

UNIT AGREEMENT FOR THE DEVELOPMENT AND
OPERATION OF THE NORTHEAST HOGBACK UNIT AREA
COUNTY OF SAN JUAN, 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>Panther</i> EXHIBIT NO. <u>1</u>	
CASE NO. <u>1769</u>	

1 UNIT AGREEMENT 1

2 FOR THE DEVELOPMENT AND OPERATION 2
OF THE

3 NORTHEAST HOGBACK UNIT AREA 3

4 SAN JUAN COUNTY 4

5 STATE OF NEW MEXICO 5

6 No. _____ 6

7 THIS AGREEMENT, entered into as of the _____ day of _____, 19____, 7

8 by and between the parties subscribing, ratifying, or consenting hereto, and herein 8
9 referred to as the "parties hereto", 9

10 WITNESSETH: 10

11 WHEREAS, the parties hereto are the owners of working, royalty, or other oil 11
12 and gas interests in the unit area subject to this agreement; and 12

13 WHEREAS, the term "Working Interest" as used herein shall mean the interest 13
14 held in unitized substances or in lands containing unitized substances by virtue of 14
15 a lease, operating agreement, fee title, or otherwise, which is chargeable with and 15
16 obligated to pay or bear all or a portion of the cost of drilling, developing, pro- 16
17 ducing, and operating the land under the unit or cooperative agreement. The right 17
18 delegated to Unit Operator as such by this agreement is not to be regarded as a 18
19 working interest; and 19

20 WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat, 437, as 20
21 amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their repre- 21
22 sentatives to unite with each other, or jointly or separately with others in col- 22
23 lectively adopting and operating a cooperative or unit plan of development or opera- 23
24 tion of any oil or gas pool, field, or like area, or any part thereof for the pur- 24
25 pose of more properly conserving the natural resources thereof whenever determined 25
26 and certified by the Secretary of the Interior to be necessary or advisable in the 26
27 public interest; and 27

28 WHEREAS, the Commissioner of Public Lands of the State of New Mexico is 28
29 authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951, Chap. 7, 29
30 Art. 11, Sec. 41, N. M. Statutes 1953 Annotated) to consent to or approve this agree- 30
31 ment on behalf of the State of New Mexico, insofar as it covers and includes lands 31
32 and mineral interests of the State of New Mexico; and 32

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 agree- 2
3 ment and the conservation provisions hereof; and 3

4 WHEREAS, the parties hereto hold sufficient interests in the Northeast Hog- 4
5 back Unit Area covering the land hereinafter described to give reasonably effective 5
6 control 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
27
28
29
30
31
32
33

New Mexico Principal Meridian, New Mexico

Acres

Township 30 North Range 16 West:

Section 11:	E $\frac{1}{2}$	320.00
Section 12:	All	640.00
Section 13:	All	640.00
Section 14:	All	640.00
Section 15:	Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All)	634.16
Section 16:	Lots 3, 4, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$	279.08
Section 21:	Lots 1 to 16 inclusive (All)	543.18
Section 22:	All	640.00
Section 23:	All	640.00
Section 24:	All	640.00
Section 25:	All	640.00
Section 26:	All	640.00
Section 27:	All	640.00
Section 28:	Lots 1 to 16 inclusive (All)	559.14
Section 33:	Lots 1 to 7 inclusive, E $\frac{1}{2}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ (All)	556.30
Section 34:	All	640.00
Section 35:	All	640.00
Section 36:	All	<u>640.00</u>
	TOTAL	10,571.86

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

1 interests in all land in the unit area. However, nothing herein or in said schedule 1
2 or map shall be construed as a representation by any party hereto as to the owner- 2
3 ship of any interest other than such interest or interests as shown in said map or 3
4 schedule as owned by such party. Exhibits A and B shall be revised by the Unit 4
5 Operator whenever changes in the unit area render such revision necessary, or when 5
6 requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor" 6
7 and not less than six copies of the revised exhibits shall be filed with the Super- 7
8 visor, and two copies each with the Commissioner of Public Lands of the State of 8
9 New Mexico, hereinafter referred to as "Commissioner", and the Oil Conservation Com- 9
10 mission, hereinafter referred to as "Commission". 10

11 The above-described unit area shall when practicable be expanded to in- 11
12 clude therein any additional tract or tracts regarded as reasonably necessary or 12
13 advisable for the purposes of this agreement, or shall be contracted to exclude lands 13
14 not within any participating area whenever such expansion or contraction is neces- 14
15 sary or advisable to conform with the purposes of this agreement. Such expansion 15
16 or contraction shall be effected in the following manner: 16

17 (a) Unit Operator, on its own motion or on demand of the Director of 17
18 the Geological Survey, hereinafter referred to as "Director", or on demand of the 18
19 Commissioner, after preliminary concurrence by the Director, shall prepare a notice 19
20 of proposed expansion or contraction describing the contemplated changes in the 20
21 boundaries of the unit area, the reasons therefor, and the proposed effective date 21
22 thereof, preferably the first day of a month subsequent to the date of notice. 22

