

CASE 3025: Application of PAN  
AMERICAN for approval of the  
LONG DRAW UNIT AGREEMENT.

CASE NO.

3025

Application,

TRANSCRIPTS,

SMALL Exhibits

ETC.

MAILED  
NOV 19 1964

November 17, 1964

Pan American Petroleum Corporation  
P. O. Box 268  
Lubbock, Texas

Re: Long Draw Unit  
Eddy County, New Mexico  
Termination of Unit Agreement

Attention: Mr. Jack D. Anderson

Gentlemen:

The Commissioner of Public Lands approved as of November 17, 1964, the Termination of Long Draw Unit Agreement, Eddy County, New Mexico. Approval being subject to like approval by the United States Geological Survey.

We have handed two approved copies of this Termination to Mr. Jack D. Anderson.

Very truly yours,

E. S. JOHNNY WALKER  
COMMISSIONER OF PUBLIC LANDS

BY:

Ted Bilberry, Director  
Oil & Gas Department

ESW/nar/v

cc:

United States Geological Survey  
Roswell, New Mexico

Oil Conservation Commission  
Santa Fe, New Mexico

- (1) That the Long Draw Unit Agreement is hereby approved.
- (2) That the plan under which the unit area shall be operated shall be embraced in the form of a unit agreement for the



development and operation of the Long Draw Unit Area, and such plan shall be known as the Long Draw Unit Agreement Plan.

(3) That the Long Draw Unit Agreement Plan is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Oil Conservation Commission of New Mexico by law relative to the supervision and control of operations for the exploration and development of any lands committed to the Long Draw Unit, or relative to the production of oil or gas therefrom.

(4) (a) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

EDDY COUNTY, NEW MEXICO

Township 20 South, Range 23 East

Section 24:  $\frac{3}{2}$   
" 25: All  
" 26:  $\frac{N}{2}$

Township 20 South, Range 24 East

Section 19: ~~lots 1 through 4, 5 & 6 and 7 & 8 All~~  
Section 20:  $\frac{W}{2}$   
" 30: ~~lots 1 through 4, 5 & 6 and 7 & 8 All~~  
" 31: ~~lots 1 through 4, 5 & 6 and 7 & 8 All~~

$3\frac{5}{4} \cdot 52$   
containing  $3,514$  acres, more or less.

(b) That the unit area may be enlarged or contracted as provided in said plan; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the Long Draw Unit Agreement within 30 days after the effective date thereof. In the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the

unit agreement reflecting the subscription of those interests having joined or ratified.

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the United States Geological Survey, and shall terminate ipso facto upon the termination of said unit agreement. The last unit operator shall notify the Commission immediately in writing of such termination.

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

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

**BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO**

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

**CASE No. 3025  
Order No. R-2690**

**APPLICATION OF PAN AMERICAN PETROLEUM  
CORPORATION FOR APPROVAL OF THE LONG  
DRAW UNIT AGREEMENT, EDDY COUNTY, NEW  
MEXICO.**

**ORDER OF THE COMMISSION**

**BY THE COMMISSION:**

This cause came on for hearing at 9 o'clock a.m. on April 8, 1964, at Santa Fe, New Mexico, before Examiner Daniel S. Matter.

NOW, on this 13th day of April, 1964, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

**FINDS:**

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

(2) That the applicant, Pan American Petroleum Corporation, seeks approval of the Long Draw Unit Agreement covering 3,514 acres, more or less, of State and Federal lands in Township 20 South, Ranges 23 and 24 East, NMPM, Eddy County, New Mexico.

(3) That approval of the proposed Long Draw Unit Agreement will in principle tend to promote the conservation of oil and gas and the prevention of waste.

**IT IS THEREFORE ORDERED:**

(1) That the Long Draw Unit Agreement is hereby approved.

(2) That the plan under which the unit area shall be operated shall be embraced in the form of a unit agreement for the development and operation of the Long Draw Unit Area, and such plan shall be known as the Long Draw Unit Agreement Plan.

-2-

CASE No. 3025  
Order No. R-2690

(3) That the Long Draw Unit Agreement Plan is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Oil Conservation Commission of New Mexico by law relative to the supervision and control of operations for the exploration and development of any lands committed to the Long Draw Unit, or relative to the production of oil or gas therefrom.

(4) (a) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

EDDY COUNTY, NEW MEXICO

TOWNSHIP 20 SOUTH, RANGE 23 EAST

Section 24: S/2

Section 25: All

Section 36: N/2

TOWNSHIP 20 SOUTH, RANGE 24 EAST

Section 19: All

Section 20: W/2

Section 30: All

Section 31: All

containing 3,514.52 acres, more or less.

(b) That the unit area may be enlarged or contracted as provided in said plan; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

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

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the United States Geological Survey, and shall terminate ipso facto upon the termination of

-3-

CASE No. 3025

Order No. R-2690

said unit agreement. The last unit operator shall notify the Commission immediately in writing of such termination.

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



*Jack M. Campbell*

JACK M. CAMPBELL, Chairman

*E. S. Walker*

E. S. WALKER, Member

*A. L. Porter, Jr.*

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

esr/

March 30, 1964

Pan American Petroleum Corporation  
P. O. Box 268  
Lubbock, Texas

Re: Proposed Long Draw Unit  
Eddy County, New Mexico

Attention: Mr. John H. Thompson

Gentlemen:

Pursuant to my telephone conversation with Mr. Thompson as of March 25, 1964, we are approving your proposed Long Draw Unit Agreement as to form and content, subject to the following:

Section Nine, page 21, line 29 after Commissioner add a common and "provided that, as to State Lands, such subsequent joinder must be approved by the Land Commissioner."

The above change in this form was agreed upon by Mr. Thompson during the aforementioned telephone conversation.

Very truly yours,

E. S. JOHNNY WALKER  
COMMISSIONER OF PUBLIC LANDS

BY:  
(Mrs.) Marian M. Rhea, Supervisor  
Unit Division

ESW/mmr/v

**State of New Mexico**  
**Oil Conservation Commission**



STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR

**Pan American Petroleum Corporation**

**OTHER** \_\_\_\_\_

DOCKET NO. 10-64

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 8, 1964

9 A. M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,  
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Elvis A. Utz, Alternate Examiner:

CASE 3020: In the matter of the application of the Oil Conservation Commission of New Mexico upon its own motion for the abolishment and extension of the following pools:

Abolish the Weir-Tubb Gas Pool in  
Township 20 South, Range 37 East;

Extend the Monument-Tubb Pool in  
Township 20 South, Range 37 East,

all in Lea County, New Mexico.

CASE 3021: Application of Cherry Brothers and Cabot Corporation for a tubingless completion, Lea County, New Mexico. Applicants, in the above-styled cause, seek approval of the tubingless completion of their Austin State Well No. 1, located in Unit F of Section 19, Township 14 South, Range 36 East, Lea County, New Mexico, to produce oil from the Permo-Pennsylvanian formation at approximately 10,356 feet through 2 7/8-inch casing.

CASE 3022: Application of Sinclair Oil & Gas Company for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the establishment of special pool rules for the North Vacuum-Devonian Pool, Lea County, New Mexico, including a provision for 80-acre spacing.

CASE 3023: Application of Cities Service Oil Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Ellenburger formation through its Hodges "B" Well No. 2 which is dually completed in the McKee and Ellenburger formations and located in Unit L of Section 1, Township 25 South, Range 37 East, Lea County, New Mexico.

CASE 3024: Application of Deane H. Stoltz for approval of a non-standard unit, a dual completion, and commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a non-standard 80-acre unit in the North Bagley-Wolfcamp Pool comprising the SW/4 NE/4 and NW/4 SE/4 of Section 22, Township 11 South, Range 33 East, Lea County, New Mexico, approval of the dual completion (conventional) of its Deane H. Stoltz State 262 Well No. 1, located in Unit G of said Section 22, to produce oil from the North Bagley-Wolfcamp Pool through 1 1/4-inch tubing and to produce oil from the North Bagley-Upper Pennsylvanian Pool through the casing-tubing annulus by means of a hydraulic pump and authority to commingle production from the North Bagley-Wolfcamp and North Bagley-Pennsylvanian Pools into a common tank battery, computing production from the North Bagley-Upper Pennsylvanian Pool by the subtraction method.

CASE 3025: Application of Pan American Petroleum Corporation for a unit agreement, Eddy County, New Mexico. Applicant in the above-styled cause, seeks



PAGE -2-

APRIL 8, 1964 EXAMINER HEARING

approval of the Long Draw Unit Area comprising 3514 acres, more or less, of State and Federal lands in Township 20 South, Ranges 23 and 24 East, Eddy County, New Mexico.

CASE 3026: Application of Shell Oil Company for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the Jalmat Pool by the injection of water into the Yates formation through four wells in Sections 32, and 33, Township 26 South, Range 37 East, Lea County, New Mexico.

CASE 3027: Application of El Paso Natural Gas Company for the adoption of a new form. Applicant, in the above-styled cause, seeks the adoption of a new form entitled Purchaser's and Operator's Monthly Report, said form to be for the optional use of those gas purchasing companies which also have gas production. Use of said form to report monthly purchases and production would be in lieu of the monthly purchasers report and the monthly producers report presently required. Copies of the proposed form are available at the Office of the Oil Conservation Commission, State Land Office Building, Santa Fe, New Mexico.

CASE 3028: In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the revision of certain existing forms, the adoption of certain new forms, and the amendment of certain rules pertaining to the filing of forms.

In the above-styled cause, the Commission proposes to consider the adoption of various forms patterned after the model forms recommended by the Interstate Oil Compact Commission for use in reporting all phases of oil and gas activity to state regulatory agencies. The forms have also been adopted and recommended by the Regulatory Practices Committee and the Executive Committee of the New Mexico Oil and Gas Association.

Adoption of the forms by the Commission will also entail amendment to numerous rules and orders of the Commission, particularly in Section M of the Rules and Regulations, wherever reference is made to the title or form number of an existing form which would be revised, or where detailed instructions for completing and filing of forms would not be consonant with the proposed forms.

It is further proposed to amend Rule 1121 of the Rules and Regulations and Rule 7 (A) of the General Rules and Regulations for Prorated Gas Pools in the State of New Mexico as promulgated by Order No. R-1670 to require that gas purchasers' nominations be submitted not later than the first day of the month during which the nominations will be considered at the monthly allowable hearing.

It is also proposed that said Rule 7 (A) be further amended to require that gas purchasers shall file a supplemental nomination for the purchase of gas each month.

Copies of all proposed forms are available at the office of the Oil Conservation Commission, State Land Office Building, Santa Fe, New Mexico.

# PAN AMERICAN PETROLEUM CORPORATION

MAIN OFFICE OCC

P. O. Box 268  
Lubbock, Texas

1964 MAR 20 AM 8:11

March 18, 1964

*Case 3025*

RE: AFE 36,966  
Eddy County,  
New Mexico

New Mexico Oil Conversation Commission  
Santa Fe, New Mexico

Attention: Mr. James Durett

Dear Sir:

Confirming telephone conversation, we ask that you please advertise and place on the April 8, 1964 Docket our proposal to form the Long Draw Unit comprising approximately 3514 acres of Federal and State lands in Township 20-S, Ranges 23 and 24E, Eddy County, New Mexico

Your cooperation in this matter is sincerely appreciated.

Yours very truly,

PAN AMERICAN PETROLEUM CORPORATION

*John H. Thompson*  
John H. Thompson

JHT:lm

DOCKET MAILED

Date 3-27-64

# PAN AMERICAN PETROLEUM CORPORATION

P. O. Box 268 MAIN OFFICE OCC  
Lubbock, Texas 79401

March 26, 1964 1964 MAR 30 AM 8:13

*file  
Case 3025*

AFE 36,966  
Eddy County,  
New Mexico

New Mexico Oil Conservation Commission  
State of New Mexico  
Santa Fe, New Mexico

Attention: Mr. James Durrett

Gentlemen:

Supplementing our request of March 18, 1964 we are enclosing Application of Pan American dated March 20, 1964 for preliminary approval of the Long Draw Unit Area and form of Unit Agreement. A copy of this Application has been filed with the Commissioner, and we have been advised by Mrs. Rhea that the form of Unit Agreement is satisfactory, as amended. If there is any further information needed, please advise.

Yours very truly,

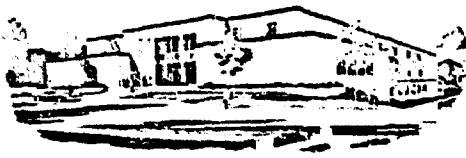
PAN AMERICAN PETROLEUM CORPORATION

*John H. Thompson*  
John H. Thompson

JHT:js  
Enclosures

John

State of New Mexico



Commissioner of Public Lands



E. S. JOHNNY WALKER  
COMMISSIONER

P. O. BOX 791  
SANTA FE, NEW MEXICO

Exhibit 2

March 30, 1964

Pan American Petroleum Corporation  
P. O. Box 268  
Lubbock, Texas

Re: Proposed Long Draw Unit  
Eddy County, New Mexico

Attention: Mr. John H. Thompson

Gentlemen:

Pursuant to my telephone conversation with Mr. Thompson as of March 25, 1964, we are approving your proposed Long Draw Unit Agreement as to form and content, subject to the following:

Section Nine, page 21, line 29 after Commissioner add a common and "provided that, as to State Lands, such subsequent joinder must be approved by the Land Commissioner."

