>T-3S, R-23E</u> <u>Sec. 10: SE/4, SE/4 NW/4</u>	200.00	M4-036872 5-1-58	U.S.A. - All	Hoover H. Wright	None	Pan American All
Total Federal Acreage: 14,932.99 acres, or 42.4318% of Unit Area.							
<u>State Lands</u>							
13	<u>T-3S, R-22E</u> <u>Sec. 36: SE/4 SE/4</u>	40.00	OG-3873 6-3-58	State of New Mexico All	E. F. Luke and H. A. Luke	None	E. F. Luke and H. A. Luke - 50%
14	<u>T-3S, R-22E</u> <u>Sec. 36: NE/4 SE/4</u>	40.00	E-4986-24 2-7-51	State of New Mexico All	E. F. Luke and H. A. Luke A. R. Evans and Vera Irene Evans	None	E. F. Luke and H. A. Luke - 50% A. R. Evans and Vera Irene Evans - 50%
15	<u>T-3S, R-22E</u> <u>Sec. 36: NW/4 NW/4</u>	40.00	E-5787-9 11-19-51	State of New Mexico All	Joe H. King and Maise T. Waters	None	Joe H. King 50% Maise T. Waters 50%
16	<u>T-3S, R-22E</u> <u>Sec. 36: SW/4 NW/4</u>	40.00	E-5787-10 11-19-51	State of New Mexico All	Elizabeth Newman	None	Elizabeth Newman All
17	<u>T-4S, R-22E</u> <u>Sec. 2: Lots 1, 2, 3, 4, S/2 W/2, SW/4</u>	480.68	OG-294 10-18-56	State of New Mexico All	Pan American	None	Pan American All

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Serial No. And Effective Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner of Lease or Application</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>State Lands</u>							
18	<u>T-3S, R-22E</u> <u>Sec. 36: SE/4 NE/4</u>	40.00	OG-302-9 10-18-56	State of New Mexico All	Pan American	None	Pan American All
19	<u>T-3S, R-23E</u> <u>Sec. 16: NW/4 SE/4</u>	40.00	OG-302-3 10-18-56	State of New Mexico All	William M. Corcoran	None	William M. Corcoran All
20	<u>T-3S, R-22E</u> <u>Sec. 36: SW/4 SE/4</u>	40.00	OG-302-4 10-18-56	State of New Mexico All	Luther H. Barker	None	Luther H. Barker All
21	<u>T-3S, R-23E</u> <u>Sec. 16: SE/4 SE/4</u>	40.00	OG-302-5 10-18-56	State of New Mexico All	L. C. Leath	None	L. C. Leath All
22	<u>T-3S, R-23E</u> <u>Sec. 16: NE/4 SE/4</u>	40.00	OG-302-6 10-18-56	State of New Mexico All	Thomas R. Stevens	None	Thomas R. Stevens All
23	<u>T-3S, R-22E</u> <u>Sec. 36: SW/4 SW/4</u>	40.00	OG-302-7 10-18-56	State of New Mexico All	Alice I. Mague	None	Alice I. Mague All
24	<u>T-3S, R-23E</u> <u>Sec. 2: SE/4 SW/4, E/2 SE/4,</u> <u>SW/4 SE/4</u> Sec. 16: N/2, SW/4 Sec. 32: SW/4 SE/4	680.00	OG-1148 7-11-57	State of New Mexico All	Earl G. Levick	None	Earl G. Levick All

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
28	<u>T-35, R-22E</u> Sec. 1: Lots 1, 2, S/2 NE/4	871.78	8-23-67	W. M. Key - All	Pan American	None	Pan American All
	<u>T-35, R-23E</u> Sec. 5: Lot 3, SE/4 NW/4 Sec. 6: Lots 1, 2, 6, 7 S/2 NE/4, E/2 SW/4, SE/4 Sec. 7: NE/4						
29	<u>T-35, R-22E</u> Sec. 12: N/2 NE/4, SE/4 NE/4, N/2 SE/4, NE/4 SW/4, S/2 SW/4 Sec. 13: NW/4, W/2 NE/4, NE/4 NE/4	600.00	8-23-67	W. M. Key - All	Pan American	None	Pan American All
30	<u>T-35, R-22E</u> Sec. 1: S/2 S/2 Sec. 12: S/2 SE/4	1393.81	4-17-67	H. J. Sechroers 1/8 H. F. Rorschach 1/4 R. E. Hermes 1/24 E. J. Hermes 1/16 Louise Whittlesey 1/16 E. A. Smith 33/212 R. R. Kirchner 10/212 John G. Phillips 10/212	D. F. Wilson	None	D. F. Wilson All
	<u>T-35, R-23E</u> Sec. 3: S/2 SE/4, E/2 SW/4 Sec. 5: Lot 4, SW/4 NW/4 Sec. 7: Lots 1, 2, E/2 NW/4 Sec. 8: N/2 Sec. 9: N/2 NE/4, NW/4 Sec. 10: NW/4 NW/4, NE/4						
31	<u>T-35, R-23E</u> Sec. 23: W/2 NW/4	80.00	5-20-67	G. K. Small - All	Pan American	None	Pan American All

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
32 (1) (2) (3)	<u>T-3S, R-23E</u> <u>Sec. 19: Lots 1, 2, E/2 NW/4</u>	157.45	5-22-67 5-22-67 5-22-67	P. Carter -50% P. Carter, Jr. -25% A. Carter -25%	Pan American Pan American Pan American	None None None	Pan American All
33	<u>T-4S, R-23E</u> <u>Sec. 6: Lots 1, 2, S/2 NE/4, SE/4</u> Sec. 7: NE/4	479.82	5-14-67	Sacra Ranch Co.-All	Pan American	None	Pan American All
34	<u>T-3S, R-23E</u> <u>Sec. 3: SW/4 SW/4</u> Sec. 4: S/2 SE/4, NE/4 SE/4	160.00	5-22-67	D. P. Killgo - All	Pan American	None	Pan American All
35	<u>T-3S, R-23E</u> <u>Sec. 18: SE/4</u>	160.00	5-24-67	C. L. Holt - All	Pan American	None	Pan American All
36	<u>T-3S, R-23E</u> <u>Sec. 18: Lot 3</u>	38.73	6-11-67	R. M. DeOliviera All	Pan American	None	Pan American All
37	<u>T-3S, R-23E</u> <u>Sec. 1: Lot 1, S/2 NE/4</u> Sec. 3: Lots 3, 4, SW/4 NW/4, NW/4 SW/4, SW/4 NE/4, W/2 SE/4 NE/4, NE/4 SE/4 NE/4 Sec. 14: NW/4, S/2 NE/4 Sec. 23: NE/4, E/2 NW/4	830.14	5-10-67	J. D. Shirley All	Pan American	None	Pan American All

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
36 (1)	<u>T-35, R-23E</u> Sec. 1: S/2	320.00	5-10-67	J. D. Shirley 33.33% H. M. Hart 66.67%	Pan American	None	Pan American 33.33%
(2)			Unleased				
39 (1)	<u>T-36, R-22E</u> Sec. 13: S/2 S/2 Sec. 22: N/2 Sec. 23: S/2 S/2, NW/4 SE/4, SW/4 NE/4 Sec. 24: N/2 N/2, S/2 Sec. 25: S/2 N/2 Sec. 26: N/2 Sec. 27: SW/4, S/2 SE/4, NW/4 SE/4, SW/4 NE/4 Sec. 34: S/2	5199.62	5-10-67	Stinson Martin All	Pan American	None	Pan American All
<u>T-35, R-23E</u>							
	Sec. 8: SE/4						
	Sec. 9: S/2 NE/4, SW/4						
	Sec. 10: SW/4 NW/4						
	Sec. 17: E/2						
	Sec. 18: Lot 4, E/2 SW/4						
	Sec. 19: SW/4 SE/4						
	Sec. 20: NE/4, S/2 SE/4, E/2 SW/4, SE/4 NW/4						
	Sec. 21: SE/4 SE/4, W/2 SW/4, SW/4 NW/4						
	Sec. 22: SW/4						
	Sec. 27: E/2 NE/4, NW/4 NW/4						
	Sec. 30: Lots 2, 3, 4, NE/4, SW/4 NW/4, SE/4 SW/4, S/2 SW/4						

