

UNIT AGREEMENT

HIGH LONESOME PENROSE UNIT  
EDDY COUNTY, NEW MEXICO

BEFORE EXAMINER UTZ  
CAL CONSERVATION COMMISSION  
CASE NO. \_\_\_\_\_  
EXHIBIT NO. 3702

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
HIGH LONESOME PENROSE UNIT  
EDDY COUNTY, NEW MEXICO

INDEX

<u>ARTICLE</u>		<u>PAGE</u>
1	Enabling Act and Regulations	2
2	Unit Area and Definitions	3
3	Exhibits	4
4	Unitized Land and Unitized Substances	5
5	Unit Operator	5
6	Rights and Obligations of Unit Operator	6
7	Plan of Operations	6
8	Tract Participation	8
9	Allocation of Unitized Substances	8
10	Royalty Settlement	9
11	Rental Settlement	12
12	Conservation	13
13	Drainage	13
14	Leases and Contracts Conformed and Extended	13
15	Correction of Errors	15
16	Covenants Run With Land	15
17	Effective Date and Term	15
18	Rate of Prospecting, Development and production	17
19	Nondiscrimination	18
20	Appearances	18
21	Notices	18
22	No Waiver of Certain Rights	19
23	Unavoidable Delay	19
24	Loss of Title	19
25	Nonjoinder and Subsequent Joinder	20
26	Counterparts	20
27	Taxes	21
28	Conflict of Supervision	21
29	No Partnership	22
30	Border Agreement	22

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
HIGH LONESOME PENROSE UNIT  
EDDY COUNTY, NEW MEXICO

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

THIS AGREEMENT, entered into as of the first day of November, 1964, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto,"

WITNESSETH: That,

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the Unit Area subject to this Agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws of 1943 as amended by Sec. 1 of Chap. 162, Laws of 1952, Chap. 7, Art. 11, Sec. 39, N.M.S. 1953 anno) to consent to or approve this Agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws of 1943, as amended by Sec. 1, Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 41, N.M.S. 1953 anno) to amend with the approval of the lessee, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such unitized development and operation of State lands; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chap. 72, Laws of 1935, as amended

by Chap. 193, Laws of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949) to approve this Agreement, and the conservation provisions hereof; and

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

WHEREAS, the parties hereto hold sufficient interests in the High Lonesome Penrose Unit Area covering the land hereinafter described to give reasonably effective control of operation therein; and

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

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

SECTION 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, theretofore issued thereunder and valid pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of 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.

SECTION 2. UNIT AREA AND DEFINITIONS. For the purpose of this Agreement,

(a) "Unit Area" is defined as that area comprised of those tracts of land, or parts thereof, described below and further depicted on Exhibit "A" and described in Exhibit "B", together with any enlargement thereof, as herein provided, but only as to the unitized formation underlying the same and those surface rights that are incident to ownership of oil and gas rights in such formation:

Township 16 South, Range 29 East, N.M.P.M.

Section 15: E/2

and containing 320 acres, more or less.

(b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(c) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.

(d) "Director" is defined as the Director of the United States Geological Survey.

(e) "Secretary" is defined as the Secretary of the Interior of the United States of America.

(f) "Department" is defined as the Department of the Interior of the United States of America.

(g) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey.

(h) "Unitized Formation" is defined as the Penrose Sand of the Queen formation in the Guadalupe Series, as found between the subsurface depths of 1970 feet and 2000 feet, in International Oil & Gas Corporation-McCallister No. 4, located 990 feet from the South line and 660 feet from the East line of Section 15, Township 16 South, Range 29 East, N.M.P.M.

(i) "Unitized Substances" is defined as and shall mean all of the oil and gas contained in or produced from the Unitized Formation.

(j) "Tract" is defined as each parcel of land described as such and given a Tract Number in Exhibit "B."

(k) "Tract Participation" is defined as that percentage of Unitized Substances produced from the Unitized Formation which is allocated to a Tract under this Agreement.