23 (b) Said notice shall be delivered to the Supervisor and the Commis- 23
24 sioner, and copies thereof mailed to the last known address of each working interest 24
25 owner, lessee, and lessor whose interests are affected, advising that 30 days will 25
26 be allowed for submission to the Unit Operator of any objections. 26

27 (c) Upon expiration of the 30-day period provided in the preceding 27
28 item (b) hereof, Unit Operator shall file with the Supervisor and the Commissioner 28
29 evidence of mailing of the notice of expansion or contraction and a copy of any 29
30 objections thereto which have been filed with the Unit Operator, together with an 30
31 application in sufficient number, for approval of such expansion or contraction 31
32 and with appropriate joinders. 32

33 (d) After due consideration of all pertinent information, the expansion 33

1 or contraction shall, upon approval by the Director and the Commissioner, become 1
2 effective as of the date prescribed in the notice thereof. 2

3 (e) All legal subdivisions of unitized lands (i.e., 40 acres by Govern- 3
4 ment survey or its nearest lot or tract equivalent in instances of irregular sur- 4
5 veys, however, unusually large lots or tracts shall be considered in multiples of 5
6 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination 6
7 under this subsection), no parts of which are entitled to be in a participating area 7
8 within 5 years after the first day of the month following the effective date of the 8
9 first initial participating area established under this unit agreement, shall be 9
10 eliminated automatically from this agreement, effective as of the first day there- 10
11 after, and such lands shall no longer be a part of the unit area and shall no long- 11
12 er be subject to this agreement, unless at the expiration of said 5-year period 12
13 diligent drilling operations are in progress on unitized lands not entitled to parti- 13
14 cipation, in which event all such lands shall remain subject hereto for so long as 14
15 such drilling operations are continued diligently, with not more than 90 days' time 15
16 elapsing between the completion of one such well and the commencement of the next 16
17 such well, except that the time allowed between such wells shall not expire earlier 17
18 than 30 days after the expiration of any period of time during which drilling opera- 18
19 tions are prevented by a matter beyond the reasonable control of unit operator as 19
20 set forth in the section hereof entitled "Unavoidable Delay"; provided that all 20
21 legal subdivisions of lands not in a participating area and not entitled to become 21
22 participating under the applicable provisions of this agreement within 10 years 22
23 after said first day of the month following the effective date of said first initial 23
24 participating area shall be eliminated as above specified. Determination of credit- 24
25 able "Unavoidable Delay" time shall be made by unit operator and subject to approv- 25
26 al of the Director and the Commissioner. The unit operator shall, within 90 days 26
27 after the effective date of any elimination hereunder, describe the area so elimi- 27
28 nated to the satisfaction of the Director and the Commissioner, and promptly notify 28
29 all parties in interest. 29

30 If conditions warrant extension of the 10-year period specified in this 30
31 subsection 2(e), a single extension of not to exceed 2 years may be accomplished by 31
32 consent of the owners of 90% of the current unitized working interests and 60% of 32
33 the current unitized basic royalty interests (exclusive of the basic royalty 33

1 interests of the United States and the State of New Mexico), on a total-nonpartici- 1
2 pating-acreage basis, respectively, with approval of the Director and the Commis- 2
3 sioner, provided such extension application is submitted to the Director and the 3
4 Commissioner not later than 60 days prior to the expiration of said 10-year period. 4

5 Any expansion of the unit area pursuant to this section which embraces 5
6 lands theretofore eliminated pursuant to this subsection 2(e) shall not be consider- 6
7 ed automatic commitment or recommitment of such lands. 7

8 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agree- 8
9 ment shall constitute land referred to herein as "unitized land" or "land subject 9
10 to this agreement". All oil and gas in any and all formations of the unitized land 10
11 are unitized under the terms of this agreement and herein are called "unitized sub- 11
12 stances". 12

13 4. UNIT OPERATOR. Pan American Petroleum Corporation is hereby designated 13
14 as Unit Operator and by signature hereto as Unit Operator agrees and consents to ac- 14
15 cept the duties and obligations of Unit Operator for the discovery, development, and 15
16 production of unitized substances as herein provided. Whenever reference is made 16
17 herein to the Unit Operator, such reference means the Unit Operator acting in that 17
18 capacity and not as an owner of interest in unitized substances, and the term "work- 18
19 ing interest owner" when used herein shall include or refer to Unit Operator as the 19
20 owner of a working interest when such an interest is owned by it. 20

21 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the 21
22 right to resign at any time prior to the establishment of a participating area or 22
23 areas hereunder, but such resignation shall not become effective so as to release 23
24 Unit Operator from the duties and obligations of Unit Operator and terminate Unit 24
25 Operator's rights as such for a period of 6 months after notice of intention to 25
26 resign has been served by Unit Operator on all working interest owners and the 26
27 Director and the Commissioner, and until all wells then drilled hereunder are plac- 27
28 ed in a satisfactory condition for suspension or abandonment whichever is required 28
29 by the Supervisor and the Commissioner, and unless a new Unit Operator shall have 29
30 been selected and approved and shall have taken over and assumed the duties and 30
31 obligations of Unit Operator prior to the expiration of said period. 31