Tract No.	Description	No. of Acres	Expiration Date of Lease	Landowner and Percent of Royalty	Record Owner of Lease	Name and Percent of Overriding Royalty	Working Interest And Percent
<u>Patented Lands</u>							
<u>T-3S, R-23E</u>							
39 (1)	Sec. 31: S/2 NE/4, SE/4 NW/4						
CON'D.	Sec. 32: NW/4						
	Sec. 28: E/2 NE/4						
	Sec. 29: SW/4 SW/4, NW/4 NW/4						
	Sec. 33: E/2 NW/4, NW/4 SW/4, E/2 SW/4, W/2 SE/4						
39A(1)	<u>T-3S, R-23E</u> Sec. 28: SW/4 NE/4, SE/4 NW/4, W/2 NW/4, W/2 SE/4, E/2 SW/4	960.00	5-10-67	Stinson Martin 50%	Pan American	None	Pan American
(2)	Sec. 29: S/2 NE/4, SE/4 NW/4, SE/4, E/2 SW/4		9-10-67	S. J. Blythe Est. 50%	Pan American	None	
	Sec. 33: E/2 NE/4, NW/4 NE/4						
	Sec. 34: N/2 N/2						
39B(1)	<u>T-3S, R-23E</u> Sec. 28: SE/4 SE/4	40.00	9-10-67	S. J. Blythe Est. 50%	Pan American	None	Pan American
(2)			7-14-68	Stinson Martin 50%	Pan American	None	
40(1)	<u>T-4S, R-22E</u> Sec. 1: S/2	1845.05	5-10-67	Sterling Martin All	Pan American	None	Pan American
	Sec. 2: SE/4						
	Sec. 3: E/2 SE/4						
	Sec. 11: All						
	Sec. 12: N/2						
	Sec. 13: SW/4						
<u>T-4S, R-23E</u>							
Sec. 7: Lots 1, 2, E/2 NW/4							

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
40A (1)	<u>T-4S, R-22E</u> Sec. 3: Lots 1, 2, 3, 4, S/2 N/2	320.76	5-10-67	Sterling Martin 50%	Pan American	None	Pan American All
(2)			7-26-67	H. H. Clausing 50%	Pan American	None	
40B (1)	<u>T-4S, R-22E</u> Sec. 15: S/2	320.00	5-10-67	Sterling Martin 50%	Pan American	None	Pan American All
(2)			7-23-67	J. H. Prater 50%	Pan American	None	
41	<u>T-3S, R-23E</u> Sec. 22: S/2 SE/4 Sec. 23: NW/4 SW/4	120.00	5-10-67	J. W. Killgo All	Pan American	None	Pan American All
42 (1)	<u>T-4S, R-23E</u> Sec. 4: Lots 1, 2, 3, 4, S/2 N/2	320.00	5-14-67	Sacra Ranch 50%	Pan American	None	Pan American All
(2)			8-26-67	Ida V. Fenton C. W. Fenton, Jr. Iela L. Vans Evers 50%			
43 (1)	<u>T-3S, R-23E</u> Sec. 1: Lots 3, 4, S/2 NW/4 Sec. 2: Lots 1, 2, S/2 NE/4	320.81	8-7-67	B. G. Stevens 50%	Pan American	None	Pan American 50%
(2)			Unleased	Clyde Fifer 50%			
44	<u>T-3S, R-23E</u> Sec. 19: N/2 NE/4 SE/4	20.00	8-20-67	J. E. Fuller All	Pan American	None	Pan American All
45	<u>T-3S, R-23E</u> Sec. 31: Lot 1, NE/4 NW/4, N/2 NE/4	160.92	8-9-67	C. W. Boyd Estate All	Pan American	None	Pan American All

Tract No.	Description	No. of Acres	Expiration Date of Lease	Landowner and Percent of Royalty	Record Owner of Lease	Name and Percent of Overriding Royalty	Working Interest And Percent
<u>Patented Lands</u>							
46	<u>T-4S, R-22E</u> <u>Sec. 13: SE/4</u>	160.00	7-29-67	C. L. Landrum All	Pan American	None	Pan American All
47(1)	<u>T-4S, R-22E</u> <u>Sec. 3: SW/4</u>	160.00	7-26-67	W. H. Womack 25%	Pan American	None	Pan American All
(2)			1-17-68	H. P. Key 37.50%	Pan American	None	
(3)			1-23-68	H. E. Andrews 37.50%	Pan American	None	
48(1)	<u>T-3S, R-23E</u> <u>Sec. 4: SW/4, NW/4 SE/4</u>	200.00	5-23-67	NW Osage Co-op. Roy. 37.50%	Pan American	None	Pan American 50%
(2)			6-11-67	C. R. Nixon 2.08334%	Pan American	None	
(3)			6-26-67	Joe Patterson 2.08334%	Pan American	None	
(4)			6-26-67	L. P. Sheets 2.08334%	Pan American	None	
(5)			6-26-67	W. W. Patterson 2.08334%	Pan American	None	
(6)			8-27-67	L. W. Hildt, Angelina Hildt, Julia E. Hildt 4.16667%	Pan American	None	
(7)			Unleased	G. D. Hess 25.00%			
(8)			Unleased	L. L. Beadle 25.00%			
	<u>T-3S, R-23E</u> <u>Sec. 19: NE/4</u>	160.00	6-14-67	Lee Carter All	Pan American	None	Pan American All

Tract No.	Description	No. of Acres	Expiration Date of Lease	Landowner and Percent of Royalty	Record Owner Of Lease	Name and Percent of Overriding Royalty	Working Interest And Percent
<u>Patented Lands</u>							
50A(1)	T-3S, R-23E Sec. 4: Lots 1, 2, 3, 4, S/2 NW/4 Sec. 5: Lots 1, 2, S/2 NE/4, SE/4	560.78	5-22-67	D. P. Killgo 50%	Pan American	None	Pan American All
(2)			7-15-67	Grace Cole 50%	Pan American	None	
50B(1)	T-3S, R-23E Sec. 4: S/2 NE/4	80.00	7-15-67	Grace Cole 50%	Pan American	None	Pan American All
(2)			6-27-67	D. P. Killgo 50%	Pan American	None	
50C(1)	T-3S, R-23E Sec. 5: SW/4	160.00	7-15-67	Grace Cole 50%	Pan American	None	Pan American All
(2)			8-23-67	W. M. Key 50%	Pan American	None	
51	T-3S, R-23E Sec. 1: Lot 2	40.11	Unleased	Lloyd Wright All			
52	T-3S, R-23E Sec. 3: Lots 1, 2, SE/4 NW/4 Sec. 10: NE/4 NW/4	160.22	Unleased	J. K. Dunlap Estate All			
53	T-3S, R-23E Sec. 3: SE/4 SE/4 NE/4 Sec. 19: SE/4 SE/4, S/2 NE/4 SE/4	70.00	Unleased	C. A. Jones All			
54(1)	T-3S, R-23E Sec. 3: N/2 SE/4	80.00	Unleased	Powhatan Carter, Jr. 25.00%			
(2)			Unleased	Anderson Carter 25.00%			
(3)			Unleased	P. Carter 50.00%			

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
55	<u>T-3S, R-23E</u> Sec. 6: Lots 3, 4, 5, SE/4 NW/4	150.57	4-9-68	B. G. Williams Est. All	Pan American	None	Pan American All
56	<u>T-3S, R-23E</u> Sec. 15: W/2 NW/4	80.00	Unleased	W. D. Hudson All			
57(1)	<u>T-3S, R-23E</u> Sec. 15: E/2 NW/4	80.00	Unleased	W. D. Hudson 50.00% E. G. Jay 50.00%			
(2)			Unleased				
58(1)	<u>T-3S, R-23E</u> Sec. 15: W/2 NE/4	80.00	Unleased	W. D. Hudson 75% L. C. Scott 25%			
(2)			Unleased				
59(1)	<u>T-3S, R-23E</u> Sec. 15: E/2 NE/4	80.00	Unleased	W. D. Hudson 25% E. G. Jay 50% C. W. Rogers 25%			
(2)			Unleased				
(3)			1-16-68		Pan American	None	Pan American 25%
60	<u>T-3S, R-23E</u> Sec. 17: SW/4	160.00	2-28-68	D. F. Reid All	Pan American	None	Pan American All
61	<u>T-3S, R-23E</u> Sec. 19: Lots 3, 4, E/2 SW/4	158.67	2-11-68	L. H. McKnight All	Pan American	None	Pan American All
62	<u>T-3S, R-23E</u> Sec. 19: NW/4 SE/4	40.00	Unleased	W. Crane All			