The above change in this form was agreed upon by Mr. Thompson during the aforementioned telephone conversation.

Very truly yours,

E. S. JOHNNY WALKER  
COMMISSIONER OF PUBLIC LANDS

BY: *Marian M. Rhea*

(Mrs.) Marian M. Rhea, Supervisor  
Unit Division

ESW/mmrv

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
EXHIBIT NO.	2
CASE NO.	3023



UNITED STATES  
DEPARTMENT OF THE INTERIOR  
GEOLOGICAL SURVEY  
WASHINGTON 25, D. C.

IN REPLY REFER TO:

APR - 2 1964

*Exhibit 3*

Pan American Petroleum Corporation  
Post Office Box 268  
Lubbock, Texas .

Gentlemen:

Your application of March 20 filed with the Oil and Gas Supervisor, Roswell, New Mexico, requests the designation of 3,514.52 acres, more or less, Eddy County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act, as amended, and acceptance of the proposed form of unit agreement.

Pursuant to the unit plan regulations of December 22, 1950, 30 CFR 226.3 (1961 reprint), the land requested as outlined on your map marked "Exhibit A, Long Draw unit, Eddy County, New Mexico," is hereby designated as a logical unit area.

Your proposed form of unit agreement which conforms to the standard form (1961 reprint), with the addition of a working interest definition, a conflict of supervision section, and language required by the State of New Mexico, will be acceptable if further modified as marked in colored pencil. One copy of the marked form is returned herewith and the remaining copies are retained for distribution to the appropriate offices of the Geological Survey.

In the absence of any type of land requiring special provisions or any other objections not now apparent, a duly executed agreement conformed to the marked copy will be approved if submitted in approvable status within a reasonable period of time. However, the right is reserved to deny approval of any executed agreement which, in our opinion, does not have full commitment of sufficient lands to afford effective control of unit operations. When the executed agreement is transmitted to the Supervisor for approval include the latest status of all acreage.

The Commissioner of Public Lands of the State of New Mexico is being furnished a copy of this letter and you are requested to contact the Commissioner prior to soliciting joinders.

Sincerely yours,

*Arthur B. Basher*

Acting Director

Enclosure

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
EXHIBIT NO.	3
CASE NO.	3025

# PAN AMERICAN PETROLEUM CORPORATION

OIL AND GAS BUILDING P. O. BOX 1410

FORT WORTH 1, TEXAS

March 20, 1964

Re: Long Draw Unit  
Eddy County  
New Mexico

The Director  
United States Geological Survey  
Washington, D. C.

Through:

John A. Anderson  
Regional Oil and Gas Supervisor  
United States Geological Survey  
Roswell, New Mexico  
\*\*\*\*\*

E. S. (Johnny) Walker  
Commissioner of Public Lands  
State of New Mexico  
Santa Fe, New Mexico

Gentlemen:

It is proposed that an oil and gas unit be formed approximately 24 miles West Northwest of the City of Carlsbad, New Mexico. The proposed unit will embrace the leases and lands hereinafter described as to all oil and gas formations below the surface (or down to the basement complex) in said leases and lands included in the proposed unit area. Accordingly, application is hereby made for preliminary approval of such Federal Unit:

1. It is proposed that the following described lands be included in the Long Draw Unit Area in Eddy County, New Mexico:

<u>Township 20 South, Range 23 East, N.M.P.M.</u>	<u>Acres</u>
Section 24: The S/2	320.00
Section 25: All	640.00
Section 36: The N/2	320.00
 <u>Township 20 South, Range 24 East, N.M.P.M.</u>	
Section 19: Lots 1, 2, 3 and 4, the E/2 of the W/2 and the E/2	637.76
Section 20: The W/2	320.00
Section 30: Lots 1, 2, 3 and 4, the E/2 of the W/2 and the E/2	637.82
Section 31: Lots 1, 2, 3 and 4, the E/2 of the W/2 and the E/2	<u>638.94</u>

Total acres in unit area: 3514.52

The Director  
The Commissioner

- 2 -

March 20, 1964

The proposed unit area, insofar as it covers all oil and gas formations below the surface, includes 3,194.52 acres of land covered by Federal leases NM 03021, NM 03021-A, NM 03588, NM 03588-A, NM 04117, NM 04117-A, NM 06361, NM 06361-A, NM 015590, NM 015590-A, NM 016169, NM 020769, NM 024924 and NM 033089. The total Federal acreage in the proposed Long Draw Unit Area comprises 90.8949% of the unit area.

The proposed unit area, insofar as it covers all oil and gas formations below the surface, includes 320 acres covered by State of New Mexico Leases E-3937 and OG-4664. The total State acreage in the proposed Long Draw Unit Area comprises 9.1051% of the unit area. There are no patented fee lands included in the presently proposed Long Draw Unit Area. The proposed unit area is outlined on the attached plat marked Exhibit "A". The unit area comprises 17 tracts of land as shown on the proposed Exhibit "B" attached hereto and made a part hereof.

2. It is proposed that a test well be drilled in the unit area at a location in the SE/4 of the above described Section 25 to an approximate total depth of 9300 feet unless the top of the Mississippian Formation is penetrated at a lesser depth. In drilling to such depth or formation, all possible pay zones will be penetrated at such location.

3. Pan American Petroleum Corporation will prepare the Unit Agreement for the proposed unit and plans to use the 1963 reprint of the model form as is shown in 30 CFR, Section 226.12, with current modifications. The said Unit Agreement has been modified to include applicable amendments which are designed to apply to the State of New Mexico leases. Attached hereto is the proposed form of the Unit Agreement, marked Exhibit "C", which has been modified with respect to the definition of the term "working interest" commencing in line 14 on page 1 of the Unit Agreement, which definition has been inserted. The provisions of the said Unit Agreement have not been amended to eliminate provisions pertaining to fee lands since at some future time it might be possible that the unit area might be enlarged to include fee lands therein.

4. In justification of the proposed unitization of the Long Draw Unit Area to all depths, there is attached hereto in triplicate a Geological Memorandum dated March 10, 1964, marked Exhibit "D", to which Geological Memorandum there is attached as Exhibit 1 an isopachous map and an Exhibit 2 which is a structural contour map. It is requested that the information contained in such Geological Memorandum and its attached exhibits be treated as confidential.

It is submitted that the information contained in the Geological Memorandum and its attached exhibits, which includes all of the geological information available to the applicant, indicates that the proposed unit area is geologically suited for unitization as to all depths below the surface thereof. It is further submitted that orderly development through unitization will be in the interest of conservation and that if the area is unitized prior to commencement of drilling operations to the unitized formation, orderly development will be assured. It is the belief of the applicant that the area is

The Director  
The Commissioner

- 3 -

March 20, 1964

sufficiently attractive to justify the drilling of a test well to the depth hereinabove specified and specified in the Geological Memorandum, and that the drilling of such well will constitute an adequate initial exploratory program in the interest of conservation. Because of the diversity of ownership in the proposed unit area as evidenced in Exhibit "B", orderly development will be assured by formation of said unit.

Very truly yours,

PAN AMERICAN PETROLEUM CORPORATION

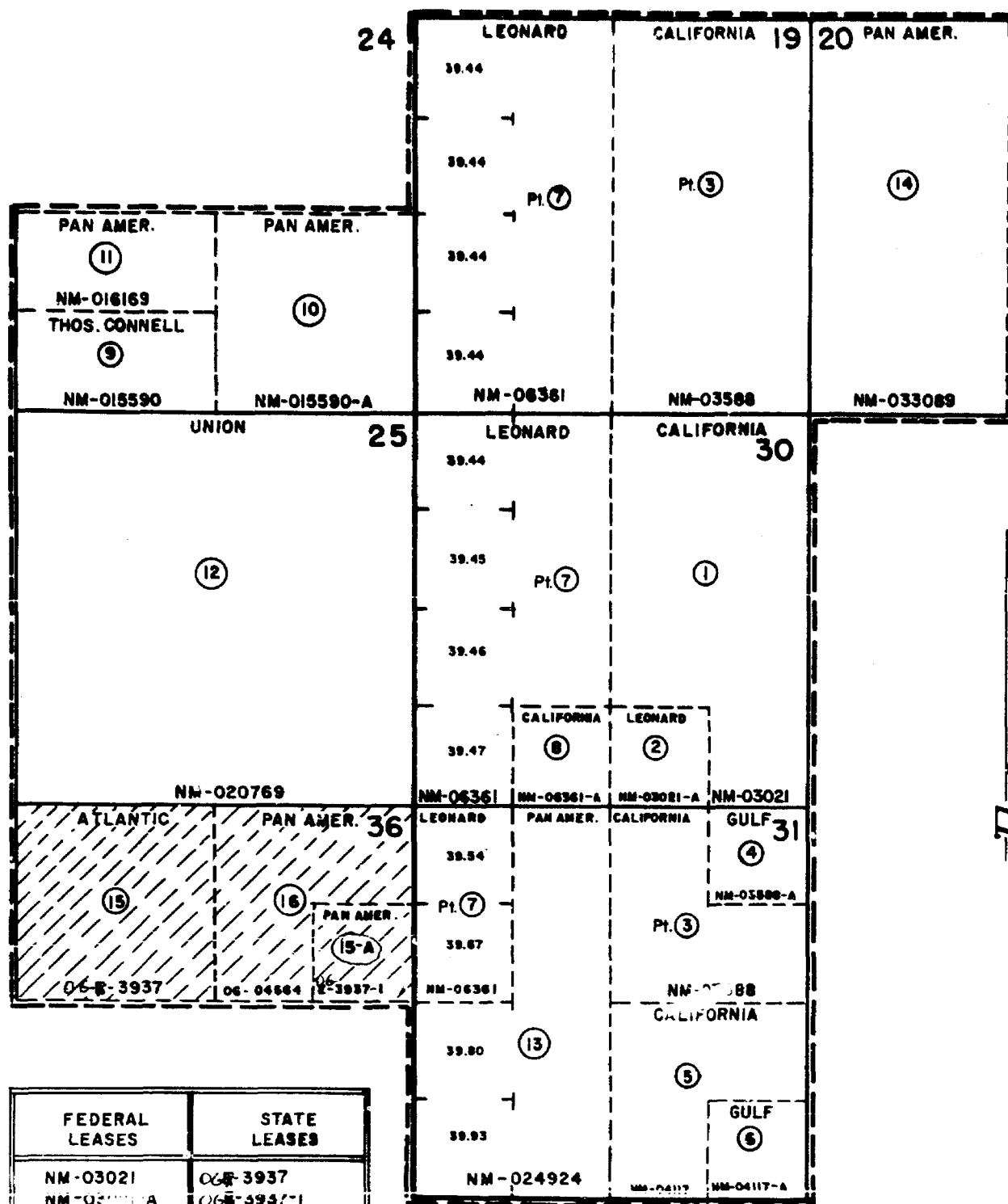
By William T. Smith APPROVED  
Encl.  
Attorney in Fact

LCR:vc



R23E

R24E

T  
20  
S

FEDERAL LEASES	STATE LEASES
NM-03021	OG-3937
NM-03389	OG-3937-1
NM-03588	OG-4664
NM-03588-A	
NM-04117	
NM-04117-A	
NM-015590	
NM-015590-A	
NM-016169	
NM-06361	
NM-06361-A	
NM-020769	
NM-024924	
NM-033089	

NOTE: ALL SECTIONS CONTAIN 640 AC. EXCEPT AS INDICATED  
TOTAL ACRES IN UNIT-----3514.52

**LEGEND**

-----	Unit Boundary
②	Tract Number
	State Land
	Federal Land

EXHIBIT "A"  
LONG DRAW UNIT  
EDDY COUNTY, NEW MEXICO  
SCALE: 1"=2000'

Exhibit "B" - Long Draw Unit Area, Eddy County, New Mexico

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
<u>Federal Land</u>							
1.	T-20-S, R-24-E Sec. 30: NE/4 N/2 SE/4 SE/4 SE/4	280	NM 03021 5-31-64(3)	USA - 12½%	California Oil Company	Unknown	California Company -
2.	Sec. 30: SW/4 SE/4	40	NM 03021-A 5-31-64(3)	USA - 12½%	Leonard Oil Company	Unknown	Leonard Oil Company -
3.	Sec. 19: E/2 Sec. 31: S/2 NE/4 NW/4 NE/4	440	NM 03588 4-30-64(3)	USA - 12½%	California Oil Company	Unknown	California Company -
4.	Sec. 31: NE/4 NE/4	40	NM 03588-A 4-30-64(3)	- USA - 12½%	Gulf Oil Corporation	Unknown	Gulf Oil C
5.	Sec. 31: N/2 SE/4 SW/4 SE/4	120	NM 04117 7-31-64(3)	USA - 12½%	California Oil Company	Unknown	California Company -
6.	Sec. 31: SE/4 SE/4	40	NM 04117-A 7-31-64(3)	USA - 12½%	Gulf Oil Corporation	Unknown	Gulf Oil C
7.	Sec. 19: Lots 1,2,3,4 E/2 W/2 Sec. 30: Lots 1,2,3,4 E/2 NW/4 NE/4 SW/4 Sec. 31: Lots 1,2	674.79	NM 06361 4-30-64(3)	USA - 12½%	Leonard Oil Company	Unknown	Leonard Oil Company -
8.	Sec. 30: SE/4 SW/4	40	NM 06361-A 4-30-64(3)	USA - 12½%	California Oil Company	Unknown	California Company -
9.	T-20-S, R-23-E Sec. 24: S/2 SW/4	80	NM 015590 11-30-64(2)	USA - 12½%	Thomas Connell	None	Thomas Co