32 Unit Operator shall have the right to resign in like manner and subject 3
33 to like limitations as above provided at any time a participating area established 3

1 hereunder is in existence, but, in all instances of resignation or removal, until a 1
2 successor unit operator is selected and approved as hereinafter provided, the work- 2
3 ing interest owners shall be jointly responsible for performance of the duties of 3
4 unit operator, and shall not later than 30 days before such resignation or removal 4
5 becomes effective appoint a common agent to represent them in any action to be taken 5
6 hereunder. 6

7 The resignation of Unit Operator shall not release Unit Operator from 7
8 any liability for any default by it hereunder occurring prior to the effective date 8
9 of its resignation. 9

10 The Unit Operator may, upon default or failure in the performance of its 10
11 duties or obligations hereunder, be subject to removal by the same percentage vote 11
12 of the owners of working interests determined in like manner as herein provided for 12
13 the selection of a new Unit Operator. Such removal shall be effective upon notice 13
14 thereof to the Director and the Commissioner. 14

15 The resignation or removal of Unit Operator under this agreement shall 15
16 not terminate its right, title or interest as the owner of a working interest or 16
17 other interest in unitized substances, but upon the resignation or removal of Unit 17
18 Operator becoming effective, such Unit Operator shall deliver possession of all 18
19 equipment, materials, and appurtenances used in conducting the unit operations and 19
20 owned by the working interest owners to the new duly qualified successor Unit Opera- 20
21 tor or to the owners thereof if no such new Unit Operator is elected, to be used for 21
22 the purpose of conducting unit operations hereunder. Nothing herein shall be con- 22
23 strued as authorizing removal of any material, equipment and appurtenances needed 23
24 for the preservation of any wells. 24

25 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or 25
26 its resignation as Unit Operator or shall be removed as hereinabove provided, the 26
27 owners of the working interests in the participating area or areas according to 27
28 their respective acreage interests in such participating area or areas, or, until 28
29 a participating area shall have been established, the owners of the working in- 29
30 terests according to their respective acreage interests in all unitized land, shall 30
31 by majority vote select a successor Unit Operator: Provided, That, if a majority 31
32 but less than 75 per cent of the working interests qualified to vote are owned by 32
33 one party to this agreement, a concurring vote of one or more additional working 33

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

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

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

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

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

1 hereby delegated to and shall be exercised by the Unit Operator as herein provided. 1
2 Acceptable evidence of title to said rights shall be deposited with said Unit Opera- 2
3 tor and, together with this agreement, shall constitute and define the rights, pri- 3
4 vileges, and obligations of Unit Operator. Nothing herein, however, shall be con- 4
5 strued to transfer title to any land or to any lease or operating agreement, it be- 5
6 ing understood that under this agreement the Unit Operator, in its capacity as Unit 6
7 Operator, shall exercise the rights of possession and use vested in the parties here- 7
8 to only for the purposes herein specified. 8

9 9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, 9
10 the Unit Operator shall begin to drill an adequate test well at a location approved 10
11 by the Supervisor, if such location is upon lands of the United States, and if upon 11
12 State or Patented lands, such location shall be approved by the Commission and the 12
13 Commissioner, unless on such effective date a well is being drilled conformably with 13
14 the terms hereof, and thereafter continue such drilling diligently until the Dakota 14
15 formation has been tested or until at a lesser depth unitized substances shall be dis- 15
16 covered which can be produced in paying quantities (to-wit: quantities sufficient 16
17 to repay the costs of drilling, and producing operations, with a reasonable profit) 17
18 or the Unit Operator shall at any time establish to the satisfaction of the Supervisor 18
19 as to wells on Federal lands, or the Commission and the Commissioner as to wells on 19
20 State lands or Patented lands, that further drilling of said well would be unwarrant- 20
21 ed or impracticable, provided, however, that the Unit Operator shall not in any event 21
22 be required to drill said well to a depth in excess of 4950 feet. Thereafter, Unit 22
23 Operator shall drill three additional test wells at locations approved by the Super- 23
24 visor if such locations are upon lands of the United States, and if upon State or 24
25 Patented lands, such locations shall be approved by the Commission and the Commis- 25
26 sioner, each such additional test well to be drilled diligently until the Dakota for- 26
27 mation has been tested or until at a lesser depth unitized substances shall be dis- 27
28 covered which can be produced in paying quantities (to-wit: quantities sufficient to 28
29 repay the cost of drilling, and producing operations, with a reasonable profit), or 29
30 the Unit Operator shall at any time establish to the satisfaction of the Supervisor 30
31 as to wells on Federal lands, or the Commission and the Commissioner as to wells 31
32 on State lands or on Patented lands, that further drilling of said wells shall be un- 32
33 warranted or impracticable, provided, however, that the Unit Operator shall not in 33
34 any event be required to drill said wells to a depth in excess of 4950 feet. Not more 34
35 than six (6) months shall elapse between the completion of one test well hereunder