<u>Tract No.</u>	<u>Description</u>	<u>No. of Acres</u>	<u>Expiration Date of Lease</u>	<u>Landowner and Percent of Royalty</u>	<u>Record Owner Of Lease</u>	<u>Name and Percent of Overriding Royalty</u>	<u>Working Interest And Percent</u>
<u>Patented Lands</u>							
63(1)	<u>T-3S, R-23E</u> Sec. 21: <u>NE/4, N/2 SE/4,</u> <u>SW/4 SE/4</u>	320.00	Unleased	Blanche Trigg 75% Orville O. Glenn 3.125% Cleo F. Dickson and Rena F. Glenn - 3.125% Mary Ida Lansdell 9.375% Theresa M. Lansdell 9.375%			
(2)	Sec. 28: <u>NW/4 NE/4</u>		Unleased				
(3)			Unleased				
(4)			Unleased				
64	<u>T-3S, R-23E</u> Sec. 23: <u>NE/4 SW/4</u>	40.00	2-10-68	Buck Thompson All	Pan American	None	Pan American All
65	<u>T-3S, R-23E</u> Sec. 23: <u>S/2 SW/4</u>	80.00	Unleased	Hal Bogle, Trustee All			
66	<u>T-3S, R-23E</u> Sec. 33: <u>SW/4 SW/4</u>	40.00	8-26-67	Ida Fenton 50% James H. Shanor 50%	Pan American	None	Pan American All
67	<u>T-4S, R-22E</u> Sec. 3: <u>N/2 SE/4</u>	80.00	2-20-68	J. R. Hammons All	Pan American	None	Pan American All
68	<u>T-3S, R-23E</u> Sec. 20: <u>N/2 NW/4, N/2 SE/4</u>	160.00	Unleased	Columbus Brown			
Total Patented Lands 18,099.24 Acres, or 51.4287 of Unit Area.							

	<u>Total Acres</u>	<u>Percent of Unit</u>
Federal Land	14,932.99	42.4318
State Land	2,160.68	6.1395
Patented Land	18,099.24	51.4287
TOTAL	35,192.91	100.00005

UNIT OPERATING AGREEMENT

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BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Paul H. Nutter EXHIBIT NO. 2
CASE NO. 1650

UNIT OPERATING AGREEMENT
MARTIN RANCH UNIT AREA
COUNTIES OF CHAVES AND
DeBACA
STATE OF NEW MEXICO

THIS AGREEMENT, made and entered into, as of the 14th day of April, 1959, by and between PAN AMERICAN PETROLEUM CORPORATION, a corporation, hereinafter designated as "Unit Operator", and the undersigned as owners of working interests in the unitized substances within the Unit Area subject to the Unit Agreement herein below described, as may subscribe this agreement and become parties hereto, which owners are hereinafter referred to as "Working Interest Owners";

WITNESSETH: THAT,

WHEREAS, the parties hereto have executed, as of the date hereof a certain Unit Agreement for the Development and Operation of the Martin Ranch Unit Area, Counties of Chaves and DeBaca, State of New Mexico, hereinafter referred to as "Unit Agreement"; and

WHEREAS, the parties enter into this agreement pursuant to Section 7 of the Unit Agreement.

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

ARTICLE I

UNIT PLAN CONFIRMED: The aforesaid Unit Agreement and all exhibits attached thereto are hereby confirmed and made a part of this agreement. In the event of any inconsistency or conflict between provisions of this agreement and the Unit Agreement, the Unit Agreement shall prevail.

ARTICLE II

MANAGEMENT OF UNIT

2.1 UNIT OPERATOR AND EMPLOYEES: Pan American Petroleum Corporation, the party hereto named as Unit Operator of the Unit Area under the provisions of the Unit Agreement, or its duly appointed successor Unit Operator, shall have the exclusive right to develop and operate the Unit Area subject to the provisions of this agreement and of the Unit Agreement. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone, and their working hours, rates of compensation, and all other matters relating to their employment shall be determined solely by Unit Operator.

2.2. UNIT OPERATOR -- DUTIES: Unit Operator shall in the conduct of operations hereunder:

(a) Conduct the operations in a good and workmanlike manner, and in the exercise of its judgment and discretion, acting in good faith;

(b) Consult with Working Interest Owners concerning unit operations, and keep Working Interest Owners informed of all matters arising during the operation of the Unit Area which Unit Operator, in the exercise of its best judgment, considers important;

(c) Keep full and accurate records of all costs incurred, unitized substances produced, and controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized representatives of the Working Interest Owners at reasonable intervals during usual business hours, at the Office of Unit Operator.

(d) Permit each of the Working Interest Owners, through its duly authorized representatives to have access to the Unit Area at all times, and to the derrick floor of each well drilled or being drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting jointly owned materials, equipment and other property, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area;

(e) Furnish to each of the other parties who makes timely written request therefor, copies of Unit Operator's authorizations for expenditures or itemizations thereof in excess of One Thousand Dollars (\$1,000), and copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports, and run tickets, and reports of stock on hand at the first of each month, if available, samples of cores or cuttings taken from wells drilled hereunder, containers therefor to be furnished by the party requesting such samples;

(f) Comply with the terms and conditions of the Unit Agreement and all valid applicable Federal and State Laws and Regulations;

(g) Keep the land in the Unit Area free from liens and encumbrances occasioned by its operations, except such liens as the Working Interest Owners elect to contest, and save only the lien granted the Unit Operator under this agreement.

2.3 UNIT OPERATOR--RESTRICTIONS: The Unit Operator shall not do any of the following things without the consent of the Working Interest Owners obtained as herein

provided:

(a) Locate, drill, deepen, or plug back any well or let any contract therefor. The approval of the drilling, deepening, or plugging back of any well shall be construed to mean and include the approval of any necessary expenditures for the drilling, deepening, or plugging back, and completing and equipping of such well, including the necessary lines, separators, and necessary tankage if a producer, and, if a dry hole, the plugging and abandonment thereof, except as otherwise provided in Article IV hereof;

(b) Make any expenditures in excess of Fifteen Thousand Dollars (\$15,000) other than normal operating expenses;

(c) Use any facilities owned by one participating area for purposes of operation and development outside of said area, or determine the amount of any charges therefor, unless otherwise provided for in this agreement or in the Unit Agreement;

(d) Make any expenditure for expert technical advice, including any extra services, in excess of One Thousand Dollars (\$1,000) rendered by Unit Operator's technical staff, not contemplated by the provisions of Exhibit "1" attached hereto, and not covered by the overhead, district, and camp expenses therein authorized, which overhead in Exhibit "1" is intended to cover only normal development and operations.

(e) Make any partial relinquishment of the rights of the Unit Operator.

(f) Abandon any well or wells or dispose of any major items of surplus material or equipment other than junk, having an original cost of One Thousand Dollars (\$1,000) or more (any such item or items of less cost may be disposed of without such approval), except as otherwise provided in Section 4.6 hereof.

(g) Propose any plan for development of the Unit Area or any participating area or amendment thereof, or any expansion or contraction of the Unit Area or any designation or enlargement of a participating area; provided, if such consent cannot be obtained, he shall propose that plan or area having the approval of the largest plurality.

(h) Drill or abandon any injection wells or convert any well into an injection well.

(i) Determine whether to drill a demanded offset well or pay compensatory royalty.

(j) Determine the basis of investment adjustment and the adjusted basis

of prorated future development and operating costs and readjustment percentages of participation on enlargement or reduction of Unit Area or enlargement of any participating area or on elimination of acreage for failure of title.

(k) Make any arrangements for repressuring, cycling, or pressure maintenance, or approve or disapprove any change in the existing method of operation.

(l) Contest any encumbrance or lien.

In case of blow-out, explosion, fire, flood, or other sudden emergency, Unit Operator may take such steps, and incur such expense, as in its opinion are required to deal with the emergency and to safeguard life and property; provided, that Unit Operator shall, as promptly as possible, report the emergency to the other parties and the action taken.

Subject to the provisions hereof, Unit Operator shall have full control of the premises subjected hereto and shall conduct and manage the development and operation of unitized lands for the production of unitized substances therefrom for the account of the parties hereto.