Exhibit "B" - Long Draw Unit Area, Eddy County, New Mexico

Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
280	NM 03021 5-31-64(3)	USA - 12 $\frac{1}{2}$ %	California Oil Company	Unknown	California Oil Company - All*
40	NM 03021-A 5-31-64(3)	USA - 12 $\frac{1}{2}$ %	Leonard Oil Company	Unknown	Leonard Oil Company - All*
440	NM 03588 4-30-64(3)	USA - 12 $\frac{1}{2}$ %	California Oil Company	Unknown	California Oil Company - All*
40	NM 03588-A 4-30-64(3)	USA - 12 $\frac{1}{2}$ %	Gulf Oil Corporation	Unknown	Gulf Oil Corp. - All*
120	NM 04117 7-31-64(3)	USA - 12 $\frac{1}{2}$ %	California Oil Company	Unknown	California Oil Company - All*
40	NM 04117-A 7-31-64(3)	USA - 12 $\frac{1}{2}$ %	Gulf Oil Corporation	Unknown	Gulf Oil Corp. - All*
674.79	NM 06361 4-30-64(3)	USA - 12 $\frac{1}{2}$ %	Leonard Oil Company	Unknown	Leonard Oil Company - All*
40	NM 06361-A 4-30-64(3)	USA - 12 $\frac{1}{2}$ %	California Oil Company	Unknown	California Oil Company - All*
80	NM 015590 11-30-64(2)	USA - 12 $\frac{1}{2}$ %	Thomas Connell	None	Thomas Connell - All*

Exhibit "B" - Long Draw Unit Area, Eddy County, New Mexico

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage
10.	T-20-S, R-23-E Sec. 24: SE <sup>1</sup> / <sub>4</sub>	160	NM 015590-A 11-30-64(2)	USA - 12 <sup>1</sup> / <sub>2</sub> %	Pan American Petroleum Corp.	Thomas Connell et ux Emily K. Connell - 5%
11.	Sec. 24: N/2 SW <sup>1</sup> / <sub>4</sub>	80	NM 016169 11-30-64(2)	USA - 12 <sup>1</sup> / <sub>2</sub> %	Pan American Petroleum Corp.	Fred M. Cassidy et ux Margaret Cassidy - <sup>1</sup> / <sub>2</sub> of 1% ORR, \$400 per acre production payment out of 2% owned by Marion V. Harris & Lawrence C. Harris
12.	Sec. 25: All	640	NM 020769 1-31-66(2)	USA - 12 <sup>1</sup> / <sub>2</sub> %	Union Oil Company of California	Unknown
13.	T-20-S, R-24-E Sec. 31: Lots 3, 4 E/2 W/2	239.73	NM 024924 1-31-68(2)	USA - 12 <sup>1</sup> / <sub>2</sub> %	Pan American Petroleum Corp.	Blanche V. White and Emmett D. White - 2%
14.	Sec. 20: W/2	320	NM 033089 3-31-68	USA - 12 <sup>1</sup> / <sub>2</sub> %	Pan American Petroleum Corp.	\$500 per acre production payment out of 5% owned as follows: Edward C. Donohue - 40% Wilma E. Donohue - 40% Wilma D. Moleen - 10% Wilma D. Moleen as trustee for Geo. Edward Donohue Moleen - 10%

14 Federal Tracts: 3,194.52 Acres, or 90.8949%

## Exhibit "B" - Long Draw Unit Area, Eddy County, New Mexico

Page 2

Portion of	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
<u>R-23-E</u> SE/4	160	NM 015590-A 11-30-64(2)	USA - 12 $\frac{1}{2}$ %	Pan American Petroleum Corp.	Thomas Connell et ux Emily K. Connell - 5%	Pan American Petroleum Corp. - All
N/2 SW/4	80	NM 016169 11-30-64(2)	USA - 12 $\frac{1}{2}$ %	Pan American Petroleum Corp.	Fred M. Cassidy et ux Margaret Cassidy - $\frac{1}{2}$ of 1% ORR, \$400 per acre production payment out of 2% owned by Marion V. Harris & Lawrence C. Harris	Pan American Petroleum Corp. - All
All	640	NM 020769 1-31-66(2)	USA - 12 $\frac{1}{2}$ %	Union Oil Company of California	Unknown	Union Oil Company of California - All
<u>R-24-E</u> Lots 3, 4 E/2 W/2	239.73	NM 024924 1-31-68(2)	USA - 12 $\frac{1}{2}$ %	Pan American Petroleum Corp.	Blanche V. White and Emmett D. White - 2%	Pan American Petroleum Corp. - All
W/2	320	NM 033089 3-31-68	USA - 12 $\frac{1}{2}$ %	Pan American Petroleum Corp.	\$500 per acre production payment out of 5% owned as follows: Edward C. Donohue - 40% Wilma E. Donohue - 40% Wilma D. Moleen - 10% Wilma D. Moleen as trustee for Geo. Edward Donohue Moleen - 10%	Pan American Petroleum Corp. - All

: 3,194.52 Acres, or 90.8949%

Exhibit "B" - Long Draw Unit Area, Eddy County, New Mexico

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
<u>State Lands</u>							
15.	T-20-S, R-23-E Sec. 36: NW/4	160	06-3937 6-17-68	State of New Mexico - 12½%	Atlantic	Unknown	Atlantic
15-A.	Sec. 36: SE/4 NE/4	40	06-3937-1 6-17-68	State of New Mexico - 12½%	Pan American Petroleum Corp.	None	Pan American Corporation
16.	Sec. 36: N/2 NE/4 SW/4 NE/4	120	06-4664 10-21-68	State of New Mexico - 12½%	Pan American Petroleum Corp.	None	Pan American Corporation

3 State Tracts: 320 Acres, or 9.1051%

TOTAL: 17 Tracts: 3,514.52 Acres in Entire Unit Area

RECAPITULATION

<u>Land</u>	<u>Acres</u>	<u>Percentages</u>
Federal	3194.52	90.8949%
State	320.00	9.1051%
Patented	0	0
TOTAL UNIT AREA	3514.52	100.0000%

\*Upon completion of initial test well, Pan American will acquire certain operating rights in these tracts.

## Exhibit "B" - Long Draw Unit Area, Eddy County, New Mexico

Page 3

of	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
3-E W/4	160	06-3937 6-17-68	State of New Mexico - 12½%	Atlantic	Unknown	Atlantic
E/4 NE/4	40	06-3937-1 6-17-68	State of New Mexico - 12½%	Pan American Petroleum Corp.	None	Pan American Petroleum Corporation
1/2 NE/4 W/4 NE/4	120	OG-4664 10-21-68	State of New Mexico - 12½%	Pan American Petroleum Corp.	None	Pan American Petroleum Corporation

Acres, or 9.1051%

1,514.52 Acres in Entire Unit Area

RECAPITULATION

<u>Land</u>	<u>Acres</u>	<u>Percentages</u>
Federal	3194.52	90.8949%
State	320.00	9.1051%
Patented	0	0
TOTAL UNIT AREA	3514.52	100.0000%

ation of initial test well, Pan American will acquire certain operating rights in these tracts.

UNIT AGREEMENT FOR THE DEVELOPMENT  
AND OPERATION OF THE LONG DRAW UNIT AREA  
COUNTY OF EDDY, STATE OF NEW MEXICO

INDEX

<u>Section</u>	<u>Title</u>	<u>Page</u>
	Preliminary Recitals	1
1	ENABLING ACT AND REGULATIONS	2
2	UNIT AREA	2
3	UNITIZED LAND AND UNITIZED SUBSTANCES	5
4	UNIT OPERATOR	5
5	RESIGNATION OR REMOVAL OF UNIT OPERATOR	5
6	SUCCESSOR UNIT OPERATOR	6
7	ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT	7
8	RIGHTS AND OBLIGATIONS OF UNIT OPERATOR	7
9	DRILLING TO DISCOVERY	8
10	PLAN OF FURTHER DEVELOPMENT AND OPERATION	9
11	PARTICIPATION AFTER DISCOVERY	10
12	ALLOCATION OF PRODUCTION	12
13	DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS	12
14	ROYALTY SETTLEMENT	13
15	RENTAL SETTLEMENT	14
16	CONSERVATION	15
17	DRAINAGE	15
18	LEASES AND CONTRACTS CONFORMED AND EXTENDED	15
19	COVENANTS RUN WITH LAND	17
20	EFFECTIVE DATE AND TERM	18
21	RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION	18
22	APPEARANCES	19
23	NOTICES	19
24	NO WAIVER OF CERTAIN RIGHTS	20
25	UNAVOIDABLE DELAY	20
26	NONDISCRIMINATION	20
27	LOSS OF TITLE	20
28	NON-JOINDER AND SUBSEQUENT JOINDER	21
29	COUNTERPARTS	21
30	SURRENDER	22
31	TAXES	24
32	CONFLICT OF SUPERVISION	24
33	NO PARTNERSHIP	25
	Exhibit "A" (Map)	
	Exhibit "B" (Description of interests subject to agreement)	

EXHIBIT "C"



1	UNIT AGREEMENT	1
2	FOR THE DEVELOPMENT AND OPERATION	2
3	OF THE	3
4	LONG DRAW UNIT AREA	4
5	COUNTY OF EDDY	5
6	STATE OF NEW MEXICO	6
7	NO. _____	7
8	THIS AGREEMENT, entered into as of the _____ day of _____, 1964,	8
9	by and between the parties subscribing, ratifying, or consenting hereto, and	9
10	herein referred to as the "parties hereto",	10
11	WITNESSETH:	11
12	WHEREAS, the parties hereto are the owners of working, royalty, or other	12
13	oil and gas interests in the unit area subject to this agreement; and	13
14	WHEREAS, the term "Working Interest" as used herein shall mean the in-	14
15	terest held in unitized substances or in lands containing unitized sub-	15
16	stances by virtue of a lease, operating agreement, fee title, or otherwise,	16
17	which is chargeable with and obligated to pay or bear all or a portion of	17
18	the cost of drilling, developing, producing, and operating the land under	18
19	the unit or cooperative agreement. The right delegated to Unit Operator as	19
20	such by this agreement is not to be regarded as a working interest; and	20
21	WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as	21
22	amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their	22
23	representatives to unite with each other, or jointly or separately with	23
24	others, in collectively adopting and operating a cooperative or unit plan of	24
25	development or operation of any oil or gas pool, field, or like area, or any	25
26	part thereof for the purpose of more properly conserving the natural re-	26
27	sources thereof whenever determined and certified by the Secretary of the	27
28	Interior to be necessary or advisable in the public interest; and	28
29	WHEREAS, the Commissioner of Public Lands of the State of New Mexico	29
30	is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951,	30
31	and Secs. 1 and 2, Chap. 176, Laws of 1961, See Chap. 7, Article 11, Secs.	31
32	39, 40 and 41 New Mexico Statutes 1953, Annotated) to consent to or approve	32
33	this agreement on behalf of the State of New Mexico, insofar as it covers and	33
34	includes lands and mineral interests of the State of New Mexico; and	34

1           WHEREAS, the Oil Conservation Commission of the State of New Mexico is 1  
2 authorized by Act of 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 Long Draw Unit 4  
5 Area covering the land hereinafter described to give reasonably effective con- 5  
6 trol of operations therein; and 6  
7           WHEREAS, it is the purpose of the parties hereto to conserve natural re- 7  
8 sources, prevent waste, and secure other benefits obtainable through develop- 8  
9 ment and operation of the area subject to this agreement under the terms, con- 9  
10 ditions, and limitations herein set forth; 10  
11           NOW, THEREFORE, in consideration of the premises and the promises herein 11  
12 contained, the parties hereto commit to this agreement their respective in- 12  
13 terests in the below-defined unit area, and agree severally among themselves 13  
14 as follows: 14  
15           1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 15  
16 1920, as amended, supra, and all valid pertinent regulations, including opera- 16  
17 ting and unit plan regulations, heretofore issued thereunder or valid, perti- 17  
18 nent, and reasonable regulations hereafter issued thereunder are accepted and 18  
19 made a part of this agreement as to Federal lands, provided such regulations 19  
20 are not inconsistent with the terms of this agreement; and as to non-Federal 20  
21 lands, the oil and gas operating regulations in effect as of the effective date 21  
22 hereof governing drilling and producing operations, not inconsistent with the 22  
23 terms hereof or the laws of the State in which the non-Federal land is located, 23  
24 are hereby accepted and made a part of this agreement. 24  
25           2. UNIT AREA. The area specified on the map attached hereto marked Ex- 25  
26 hibit A is hereby designated and recognized as constituting the unit area, con- 26  
27 taining 3514.52 acres, more or less. 27  
28           Exhibit A shows, in addition to the boundary of the unit area, the boun- 28  
29 daries and identity of tracts and leases in said area to the extent known to 29  
30 the Unit Operator. Exhibit B attached hereto is a schedule showing to the 30  
31 extent known to the Unit Operator the acreage, percentage, and kind of owner- 31  
32 ship of oil and gas interests in all land in the unit area. However, nothing 32  
33 herein or in said schedule or map shall be construed as a representation by 33  
34 any party hereto as to the ownership of any interest other than such interest 34