(l) "Unit Participation" of each Working Interest Owner is defined as the sum of the percentages obtained by multiplying such Working Interest Owner's fractional Working Interest in each tract by the Tract Participation of such tract.

(m) "Working Interest" is defined as the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, or otherwise held.

(n) "Working Interest Owner" is defined as and shall mean any party hereto owning a Working Interest, including a carried working interest owner, whether by virtue of a lease, operating agreement, fee title or otherwise, whose interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substance from the Unitized Formation and operating therefor hereunder.

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

(p) "Royalty Owner" is defined as and shall mean the owner of a Royalty Interest.

(q) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells on the unitized land.

SECTION 3. EXHIBITS. Exhibit "A" attached hereto is a map showing, to the extent known to the Unit Operator, the Unit Area and the boundaries and identity of tracts and leases

in said Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each tract, percentage ownership of each Working Interest Owner in each tract, and the percentage of participation, if any, each tract has in the Unit Area, together with the Royalty Interests in each tract and the ownership thereof. Nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes render such revision necessary, and at least two copies of such revision shall be filed with the Commissioner, and not less than six copies thereof shall be filed with the Supervisor.

SECTION 4. UNITIZED LAND AND UNITIZED SUBSTANCES. All oil and gas within and producible from the Unitized Formation underlying the Unit Area are herein called Unitized Substances, and together with the surface rights incident to the ownership thereof, are unitized under the terms of this Agreement. All land committed to this agreement as to the Unitized Formation shall constitute land referred to herein as Unitized Land or "land subject to this Agreement."

SECTION 5. UNIT OPERATOR. International Oil & Gas Corporation, a Delaware corporation, is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit

Operator acting in that capacity and not as an owner of interests in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 6. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR.

Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said 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.

SECTION 7. PLAN OF OPERATIONS. The initial plan of operation shall be filed with the Supervisor and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor and the Commissioner may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

It is recognized and agreed by the parties hereto that practically all of the land subject to this Agreement is reasonably

proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect the greatest recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Supervisor, and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas L.P.G.'s and any other acceptable substances whether produced from the Unit Area or not, and the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Commissioner and the Supervisor monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Supervisor, and the Commissioner, shall be furnished periodical reports on the progress of the plan of operation and any revisions or changes thereto; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Supervisor, and the Commissioner.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence operations for the secondary recovery of Unitized Substances from the Unit Area within six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and the Supervisor.

After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 8. TRACT PARTICIPATION. In Exhibit "B" attached hereto, there are listed and numbered the tracts within the Unit Area and set forth opposite each tract is the tract participation of each tract in the Unit Area calculated on 100 percent commitment. The tract participation of each tract was determined by the proportion which each tract bore to the entire Unit Area in each of the following: (1) Cumulative Production through October 31, 1963, 80%, and (2) Production during the period from May 1, 1963, through October 31, 1963, 20%.

SECTION 9. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the committed tracts within the Unit Area in accordance with the respective Tract Participation effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B". The amount of Unitized Substances so allocated to each tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such tract), shall, for all intents, uses and purposes, be deemed to have been produced from such tract.

The Unitized Substances allocated to each tract shall

be distributed among, or accounted for to the parties executing, consenting to or ratifying this Agreement entitled to share in the production from such tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such tracts, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal force and effect.

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

If the Working Interest and the Royalty Interest in any tract are or become divided with respect to separate parcels or portions of such tract and owned severally by different persons, the tract participation assigned to such tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Working Interest Owners of each tract shall be responsible for the payment of all Royalty on or affecting such tract, and each such party shall hold each other party hereto harmless against all claims, demands and causes of action for such Royalty.

SECTION 10. ROYALTY SETTLEMENT. The State of New Mexico and the United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a

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

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation, for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with the plan approved pursuant to Section 7 (Plan of Operations), a like amount of gas, less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation, Royalty free as to dry gas but not as to the products extracted therefrom; provided such withdrawal shall be at such times as may be provided in the approved plan of operations or as otherwise may be consented to by the Supervisor and the Commissioner as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination date of this Unit Agreement.