2.4 CONSENT OF WORKING INTEREST OWNERS: On matters on which the consent of Working Interest Owners is required, each Working Interest Owner shall have a vote equal to the proportionate or fractional acreage interest owned by him in the participating area or on any separately operated lease involved in any determination to be made, or in the Unit Area where the determination concerns any matter affecting the Unit Area as a whole. Designation of a participating area shall be by vote of all Working Interest Owners in the Unit Area. Enlargement of a participating area shall be by vote of the Working Interest Owners in the area before enlargement and those on the lease embracing the extension well causing the enlargement. Any party hereto not satisfied by any such decision may object to the Supervisor and may renew his objection to the Director. Except as otherwise specified herein or in the Unit Agreement, an affirmative vote of 65% of the voting power of the Working Interest Owners, on any matters on which they are authorized to act, shall constitute the decision of the Working Interest Owners, which decision shall be binding upon all; provided, however, that should any Working Interest Owner own as much as 65%, but less than 100%, voting interest in the Unit Area or in a participating area, as the case may be, his vote must be supported by the affirmative vote of at least one additional Working Interest Owner to bind all the parties hereto, and provided further that if one party

owns 35% or more voting interest, but less than 50%, the vote of such party shall not serve to defeat or disapprove any matter approved by the majority (over 50%) unless supported by at least one additional voting interest.

The Working Interest Owners shall meet in regular or special meetings for the purpose of discussing unit business and of voting on the matters set out in Section 2.3 hereof, and of exercising any other powers by this agreement or by the Unit Agreement committed to the Working Interest Owners. Each Working Interest Owner shall designate a representative and an alternate to represent him at such meeting, who shall have such powers as are conferred on him by his principal, which powers shall be sufficiently broad to enable the representative to vote on matters coming before said meeting. Notices of meetings and other notices shall be served on such representative by the Unit Operator. The representative of the Unit Operator shall act as Chairman at all meetings. Each Working Interest Owner shall have the right from time to time, on notice to the Unit Operator, to change its representative or the alternate. It shall be competent for the Working Interest Owners to provide by rule or regulation for the polling of the Working Interest Owners by the Unit Operator on urgent matters without calling a meeting, and any vote so taken pursuant to such rule or regulation shall be as binding on the Working Interest Owners as if done at a regular meeting at which a quorum was present.

2.5 UNIT OPERATOR--LIABILITIES: Unit Operator shall not be liable to any of the Working Interest Owners for anything done or omitted to be done by it in the conduct of operations hereunder in compliance with Section 2.2(a) hereof.

2.6 UNAVOIDABLE DELAY: The obligations of Unit Operator shall be suspended to the extent that, and only so long as, performance thereof is prevented by fire, action of the elements, strikes, or other differences with workmen, acts of civil or military authorities, acts of the public enemy, acts of God, restrictions or restraints imposed by law or by regulation or order of Governmental authority, whether Federal, State, or local, inability to obtain necessary rights of access, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in the open market, or other matters beyond the reasonable control of the Unit Operator, whether or not similar to any cause above enumerated.

ARTICLE III

COST OF OPERATIONS

3.1 HOW KEPT: The actual cost to the Unit Operator of performing its

obligations as Unit Operator hereunder shall be kept separately for each participating area, and in each area such cost shall be apportioned to each tract in the same ratio as that defined in the Unit Agreement for the allocation of production in that area, and among the Working Interest Owners in each tract in proportion to their comparative interests therein, and as so allocated shall be paid as hereinafter provided by the several Working Interest Owners, and as nearly as may be done all costs shall be charged directly to each participating area and the operations served. The cost of other separate operations shall likewise be separately kept, and charged to the Working Interest Owners affected. All materials, equipment, and other property, whether real or personal, charged as a part of cost of operations hereunder shall be owned by the Working Interest Owners in the same proportion as they were charged therefor. All such costs, expenses, credits, and related matters and the method of handling the accounting with respect thereto shall be in accordance with the provisions of the Accounting Procedure attached hereto, made a part hereof, and marked for identification as Exhibit "1". In the event of any inconsistency or conflict between provisions of this agreement and Exhibit "1", this agreement shall prevail.

3.2 OPERATOR'S LIEN: Unit Operator is hereby granted a prior lien on the rights and interests of each Working Interest Owner in the Unit Area and the unitized substances allocated to each such Working Interest Owner, and the material and equipment thereon, to secure the payment of its proportionate part of the said costs and expenses. Should any Working Interest Owner fail to pay its proportionate part of said costs and expenses within thirty (30) days after being billed therefor as provided in the referred to Accounting Procedure, Exhibit "1", Unit Operator shall have the right at its option at any time thereafter, such default continuing, to foreclose said lien on the respective interests of such Working Interest Owner. In lieu of or in addition to such remedy, the parties hereto agree that in the event of default, the Unit Operator may notify the purchaser of the defaulting party's share of the unitized substances and thereupon the purchaser shall pay to the Unit Operator the proceeds of the sale of defaulting party's share of unitized substances until said obligation is extinguished without any liability to the defaulting party. In lieu of or in addition to the remedy above specified for such default, Unit Operator may have any other remedy afforded by law or equity against the defaulting party for such default.

3.3 ADVANCES: Unit Operator, at its election, may require each Working Interest Owner hereto to advance its respective proportion of the development and operating costs hereunder in accordance with an estimate by Unit Operator to be made not less than ten (10) days in advance of the month in which the costs and expenses are to be incurred. Adjustment between estimates and actual costs shall be made by the Unit Operator at the close of each calendar month and the accounts of the Working Interest Owners adjusted accordingly.

3.4 WORKING INTEREST OWNERS' TAXES: The Unit Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws, or which may be made subject to taxation under future laws, and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. The Unit Operator shall bill each Working Interest Owner for its proportionate share of such tax payments as provided by the Accounting Procedure, being said Exhibit "1".

Each Working Interest Owner shall reimburse the Unit Operator for (a) the percentage of the ad valorem taxes on personal property which is equal to such Working Interest Owner's percentage of participation in production, and (b) the ad valorem taxes levied on such Working Interest Owner's leasehold interest or interests covered by this Agreement; provided, however, that a Working Interest Owner owning less than the entire seven-eighths (7/8) leasehold interest or interests covered by this Agreement shall reimburse the Unit Operator for its proportion of the ad valorem taxes levied on the full leasehold interest, adjusted so as to reflect a credit for payments based upon values assigned to and made on behalf of outstanding excess royalties, overriding royalties, and production payments.

In the event that any taxable valuation is assessed upon or against said property or any portion thereof, which the Unit Operator deems to be unreasonable, it shall be the duty of the Unit Operator to protest said taxable valuation within the time and manner as prescribed by law and to prosecute such protest to a final determination unless the parties agree to abandon such protest prior to final

determination. When any such protested valuation of such property shall have been determined, the Unit Operator shall pay for the joint account the taxes thereon, together with any interest or penalty accrued by reason of such protest, and shall bill each Working Interest Owner for its proportionate share of such payments in accordance with the accounting procedure, being said Exhibit "1".

3.5 INSURANCE: Insurance shall be carried by the Unit Operator and its contractors or Sub-Contractors as provided in Exhibit "2" attached hereto.

ARTICLE IV

WELLS

4.1 GENERAL PROVISIONS:

(a) All wells subject to this agreement shall be drilled and operated by the Unit Operator for the account of the affected Working Interest Owners.

(b) All wells shall be drilled on a competitive contract basis at the usual rates prevailing in the region of the unit area, provided, however, Unit Operator may employ its own tools and equipment in the drilling of such wells, but in such event the charges therefor shall not exceed the competitive prevailing rate charged by independent contractors doing work of a similar nature.

(c) "Well costs" (referred to in this Article IV) shall be all those costs necessary to drill, complete and equip any well, including necessary lines, separators and tankage if a producer, and if a dry hole the plugging and abandonment thereof, and such costs shall be authorized and paid for by the Working Interest Owners affected in proportion to their interests as applicable to the specific well categories enumerated in the succeeding provisions of this Article IV.

4.2 TEST WELLS:

(a) A "test well" is any well drilled to a formation before the establishment of a participating area for that formation.

(b) Well costs of the test well provided for in Section 9 of the Unit Agreement shall be paid by all the working interest owners in proportion to their interest in the unit area. Said test well shall be located at a point designated by Unit Operator or at such other location as may be approved by the Department of the Interior.

(c) Well costs of any test well drilled subsequent to the test well

provided for in Section 9 of the Unit Agreement and subparagraph (b) of this Section 4.2, shall be paid by the Working Interest Owners or any consenting majority thereof on their lease as provided in Section 13 of the Unit Agreement or by other Working Interest Owners as they may decide by separate agreement.

4.3 PARTICIPATING AREA WELLS:

(a) A "participating area well" is any well drilled within the surface boundaries of an established participating area to the formation for which the participating area was established.

(b) Well costs of such wells will be paid by all Working Interest Owners in the participating area as provided in Section 3.1 and upon consent of said owners as provided in Section 2.4.