1 and the commencement of the next test well to be drilled hereunder. Until the dis- 1
2 covery of a deposit of unitized substances capable of being produced in paying 2
3 quantities, the Unit Operator shall continue drilling diligently one well at a time, 3
4 allowing not more than 6 months between the completion of one well and the beginning 4
5 of the next well, until a well capable of producing unitized substances in paying 5
6 quantities is completed to the satisfaction of said Supervisor, the Commission and 6
7 the Commissioner or until it is reasonably proved that the unitized land is incapable 7
8 of producing unitized substances in paying quantities in the formations drilled here- 8
9 under. Nothing in this section shall be deemed to limit the right of the Unit Opera- 9
10 tor to resign as provided in Section 5 hereof, or as requiring Unit Operator to com- 10
11 mence or continue any drilling during the period pending such resignation becoming 11
12 effective in order to comply with the requirements of this section. Prior to com- 12
13 pletion of said four test wells, the only extensions of time that may be granted must 13
14 be based upon severe weather or other conditions beyond the control of the Unit Opera- 14
15 tor, and be limited to three months for each well after the first. After completion 15
16 of said four test wells, the Director and Commissioner may modify the drilling re- 16
17 quirements of this section by granting reasonable extensions of time when, in their 17
18 opinion, such action is warranted. 18

19 Upon failure to comply with the drilling provisions of this section, the 19
20 Director and Commissioner may, after reasonable notice to the Unit Operator, and 20
21 each working interest owner, lessee, and lessor at their last known addresses, de- 21
22 clare this unit agreement terminated. 22

23 10. PLAN OF FUTURE DEVELOPMENT AND OPERATION. Within 6 months after com- 23
24 pletion of a well capable of producing unitized substances in paying quantities, the 24
25 Unit Operator shall submit for the approval of the Supervisor, the Commissioner and 25
26 the Commission an acceptable plan of development and operation for the unitized land 26
27 which, when approved by the Supervisor, the Commissioner and the Commission, shall 27
28 constitute the further drilling and operating obligations of the Unit Operator under 28
29 this agreement for the period specified therein. Thereafter, from time to time be- 29
30 fore the expiration of any existing plan, the Unit Operator shall submit for the ap- 30
31 proval of the Supervisor, the Commissioner and the Commission a plan for an addition- 31
32 al specified period for the development and operation of the unitized land. Any 32
33 plan submitted pursuant to this section shall provide for the exploration of the 33
34 unitized area and for the diligent drilling necessary for determination of the area 34
35 or areas thereof capable of producing unitized substances in paying quantities in 35
36 each and every productive formation and shall be as complete and adequate as the 36
37 Supervisor, the Commissioner and the Commission may determine to be necessary for 37

1 timely development and proper conservation of the oil and gas resources of the 1
2 unitized area and shall: 2

3 (a) specify the number and locations of any wells to be drilled and 3
4 the proposed order and time for such drilling; and 4

5 (b) to the extent practicable specify the operating practices regard- 5
6 ed as necessary and advisable for proper conservation of natural re- 6
7 sources. Separate plans may be submitted for separate productive zones, 7
8 subject to the approval of the Supervisor, the Commissioner and the com- 8
9 mission. Said plan or plans shall be modified or supplemented when 9
10 necessary to meet changed conditions or to protect the interests of all 10
11 parties to this agreement. Reasonable diligence shall be exercised in 11
12 complying with the obligations of the approved plan of development. The 12
13 Supervisor and the Commissioner are authorized to grant a reasonable ex- 13
14 tension of the 6-month period herein prescribed for submission of an 14
15 initial plan of development where such action is justified because of 15
16 unusual conditions or circumstances. After completion hereunder of a 16
17 well capable of producing any unitized substance in paying quantities, 17
18 no further wells, except such as may be necessary to afford protection 18
19 against operations not under this agreement or such as may be specifi- 19
20 cally approved by the Supervisor and the Commissioner, shall be drilled 20
21 except in accordance with a plan of development approved as herein pro- 21
22 vided. 22

23 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of pro- 23
24 ducing unitized substances in paying quantities or as soon thereafter as required by 24
25 the Supervisor and the Commissioner, the Unit Operator shall submit for approval by 25
26 the Director, the Commissioner and the Commission a schedule, based on subdivisions 26
27 of the public-land survey or aliquot parts thereof, of all unitized land then regard- 27
28 ed as reasonably proved to be productive of unitized substances in paying quantities; 28
29 all lands in said schedule on approval of the Director, the Commissioner and the Com- 29
30 mission to constitute a participating area, effective as of the date of completion of 30
31 such well or the effective date of the unit agreement, whichever is later. Said 31
32 schedule also shall set forth the percentage of unitized substances to be allocated 32
33 as herein provided to each unitized tract in the participating area so established, 33

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 operations 9
10 or otherwise, to include additional land then regarded as reasonably proved to be pro- 10
11 ductive in paying quantities, or to exclude land then regarded as reasonably proved 11
12 not to be productive in paying quantities and the percentage of allocation shall 12
13 also be revised accordingly. The effective date of any revision shall be the first 13
14 of the month in which is obtained the knowledge or information on which such revi- 14
15 sion is predicated, provided, however, that a more appropriate effective date may be 15
16 used if justified by the Unit Operator and approved by the Director and Commissioner 16
17 and Commission. No land shall be excluded from a participating area on account of 17
18 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 the 24
25 Director, the Commissioner and the Commission as to the proper definition or rede- 25
26 finition 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