1 or interests as are shown in said map or schedule as owned by such party. Ex- 1  
2 hibits A and B shall be revised by the Unit Operator whenever changes in the 2  
3 unit area render such revision necessary, or when requested by the Oil and Gas 3  
4 Supervisor, hereinafter referred to as "Supervisor" and not less than six 4  
5 copies of the revised exhibits shall be filed with the Supervisor, and two 5  
6 copies each with the Commissioner of Public Lands of the State of New Mexico, 6  
7 hereinafter referred to as the "Commissioner", and the Oil Conservation Commis- 7  
8 sion, hereinafter referred to as "Commission". 8

9 The above-described unit area shall when practicable be expanded to in- 9  
10 clude therein any additional tract or tracts regarded as reasonably necessary 10  
11 or advisable for the purposes of this agreement, or shall be contracted to ex- 11  
12 clude lands not within any participating area whenever such expansion or con- 12  
13 traction is necessary or advisable to conform with the purposes of this agree- 13  
14 ment. Such expansion or contraction shall be effected in the following manner: 14

15 (a) Unit Operator, on its own motion or on demand of the Director of the 15  
16 Geological Survey, hereinafter referred to as "Director", or on demand of the 16  
17 Commissioner after preliminary concurrence by the Director, shall prepare a 17  
18 notice of proposed expansion or contraction describing the contemplated changes 18  
19 in the boundaries of the unit area, the reasons therefor, and the proposed ef- 19  
20 fective date thereof, preferably the first day of a month subsequent to the 20  
21 date of notice. 21

22 (b) Said notice shall be delivered to the Supervisor and the Commissioner 22  
23 and copies thereof mailed to the last known address of each working interest 23  
24 owner, lessee, and lessor whose interests are affected, advising that 30 days 24  
25 will be allowed for submission to the Unit Operator of any objections. 25

26 (c) Upon expiration of the 30-day period provided in the preceding item 26  
27 (b) hereof, Unit Operator shall file with the Supervisor and the Commissioner 27  
28 evidence of mailing of the notice of expansion or contraction and a copy of 28  
29 any objections thereto which have been filed with the Unit Operator, together 29  
30 with an application in sufficient number, for approval of such expansion or 30  
31 contraction and with appropriate joinders. 31

32 (d) After due consideration of all pertinent information, the expansion 32  
33 or contraction shall, upon approval by the Director and the Commissioner, be- 33  
34 come effective as of the date prescribed in the notice thereof. 34

1 (e) All legal subdivisions of unitized lands (i.e., 40 acres by Govern- 1  
2 ment survey or its nearest lot or tract equivalent in instances of irregular 2  
3 surveys, however, unusually large lots or tracts shall be considered in mul- 3  
4 tiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose 4  
5 of elimination under this subsection), no parts of which are entitled to be in 5  
6 a participating area within 5 years after the first day of the month following 6  
7 the effective date of the first initial participating area established under 7  
8 this unit agreement, shall be eliminated automatically from this agreement, ef- 8  
9 fective as of the first day thereafter, and such lands shall no longer be a part 9  
10 of the unit area and shall no longer be subject to this agreement, unless at 10  
11 the expiration of said 5-year period diligent drilling operations are in pro- 11  
12 gress on unitized lands not entitled to participation, in which event all such 12  
13 lands shall remain subject hereto for so long as such drilling operations are 13  
14 continued diligently, with not more than 90 days' time elapsing between the com- 14  
15 pletion of one such well and the commencement of the next such well, except 15  
16 that the time allowed between such wells shall not expire earlier than 30 days 16  
17 after the expiration of any period of time during which drilling operations are 17  
18 prevented by a matter beyond the reasonable control of unit operator as set 18  
19 forth in the section hereof entitled "Unavoidable Delay"; provided that all 19  
20 legal subdivisions of lands not in a participating area and not entitled to be- 20  
21 come participating under the applicable provisions of this agreement within 21  
22 10 years after said first day of the month following the effective date of said 22  
23 first initial participating area shall be eliminated as above specified. De- 23  
24 termination of creditable "Unavoidable Delay" time shall be made by unit op- 24  
25 erator and subject to approval of the Director and the Commissioner. The unit 25  
26 operator shall, within 90 days after the effective date of any elimination 26  
27 hereunder, describe the area so eliminated to the satisfaction of the Director 27  
28 and the Commissioner and promptly notify all parties in interest. 28

29 If conditions warrant extension of the 10-year period specified in this 29  
30 subsection 2(e), a single extension of not to exceed 2 years may be accomplished 30  
31 by consent of the owners of 90% of the current unitized working interests and 31  
32 60% of the current unitized basic royalty interests (exclusive of the basic 32  
33 royalty interests of the United States), on a total-nonparticipating-acreage 33  
34 basis, respectively, with approval of the Director and the Commissioner, pro- 34  
35 vided such extension application is submitted to the Director and the 35

1 Commissioner not later than 60 days prior to the expiration of said 10-year 1  
2 period. 2

3 Any expansion of the unit area pursuant to this section which embraces 3  
4 lands theretofore eliminated pursuant to this subsection 2(e) shall not be 4  
5 considered automatic commitment or recommitment of such lands. 5

6 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this 6  
7 agreement shall constitute land referred to herein as "unitized land" or "land 7  
8 subject to this agreement". All oil and gas in any and all formations of the 8  
9 unitized land are unitized under the terms of this agreement and herein are 9  
10 called "unitized substances". 10

11 4. UNIT OPERATOR. Pan American Petroleum Corporation is hereby designated 11  
12 as Unit Operator and by execution hereof as Unit Operator agrees and consents to 12  
13 accept the duties and obligations of Unit Operator for the discovery, develop- 13  
14 ment, and production of unitized substances as herein provided. Whenever refer- 14  
15 ence is made herein to the Unit Operator, such reference means the Unit Operator 15  
16 acting in that capacity and not as an owner of interest in unitized substances, 16  
17 and the term "working interest owner" when used herein shall include or refer 17  
18 to Unit Operator as the owner of a working interest when such an interest is 18  
19 owned by it. 19

20 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the 20  
21 right to resign at any time prior to the establishment of a participating area 21  
22 or areas hereunder, but such resignation shall not become effective so as to re- 22  
23 lease Unit Operator from the duties and obligations of Unit Operator and ter- 23  
24 minate Unit Operator's rights as such for a period of 6 months after notice of 24  
25 intention to resign has been served by Unit Operator on all working interest 25  
26 owners, the Director and the Commissioner, and until all wells then drilled 26  
27 hereunder are placed in a satisfactory condition for suspension or abandonment, 27  
28 whichever is required by the Supervisor, unless a new Unit Operator shall have 28  
29 been selected and approved and shall have taken over and assumed the duties 29  
30 and obligations of Unit Operator prior to the expiration of said period. 30

31 Unit Operator shall have the right to resign in like manner and subject to 31  
32 like limitations as above provided at any time a participating area established 32  
33 hereunder is in existence, but, in all instances of resignation or removal, un- 33  
34 til a successor unit operator is selected and approved as hereinafter provided, 34  
35 the working interest owners shall be jointly responsible for performance of the 35

1 duties of unit operator, and shall not later than 30 days before such resigna- 1  
2 tion or removal becomes effective appoint a common agent to represent them in 2  
3 any action to be taken hereunder. 3

4 The resignation of Unit Operator shall not release Unit Operator from any 4  
5 liability for any default by it hereunder occurring prior to the effective date 5  
6 of its resignation. 6

7 The Unit Operator may, upon default or failure in the performance of its 7  
8 duties or obligations hereunder, be subject to removal by the same percentage 8  
9 vote of the owners of working interests determined in like manner as herein pro- 9  
10 vided for the selection of a new Unit Operator. Such removal shall be effective 10  
11 upon notice thereof to the Director and the Commissioner. 11

12 The resignation or removal of Unit Operator under this agreement shall not 12  
13 terminate its right, title, or interest as the owner of a working interest or 13  
14 other interest in unitized substances, but upon the resignation or removal of 14  
15 Unit Operator becoming effective, such Unit Operator shall deliver possession of 15  
16 all equipment, materials, and appurtenances used in conducting the unit opera- 16  
17 tions and owned by the working interest owners to the new duly qualified succes- 17  
18 sor Unit Operator or to the owners thereof if no such new Unit Operator is 18  
19 elected, to be used for the purpose of conducting unit operations hereunder. 19  
20 Nothing herein shall be construed as authorizing removal of any material, equip- 20  
21 ment and appurtenances needed for the preservation of any wells. 21

22 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his 22  
23 or its resignation as Unit Operator or shall be removed as hereinabove pro- 23  
24 vided, or a change of Unit Operator is negotiated by working interest owners, 24  
25 the owners of the working interests in the participating area or areas accord- 25  
26 ing to their respective acreage interests in such participating area or areas, 26  
27 or, until a participating area shall have been established, the owners of the 27  
28 working interests according to their respective acreage interests in all uni- 28  
29 tized land, shall by majority vote select a successor Unit Operator: Provided, 29  
30 that, if a majority but less than 75 per cent of the working interests quali- 30  
31 fied to vote are owned by one party to this agreement, a concurring vote of 31  
32 one or more additional working interest owners shall be required to select a 32  
33 new operator. Such selection shall not become effective until 33

34 (a) a Unit Operator so selected shall accept in writing the duties and 34  
25 responsibilities of Unit Operator, and 35

1 (b) the selection shall <sup>filed with the Supervisor and</sup> have been approved by the ~~Director and the~~ Commis- 1  
2 sioner. If no successor Unit Operator is selected and qualified as herein pro- 2  
3 vided, the Director at his election may declare this unit agreement terminated. 3  
4 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Opera- 4  
5 tor is not the sole owner of working interests, costs and expenses incurred by 5  
6 Unit Operator in conducting unit operations hereunder shall be paid and appor- 6  
7 tioned among and borne by the owners of working interests, all in accordance 7  
8 with the agreement or agreements entered into by and between the Unit Operator 8  
9 and the owners or working interests, whether one or more, separately or collec- 9  
10 tively. Any agreement or agreements entered into between the working interest 10  
11 owners and the Unit Operator as provided in this section, whether one or more, 11  
12 are herein referred to as the "unit operating agreement". Such unit operating 12  
13 agreement shall also provide the manner in which the working interest owners 13  
14 shall be entitled to receive their respective proportionate and allocated share 14  
15 of the benefits accruing hereto in conformity with their underlying operating 15  
16 agreements, leases, or other independent contracts, and such other rights and 16  
17 obligations as between Unit Operator and the working interest owners as may be 17  
18 agreed upon by Unit Operator and the working interest owners; however, no such 18  
19 unit operating agreement shall be deemed either to modify any of the terms and 19  
20 conditions of this unit agreement or to relieve the Unit Operator of any right 20  
21 or obligation established under this unit agreement, and in case of any in- 21  
22 consistency or conflict between the unit agreement and the unit operating 22  
23 agreement, this unit agreement shall prevail. Three true copies of any unit 23  
24 operating agreement executed pursuant to this section should be filed with the 24  
25 Supervisor and two true copies with the Commissioner, prior to approval of 25  
26 this unit agreement. 26  
27 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise speci- 27  
28 fically provided herein, the exclusive right, privilege, and duty of exercis- 28  
29 ing any and all rights of the parties hereto which are necessary or conven- 29  
30 ient for prospecting for, producing, storing, allocating, and distributing the 30  
31 unitized substances are hereby delegated to and shall be exercised by the Unit 31  
32 Operator as herein provided. Acceptable evidence of title to said rights shall 32  
33 be deposited with said Unit Operator and, together with this agreement, shall 33  
34 constitute and define the rights, privileges, and obligations of Unit Operator. 34

1 Nothing herein, however, shall be construed to transfer title to any land or to 1  
2 any lease or operating agreement, it being understood that under this agreement 2  
3 the Unit Operator, in its capacity as Unit Operator, shall exercise the rights 3  
4 of possession and use vested in the parties hereto only for the purposes here- 4  
5 in specified. 5

6 9. DRILLING TO DISCOVERY. Within 6 months after the effective date here- 6  
7 of, the Unit Operator shall begin to drill an adequate test well at a location 7  
8 approved by the Supervisor if such location is upon lands of the United States, 8  
9 and if upon State or patented lands, such location shall be approved by the 9  
10 Commission and the Commissioner, unless on such effective date a well is being 10  
11 drilled conformably with the terms hereof, and thereafter continue such drill- 11  
12 ing diligently until the Mississippian formation is penetrated or until at 12  
13 a lesser depth unitized substances shall be discovered which can be produced 13  
14 in paying quantities (to wit: quantities sufficient to repay the costs of drill- 14  
15 ing, and producing operations, with a reasonable profit) or the Unit Operator 15  
16 shall at any time establish to the satisfaction of the Supervisor as to wells 16  
17 on Federal lands, or to the Commission and the Commissioner as to wells on 17  
18 State or patented lands, that further drilling of said well would be unwarrant- 18  
19 ed or impracticable, provided, however, that Unit Operator shall not in any 19  
20 event be required to drill said well to a depth in excess of 9,300 feet. Un- 20  
21 til the discovery of a deposit of unitized substances capable of being produced 21  
22 in paying quantities, the Unit Operator shall continue drilling diligently one 22  
23 well at a time, allowing not more than 6 months between the completion of one 23  
24 well and the beginning of the next well, at locations approved by the Super- 24  
25 visor if such locations are on lands of the United States, and if upon State 25  
26 or patented lands at locations approved by the Commission and the Commissioner, 26  
27 until a well capable of producing unitized substances in paying quantities is 27  
28 completed to the satisfaction of said Supervisor and Commissioner or until 28  
29 it is reasonably proved that the unitized land is incapable of producing uni- 29  
30 tized substances in paying quantities in the formations drilled hereunder. 30  
31 Nothing in this section shall be deemed to limit the right of the Unit Opera- 31  
32 tor to resign as provided in Section 5 hereof, or as requiring Unit Operator to 32  
33 commence or continue any drilling during the period pending such resignation 33  
34 becoming effective in order to comply with the requirements of this section. 34  
35 The Director and the Commissioner may modify the drilling requirements of this 35