4.4 EXTENSION WELLS:

(a) An "extension well" is any well drilled to the formation for which a participating area or areas have been established but which well location is outside the surface boundaries of said participating area.

(b) Well costs of such wells shall be paid as follows:

(1) By the Working Interest Owners in the participating area established for the objective formation, the boundary of which is closest to the well site, upon obtaining consent therefor in accordance with Section 2.4 provided, however, any such owner who did not vote in favor of drilling the well may be relieved of the obligation to pay his proportionate share thereof by notifying the Unit Operator in writing to that effect within thirty (30) days after the date of the decision of the other participating area Working Interest Owners to drill the well, or

(2) By the Working Interest Owners or any consenting majority thereof on their own lease as provided in Section 13 of the Unit Agreement, provided they give ninety (90) days' written notice to the Working Interest Owners in the participating area established for the formation to which the well is to be drilled or, if there is more than one participating area established for the formation, to the participating area that has a boundary line nearest the well location. During said ninety (90) days the Working Interest Owners in the participating area may elect to pay for the well costs as in (b) (1) above, but if said Working Interest Owners, voting in accordance with the provisions of Section 2.4, elect not to pay for the well, then the well costs shall be paid by the Working Interest Owners on the said lease

who have elected to drill it.

4.5 FORCED WELLS:

(a) A forced well is any well required by the Department of the Interior whether required independently of any plan of development or as a substitution therefor or an addition thereto. Any one or more of the Working Interest Owners herein may elect to pay for the cost of a forced well, proportionately according to their comparative acreage interests in the Unit Area, or as they may otherwise agree. If no Working Interest Owner is willing to pay for said well, the parties may determine by vote under Section 2.4 hereof, on payment of compensatory royalty, contraction of the unit area, dissolution of the agreement, or any other measure satisfactory to the Department of the Interior, whereby the obligation to drill the well may be avoided. If no such measure can be agreed upon as above and, if the demanded well is a test well, it shall be drilled at the cost of all the parties hereto proportionate to their respective interests, but if the well is not a test well, it shall be drilled at the cost of all the Working Interest Owners having interests in the participating area or areas established for the objective formation to which the well is to be drilled.

4.6 DEEPENING, PLUGGING BACK AND ABANDONING WELLS:

(a) Any well which upon completion in its objective formation is either a dry hole or produces unitized substances in less than paying quantities, or any formerly producing well which ceases to produce in quantities sufficient to justify continued operation in the formation in which it is then completed, may be deepened or plugged back to another formation, or plugged and abandoned, as provided in this Section 4.6.

(b) Any one or more of those Working Interest Owners (hereinafter called well owners) who have borne the well costs theretofore incurred in a well incapable of producing in paying quantities may elect to deepen or plug back the well at its or their expense provided, however, no well shall be deepened or plugged back to the formation covered by an established participating area except with the consent of the Working Interest Owners in such area as determined under the provision of Section 2.4. If less than all of the well owners wish to deepen or plug back a well, the conditions under which the well may be taken over by the parties wishing to conduct such operations, the basis of sharing the costs of deepening and plugging back, and the final adjustment or disposition of total well costs (including costs

of the deepening or plugging back operation) as between the parties who have borne a share of such total costs, shall be made the subject of a special agreement between such parties. In the event that none of the well owners wish to deepen or plug back the well, the majority Working Interest Owners of the lease embracing the well site (if they be parties other than the well owners) may deepen or plug back the well subject to a special agreement with the well owners concerning well costs and related matters mentioned in the preceding sentence. Arrangements to deepen or plug back a well, as aforesaid, shall be completed within 48 hours after notice by Unit Operator that the well has been completed as a dry hole when a drilling rig is on the well location, otherwise, within 30 days after Unit Operator's notice of completion or advice concerning the non-paying status of the well.

(c) In the event any well described in paragraph (a) of this Section 4.6 is proposed for abandonment by a well owner, and no arrangements to deepen or plug back are completed or in process in accordance with paragraph (b) of this Section 4.6, the well may be abandoned or continued in operation subject to the following conditions: If the well be a participating area well, it shall be plugged and abandoned or continued in operation as determined by the participating area Working Interest Owners in accordance with Section 2.4 hereof. If the well is not a participating area well, it may be plugged and abandoned by unanimous consent of the well owners. If some but not all of the well owners do not agree to abandonment of a well other than a participating area well, said parties shall pay the owners wishing to abandon a sum equal to the latter's proportionate share of the value of salvable material and equipment in and on the well, said value to be determined on the price basis set forth in Exhibit "1" attached less the estimated costs of salvaging. Upon receipt of said sum, the abandoning parties will execute proper bills of sale and division orders necessary to transfer their rights in said well and to its production from the formation in which completed to the parties not wishing to abandon; however, there shall be no formal conveyance of rights in and to any land or leasehold rights in the acreage surrounding said well and the percentage of participation of the parties hereto with respect to other wells and as to land and leasehold rights under this agreement and the Unit Agreement shall be unaffected by this transfer. No further wells shall be drilled to the same formation within the drainage area of said well, which shall be the spacing pattern then in use in the field, or in the absence of an established pattern, a square area of 640 acres for a gas well or 40 acres for an oil well

with the well at the center thereof. After such transfer of interests the well shall be operated for the account of the non-abandoning parties.

4.7 OPERATION OF COMPLETED WELLS: Any well completed hereunder which is capable of producing unitized substances and is included in a participating area shall be operated for the account of the parties included in such area and there shall be an adjustment of well costs in accordance with Article V hereof. Any well drilled outside a participating area which produces in such small quantity or poor quality as not to justify its inclusion in a participating area shall be operated for the account of the Working Interest Owners who paid for the well and said Working Interest Owners shall discharge the royalty obligation on the production taken by them from said lease.

ARTICLE V

INVESTMENT ADJUSTMENT

5.1 ON ESTABLISHMENT OF PARTICIPATING AREA: In the event any test well or wells drilled shall encounter the unitized substances in quantity sufficient to justify the establishment of a Participating Area for the formation encountered, such participating area shall be formed as provided in Section 11 of the Unit Agreement, and there shall be those investment adjustments hereinafter provided, and thereafter the costs incurred and benefits derived from the operation of the well shall be borne by and inure to the benefit of the Working Interest Owners in the Participating Area, and the working interests attributable to the non-participating portion of the Unit Area shall thereafter be liable for no part of the costs and entitled to no part of the benefits derived therefrom, in the absence of a subsequent enlargement of the participating area.

(a) Investment Adjustment of Intangibles: On the establishment of the participating area there shall be retroactive adjustment of the actual intangible cost incurred in drilling, completing and equipping for production the said producing test well or wells to the effective date of the establishment of the participating area to the end that the owners of working interests in the participating area established shall, in proportion to their respective percentages of participation in the participating area, reimburse without interest in the manner hereinafter provided the party or parties who paid for said intangible cost and expense of drilling, completing, and equipping for production the producing well or wells, it being understood that interests in intangibles shall be exchanged only for interest in intangibles or for

cash in order to effect said adjustment.

(b) Investment Adjustment of Tangibles: On the establishment of the participating area, there shall be a separate retroactive investment adjustment as to the tangible property in and appurtenant to said producing well or wells, tankage, pipelines, camps, separators, and without limitation all other structures, facilities, appliances, and property employed in the drilling, completion, equipping, and operation of said well, to the end that the owners of working interests in the Participating Area established shall reimburse without interest in the manner hereinafter provided the Working Interest Owners who purchased and paid for said equipment, for the actual cost thereof to the end that all of said property shall be owned by the Working Interest Owners in the Participating Area by undivided interests in proportion to their respective percentages of participation in the participating area, and to the end that the former owners thereof shall be reimbursed for their expenditures on the basis herein set out, it being understood that interests in tangibles shall be exchanged for interests in tangibles or for cash in order to effect said adjustment.

Separate participating areas for different formations may be established and any participating area may be diminished on account of failure of title or may be enlarged all as provided by the Unit Agreement and this agreement.