1 that transferred shall be so produced for sale and such gas shall be allocated to the 1
2 participating area from which initially produced as constituted at the time of such 2
3 final production. 3

4 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any 4
5 party hereto owning or controlling the working interest in any unitized land having 5
6 thereon a regular well location may with the approval of the Supervisor, the Commis- 6
7 sioner or the Commission, at such party's sole risk, cost, and expense, drill a well 7
8 to test any formation for which a participating area has not been established or to 8
9 test any formation for which a participating area has been established if such loca- 9
10 tion is not within said participating area, unless within 90 days of receipt of notice 10
11 from said party of his intention to drill the well the Unit Operator elects and com- 11
12 mences to drill such a well in like manner as other wells are drilled by the Unit 12
13 Operator under this agreement. 13

14 If any well drilled as aforesaid by a working interest owner results in 14
15 production such that the land upon which it is situated may properly be included in a 15
16 participating area, such participating area shall be established or enlarged as pro- 16
17 vided in this agreement and the well shall thereafter be operated by the Unit Opera- 17
18 tor in accordance with the terms of this agreement and the unit operating agreement. 18

19 If any well drilled as aforesaid by a working interest owner obtains 19
20 production in quantities insufficient to justify the inclusion in a participating 20
21 area of the land upon which such well is situated, such well may be operated and pro- 21
22 duced by the party drilling the same subject to the conservation requirements of this 22
23 agreement. The royalties in amount or value of production from any such well shall 23
24 be paid as specified in the underlying lease and agreements affected. 24

25 14. ROYALTY SETTLEMENT. The United States and the State of New Mexico and 25
26 all royalty owners who, under existing contract, are entitled to take in kind a share 26
27 of the substances now unitized hereunder produced from any tract, shall hereafter be 27
28 entitled to the right to take in kind their share of the unitized substances allocat- 28
29 ed to such tract, and Unit Operator, or in case of the operation of a well by a work- 29
30 ing interest owner as herein in special cases provided for, such working interest 30
31 owner, shall make deliveries of such royalty share taken in kind in conformity with 31
32 the applicable contracts, laws, and regulations. Settlement for royalty interest not 32
33 taken in kind shall be made by working interest owners responsible therefor under 33

1 existing contracts, laws and regulations on or before the last day of each month for 1
2 unitized substances produced during the preceding calendar month; provided, however, 2
3 that nothing herein contained shall operate to relieve the lessees of any land from 3
4 their respective lease obligations for the payment of any royalties due under their 4
5 leases. 5

6 If gas obtained from lands not subject to this agreement is introduced 6
7 into any participating area hereunder, for use in repressuring, stimulation of pro- 7
8 duction, or increasing ultimate recovery, which shall be in conformity with a plan 8
9 first approved by the Supervisor and the Commissioner, a like amount of gas, after 9
10 settlement as herein provided for any gas transferred from any other participating 10
11 area and with due allowance for loss or depletion from any cause, may be withdrawn 11
12 from the formation into which the gas was introduced, royalty free as to dry gas, 12
13 but not as to the products extracted therefrom; provided that such withdrawal shall 13
14 be at such time as may be provided in the plan of operations or as may otherwise be 14
15 consented to by the Supervisor, the Commissioner and the Commission as conforming 15
16 to good petroleum engineering practice; and provided further, that such right of 16
17 withdrawal shall terminate on the termination of this unit agreement. 17

18 Royalty due the United States shall be computed as provided in the 18
19 operating regulations and paid in value or delivered in kind as to all unitized sub- 19
20 stances on the basis of the amounts thereof allocated to unitized Federal land as 20
21 provided herein at the rates specified in the respective Federal leases, or at such 21
22 lower rate or rates as may be authorized by law or regulation; provided, that for 22
23 leases on which the royalty rate depends on the daily average production per well, 23
24 said average production shall be determined in accordance with the operating regula- 24
25 tions as though each participating area were a single consolidated lease. 25

26 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed 26
27 hereto shall be paid by working interest owners responsible therefor under existing 27
28 contracts, laws, and regulations, provided that nothing herein contained shall oper- 28
29 ate to relieve the lessees of any land from their respective lease obligations for 29
30 the payment of any rental or minimum royalty in lieu thereof due under their leases. 30
31 Rental or minimum royalty for lands of the United States subject to this agreement 31
32 shall be paid at the rate specified in the respective leases from the United States 32
33 unless such rental or minimum royalty is waived, suspended, or reduced by law or by 33

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

1 without limiting the generality of the foregoing, all leases, subleases, and con- 1
2 tracts are particularly modified in accordance with the following: 2

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

11 (b) Drilling and producing operations performed hereunder upon any 11
12 tract of unitized lands will be accepted and deemed to be performed up- 12
13 on and for the benefit of each and every tract of unitized land, and no 13
14 lease shall be deemed to expire by reason of failure to drill or pro- 14
15 duce wells situated on the land therein embraced. 15