If natural gasoline, liquid petroleum gas fractions,

or other liquid hydrocarbon substances (herein collectively called "LPG's") which were not extracted from the gas produced from the Unitized Formation are injected, at any time or from time to time, into the Unitized Formation, in conformity with a plan approved pursuant to Section 7 (Plan of Operations), the Working Interest Owner (s) furnishing such LPG's for injection shall be entitled to recover, royalty free, from a percentage (to be determined as hereinafter provided) of LPG's extracted from gas thereafter produced from the Unitized Formation allocated to such Working Interest Owners, a total quantity of LPG's equal to the total quantity of LPG's injected. The percentage above referred to shall be determined as of the first day of each month by dividing the quantity (in gallons) of LPG's theretofore injected by the sum of (1) the estimated quantity (in gallons) of LPG's in place in the Unitized Formation at the time immediately preceding the initial injection of LPG's plus (2) the quantity (in gallons) of LPG's theretofore injected. The estimated quantity of net recoverable LPG's in the Unitized Formation at the time immediately preceding the initial injection of LPG's shall be determined by Unit Operator in accordance with sound engineering practice, subject to approval by the Working Interest Owners and by the Supervisor and the Commissioner.

All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective tract or tracts committed hereto, in lieu of actual production from such tract or tracts. Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all unitized

substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation; 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 the Unitized Land were a single consolidated lease.

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

SECTION 11. RENTAL SETTLEMENT. Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof, due under their leases. Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico. Rental or minimum royalty for lands

of the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 12. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 13. 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.

SECTION 14. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

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

(a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract 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, producing or secondary recovery operations performed hereunder upon any tract of unitized lands shall be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

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

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

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

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

said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

SECTION 15. CORRECTION OF ERRORS. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners and the Supervisor.

SECTION 16. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest.

SECTION 17. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party

and shall become effective as of 7:00 a.m. of the first day of the month following approval by the Commissioner, the Secretary, or his duly authorized representative, and the Commission; however, if the above is not accomplished on or before July 1, 1965, this Agreement shall ipso facto expire on said date. At least one counterpart of this Agreement will be filed for record in the office of the county clerk of Eddy County, New Mexico, prior to becoming effective or as soon thereafter as practicable. This Agreement shall be in effect so long as unitized substances can be produced in quantities sufficient to pay for the cost of producing same from wells on unitized land (Termination for unprofitability shall be effective as of the first day of the month after the Unit Operator determines, on confirmatory data satisfactory to the Director, that the unit is no longer paying). Should production cease, this unit agreement shall terminate automatically as of the first day of the month following such cessation; however, it shall not terminate after cessation of production so long as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and so long thereafter as unitized substances so established or restored can be produced aforesaid, unless terminated by Working Interest Owners in the manner hereinafter provided. This Agreement may be terminated at any such time by the Unit Operator with the consent of the Working Interest Owners owning ninety (90%) of Unit Participation and with the approval of the Commissioner and the Director effective as of the first day of the month after filing such approved application with the Supervisor. Notice of any such termination shall be given by the

Unit Operator to all parties hereto.

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

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

SECTION 18. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately-owned lands

subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

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

SECTION 19. NONDISCRIMINATION. In connection with the performance of work under this Agreement, the operator agrees to comply with all of the provisions of Section 301 (1) to (7) inclusive, of Executive Order 10925, as amended, (28 F. R. 6485), which are hereby incorporated by reference in this Agreement.

SECTION 20. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner, the Department, and the Commission, and to appeal from any order issued under the rules and regulations of the Commissioner, the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner, the Department, or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 21. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection

with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 22. 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 rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

SECTION 23. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue secondary recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 24. LOSS OF TITLE. In the event title to the Working Interest in any tract of unitized land shall fail so as to render the tract inoperable under this Agreement and the true owner cannot be induced to join this Unit Agreement, such tract shall be automatically regarded as not committed hereto and there

shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any Royalty, Working Interest or other interest subject thereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State or Federal land or leases, no payments of funds due the State of New Mexico or the United States of America shall be withheld, but such funds shall be deposited as directed by the Commissioner or the Supervisor (as the case may be), to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 25. NONJOINER AND SUBSEQUENT JOINER.

Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement, if any, in order for such interest to be regarded as effectively committed to this Unit Agreement.

SECTION 26. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have

executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area; provided, if this agreement has not been approved by the Commissioner and the Director prior to July 1, 1965, it shall thereupon expire and be of no further force and effect.

SECTION 27. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 28. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or

the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this Agreement are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

SECTION 29. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this Agreement contained, express or implied, or any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

SECTION 30. BORDER AGREEMENT. Subject to the approval of the Commissioner and the Supervisor, the Unit Operator, with concurrence of 75% of the voting interest of the Working Interest Owners, may enter into a border-protection agreement or agreements with the Working Interest Owners of adjacent lands along the exterior boundary of the Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

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

ATTEST:

J. V. Kowalski  
ASSISTANT Secretary  
Date: NOV - 5 1964

INTERNATIONAL OIL & GAS CORPORATION

By W. B. Mearns  
President

Unit Operator and  
Working Interest Owner.

ATTEST:

\_\_\_\_\_  
Secretary

Date: \_\_\_\_\_

SOUTHERN UNION PRODUCTION COMPANY

By \_\_\_\_\_  
President

Lessee of Record of Tract No. 2 and  
Overriding Royalty Interest Owner.

\_\_\_\_\_  
Blanche McCallister

Lessee of Record of Tract No. 1-A  
and Production Payment Interest  
Owner, Provided that her execution  
of this Unit Agreement expressly  
does not commit Tract No. 1-B.

STATE OF COLORADO            )  
  ): ss.  
COUNTY OF DENVER            )

The foregoing instrument was acknowledged before me  
this 5<sup>th</sup> day of November, 1964, by W. B. MACEY,  
President of INTERNATIONAL OIL & GAS CORPORATION, a Delaware  
corporation, on behalf of said corporation.

My commission expires:  
Oct. 7, 1965

Elizabeth Juan Reyes  
Notary Public

STATE OF \_\_\_\_\_ )  
  ): ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_  
\_\_\_\_\_, \_\_\_\_\_ President  
of SOUTHERN UNION PRODUCTION COMPANY, a \_\_\_\_\_ corporation,  
on behalf of said corporation.