5.2 ENLARGEMENT OF PARTICIPATING AREA: On the enlargement of any participating area as provided in the Unit Agreement, there shall be investment adjustments between the Working Interest Owners in the enlarged participating area who are parties hereto and the Working Interest Owners in the former participating area who are parties hereto, to the end that costs and investments within the enlarged participating area shall be paid for by the affected Working Interest Owners in the enlarged participating area proportionate to the interest of each in the enlarged participating area, and also to the end that the Working Interest Owners who have previously paid said costs shall be reimbursed on the basis hereafter set forth, and otherwise as set forth in Section 5.1 hereof, except:

(a) The affected Working Interest Owners in the participating area before its enlargement and those who paid for intangibles in the area to be admitted to the enlarged participating area, shall receive credit for the intangible cost of drilling, completing, and equipping for production all wells capable of producing the unitized substances within said enlarged participating area. The costs to be so

credited shall be measured by the average cost of drilling, completing, and equipping for production wells of like character and depth in the region in a good and workmanlike manner at the time when said wells were drilled. Credits for tangibles in the participating area before enlargement and in the area to be included in the enlargement shall be given in accordance with a classification and appraisal thereof by the Working Interest Owners or a committee thereof, valued in accordance with the method set out in Section V of Exhibit "1" attached hereto, or otherwise as agreed to by the Working Interest Owners. The sum total of said credits shall be apportioned to the enlarged participating area, and separate cash adjustment of tangibles and intangibles as set forth in Section 5.1 shall be made among the Working Interest Owners through the Unit Operator. No credit shall be given for the previous cost of operating any wells or for the intangible cost of repairing or maintaining other property, nor shall there be any debit for and on account of production taken from wells prior to the effective date of the enlargement of the participating area.

(b) If the extension well which caused the enlargement of the Participating Area was drilled under the provisions of Section 4.4(b) (2) hereof, the Working Interest Owners who paid for the drilling of said well shall be credited on the investment adjustment with 150% of the intangible cost and 150% of the tangible cost as set out in Section 5.1 hereof, of drilling, completing, and equipping said well for production, provided, however, that if any Working Interest Owner or group of Owners shall request the drilling of more than one well at a time under Section 4.4(b) (2) hereof, and the Participating Area shall not elect to drill any of them and said wells are thereafter drilled under Section 4.4(b) (2) hereof, the 150% credit shall, as to any one owner or group of owners, apply only to the first well so drilled and completed as a paying producer, and the normal 100% credit shall be given on the remaining wells but if the Participating Area, pursuant to such requests, elects to drill one or more of the wells, either successively or concurrently, the 150% credit shall not apply to any of the remaining wells embraced in the requests and drilled by the Owners under Section 4.4 (b) (2) hereof.

(c) In the event the extension well, which causes the enlargement of the Participating Area, is drilled under Section 4.4(b) (1) hereof and one or more Working Interest Owners in the Participating Area before enlargement elected not to participate in the cost and risk of the extension well, there shall be the normal investment adjustment as provided in Section 5.2 and 5.2(a) hereof and in addition

thereto the Non-Consenting Working Interest Owners shall be charged with and shall pay an additional one-half of what would have been their respective shares of the intangible cost and an additional one-half of what would have been their respective shares in the tangible cost of drilling, completing and equipping the extension well had they participated therein, and said sum shall be distributed pro rata to the Working Interest Owners who paid for the cost of the extension well.

5.3 CONTRACTION OF PARTICIPATING AREA: On the contraction of a participating area to exclude land then regarded as reasonably proved not to be productive, as provided in Section 11 of the Unit Agreement, where it appears that the sum total of the intangible and tangible costs charged to the excluded land up to the date of exclusion have exceeded the proceeds of the sale of the working interest shares of the unitized substances (or the value thereof, in the event the same are not sold), allocated to said excluded lands after deducting the taxes and operating expenses attributable to said excluded lands, up to the date of exclusion, the Working Interest Owners in the contracted participating area, in proportion to their respective interests therein, shall reimburse in cash the working interest owners in the excluded lands for the excess of such costs. In making the adjustment to the end of securing this reimbursement, revenues allocated to the excluded acreage shall first be applied to the extinguishment of the operating costs, and second to the extinguishment of the intangible investment, and third, whatever if any remains shall be applied on the tangible investment. But if the proceeds or value of the production allocated to the excluded lands shall exceed the costs charged thereto, the Working Interest Owners in the excluded lands may retain the same and there shall be no reimbursement. In any case there shall be no adjustment of settlements which were made to royalty owners prior to the contraction of the participating area. Following the effective date of the contraction of a participating area, costs will be borne and tangibles will be owned (including any tangibles located on the excluded area) by the Working Interest Owners in the contracted participating area, and the benefits shall be allocated to them, and to the royalty holders in such contracted participating area, in proportion to their acreage basis ownership therein.

ARTICLE VI

PRODUCTION

6.1 RENTALS: The Working Interest Owners on each tract shall pay all rentals,

advance rentals, or delay rentals due under the lease thereon, and shall concurrently submit to the Unit Operator evidence of payment. If the Working Interest Owners on any tract determine not to pay any such rental, they shall notify Unit Operator at least sixty days before the due date, and shall thereupon assign to all other Working Interest Owners in the Unit Area requesting such assignment, proportionate to their then interest, all their right, title and interest under said lease. If the Working Interest Owners on any tract fail to pay the rental and fail to notify the Unit Operator of their intention not to pay the same, the Unit Operator may, but shall not be obligated to, pay said rental, and shall charge the same to their account. In the event of loss of title to a lease for failure to pay rental, all loss occasioned thereby shall be that of the Working Interest Owners who should have paid the same, and they hereby expressly indemnify and agree to hold harmless the Unit Operator and all other Working Interest Owners hereunder from any damages, claims, or liability occasioned by said loss of title, and the parties losing such title shall lose their interest hereunder represented thereby, but except as above set out, no Working Interest Owner shall, in the absence of bad faith sustain any liability to the Unit Operator or to any other Working Interest Owner hereunder on account of such loss of title.

6.2 ROYALTIES, COMPENSATORY ROYALTY: Except as provided in Section 4.7 and 6.3(c) hereof, each Working Interest Owner shall pay and satisfy all obligations for royalties, overriding royalties, and payments out of production payable on the lease interests contributed by such Working Interest Owner to the Unit Agreement and this agreement. In the event that any such royalty owner has not committed his interest to the Unit Agreement, and the Working Interest Owners having interests in said tract have not withdrawn their signatures from this agreement prior to the approval of the Unit Agreement by the Department of the Interior, such Working Interest Owners shall be responsible for payment of all royalty obligations to such non-consenting royalty owner and for all claims for damages for drainage or otherwise, and do hereby indemnify and hold the other parties hereto harmless for and on account of any and all royalty claims and all demands of any nature by said non-consenting royalty owner under this Section.

In cases where the affected Working Interest Owners determine to pay compensatory royalty or damages in lieu of drilling a demanded offset well, such compensatory royalty shall be paid by the Unit Operator. Compensatory royalty for drainage

of lands within a Participating Area shall be apportioned to all the Working Interest Owners having interests therein, in proportion to their respective interests. Compensatory royalty for drainage of lands situated outside any Participating Area shall be apportioned to those Working Interest Owners having interests in such lands.

6.3 DISPOSAL OF PRODUCTION:

(a) Each Working Interest Owner shall own and, at its own expense, shall take in kind and separately dispose of its proportionate part of all the unitized substances produced and saved from the lease acreage covered hereby, exclusive of the production that the Unit Operator may use in developing and producing operations and in preparing and treating oil for market purposes and of production unavoidably lost; provided, that each of the parties shall pay or secure the payment of the royalty interest in its proportionate part of the production.

(b) During such time or times as a Working Interest Owner shall fail or refuse to take in kind or separately dispose of his proportionate part of the unitized substances, the Unit Operator, except as otherwise provided in Sub-section (c) hereof, shall have the authority, revocable by the Working Interest Owner at will, to purchase at not less than the prevailing field market price, or to sell, all or part of such unitized substances to others at the same price that the Unit Operator receives for its own portion of unitized substances. All such sales by the Unit Operator of the working interest share of others 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 sale be for a period in excess of one year.