16 (c) Suspension of drilling or producing operations on all unitized 16
17 lands pursuant to direction or consent of the Secretary or his duly 17
18 authorized representative, and on all unitized lands of the State of 18
19 New Mexico pursuant to the direction and consent of the Commissioner, 19
20 or his duly authorized representative, shall be deemed to constitute 20
21 such suspension pursuant to such direction or consent as to each and 21
22 every tract of unitized land. 22

23 (d) Each lease, sublease or contract relating to the exploration, 23
24 drilling, development or operation for oil or gas of lands other than 24
25 those of the United States committed to this agreement, which, by its 25
26 terms might expire prior to the termination of this agreement, is here- 26
27 by extended beyond any such term so provided therein so that it shall 27
28 be continued in full force and effect for and during the term of this 28
29 agreement. 29

30 (e) Any Federal lease for a fixed term of twenty (20) years or any re- 30
31 newal thereof or any part of such lease which is made subject to this 31
32 agreement shall continue in force beyond the term provided therein 32
33 until the termination hereof. Any other Federal lease committed hereto 33

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

31 19. COVENANTS RUN WITH LAND. The covenants here 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

1 hereby is conditioned upon the assumption of all privileges and obligations here- 1
2 under by the grantee, transferee, or other successor in interest. No assignment or 2
3 transfer of any working interest, royalty, or other interest subject hereto shall be 3
4 binding upon Unit Operator until the first day of the calendar month after Unit 4
5 Operator is furnished with the original, photostatic, or certified copy of the in- 5
6 strument of transfer. 6

7 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon ap- 7
8 proval by the Secretary and the Commissioner or their duly authorized representatives 8
9 and shall terminate five (5) years from said effective date unless: 9

10 (a) such date of expiration is extended by the Director and the Com- 10
11 missioner, or 11

12 (b) it is reasonably determined prior to the expiration of the fixed 12
13 term or any extension thereof that the unitized land is incapable of pro- 13
14 duction of unitized substances in paying quantities in the formations 14
15 tested hereunder and after notice of intention to terminate the agree- 15
16 ment on such ground is given by the Unit Operator to all parties in in- 16
17 terest at their last known addresses, the agreement is terminated with 17
18 the approval of the Director and the Commissioner, or 18

19 (c) a valuable discovery of unitized substances has been made on uniti- 19
20 zed land during said initial term or any extension thereof, in which event 20
21 the agreement shall remain in effect for such term and so long as uniti- 21
22 zed substances can be produced in paying quantities, i. e., in this 22
23 particular instance in quantities sufficient to pay for the cost of pro- 23
24 ducing same from wells on unitized land within any participating area 24
25 established hereunder and, should production cease, so long thereafter as 25
26 diligent operations are in progress for the restoration of production or 26
27 discovery of new production and so long thereafter as the unitized sub- 27
28 stances so discovered can be produced as aforesaid, or 28

29 (d) it is terminated as heretofore provided in this agreement. 29

30 This agreement may be terminated at any time by not less than 75 per cen- 30
31 tum, on an acreage basis, of the owners of working interests signatory hereto, with 31
32 the approval of the Director and the Commissioner; notice of any such approval to be 32
33 given by the Unit Operator to all parties hereto. 33

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

1 provisions of this contract are vested in the Commission and shall be exercised by it 1
2 pursuant to the provisions of the laws of the State of New Mexico and subject in any 2
3 case to appeal or judicial review as may now or hereafter be provided by the laws of 3
4 the State of New Mexico. 4

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

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

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

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

1 whether similar to matters herein enumerated or not. 1

2 27. FAIR EMPLOYMENT. In connection with the performance of work under this 2
3 agreement, the operator agrees not to discriminate against any employee or appli- 3
4 cant for employment because of race, religion, color, or national origin. The afore- 4
5 said provision shall include, but not be limited to, the following: employment, up- 5
6 grading, demotion, or transfer; recruitment or recruitment advertising, layoff or 6
7 termination; rates of pay or other forms of compensation; and selection for train- 7
8 ing, including apprenticeship. The operator agrees to post hereafter in conspicuous 8
9 places, available for employees and applicants for employment, notices to be pro- 9
10 vided by the contracting officer setting forth the provisions of the nondiscrimina- 10
11 tion clause. 11

12 The operator agrees to insert the foregoing provision in all subcon- 12
13 tracts hereunder, except subcontracts for standard commercial supplies or raw mater- 13
14 ials. 14

15 28. LOSS OF TITLE. In the event title to any tract of unitized land shall 15
16 fail and the true owner cannot be induced to join in this unit agreement, such tract 16
17 shall be automatically regarded as not committed hereto and there shall be such re- 17
18 adjustment of future costs and benefits as may be required on account of the loss of 18
19 such title. In the event of a dispute as to title as to any royalty, working in- 19
20 terest, or other interest subject hereto, payment or delivery on account thereof 20
21 may be withheld without liability for interest until the dispute is finally settled; 21
22 provided, that, as to Federal and State land or leases, no payments of funds due the 22
23 United States or the State of New Mexico should be withheld, but such funds shall be 23
24 deposited as directed by the Supervisor and the Commissioner, respectively, to be 24
25 held as unearned money pending final settlement of the title dispute, and then ap- 25
26 plied as earned or returned in accordance with such final settlement. 26