My commission expires:  
\_\_\_\_\_

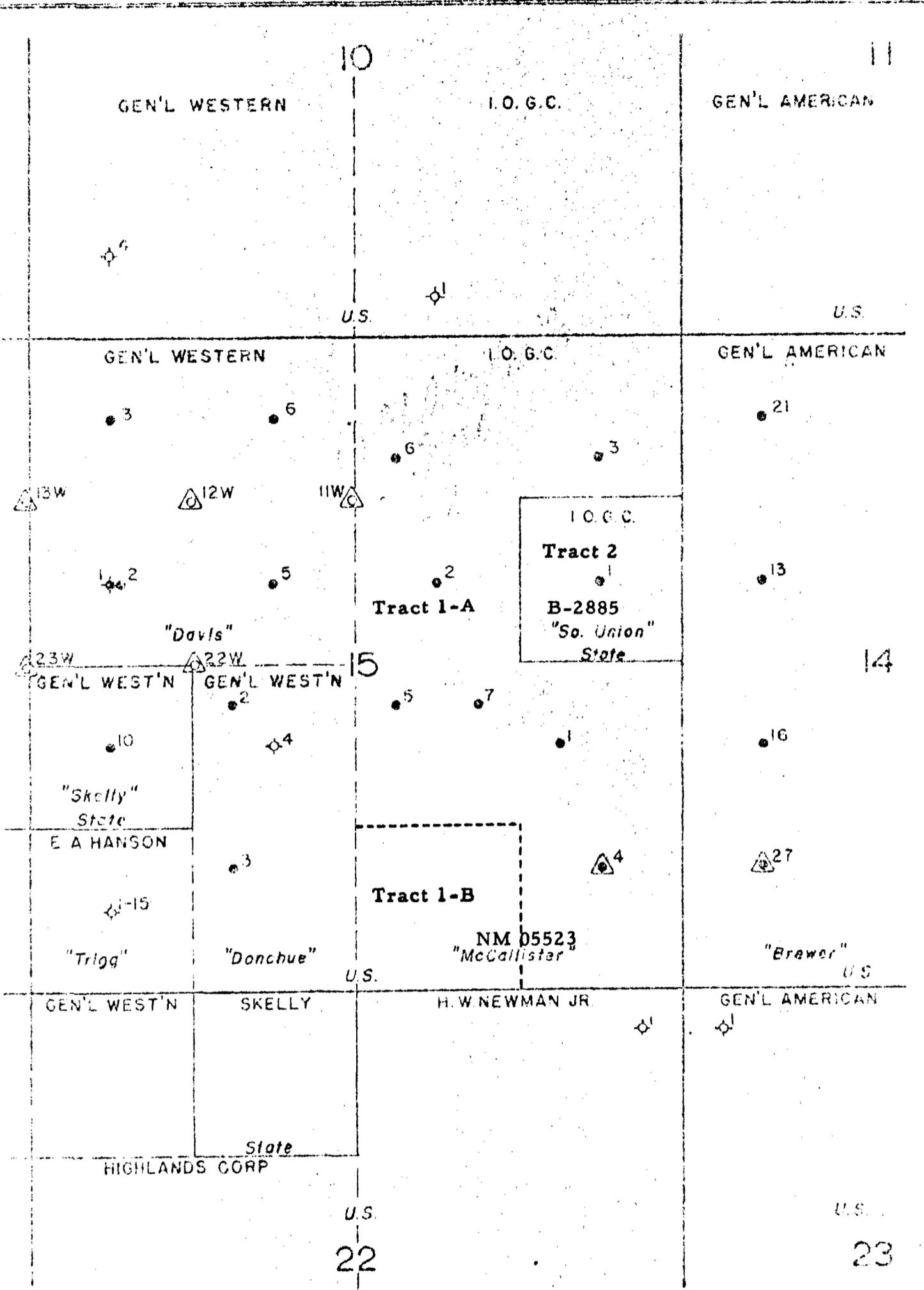
\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
  ): ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by BLANCHE  
McCALLISTER.

My commission expires:  
\_\_\_\_\_

\_\_\_\_\_  
Notary Public



INTERNATIONAL OIL & GAS CORPORATION  
HIGH LONESOME PENROSE UNIT

E1/2, Sec. 15, T 16S, R 29 E, NMPM  
 Eddy County, New Mexico

Exhibit "A"

Scale: 1 Inch = 1000 feet

EXHIBIT "B"

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	LEASE NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDE ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	TRACT PARTICIPATION
Federal Land:								
1-A.	T. 16 S., R. 29 E							
	Sec. 15: N/2							
	NE/4, SW/4 NE/4,							
	N/2 SE/4, SE/4	240	NM 05523 HBP	United States 100%	Blanche McCallister	Blanche McCallister \$100 per acre paid.	International Oil & Gas Corp. 100%	72.137%
1-B.	T. 16 S., R. 29 E.							
	Sec. 15:							
	SW/4 SE/4	40	NM 05523 HBP	United States 100%	Blanche McCallister	None	Blanche McCallister 100%	0.00%

Two Federal Tracts; 280 acres or 87.5% of Unit Area

State of New Mexico Land:								
2.	T. 16 S., R. 29 E.							
	Sec. 15:							
	SE/4 NE/4	40	B-2885 HBP	State of New Mexico 100%	Southern Union Gas Company	Southern Union Gas Company 5%	International Oil & Gas Corp. 100%	27.863%

One State of New Mexico Tract; 40 acres or 12.5% of Unit Area.

Total: Three tracts; 320 acres in entire Unit Area.