1 section by granting reasonable extensions of time when, in their opinion, such 1  
2 action is warranted. 2

3 Upon failure to comply with the drilling provisions of this section, the 3  
4 Director and the Commissioner may, after reasonable notice to the Unit Operator, 4  
5 and each working interest owner, lessee, and lessor at their last known address, 5  
6 declare this Unit Agreement terminated. 6

7 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after com- 7  
8 pletion of a well capable of producing unitized substances in paying quantities, 8  
9 the Unit Operator shall submit for the approval of the Supervisor, the Commis- 9  
10 sioner and the Commission an acceptable plan of development and operation for 10  
11 the unitized land which, when approved by the Supervisor, the Commissioner and 11  
12 the Commission, shall constitute the further drilling and operating obligations 12  
13 of the Unit Operator under this agreement for the period specified therein. 13  
14 Thereafter, from time to time before the expiration of any existing plan, the 14  
15 Unit Operator shall submit for the approval of the Supervisor, the Commissioner 15  
16 and the Commission a plan for an additional specified period for the development 16  
17 and operation of the unitized land. 17

18 Any plan submitted pursuant to this section shall provide for the explora- 18  
19 tion of the unitized area and for the diligent drilling necessary for deter- 19  
20 mination of the area or areas thereof capable of producing unitized substances 20  
21 in paying quantities in each and every productive formation and shall be as com- 21  
22 plete and adequate as the Supervisor, the Commissioner and the Commission may 22  
23 determine to be necessary for timely development and proper conservation of the 23  
24 oil and gas resources of the unitized area and shall 24

25 (a) specify the number and locations of any wells to be drilled and the 25  
26 proposed order and time for such drilling; and 26

27 (b) to the extent practicable specify the operating practices regarded 27  
28 as necessary and advisable for proper conservation of natural resources. 28

29 Separate plans may be submitted for separate productive zones, subject to the 29  
30 approval of the Supervisor, the Commissioner and the Commission. 30

31 Plans shall be modified or supplemented when necessary to meet changed 31  
32 conditions or to protect the interests of all parties to this agreement. 32

33 Reasonable diligence shall be exercised in complying with the obligations of 33  
34 the approved plan of development. The Supervisor and the Commissioner are 34

1 authorized to grant a reasonable extension of the 6-month period herein pre- 1  
2 scribed for submission of an initial plan of development where such action is 2  
3 justified because of unusual conditions or circumstances. After completion 3  
4 hereunder of a well capable of producing any unitized substance in paying quan- 4  
5 tities, no further wells, except such as may be necessary to afford protection 5  
6 against operations not under this agreement or such as may be specifically ap- 6  
7 proved by the Supervisor and the Commissioner, shall be drilled except in ac- 7  
8 cordance with a plan of development approved as herein provided. 8

9 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of 9  
10 producing unitized substances in paying quantities or as soon thereafter as re- 10  
11 quired by the Supervisor and the Commissioner, the Unit Operator shall submit 11  
12 for approval by the Director, the Commissioner and the Commission, a schedule 12  
13 based on subdivisions of the public-land survey or aliquot parts thereof, of 13  
14 all unitized land then regarded as reasonably proved to be productive of uni- 14  
15 tized substances in paying quantities; all lands in said schedule on approval 15  
16 of the Director, the Commissioner and the Commission to constitute a partici- 16  
17 pating area, effective as of the date of completion of such well or the effec- 17  
18 tive date of the unit agreement, whichever is later. The acreages of both 18  
19 Federal and non-Federal lands shall be based upon appropriate computations from 19  
20 the courses and distances shown on the last approved public-land survey as of 20  
21 the effective date of the initial participating area. Said schedule also shall 21  
22 set forth the percentage of unitized substances to be allocated as herein pro- 22  
23 vided to each unitized tract in the participating area so established, and 23  
24 shall govern the allocation of production from and after the date the parti- 24  
25 cipating area becomes effective. A separate participating area shall be es- 25  
26 tablished in like manner for each separate pool or deposit of unitized sub- 26  
27 stances or for any group thereof produced as a single pool or zone, and any 27  
28 two or more participating areas so established may be combined into one with 28  
29 the consent of the owners of all working interests in the lands within the 29  
30 participating areas so to be combined, on approval of the Director, the Com- 30  
31 missioner and the Commission. The participating area or areas so established 31  
32 shall be revised from time to time, subject to like approval, whenever such 32  
33 action appears proper as a result of further drilling operations or otherwise 33  
34 to include additional land then regarded as reasonably proved to be produc- 34  
35 tive in paying quantities, or to exclude land then regarded as reasonably 35

1 proved not to be productive in paying quantities and the percentage of alloca- 1  
2 tion shall also be revised accordingly. The effective date of any revision 2  
3 shall be the first of the month in which is obtained the knowledge or informa- 3  
4 tion on which such revision is predicated, provided, however, that a more ap- 4  
5 propriate effective date may be used if justified by the Unit Operator and ap- 5  
6 proved by the Director and the Commissioner and the Commission. No land shall 6  
7 be excluded from a participating area on account of depletion of the unitized 7  
8 substances. 8

9 It is the intent of this section that a participating area shall represent 9  
10 the area known or reasonably estimated to be productive in paying quantities; 10  
11 but, regardless of any revision of the participating area, nothing herein con- 11  
12 tained shall be construed as requiring any retroactive adjustment for produc- 12  
13 tion obtained prior to the effective date of the revision of the participating 13  
14 area. 14

15 In the absence of agreement at any time between the Unit Operator and the 15  
16 Director, the Commissioner and the Commission as to the proper definition or re- 16  
17 definition of a participating area, or until a participating area has, or areas 17  
18 have, been established as provided herein, the portion of all payments affected 18  
19 thereby may be impounded in a manner mutually acceptable to the owners of work- 19  
20 ing interests, except royalties due the United States and the State of New 20  
21 Mexico, which shall be determined by the Supervisor and the Commissioner, re- 21  
22 spectively, and the amount thereof deposited, as directed by the Supervisor and 22  
23 the Commissioner, respectively, to be held as unearned money until a partici- 23  
24 pating area is finally approved and then applied as earned or returned in ac- 24  
25 cordance with a determination of the sum due as Federal and State royalty on 25  
26 the basis of such approved participating area. 26

27 Whenever it is determined, subject to the approval of the Supervisor, as 27  
28 to the wells on Federal lands, the Commissioner as to wells on State lands, 28  
29 and the Commission as to wells on patented lands, that a well drilled under 29  
30 this agreement is not capable of production in paying quantities and inclusion 30  
31 of the land on which it is situated in a participating area is unwarranted, 31  
32 production from such well shall, for the purposes of settlement among all par- 32  
33 ties other than working interest owners, be allocated to the land on which the 33  
34 well is located so long as such land is not within a participating area es- 34  
35 tablished for the pool or deposit from which such production is obtained. 35

1 Settlement for working interest benefits from such a well shall be made as pro- 1  
2 vided in the unit operating agreement. 2

3 12. ALLOCATION OF PRODUCTION. All unitized substances produced from each 3  
4 participating area established under this agreement, except any part thereof 4  
5 used in conformity with good operating practices within the unitized area for 5  
6 drilling, operating, camp and other production or development purposes, for re- 6  
7 pressuring or recycling in accordance with a plan of development approved by 7  
8 the Supervisor, the Commissioner and the Commission, or unavoidably lost, shall 8  
9 be deemed to be produced equally on an acreage basis from the several tracts of 9  
10 unitized land of the participating area established for such production and, for 10  
11 the purpose of determining any benefits accruing under this agreement, each such 11  
12 tract of unitized land shall have allocated to it such percentage of said produc- 12  
13 tion as the number of acres of such tract included in said participating area 13  
14 bears to the total acres of unitized land in said participating area, except that 14  
15 allocation of production hereunder for purposes other than for settlement of the 15  
16 royalty, overriding royalty, or payment out of production obligations of the re- 16  
17 spective working interest owners, shall be on the basis prescribed in the unit 17  
18 operating agreement whether in conformity with the basis of allocation herein 18  
19 set forth or otherwise. It is hereby agreed that production of unitized sub- 19  
20 stances from a participating area shall be allocated as provided herein regard- 20  
21 less of whether any wells are drilled on any particular part or tract of said 21  
22 participating area. If any gas produced from one participating area is used 22  
23 for repressuring or recycling purposes in another participating area, the first 23  
24 gas withdrawn from such last-mentioned participating area for sale during the 24  
25 life of this agreement shall be considered to be the gas so transferred until 25  
26 an amount equal to that transferred shall be so produced for sale and such gas 26  
27 shall be allocated to the participating area from which initially produced as 27  
28 constituted at the time of such final production. 28

29 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. 29  
30 Any party hereto owning or controlling the working interest in any unitized 30  
31 land having thereon a regular well location may with the approval of the 31  
32 Supervisor, the Commissioner or the Commission, at such party's sole risk, 32  
33 costs, and expense, drill a well to test any formation for which a partici- 33  
34 pating area has not been established or to test any formation for which a 34

1 participating area has been established if such location is not within said 1  
2 participating area, unless within 90 days of receipt of notice from said party 2  
3 of his intention to drill the well the Unit Operator elects and commences to 3  
4 drill such a well in like manner as other wells are drilled by the Unit Opera- 4  
5 tor under this agreement. 5

6 If any well drilled as aforesaid by a working interest owner results in 6  
7 production such that the land upon which it is situated may properly be in- 7  
8 cluded in a participating area, such participating area shall be established 8  
9 or enlarged as provided in this agreement and the well shall thereafter be 9  
10 operated by the Unit Operator in accordance with the terms of this agreement 10  
11 and the unit operating agreement. 11

12 If any well drilled as aforesaid by a working interest owner obtains pro- 12  
13 duction in quantities insufficient to justify the inclusion in a participating 13  
14 area of the land upon which such well is situated, such well may be operated 14  
15 and produced by the party drilling the same subject to the conservation re- 15  
16 quirements of this agreement. The royalties in amount or value of production 16  
17 from any such well shall be paid as specified in the underlying lease and agree- 17  
18 ments affected. 18

19 14. ROYALTY SETTLEMENT. The United States and the State of New Mexico and 19  
20 all royalty owners who, under existing contract, are entitled to take in kind 20  
21 a share of the substances now unitized hereunder produced from any tract, shall 21  
22 hereafter be entitled to the right to take in kind their share of the unitized 22  
23 substances allocated to such tract, and Unit Operator, or in case of the opera- 23  
24 tion of a well by a working interest owner as herein in special cases provided 24  
25 for, such working interest owner, shall make deliveries of such royalty share 25  
26 taken in kind in conformity with the applicable contracts, laws, and regula- 26  
27 tions. Settlement for royalty interest not taken in kind shall be made by 27  
28 working interest owners responsible therefor under existing contracts, laws 28  
29 and regulations on or before the last day of each month for unitized sub- 29  
30 stances produced during the preceding calendar month; provided, however, that 30  
31 nothing herein contained shall operate to relieve the lessees of any land 31  
32 from their respective lease obligations for the payment of any royalties due 32  
33 under their leases. 33

34 If gas obtained from lands not subject to this agreement is introduced 34

1 into any participating area hereunder, for use in repressuring, stimulation of 1  
2 production, or increasing ultimate recovery, which shall be in conformity with 2  
3 a plan first approved by the Supervisor and the Commissioner, a like amount of 3  
4 gas, after settlement as herein provided for any gas transferred from any ot- 4  
5 her participating area and with due allowance for loss or depletion from any 5  
6 cause, may be withdrawn from the formation into which the gas was introduced, 6  
7 royalty free as to dry gas, but not as to the products extracted therefrom; pro-7  
8 vided that such withdrawal shall be at such time as may be provided in the plan 8  
9 of operations or as may otherwise be consented to by the Supervisor, the Com- 9  
10 missioner and the Commission as conforming to good petroleum engineering prac- 10  
11 tice; and provided further, that such right of withdrawal shall terminate on 11  
12 the termination of this unit agreement. 12

13 Royalty due the United States shall be computed as provided in the opera- 13  
14 ting regulations and paid in value or delivered in kind as to all unitized sub- 14  
15 stances on the basis of the amounts thereof allocated to unitized Federal land 15  
16 as provided herein at the rates specified in the respective Federal leases, 16  
17 or at such lower rate or rates as may be authorized by law or regulation; pro- 17  
18 vided, that for leases on which the royalty rate depends on the daily average 18  
19 production per well, said average production shall be determined in accordance 19  
20 with the operating regulations as though each participating area were a single 20  
21 consolidated lease. 21