27 Unit Operator as such is relieved from any responsibility for any de- 27
28 fect or failure of any title hereunder. 28

29 In order to avoid title failures which might incidentally cause the 29
30 title to a working interest or interests to fail, the owners of (a) the surface 30
31 rights to lands lying within the Unit Area, (b) severed minerals or royalty in- 31
32 terests in said lands, and (c) improvements located on said lands but not utilized 32
33 for unit operations, shall individually be responsible for the rendition and assess- 33

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 counter part, 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,

1 such owner may:

2 (1) Execute this agreement and the unit operating agreement as a work- 2
3 ing interest owner, effective as though such land had remained cortinu- 3
4 ously subject to this agreement and the unit operating agreement. 4

5 (2) Again lease such lands but only under the condition that the holder 5
6 of such lease shall within thirty (30) days after such lands are so 6
7 leased execute this agreement and the unit operating agreement as to 7
8 each participating area theretofore established hereunder, effective as 8
9 though such land had remained continuously subject to this agreement and 9
10 the unit operating agreement. 10

11 (3) Operate or provide for the operation of such land independently of 11
12 this agreement as to any part thereof or any oil or gas deposits therein 12
13 not then included within a participating area. 13

14 If the fee owner of the unitized substances does not execute this agree- 14
15 ment and the unit operating agreement as a working interest owner or again lease such 15
16 lands as above provided with respect to each existing participating area, within six 16
17 (6) months after any such surrender or forfeiture, such fee owner shall be deemed to 17
18 have waived the right to execute the unit operating agreement or lease such lands as 18
19 to each such participating area, and to have agreed in consideration for the compen- 19
20 sation hereinafter provided, that operations hereunder as to any such participating 20
21 area or areas shall not be affected by such surrender. 21

22 For any period the working interest in any lands are not expressly com- 22
23 mitted to the unit operating agreement as the result of any such surrender or for- 23
24 feiture, the benefits and obligations of operations accruing to such lands under this 24
25 agreement and the unit operating agreement shall be shared by the remaining owners of 25
26 unitized working interests in accordance with their respective participating working 26
27 interest ownership in any such participating area or areas, and such owners of work- 27
28 ing interests shall compensate the fee owner of unitized substances in such lands by 28
29 paying sums equal to the rentals, minimum royalties, and royalties applicable to such 29
30 lands under the lease in effect when the lands were unitized, as to such participating 30
31 area or areas. 31

32 Upon commitment of a working interest to this agreement and the unit 32
33 operating agreement as provided in this section, an appropriate accounting and set- 33
34 tlement shall be made, to reflect the retroactive effect of the commitment, for all 34

1 benefite accruing to or payments and expenditures made or incurred on behalf of such 1
2 surrendered working interest during the period between the date of surrender and the 2
3 date of recommitment, and payment of any moneys found to be owing by such as account- 3
4 ing shall be made as between the parties then signatory to the unit operating agree- 4
5 ment and this agreement within thirty (30) days after the recommitment. The right 5
6 to become a party to this agreement and the unit operating agreement as a working 6
7 interest owner by reason of a surrender or forfeiture as provided in this section 7
8 shall not be defeated by the non-existence of a unit operating agreement and in the 8
9 event no unit operating agreement is in existence and a mutually acceptable agreement 9
10 between the proper parties thereto cannot be consummated, the Supervisor may pre- 10
11 scribe such reasonable and equitable agreement as he deems warranted under the cir- 11
12 cumstances. 12

13 Nothing in this section shall be deemed to limit the right of joinder or 13
14 subsequent joinder to this agreement as provided elsewhere in this agreement. The 14
15 exercise of any right vested in a working interest owner to reassign such working 15
16 interest to the party from whom obtained shall be subject to the same conditions as 16
17 set forth in this section in regard to the exercise of a right to surrender. 17

18 32. ROYALTY OWNERS' TAXES. Each royalty owner shall render and pay all ad 18
19 valorem taxes, including ad valorem taxes measured by production levied against its 19
20 royalty or mineral interest. Unit Operator shall pay, as an agent for the working 20
21 interest owners, each royalty owner's share of all taxes other than ad valorem taxes 21
22 levied on, or measured by, the unitized substances in and under, or that may be pro- 22
23 duced, gathered, and sold from the lands subject hereto, or upon the proceeds or net 23
24 proceeds derived therefrom, to the extent that the same are made payable by law by 24
25 any working interest owner. Each working interest owner shall reimburse Unit Opera- 25
26 tor for taxes so paid on its behalf and such working interest owner shall make pro- 26
27 portionate deductions of said amounts in settling with its royalty owners in each 27
28 separately owned tract. No such taxes shall be charged to the United States or the 28
29 State of New Mexico. 29