(c) Any Working Interest Owner may withhold the production and sale of his or their allocated working interest shares of natural gas or casinghead gas produced hereunder by giving the Unit Operator notice to such effect. The remaining parties desiring to sell their allocated shares hereinafter called "selling parties" may, and if lawfully required, shall thereupon proceed to produce and sell all or any part of the gas and casinghead gas production for which they have a market, or for which a market exists, and the gas purchasers shall pay the royalty, overriding royalty, and oil payment shares of such production to the Unit Operator who shall make settlement with said royalty owners on the basis of allocation otherwise set out in the Unit Agreement and herein as though there had been no withholding. The working interest shares of the gas so produced and sold shall be the property of the selling parties and they

shall receive direct payment and credit therefor as an advance on their allocated shares of gas and casinghead gas to be produced in the future, and subject to future adjustment of production as hereafter provided on account of the overage thus created. Unit Operator shall receive copies of records of all gas sales and shall supervise the adjustment of overages and underages to conform to allocated shares of production. There shall be an adjustment out of production of current overages and underages among the selling parties at the end of each calendar year. At any future time any withholding party may by written notice to Unit Operator elect to dispose of his allocated share under Sub-sections (a) or (b) of this Section and Unit Operator shall notify the gas purchasers of the selling parties. Thereupon the withholding party who has elected to sell shall be entitled to sell to his purchaser not only his current allocated share of the gas and casinghead gas, but also fifty per cent (50%) of the current allocated shares of gas of the previously selling parties until the cumulative overage and underage as between them has been equalized. If the gas supply is depleted before such equalization occurs, there shall be no further adjustment. All contracts for the sale and purchase of gas or casinghead gas shall be confined to the shares of gas allocated to the seller under the terms of the Unit Agreement and this Agreement, and shall be made subject to the provisions of this Sub-section, and all attempted sales in violation of the provisions hereof shall be void and unenforceable. The Working Interest Owners may adopt detailed procedures for carrying this Sub-section into effect.

ARTICLE VII

TITLES TO UNITIZED INTERESTS

7.1 TITLE EXAMINATION--FIRST WELL: Each Working Interest Owner hereby represents that it is now the owner of the interests in tracts of land in the Unit Area as set out in Exhibit "B" attached to the Unit Agreement. On the execution of this agreement, the Working Interest Owners on each and every lease covering land, any part of which is situated within a 2,560-acre area surrounding the location for the first test well in such an outline as may be delineated by the Working Interest Owners in the Unit Area, shall furnish the Unit Operator with: (a) up-to-date abstracts of title, (b) copies of all title opinions and title documents in its possession, and (c) in addition, for lands of the United States or of Indian Tribes or restricted Indians, acceptable up-to-date reports as to the status of said lands as appears from the

records of the Department of the Interior, and (d) in addition, for State lands, an acceptable report or transcript showing the status of lands as appears on the records of the State Land Office. The Working Interest Owners within the 2,560-acre area shall by majority vote promptly appoint a title committee who shall examine or cause to be examined all of said titles and have title opinions prepared and copies thereof distributed to all of the aforesaid Working Interest Owners. All expenses of and in connection with said title examination shall be charged to the Working Interest Owners within the area of the title examination in proportion to the acreage ownership, and each Working Interest Owner shall severally pay the cost of all curative work on its own titles. The Working Interest Owners within the 2,560-acre area shall by vote as provided in Section 2.4 hereof accept or disapprove all titles. In the event that title to any tract or interest therein shall be disapproved, such tract or interest shall be treated as uncommitted to the Unit Agreement and this agreement, unless the true owner shall commit said interests to said agreements.

7.2 TITLE EXAMINATION--SUBSEQUENT WELLS: Prior to the drilling of any additional well hereunder title shall in like manner be examined and accepted as above described covering all leases any part of which are within a 2,560-acre area surrounding the proposed well in such an outline as may be delineated by the Working Interest Owners, except as to titles previously accepted as above set out.

The Working Interest Owners in any participating area affected may by vote as provided in Section 2.4 hereof waive or modify the requirements of this section to meet special conditions as they may arise, or may require the examination of title to additional lands.

7.3 LOSS OF TITLE--BEFORE APPROVAL: In the event that, prior to approval of title by the Working Interest Owners, title to any tract of land or interest therein shall fail, the parties hereto who improperly claimed an interest in said land shall sustain the entire loss occasioned by such failure of title, and do hereby expressly relieve and indemnify the Unit Operator and all other Working Interest Owners from any and all liability on account thereof, and unless the true owner shall commit said interest to this agreement, said tract or interest shall be eliminated from this agreement, and the Unit Agreement.

7.4 LOSS OF TITLE--AFTER APPROVAL: In the event that title to any tract of

land within a participating area shall fail after acceptance of title by the Working Interest Owners, the loss and any ensuing liability shall be charged as a common loss of the Working Interest Owners having interests in that participating area, but the percentages of participation of the parties whose title has failed shall not be changed as to other lands within any participating area that embraces any of such land as to which title has failed. If title to a tract without any participating area shall fail after acceptance, the loss and liability shall be confined to the Working Interest Owners having interests in that tract. If, however, the true owner of the interests shall commit his said interest to the Unit Agreement and this agreement, then the percentage of participation of all affected parties shall be reduced proportionately to permit the admission of the true owner to his proper percentage of participation. Admission of the true Working Interest Owner shall be on such terms and conditions as may be approved by the Working Interest Owners, but otherwise, subject to any valid claims of the true owner, there shall be no adjustment of past cost, investment, production, or proceeds on failure of a previously approved title, except as otherwise provided by any indemnity contract which may be given.

ARTICLE VIII

CHANGE OF OWNERSHIP

8.1 ASSIGNMENTS: Except as otherwise may be provided in this Article, any Working Interest Owner may, at any time, transfer or assign all of his working interest to any other Working Interest Owner who is then a party to the Unit Agreement and to this agreement, or to any other person, association, or corporation, when such assignment is made expressly subject to the terms of the Unit Agreement and the terms of this agreement, and wherein the assignee shall accept and agree to perform all duties, obligations, and liabilities thereof. On the making of such assignment, the assignor shall thereupon be relieved of all future duties, obligations, and liabilities of a Working Interest Owner under this agreement and under the Unit Agreement. A partial assignment of working interest shall be effective as above described to the extent of the interest so assigned. No assignment made under the provisions of this Section shall be binding upon the Unit Operation until a certified copy of said assignment has been delivered to Unit Operator. The terms of this agreement shall be deemed to be covenants running with the land and leasehold estates and interests therein of the parties hereto, and shall be binding upon and inure to the benefit of the parties hereto, their heirs,

devisees, personal representatives, successors, and assigns.

8.2 WITHDRAWAL OF PARTY: If any party hereto so desires, it may withdraw from this agreement by conveying, assigning, and transferring, without warranty, either express or implied to the other Working Interest Owners requesting the assignment who do not desire to withdraw all of its right, title, and interest in and under the leases included in the Unit Area, together with the withdrawing party's interest in all wells, casing, material, equipment, fixtures, and other personal property belonging to the joint account, but such conveyance or assignment shall not relieve said party from any obligation or liability accruing or incurred prior to the date thereof. If no one requests an assignment, the party may exercise his right of surrender as provided in the Unit Agreement. The interest so conveyed and assigned shall be held and owned by the assignees in the proportion set out in applicable percentage participation schedules and thereupon the withdrawing party shall be relieved from all obligations and liabilities thereafter to accrue under this contract, and the right of such party to any benefits subsequently accruing hereunder shall cease; but assignees shall pay assignor for its interest in all casings, material, equipment, fixtures, and other personal property owned by the joint account at the salvage value thereof computed in accordance with the Accounting Procedure, Exhibit "1", hereto attached.

8.3 SUBSEQUENT JOINDER: Prior to commencement of operations under the Unit Agreement, all owners of working interests in the Unit Area who have not joined in the Unit Agreement shall be privileged to join in this agreement by subscribing the Unit Agreement and this agreement. After commencement of operations under the Unit Agreement, however, subsequent joinder in the Unit Agreement and in this agreement by any party owning a working interest in the Unit Area shall be on such reasonable terms and conditions as the Working Interest Owners who are then committed to the Unit Agreement and this agreement may require in view of the circumstances existing at the time such subsequent joinder is sought.

ARTICLE IX

MISCELLANEOUS PROVISIONS

9.1 FAIR EMPLOYMENT: In connection with the performance of work under this agreement, the Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading,

demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

9.2 NOTICES: All notices required or permitted to be given hereunder shall be in writing and shall be deemed to have been properly served and addressed when sent by mail or telegram to the parties executing this agreement at the addresses set opposite their respective names, or such other addresses as may thereafter be furnished.

9.3 LIABILITY: The liability of the parties hereunder shall be several and not joint or collective. Each party shall be individually responsible only for its own obligations as set out in this agreement and shall be liable only for its proportionate share of the costs and expenses as provided by this contract, and nothing herein contained or implied shall be deemed to create a partnership or joint liability between or among the parties hereto. No funds received by Unit Operator under this agreement, whether received as proceeds from the sale of unitized substances, or as advances or as payments on account of costs or expenses, or otherwise, need be segregated by Unit Operator or maintained by it as a joint fund, but may be comingled with its own funds and distributed by Unit Operator as provided for in this agreement. Each party hereto hereby elects to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, insofar as such Subchapter or any portion or portions thereof may be applicable to the parties in respect of the operations covered by this agreement. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such additional or further evidence of said election as may be required by regulations issued under said Subchapter K, or, should said regulations require each party to execute such further evidence, each party agrees to execute such evidence, or to join in the execution thereof.