22 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases com- 22  
23 mitted hereto shall be paid by working interest owners responsible therefor 23  
24 under existing contracts, laws, and regulations, provided that nothing herein 24  
25 contained shall operate to relieve the lessees of any land from their respec- 25  
26 tive lease obligations for the payment of any rental or minimum royalty in 26  
27 lieu thereof due under their leases. Rental or minimum royalty for lands of 27  
28 the United States subject to this agreement shall be paid at the rate speci- 28  
29 fied in the respective leases from the United States unless such rental or 29  
30 minimum royalty is waived, suspended, or reduced by law or by approval of the 30  
31 Secretary or his duly authorized representative. Rentals on State of New 31  
32 Mexico lands subject to this agreement shall be paid at the rates specified 32  
33 in the respective leases, or may be reduced and suspended upon the order of 33  
34 the Commissioner of Public Lands of the State of New Mexico pursuant to ap- 34  
35 plicable laws and regulations. 35

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

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

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

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas of lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations

1 for development and operation with respect to each and every part or separately 1  
2 owned tract subject to this agreement, regardless of whether there is any de- 2  
3 velopment of any particular part or tract of the unit area, notwithstanding any-3  
4 thing to the contrary in any lease, operating agreement or other contract by 4  
5 and between the parties hereto, or their respective predecessors in interest, 5  
6 or any of them. 6

7 (b) Drilling and producing operations performed hereunder upon any tract 7  
8 of unitized lands will be accepted and deemed to be performed upon and for the 8  
9 benefit of each and every tract of unitized land, and no lease shall be deemed 9  
10 to expire by reason of failure to drill or produce wells situated on the land 10  
11 therein embraced. 11

12 (c) Suspension of drilling or producing operations on all unitized lands 12  
13 pursuant to direction or consent of the Secretary or his duly authorized re- 13  
14 presentative, and on all unitized lands of the State of New Mexico pursuant 14  
15 to the consent of the Commissioner, or his duly recognized representative, 15  
16 shall be deemed to constitute such suspension pursuant to such direction or 16  
17 consent as to each and every tract of unitized land. 17

18 (d) Each lease, sublease or contract relating to the exploration, drill- 18  
19 ing, development or operation for oil or gas of lands other than those of the 19  
20 United States committed to this agreement, which, by its terms might expire 20  
21 prior to the termination of this agreement, is hereby extended beyond any such 21  
22 term so provided therein so that it shall be continued in full force and effect 22  
23 for and during the term of this agreement. 23

24 (e) Any Federal lease for a fixed term of twenty (20) years or any re- 24  
25 newal thereof or any part of such lease which is made subject to this agree- 25  
26 ment shall continue in force beyond the term provided therein until the ter- 26  
27 mination hereof. Any other Federal lease committed hereto shall continue in 27  
28 force beyond the term so provided therein or by law as to the land committed 28  
29 so long as such lease remains subject hereto, provided that production is had 29  
30 in paying quantities under this unit agreement prior to the expiration date 30  
31 of the term of such lease, or in the event actual drilling operations are 31  
32 commenced on unitized land, in accordance with the provisions of this agree- 32  
33 ment, prior to the end of the primary term of such lease and are being dili- 33  
34 gently prosecuted at that time, such lease shall be extended for two years and 34



1 so long thereafter as oil or gas is produced in paying quantities in accordance 1  
2 with the provisions of the Mineral Leasing Act Revision of 1960. 2

3 (f) Each sublease or contract relating to the operation and development 3  
4 of unitized substances from lands of the United States committed to this agree- 4  
5 ment, which by its terms would expire prior to the time at which the underlying 5  
6 lease, as extended by the immediately preceding paragraph, will expire, is here- 6  
7 by extended beyond any such term so provided therein so that it shall be con- 7  
8 tinued in full force and effect for and during the term of the underlying lease 8  
9 as such term is herein extended. 9

10 (g) The segregation of any Federal lease committed to this agreement is 10  
11 governed by the following provision in the fourth paragraph of Sec. 17(j) of 11  
12 the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 12  
13 781-784): "Any (Federal) lease heretofore or hereafter committed to any such 13  
14 (unit) plan embracing lands that are in part within and in part outside of the 14  
15 area covered by any such plan shall be segregated into separate leases as to the 15  
16 lands committed and the lands not committed as of the effective date of unitiza- 16  
17 tion: Provided, however, That any such lease as to the nonunitized portion shall 17  
18 continue in force and effect for the term thereof but for not less than two 18  
19 years from the date of such segregation and so long thereafter as oil or gas is 19  
20 produced in paying quantities." 20

21 (h) Any lease, other than a Federal lease, having only a portion of its 21  
22 lands committed hereto shall be segregated as to the portion committed and the 22  
23 portion not committed, and the provisions of such lease shall apply separately 23  
24 to such segregated portions commencing as of the effective date hereof. In 24  
25 the event any such lease provides for a lump-sum rental payment, such payment 25  
26 shall be prorated between the portions so segregated in proportion to the acre- 26  
27 age of the respective tracts. 27

28 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to 28  
29 be covenants running with the land with respect to the interest of the parties 29  
30 hereto and their successors in interest until this agreement terminates, and 30  
31 any grant, transfer, or conveyance of interest in land or leases subject here- 31  
32 to shall be and hereby is conditioned upon the assumption of all privileges 32  
33 and obligations hereunder by the grantee, transferee, or other successor in in- 33  
34 terest. No assignment or transfer of any working interest, royalty, or other 34

1 interest subject hereto shall be binding upon Unit Operator until the first day 1  
2 of the calendar month after Unit Operator is furnished with the original, pho- 2  
3 tostatic, or certified copy of the instrument of transfer. 3

4 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon 4  
5 approval by the Secretary and the Commissioner or their duly authorized repre- 5  
6 sentatives and shall terminate five (5) years from said effective date unless 6  
7 (a) such date of expiration is extended by the Director and the Commis- 7  
8 sioner, or 8  
9 (b) it is reasonably determined prior to the expiration of the fixed 9  
10 term of any extension thereof that the unitized land is incapable of pro- 10  
11 duction of unitized substances in paying quantities in the formations tested 11  
12 hereunder and after notice of intention to terminate the agreement on such 12  
13 ground is given by the Unit Operator to all parties in interest at their last 13  
14 known addresses, the agreement is terminated with the approval of the Director 14  
15 and the Commissioner, or 15  
16 (c) a valuable discovery of unitized substances has been made or accepted 16  
17 on unitized land during said initial term or any extension thereof, in which 17  
18 event the agreement shall remain in effect for such term and so long as uni- 18  
19 tized substances can be produced in quantities sufficient to pay for the cost 19  
20 of producing same from wells on unitized land within any participating area 20  
21 established hereunder and, should production cease, so long thereafter as dili- 21  
22 gent operations are in progress for the restoration of production or discovery 22  
23 of new production and so long thereafter as the unitized substances so dis- 23  
24 covered can be produced as aforesaid, or 24  
25 (d) it is terminated as heretofore provided in this agreement. 25  
26 This agreement may be terminated at any time by not less than 75 per centum, 26  
27 on an acreage basis, of the owners of working interests signatory hereto, 27  
28 with the approval of the Director and the Commissioner; notice of any such 28  
29 approval to be given by the Unit Operator to all parties hereto. 29

30 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is 30  
31 hereby vested with authority to alter or modify from time to time in his dis- 31  
32 cretion the quantity and rate of production under this agreement when such 32  
33 quantity and rate is not fixed pursuant to Federal or State law or does not 33  
34 conform to any state-wide voluntary conservation or allocation program, which 34

1 is established, recognized, and generally adhered to by the majority of opera- 1  
2 tors in such State, such authority being hereby limited to alteration or modi- 2  
3 fication in the public interest, the purpose thereof and public interest to 3  
4 be served thereby to be stated in the order of alteration or modification. 4  
5 Without regard to the foregoing, the Director is also hereby vested with auth- 5  
6 ority to alter or modify from time to time in his discretion the rate of pros- 6  
7 pecting and development and the quantity and rate of production under this 7  
8 agreement when such alteration or modification is in the interest of attain- 8  
9 ing the conservation objectives stated in this agreement and is not in viola- 9  
10 tion of any applicable Federal or State law; provided, further, no such alter- 10  
11 ation or modification shall be effective as to any land of the State of New 11  
12 Mexico as to the rate of prospecting and development in the absence of the 12  
13 specific written approval thereof by the Commissioner and as to lands of the 13  
14 State of New Mexico or privately owned lands subject to this agreement as to 14  
15 the quantity and rate of production in the absence of specific written ap- 15  
16 proval thereof by the Commissioner. 16

17 Powers in this section vested in the Director shall only be exercised af- 17  
18 ter notice to Unit Operator and opportunity for hearing to be held not less 18  
19 than 15 days from notice. 19

20 22. APPEARANCES. Unit Operator shall, after notice to other parties af- 20  
21 fected, have the right to appear for and on behalf of any and all interests 21  
22 affected hereby before the Department of the Interior and to appeal from or- 22  
23 ders issued under the regulations of said Department or to apply for relief 23  
24 from any of said regulations or in any proceedings relative to operations be- 24  
25 fore the Department of the Interior or any other legally constituted author- 25  
26 ity; provided, however, that any other interested party shall also have the 26  
27 right at his own expense to be heard in any such proceeding. 27

28 23. NOTICES. All notices, demands or statements required hereunder to 28  
29 be given or rendered to the parties hereto shall be deemed fully given if 29  
30 given in writing and personally delivered to the party or sent by postpaid 30  
31 registered mail, addressed to such party or parties at their respective ad- 31  
32 dresses set forth in connection with the signatures hereto or to the ratifi- 32  
33 cation or consent hereof or to such other address as any such party may have 33  
34 furnished in writing to party sending the notice, demand or statement. 34

1           24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall 1  
2           be construed as a waiver by any party hereto of the right to assert any legal 2  
3           or constitutional right or defense as to the validity or invalidity of any law 3  
4           of the State wherein said unitized lands are located, or of the United States, 4  
5           or regulations issued thereunder in any way affecting such party, or as a 5  
6           waiver by any such party of any right beyond his or its authority to waive. 6  
7           25. UNAVOIDABLE DELAY. All obligations under this agreement requiring 7  
8           the Unit Operator to commence or continue drilling or to operate on or produce 8  
9           unitized substances from any of the lands covered by this agreement shall be 9  
10          suspended while, but only so long as, the Unit Operator despite the exercise 10  
11          of due care and diligence is prevented from complying with such obligations, in 11  
12          whole or in part, by strikes, acts of God, Federal, State, or municipal law 12  
13          or agencies, unavoidable accidents, uncontrollable delays in transportation, 13  
14          inability to obtain necessary materials in open market, or other matters be- 14  
15          yond the reasonable control of the Unit Operator whether similar to matters 15  
16          herein enumerated or not. 16  
17          26. NONDISCRIMINATION. In connection with the performance of work under 17  
18          this agreement, the operator agrees to comply with all of the provisions of 18  
19          Section 301(1) to (7), inclusive, of Executive Order 10925 <sup>as amended (28 F.R. 6485)</sup> ~~(26 F.R. 1977)~~, 19  
20          which are hereby incorporated by reference in this agreement. 20  
21          27. LOSS OF TITLE. In the event title to any tract of unitized land shall 21  
22          fail and the true owner cannot be induced to join in this unit agreement, such 22  
23          tract shall be automatically regarded as not committed hereto and there shall 23  
24          be such readjustment of future costs and benefits as may be required on ac- 24  
25          count of the loss of such title. In the event of a dispute as to title as 25  
26          to any royalty, working interest, or other interests subject thereto, payment 26  
27          or delivery on account thereof may be withheld without liability for interest 27  
28          until the dispute is finally settled; provided, that, as to Federal and State 28  
29          land or leases, no payments of funds due the United States or the State of 29  
30          New Mexico should be withheld, but such funds shall be deposited as directed 30  
31          by the Supervisor and the Commissioner, respectively, to be held as unearned 31  
32          money pending final settlement of the title dispute, and then applied as 32  
33          earned or returned in accordance with such final settlement. 33  
34          Unit Operator as such is relieved from any responsibility for any de- 34  
35          fect or failure of any title hereunder. 35

1           28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial 1  
2 interest in a tract within the unit area fails or refuses to subscribe or con- 2  
3 sent to this agreement, the owner of the working interest in that tract may 3  
4 withdraw said tract from this agreement by written notice to the Director, the 4  
5 Commissioner and the Unit Operator prior to the approval of this agreement by 5  
6 the Director and the Commissioner. Any oil or gas interests in lands within 6  
7 the unit area not committed hereto prior to submission of this agreement for 7  
8 final approval may thereafter be committed hereto by the owner or owners there- 8  
9 of subscribing or consenting to this agreement, and, if the interest is a work- 9  
10 ing interest, by the owner of such interest also subscribing to the unit operat- 10  
11 ing agreement. After operations are commenced hereunder, the right of subse- 11  
12 quent joinder, as provided in this section, by a working interest owner is sub- 12  
13 ject to such requirements or approvals, if any, pertaining to such joinder, as 13  
14 may be provided for in the unit operating agreement. After final approval 14  
15 hereof joinder by a nonworking interest owner must be consented to in writing 15  
16 by the working interest owner committed hereto and responsible for the payment 16  
17 of any benefits that may accrue hereunder in behalf of such non-working interest. 17  
18 Joinder by any owner of a non-working interest, at any time, must be accompanied 18  
19 by appropriate joinder by the owner of the corresponding working interest in 19  
20 order for the interest to be regarded as committed hereto. Joinder to the unit 20  
21 agreement by a working-interest owner, at any time, must be accompanied by ap- 21  
22 propriate joinder to the unit operating agreement, if more than one committed 22  
23 working-interest owner is involved, in order for the interest to be regarded 23  
24 as committed to this unit agreement. Except as may otherwise herein be pro- 24  
25 vided subsequent joinders to this agreement shall be effective as of the first 25  
26 day of the month following the filing with the Supervisor and the Commissioner 26  
27 of duly executed counterparts of all or any papers necessary to establish ef- 27  
28 fective commitment of any tract to this agreement unless objection to such 28  
29 joinder is duly made within 60 days by the Director or the Commissioner, *provided* 29  
30 *that as to state lands, subsequent joinder be approved by the Commissioner.*  
31           29. COUNTERPARTS. This agreement may be executed in any number of 30  
32 counterparts no one of which needs to be executed by all parties or may be 31  
33 ratified or consented to by separate instrument in writing specifically re- 32  
34 ferring hereto and shall be binding upon all those parties who have executed 33  
35 such a counterpart, ratification, or consent hereto with the same force and 34  
effect as if all such parties had signed the same document and regardless of 35