30 33. NO PARTNERSHIP. It is expressly agreed that the relation of the parties 30
31 hereto is that of independent contractors and nothing in this agreement contained, 31
32 expressed or implied, nor any operations conducted hereunder, shall create or be 32
33 deemed to have created a partnership or association between the parties hereto or 33
34 any of them. 34

ATTEST:

DATE:

EL PASO NATURAL GAS PRODUCTS COMPANY

AUG 6 1959

By

B. L. Howell
ATTORNEY-IN-FACT President

Secretary

Address:

Post Office Box 1492 El Paso, Texas

ATTEST:

PUBCO PETROLEUM CORPORATION

Jack J. Ma
Asst. Secretary

8-7-59

By

[Signature]
Vice President

Address:

Post Office Box 1419 ALBUQUERQUE, NEW MEXICO

ATTEST:

BROOKHAVEN OIL COMPANY

Louise J. Scott
Secretary

8-18-59

By

[Signature]
President

Address:

Post Office Box 1267 SCOTTSDALE, ARIZONA

ATTEST:

GULF OIL CORPORATION

Secretary P. O. Box 2097

JUL 21 1959

By

[Signature]
President

Address:

Denver, Colo.

H. D. Bedford - Attorney in Fact

ATTEST:

NORTHWEST PRODUCTION CORPORATION

Charles Hummer
Asst Secretary 8-27-59

By

[Signature]
Vice President

Address:

500 Simms Building ALBUQUERQUE, New Mexico

ATTEST:

THE SIDWELL CORPORATION

[Signature]
Secretary 7/2/59

By

[Signature]
President

Address:

Post Office Box 8443 DENVER 10, COLORADO

ATTEST:

SOUTHERN PETROLEUM EXPLORATION, INC.

[Signature]
Secretary 7-29-59

By

[Signature]
President

Address:

SISTERSVILLE, WEST VIRGINIA

STATE OF TEXAS)
COUNTY OF TARRANT)

On this 3 day of September, 1957, before me appeared D. B. Mason, Jr., 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 D. B. Mason, Jr. 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:
6-1-61

[Signature]
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 PETRO-ATLAS, INC., a corporation, and that the sea. 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 COLORADO OIL & GAS 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 _____ 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 EL PASO NATURAL GAS PRODUCTS COMPANY, 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 New Mexico)
COUNTY OF Bernalillo)

On this 7 day of AUGUST, 1959, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the Vice President of PUBCO 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 Frank D. Gorham, Jr. 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:

Robert C. Yunerman
Notary Public in and for _____
County, _____

My Commission Expires Jan. 11, 1961

STATE OF Arizona)
COUNTY OF Maricopa)

On this 18th day of August, 1959, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of BROOKHAVEN OIL COMPANY, 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 Thos. B. Scott Jr. 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:

Laverne S. Pohl
Notary Public in and for Maricopa
County, Arizona

11-18-62

STATE OF Colorado)
City and)
COUNTY OF Denver)

On this 21 day of July, 1959, before me appeared H. D. Bedford ~~Attorney in fact~~, to me personally known, who, being by me duly sworn did say that he is the Attorney in fact President of GULF OIL 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 H. D. Bedford 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:
OCT 9 1961

Mildred S. Pajl
Notary Public in and for City and
County, of Denver, Colo

STATE OF New Mexico)
COUNTY OF Bernalillo)

On this 27th day of August, 1959, before me appeared J. M. Clark, to me personally known, who, being by me duly sworn did say that he is the VICE President of NORTHWEST PRODUCTION 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 authorith of its Board of Directors, and said J. M. Clark 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:
JUN 17 1963

[Signature]
Notary Public in and for Bernalillo
County, New Mexico

STATE OF Colorado)
COUNTY OF Denver)

On this 2nd day of July, 1959, before me appeared W. A. Sidwell, Jr., to me personally known, who, being by me duly sworn did say that he is the President of THE SIDWELL 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 W. A. Sidwell, Jr. 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:
3-12-60

Virginia Reid
Notary Public in and for Denver
County, Colorado

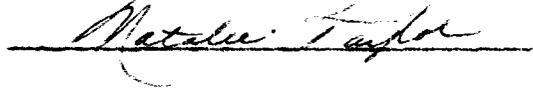
COUNTY OF EL PASO |

The foregoing instrument was acknowledged before me this 6th day of August, 1959, by BEN R. HOWELL, as Attorney-in-Fact on behalf of EL PASO NATURAL GAS COMPANY, a Delaware corporation.

Witness my hand and official seal.

NATALIE TAYLOR

Notary Public in and for El Paso County, Texas
My Commission Expires June 1, 1961

A handwritten signature in cursive script, reading "Natalie Taylor", is written over a horizontal line.

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared CHARLES B. GONSALES and wife, _____ GONSALES, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their 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 J. R. ABRAHAM and wife _____ ABRAHAM, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their 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 San Marino)
)
COUNTY OF San)

On this 22nd day of November, 1962, before me personally appeared ~~W. P. CARR~~ and wife ~~_____~~ CARR, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their 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
Notary Public in and for _____
County, San Marino

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 _____ and wife, _____, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their 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 _____ and wife, _____, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their 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, _____