9.4 HEADINGS: The Index and the headings used in this agreement are inserted for convenience only and shall be disregarded in construing the instrument.

9.5 LAWS AND REGULATIONS: This agreement shall be subject to all valid and applicable State and Federal laws, rules, regulations and orders, and the operations conducted hereunder shall be performed in accordance with said laws, rules, regulations and orders. In the event this agreement, or any provision hereof is, or the operations contemplated hereby are found to be, inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and, as so modified, shall continue in full force and effect.

9.6 EFFECTIVE DATE AND TERM: This agreement shall become effective as to all parties executing the same on the effective date of the Unit Agreement and the term hereof shall be the same as that of the Unit Agreement. Notwithstanding the termination of this agreement, the provisions thereof relating to the charging and payment of costs and the disposition of materials and equipment and distribution of proceeds shall remain in force until final accounting therefor. This agreement may be terminated in any manner by which the said Unit Agreement may be terminated.

9.7 COUNTERPARTS: This agreement may be executed in any number of counterparts with the same force and effect as if all the parties had signed the same document.

IN WITNESS WHEREOF, the parties have executed this contract the day and year first above written.

UNIT OPERATOR AND WORKING INTEREST
OWNER

ATTEST:

DATE:

PAN AMERICAN PETROLEUM CORPORATION

Assistant Secretary

April 14, 1957

By

Its Attorney in Fact



Address: P. O. Box 1410, Fort Worth, Texas

WORKING INTEREST OWNERS

ATTEST:

DATE:

Secretary

By

President

Address

STATE OF TEXAS)
)
COUNTY OF TARRANT)

On this 14 day of April, 1959, before me appeared Wm. J. Nolte, to me personally known, who, being by me duly sworn did say that he is the Attorney in Fact of PAN AMERICAN PETROLEUM CORPORATION, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said Wm. J. Nolte acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission expires:

6-1-59

Edna M. Aguirre
Notary Public in and for Tarrant County,
Texas

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of _____, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

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 acknowledged that _____ executed the same as _____ free act and deed.

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

My Commission expires:

Notary Public in and for _____
County, _____

EXHIBIT " 1 "

PASO-T-1955-2

Attached to and made a part of UNIT OPERATING AGREEMENT
Martin Ranch Unit Area
Chaves and DeBaca Counties,
New Mexico

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. Statements and Billings

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

A. Statement in detail of all charges and credits to the joint account.

B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.

C. Statements as follows:

(1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;

(2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges and credits.

3. Payments by Non-Operator

Each party 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 six per cent (6%) per annum until paid.

4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator 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 Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. 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, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. 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. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. Rentals and Royalties

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. Material

Material, equipment, and supplies purchased or furnished by Operator for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

- A. Outside Services:
The cost of contract services and utilities procured from outside sources.
- B. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

- A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.
- B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

- A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
- B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. District and Camp Expense (Field Supervision and Camp Expense)

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's Hobbs Area office located at or near Hobbs, New Mexico (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
0 - 4000'	\$150	\$30	\$25	\$15
4000' - 8000'	225	50	40	30
8000' - 12000'	300	65	55	45
Over 12000'	400	75	65	55

- A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. In connection with overhead charges, the status of wells shall be as follows:
 - (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
 - (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
 - (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

- (4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
- (5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.
- (6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.
- (7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.
- (8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.
- C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.
- D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.
- E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

13. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

No charge, either direct or indirect, will be made to the joint account
for operating and maintenance expense of Operator's fully-owned warehouse.

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator after deduction of all discounts actually received.

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")

- (1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on car-load basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
- (2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.
- (3) Cash discount shall not be allowed.

B. Used Material (Condition "B" and "C")

- (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.
- (2) Material which cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning,
 shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.
- (3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- (4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

5. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

- A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

- B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates should 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 account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.
- C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.
- D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.
- E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to 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-Operator

Material purchased by either the Operator or Non-Operator 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-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear 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 claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. New Price Defined

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

2. New Material

New material (Condition "A"), being new material procured for the joint account but never used thereon, 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 property as secondhand at seventy-five per cent (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. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

B. Is serviceable for original function but substantially not suitable for reconditioning.

5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

6. Junk

Junk (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 account does not justify the reduction in price as provided in Paragraph 3 B, above, 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.

VI. INVENTORIES

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 by operators of oil and gas properties.

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-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

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, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property; and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

EXHIBIT "2"

Attached to and made a part of Unit Operating Agreement, Martin Ranch Unit Area, Chaves and DeBaca Counties, New Mexico.

INSURANCE

I. For Operations by Unit Operator: The Unit Operator shall carry for the benefit of the joint account insurance to cover the Unit Operator's operations on the lands covered by this agreement, as follows:

(a) Workmen's compensation insurance: In compliance with the workmen's compensation laws of the State of New Mexico, including employer's liability.

(b) Comprehensive general liability insurance, excluding products: In amounts of \$100,000.00 for injuries to one person, \$500,000.00 for injuries in one accident, for property damage in the amounts of \$100,000.00 for each accident and \$250,000.00 aggregate.

(c) Automobile public liability and property damage insurance: In amounts of \$100,000.00 for injuries to one person, \$300,000.00 for injuries in one accident and \$10,000.00 for property damage.

II. For Contracted Operations: The Unit Operator shall require its contractors and subcontractors working or performing services on the lands covered hereby to comply with the workmens' compensation laws of the State of New Mexico and to carry such other insurance and in such amounts as the Unit Operator shall deem necessary.

June 19, 1958

GEOLOGICAL MEMORANDUM

Concerning

Proposed Martin Ranch Unit
Townships 3 and 4-S, Ranges 22 and ~~23-E~~
Chaves and DeBaca Counties, New Mexico

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Paul Am... EXHIBIT NO. 5
CASE NO. 1650

The proposed Martin Ranch Unit located approximately 45 miles northeast of the city of Roswell is outlined in red on "Exhibit No. 1", embracing parts of T-3-S, R-22-E, T-3-S, R-23-E, in DeBaca County, New Mexico; parts of T-4-S, R-22-E, and T-4-S, R-23-E, Chaves County, New Mexico. A high percentage of lands within this outline are Federal and hence we believe it would be in the public interest to join them in a unit agreement before drilling a test well for oil or gas. It is recommended that the unitized substances include all horizons from Surface to Basement Complex.

The attached structural contour map on Top of Basement Complex, "Exhibit No. 1", which is based on aeromagnetic depth determinations and well data, shows an east-west trending basement ridge with the proposed Unit located on the south flank thereof. Regionally, the area is located on the extreme northwestern flank of the Northwestern Shelf of the Permian Basin. The basement ridge is apparently a peninsula of the ancestral Pedernal Land Mass.

This area is thought favorable for the occurrence of stratigraphic type traps in Pennsylvanian sands analogous to the gas and distillate reservoir of the Newmill Pennsylvanian Pool located approximately 14 miles southeast. Cross-section A-A', "Exhibit No. 2", shows stratigraphic correlations between the Newmill Pool and the recently drilled Eugene Talbert No. 1 Andree, traversing the proposed unit in a southeasterly direction.

June 19, 1958

The following is a tabulation of the geologic formations anticipated in the area as interpolated from "Exhibit No. 2":

<u>Age</u>	<u>Formation</u>	<u>Approximate Depth</u>
Permian	Whitehorse Group	Surface
	San Andres	100'
	Glorieta	800'
	Yeso	1100'
	Drinkard	2500'
	Abo	3000'
	Wolfcamp	3600'
Pennsylvanian	Series Undifferentiated	4300'
Pre-Cambrian	Basement Complex	5500'

Possible pay zones include the San Andres, Wolfcamp, and Pennsylvanian. A test well is recommended at a location in SE/4 SE/4 Section 24, T-3-S, R-22-E. This test should be drilled to Basement Complex which is estimated at a depth of approximately 5500'.

Center of the proposed Unit is about 13 miles northeast of El Paso Natural Gas Company's 30 inch San Juan Loop. This will provide a market outlet as soon as sufficient reserves are proven.

It is requested that the information contained herein, and the Exhibits attached hereto, be kept in strict confidence.

PAN AMERICAN PETROLEUM CORPORATION

By Wm. T. Smith
Wm. T. Smith, Division Geologist

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