1 whether or not it is executed by all other parties owning or claiming an in- 1  
2 terest in the lands within the above-described unit area. 2

3 30. SURRENDER. Nothing in this agreement shall prohibit the exercise by 3  
4 any working interest owner of the right to surrender vested in such party in 4  
5 any lease, sub-lease, or operating agreement as to all or any part of the lands 5  
6 covered thereby, provided that each party who will or might acquire such work- 6  
7 ing interest by such surrender or by forfeiture as hereafter set forth, is 7  
8 bound by the terms of this agreement. 8

9 If as a result of any such surrender, the working interest rights as to 9  
10 such lands become vested in any party other than the fee owner of the uni- 10  
11 tized substances, said party shall forfeit such rights and no further bene- 11  
12 fits from operation hereunder as to said land shall accrue to such party, 12  
13 unless within ninety (90) days thereafter said party shall execute this agree- 13  
14 ment and the unit operating agreement as to the working interest acquired 14  
15 through such surrender, effective as though such land had remained continuously 15  
16 subject to this agreement and the unit operating agreement. And in the event 16  
17 such agreements are not so executed, the party next in the chain of title shall 17  
18 be and become the owner of such working interest at the end of such ninety (90) 18  
19 day period, with the same force and effect as though such working interest had 19  
20 been surrendered to such party. 20

21 If as the result of any such surrender or forfeiture the working interest 21  
22 rights as to such lands become vested in the fee owner of the unitized sub- 22  
23 stances, such owner may: 23

24 (1) Execute this agreement and the unit operating agreement as a 24  
25 working interest owner, effective as though such land had remained contin- 25  
26 uously subject to this agreement and the unit operating agreement. 26

27 (2) Again lease such lands but only under the condition that the holder 27  
28 of such lease shall within thirty (30) days after such lands are so leased 28  
29 execute this agreement and the unit operating agreement as to each partici- 29  
30 pating area theretofore established hereunder, effective as though such land 30  
31 had remained continuously subject to this agreement and the unit operating 31  
32 agreement. 32

33 (3) Operate or provide for the operation of such land independently of 33  
34 this agreement as to any part thereof or any oil or gas deposits therein not 34

1 then included within a participating area. 1

2 If the fee owner of the unitized substances does not execute this agree- 2

3 ment and the unit operating agreement as a working interest owner or again 3

4 lease such lands as above provided with respect to each existing participa- 4

5 ting area, within six (6) months after any such surrender or forfeiture, such 5

6 fee owner shall be deemed to have waived the right to execute the unit operat- 6

7 ing agreement or lease such lands as to each such participating area, and to 7

8 have agreed, in consideration for the compensation hereinafter provided, that 8

9 operations hereunder as to any such participating area or areas shall not be 9

10 affected by such surrender. 10

11 For any period the working interest in any lands are not expressly com- 11

12 mitted to the unit operating agreement as the result of any such surrender or 12

13 forfeiture, the benefits and obligations of operations accruing to such lands 13

14 under this agreement and the unit operating agreement shall be shared by the 14

15 remaining owners of unitized working interests in accordance with their respec- 15

16 tive participating working interest ownerships in any such participating area or 16

17 areas, and such owners of working interests shall compensate the fee owner of 17

18 unitized substances in such lands by paying sums equal to the rentals, minimum 18

19 royalties, and royalties applicable to such lands under the lease in effect 19

20 when the lands were unitized, as to such participating area or areas. 20

21 Upon commitment of a working interest to this agreement and the unit op- 21

22 erating agreement as provided in this section, an appropriate accounting and 22

23 settlement shall be made, to reflect the retroactive effect of the commit- 23

24 ment, for all benefits accruing to or payments and expenditures made or in- 24

25 curred on behalf of such surrendered working interest during the period be- 25

26 tween the date of surrender and the date of recommitment, and payment of any 26

27 moneys found to be owing by such an accounting shall be made as between the 27

28 parties then signatory to the unit operating agreement and this agreement 28

29 within thirty (30) days after the recommitment. The right to become a par- 29

30 ty to this agreement and the unit operating agreement as a working interest 30

31 owner by reason of a surrender or forfeiture as provided in this section 31

32 shall not be defeated by the nonexistence of a unit operating agreement and 32

33 in the event no unit operating agreement is in existence and a mutually ac- 33

34 ceptable agreement between the proper parties thereto cannot be consummated, 34

1 the Supervisor and the Commissioner may prescribe such reasonable and equitable 1  
2 agreement as they deem warranted under the circumstances. 2

3 Nothing in this section shall be deemed to limit the right of joinder or 3  
4 subsequent joinder to this agreement as provided elsewhere in this agreement. 4  
5 The exercise of any right vested in a working interest owner to reassign such 5  
6 working interest to the party from whom obtained shall be subject to the same 6  
7 conditions as set forth in this section in regard to the exercise of a right 7  
8 to surrender. 8

9 31. TAXES. The working interest owners shall render and pay for their 9  
10 account and the account of the royalty owners all valid taxes on or measured 10  
11 by the unitized substances in and under or that may be produced, gathered and 11  
12 sold from the land subject to this contract after the effective date of this 12  
13 agreement, or upon the proceeds or net proceeds derived therefrom. The work- 13  
14 ing interest owners on each tract shall and may charge the proper proportion 14  
15 of said taxes to the royalty owners having interests in said tract, and may 15  
16 currently retain and deduct sufficient of the unitized substances or deriva- 16  
17 tive products, or net proceeds thereof from the allocated share of each royal- 17  
18 ty owner to secure reimbursement for the taxes so paid. No such taxes shall 18  
19 be charged to the United States or to any lessor who has a contract with his 19  
20 lessee which requires the lessee to pay such taxes. 20

21 32. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the working 21  
22 interest owners nor any of them shall be subject to any forfeiture, termina- 22  
23 tion, or expiration of any rights hereunder or under any leases or contracts 23  
24 subject hereto, or to any penalty or liability for delay or failure in whole 24  
25 or in part to comply therewith to the extent that the said Unit Operator, 25  
26 working interest owners or any of them are hindered, delayed, or prevented 26  
27 from complying therewith by reason of failure of the Unit Operator to obtain 27  
28 with the exercise of due diligence the concurrence of the representatives of 28  
29 the United States and the representatives of the State of New Mexico in and 29  
30 about any matters or thing concerning which it is required herein that such 30  
31 concurrence be obtained. The parties hereto, including the Commission, agree 31  
32 that all powers and authority vested in the Commission in and by any provi- 32  
33 sions of this contract are vested in the Commission and shall be exercised by 33  
34 it pursuant to the provisions of the laws of the State of New Mexico and 34



1 subject in any case to appeal or judicial review as may now or hereafter be 1  
2 provided by the laws of the State of New Mexico. 2

3 33. NO PARTNERSHIP. It is expressly agreed that the relation of the par- 3  
4 ties hereto is that of independent contractors and nothing in this agreement 4  
5 contained, expressed or implied, nor any operations conducted hereunder, shall 5  
6 create or be deemed to have created a partnership or association between the 6  
7 parties hereto or any of them. 7

8 IN WITNESS WHEREOF, the parties hereto have caused this agreement to be 8  
9 executed and have set opposite their respective names the date of execution. 9

UNIT OPERATOR

PAN AMERICAN PETROLEUM CORPORATION

ATTEST:

Assistant Secretary

By \_\_\_\_\_  
Attorney in Fact

DATE: \_\_\_\_\_

P. O. Box 1410  
Oil and Gas Building  
Fort Worth, Texas

WORKING INTEREST OWNERS

CALIFORNIA OIL COMPANY

ATTEST:

DATE: \_\_\_\_\_

Secretary

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

Address: \_\_\_\_\_

LEONARD OIL COMPANY

ATTEST:

DATE: \_\_\_\_\_

Secretary

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

Address: \_\_\_\_\_

GULF OIL CORPORATION

ATTEST:

DATE: \_\_\_\_\_

Secretary

By \_\_\_\_\_  
Attorney in Fact

Address: \_\_\_\_\_

UNION OIL COMPANY OF CALIFORNIA

**Secretary**

**Address:**

**THE ATLANTIC REFINING COMPANY**

**Secretary**

**Address:**

**THOMAS CONNELL**

THE STATE OF TEXAS :

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_, as Attorney in Fact on behalf of PAN AMERICAN PETROLEUM CORPORATION.

Notary Public in and for  
Tarrant County, Texas

THE STATE OF :

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

Notary Public in and for  
County, \_\_\_\_\_

THE STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ :

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

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

\_\_\_\_\_  
Notary Public in and for  
County, \_\_\_\_\_

THE STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ :

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_, as Attorney in Fact on behalf of GULF OIL CORPORATION.

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

\_\_\_\_\_  
Notary Public in and for  
County, \_\_\_\_\_

THE STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ :

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

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

\_\_\_\_\_  
Notary Public in and for  
County, \_\_\_\_\_

THE STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ :

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_, President of THE ATLANTIC REFINING COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

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

\_\_\_\_\_  
Notary Public in and for  
County, \_\_\_\_\_

THE STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ :

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

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

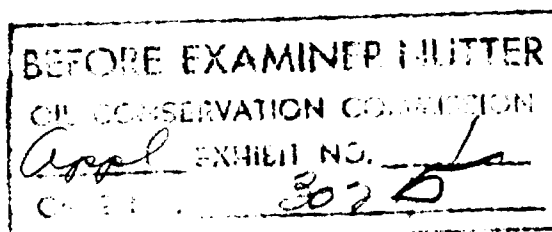
\_\_\_\_\_  
Notary Public in and for  
\_\_\_\_\_ County, \_\_\_\_\_

UNIT AGREEMENT FOR THE DEVELOPMENT  
AND OPERATION OF THE LONG DRAW UNIT AREA  
COUNTY OF EDDY, STATE OF NEW MEXICO

INDEX

*See Ex A  
in book*

<u>Section</u>	<u>Title</u>	<u>Page</u>
	Preliminary Recitals	1
1	ENABLING ACT AND REGULATIONS	2
2	UNIT AREA	2
3	UNITIZED LAND AND UNITIZED SUBSTANCES	5
4	UNIT OPERATOR	5
5	RESIGNATION OR REMOVAL OF UNIT OPERATOR	5
6	SUCCESSOR UNIT OPERATOR	6
7	ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT	7
8	RIGHTS AND OBLIGATIONS OF UNIT OPERATOR	7
9	DRILLING TO DISCOVERY	8
10	PLAN OF FURTHER DEVELOPMENT AND OPERATION	9
11	PARTICIPATION AFTER DISCOVERY	10
12	ALLOCATION OF PRODUCTION	12
13	DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS	12
14	ROYALTY SETTLEMENT	13
15	RENTAL SETTLEMENT	14
16	CONSERVATION	15
17	DRAINAGE	15
18	LEASES AND CONTRACTS CONFORMED AND EXTENDED	15
19	COVENANTS RUN WITH LAND	17
20	EFFECTIVE DATE AND TERM	18
21	RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION	18
22	APPEARANCES	19
23	NOTICES	19
24	NO WAIVER OF CERTAIN RIGHTS	20
25	UNAVOIDABLE DELAY	20
26	NONDISCRIMINATION	20
27	LOSS OF TITLE	20
28	NON-JOINDER AND SUBSEQUENT JOINDER	21
29	COUNTERPARTS	21
30	SURRENDER	22
31	TAXES	24
32	CONFLICT OF SUPERVISION	24
33	NO PARTNERSHIP	25
	Exhibit "A" (Map)	
	Exhibit "B" (Description of interests subject to agreement)	



1 UNIT AGREEMENT 1  
2 FOR THE DEVELOPMENT AND OPERATION 2  
3 OF THE 3  
4 LONG DRAW UNIT AREA 4  
5 COUNTY OF EDDY 5  
6 STATE OF NEW MEXICO 6  
7 NO. \_\_\_\_\_ 7

8 THIS AGREEMENT, entered into as of the 6th day of April, 1964, 8  
9 by and between the parties subscribing, ratifying, or consenting hereto, and 9  
10 herein referred to as the "parties hereto", 10

11 WITNESSETH: 11

12 WHEREAS, the parties hereto are the owners of working, royalty, or other 12  
13 oil and gas interests in the unit area subject to this agreement; and 13

14 WHEREAS, the term "Working Interest" as used herein shall mean the in- 14  
15 terest held in unitized substances or in lands containing unitized sub- 15  
16 stances by virtue of a lease, operating agreement, fee title, or otherwise, 16  
17 which is chargeable with and obligated to pay or bear all or a portion of 17  
18 the cost of drilling, developing, producing, and operating the land under 18  
19 the unit or cooperative agreement. The right delegated to Unit Operator as 19  
20 such by this agreement is not to be regarded as a working interest; and 20

21 WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as 21  
22 amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their 22  
23 representatives to unite with each other, or jointly or separately with 23  
24 others, in collectively adopting and operating a cooperative or unit plan of 24  
25 development or operation of any oil or gas pool, field, or like area, or any 25  
26 part thereof for the purpose of more properly conserving the natural re- 26  
27 sources thereof whenever determined and certified by the Secretary of the 27  
28 Interior to be necessary or advisable in the public interest; and 28

29 WHEREAS, the Commissioner of Public Lands of the State of New Mexico 29  
30 is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951, 30  
31 and Secs. 1 and 2, Chap. 176, Laws of 1961, See Chap. 7, Article 11, Secs. 31  
32 39, 40 and 41 New Mexico Statutes 1953, Annotated) to consent to or approve 32  
33 this agreement on behalf of the State of New Mexico, insofar as it covers and 33  
34 includes lands and mineral interests of the State of New Mexico; and 34

1           WHEREAS, the Oil Conservation Commission of the State of New Mexico is 1  
2           authorized by Act of 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 Long Draw Unit 4  
5           Area covering the land hereinafter described to give reasonably effective con- 5  
6           trol of operations therein; and 6  
7           WHEREAS, it is the purpose of the parties hereto to conserve natural re- 7  
8           sources, prevent waste, and secure other benefits obtainable through develop- 8  
9           ment and operation of the area subject to this agreement under the terms, con- 9  
10          ditions, and limitations herein set forth; 10  
11          NOW, THEREFORE, in consideration of the premises and the promises herein 11  
12          contained, the parties hereto commit to this agreement their respective in- 12  
13          terests in the below-defined unit area, and agree severally among themselves 13  
14          as follows: 14  
15          1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 15  
16          1920, as amended, supra, and all valid pertinent regulations, including opera- 16  
17          ting and unit plan regulations, heretofore issued thereunder or valid, perti- 17  
18          nent, and reasonable regulations hereafter issued thereunder are accepted and 18  
19          made a part of this agreement as to Federal lands, provided such regulations 19  
20          are not inconsistent with the terms of this agreement; and as to non-Federal 20  
21          lands, the oil and gas operating regulations in effect as of the effective date 21  
22          hereof governing drilling and producing operations, not inconsistent with the 22  
23          terms hereof or the laws of the State in which the non-Federal land is located, 23  
24          are hereby accepted and made a part of this agreement. 24  
25          2. UNIT AREA. The area specified on the map attached hereto marked Ex- 25  
26          hibit A is hereby designated and recognized as constituting the unit area, con- 26  
27          taining 3514.52 acres, more or less. 27  
28          Exhibit A shows, in addition to the boundary of the unit area, the boun- 28  
29          daries and identity of tracts and leases in said area to the extent known to 29  
30          the Unit Operator. Exhibit B attached hereto is a schedule showing to the 30  
31          extent known to the Unit Operator the acreage, percentage, and kind of owner- 31  
32          ship of oil and gas interests in all land in the unit area. However, nothing 32  
33          herein or in said schedule or map shall be construed as a representation by 33  
34          any party hereto as to the ownership of any interest other than such interest 34

1 or interests as are shown in said map or schedule as owned by such party. Ex- 1  
2 hibits A and B shall be revised by the Unit Operator whenever changes in the 2  
3 unit area render such revision necessary, or when requested by the Oil and Gas 3  
4 Supervisor, hereinafter referred to as "Supervisor" and not less than six 4  
5 copies of the revised exhibits shall be filed with the Supervisor, and two 5  
6 copies each with the Commissioner of Public Lands of the State of New Mexico, 6  
7 hereinafter referred to as the "Commissioner", and the Oil Conservation Commis- 7  
8 sion, hereinafter referred to as "Commission". 8

9 The above-described unit area shall when practicable be expanded to in- 9  
10 clude therein any additional tract or tracts regarded as reasonably necessary 10  
11 or advisable for the purposes of this agreement, or shall be contracted to ex- 11  
12 clude lands not within any participating area whenever such expansion or con- 12  
13 traction is necessary or advisable to conform with the purposes of this agree- 13  
14 ment. Such expansion or contraction shall be effected in the following manner: 14

15 (a) Unit Operator, on its own motion or on demand of the Director of the 15  
16 Geological Survey, hereinafter referred to as "Director", or on demand of the 16  
17 Commissioner after preliminary concurrence by the Director, shall prepare a 17  
18 notice of proposed expansion or contraction describing the contemplated changes 18  
19 in the boundaries of the unit area, the reasons therefor, and the proposed ef- 19  
20 fective date thereof, preferably the first day of a month subsequent to the 20  
21 date of notice. 21

22 (b) Said notice shall be delivered to the Supervisor and the Commissioner 22  
23 and copies thereof mailed to the last known address of each working interest 23  
24 owner, lessee, and lessor whose interests are affected, advising that 30 days 24  
25 will be allowed for submission to the Unit Operator of any objections. 25

26 (c) Upon expiration of the 30-day period provided in the preceding item 26  
27 (b) hereof, Unit Operator shall file with the Supervisor and the Commissioner 27  
28 evidence of mailing of the notice of expansion or contraction and a copy of 28  
29 any objections thereto which have been filed with the Unit Operator, together 29  
30 with an application in sufficient number, for approval of such expansion or 30  
31 contraction and with appropriate joinders. 31

32 (d) After due consideration of all pertinent information, the expansion 32  
33 or contraction shall, upon approval by the Director and the Commissioner, be- 33  
34 come effective as of the date prescribed in the notice thereof. 34



1 (e) All legal subdivisions of unitized lands (i.e., 40 acres by Govern- 1  
2 ment survey or its nearest lot or tract equivalent in instances of irregular 2  
3 surveys, however, unusually large lots or tracts shall be considered in mul- 3  
4 tiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose 4  
5 of elimination under this subsection), no parts of which are entitled to be in 5  
6 a participating area within 5 years after the first day of the month following 6  
7 the effective date of the first initial participating area established under 7  
8 this unit agreement, shall be eliminated automatically from this agreement, ef- 8  
9 fective as of the first day thereafter, and such lands shall no longer be a part 9  
10 of the unit area and shall no longer be subject to this agreement, unless at 10  
11 the expiration of said 5-year period diligent drilling operations are in pro- 11  
12 gress on unitized lands not entitled to participation, in which event all such 12  
13 lands shall remain subject hereto for so long as such drilling operations are 13  
14 continued diligently, with not more than 90 days' time elapsing between the com- 14  
15 pletion of one such well and the commencement of the next such well, except 15  
16 that the time allowed between such wells shall not expire earlier than 30 days 16  
17 after the expiration of any period of time during which drilling operations are 17  
18 prevented by a matter beyond the reasonable control of unit operator as set 18  
19 forth in the section hereof entitled "Unavoidable Delay"; provided that all 19  
20 legal subdivisions of lands not in a participating area and not entitled to be- 20  
21 come participating under the applicable provisions of this agreement within 21  
22 10 years after said first day of the month following the effective date of said 22  
23 first initial participating area shall be eliminated as above specified. De- 23  
24 termination of creditable "Unavoidable Delay" time shall be made by unit op- 24  
25 erator and subject to approval of the Director and the Commissioner. The unit 25  
26 operator shall, within 90 days after the effective date of any elimination 26  
27 hereunder, describe the area so eliminated to the satisfaction of the Director 27  
28 and the Commissioner and promptly notify all parties in interest. 28

29 If conditions warrant extension of the 10-year period specified in this 29  
30 subsection 2(e), a single extension of not to exceed 2 years may be accomplished 30  
31 by consent of the owners of 90% of the current unitized working interests and 31  
32 60% of the current unitized basic royalty interests (exclusive of the basic 32  
33 royalty interests of the United States), on a total-nonparticipating-acreage 33  
34 basis, respectively, with approval of the Director and the Commissioner, pro- 34  
35 vided such extension application is submitted to the Director and the 35

1 Commissioner not later than 60 days prior to the expiration of said 10-year 1  
2 period. 2

3 Any expansion of the unit area pursuant to this section which embraces 3  
4 lands theretofore eliminated pursuant to this subsection 2(e) shall not be 4  
5 considered automatic commitment or recommitment of such lands. 5

6 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this 6  
7 agreement shall constitute land referred to herein as "unitized land" or "land 7  
8 subject to this agreement". All oil and gas in any and all formations of the 8  
9 unitized land are unitized under the terms of this agreement and herein are 9  
10 called "unitized substances". 10

11 4. UNIT OPERATOR. Pan American Petroleum Corporation is hereby designated 11  
12 as Unit Operator and by execution hereof as Unit Operator agrees and consents to 12  
13 accept the duties and obligations of Unit Operator for the discovery, develop- 13  
14 ment, and production of unitized substances as herein provided. Whenever refer- 14  
15 ence is made herein to the Unit Operator, such reference means the Unit Operator 15  
16 acting in that capacity and not as an owner of interest in unitized substances, 16  
17 and the term "working interest owner" when used herein shall include or refer 17  
18 to Unit Operator as the owner of a working interest when such an interest is 18  
19 owned by it. 19

20 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the 20  
21 right to resign at any time prior to the establishment of a participating area 21  
22 or areas hereunder, but such resignation shall not become effective so as to re- 22  
23 lease Unit Operator from the duties and obligations of Unit Operator and ter- 23  
24minate Unit Operator's rights as such for a period of 6 months after notice of 24  
25 intention to resign has been served by Unit Operator on all working interest 25  
26 owners, the Director and the Commissioner, and until all wells then drilled 26  
27 hereunder are placed in a satisfactory condition for suspension or abandonment, 27  
28 whichever is required by the Supervisor, unless a new Unit Operator shall have 28  
29 been selected and approved and shall have taken over and assumed the duties 29  
30 and obligations of Unit Operator prior to the expiration of said period. 30

31 Unit Operator shall have the right to resign in like manner and subject to 31  
32 like limitations as above provided at any time a participating area established 32  
33 hereunder is in existence, but, in all instances of resignation or removal, un- 33  
34 til a successor unit operator is selected and approved as hereinafter provided, 34  
35 the working interest owners shall be jointly responsible for performance of the 35

1 duties of unit operator, and shall not later than 30 days before such resigna- 1  
2 tion or removal becomes effective appoint a common agent to represent them in 2  
3 any action to be taken hereunder. 3

4 The resignation of Unit Operator shall not release Unit Operator from any 4  
5 liability for any default by it hereunder occurring prior to the effective date 5  
6 of its resignation. 6

7 The Unit Operator may, upon default or failure in the performance of its 7  
8 duties or obligations hereunder, be subject to removal by the same percentage 8  
9 vote of the owners of working interests determined in like manner as herein pro- 9  
10 vided for the selection of a new Unit Operator. Such removal shall be effective 10  
11 upon notice thereof to the Director and the Commissioner. 11

12 The resignation or removal of Unit Operator under this agreement shall not 12  
13 terminate its right, title, or interest as the owner of a working interest or 13  
14 other interest in unitized substances, but upon the resignation or removal of 14  
15 Unit Operator becoming effective, such Unit Operator shall deliver possession of 15  
16 all equipment, materials, and appurtenances used in conducting the unit opera- 16  
17 tions and owned by the working interest owners to the new duly qualified succes- 17  
18 sor Unit Operator or to the owners thereof if no such new Unit Operator is 18  
19 elected, to be used for the purpose of conducting unit operations hereunder. 19  
20 Nothing herein shall be construed as authorizing removal of any material, equip- 20  
21 ment and appurtenances needed for the preservation of any wells. 21

22 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his 22  
23 or its resignation as Unit Operator or shall be removed as hereinabove pro- 23  
24 vided, or a change of Unit Operator is negotiated by working interest owners, 24  
25 the owners of the working interests in the participating area or areas accord- 25  
26 ing to their respective acreage interests in such participating area or areas, 26  
27 or, until a participating area shall have been established, the owners of the 27  
28 working interests according to their respective acreage interests in all uni- 28  
29 tized land, shall by majority vote select a successor Unit Operator: Provided, 29  
30 that, if a majority but less than 75 per cent of the working interests quali- 30  
31 fied to vote are owned by one party to this agreement, a concurring vote of 31  
32 one or more additional working interest owners shall be required to select a 32  
33 new operator. Such selection shall not become effective until 33

34 (a) a Unit Operator so selected shall accept in writing the duties and 34  
25 responsibilities of Unit Operator, and 35

1 (b) the selection shall have been filed with the Supervisor and approved 1  
2 by the Commissioner. If no successor Unit Operator is selected and qualified 2  
3 as herein provided, the Director at his election may declare this unit agree- 3  
4 ment terminated. 4

5 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit 5  
6 Operator is not the sole owner of working interests, costs and expenses in- 6  
7 curred by Unit Operator in conducting unit operations hereunder shall be paid 7  
8 and apportioned among and borne by the owners of working interests, all in ac- 8  
9 cordance with the agreement or agreements entered into by and between the Unit 9  
10 Operator and the owners of working interests, whether one or more, separately 10  
11 or collectively. Any agreement or agreements entered into between the working 11  
12 interest owners and the Unit Operator as provided in this section, whether one 12  
13 or more, are herein referred to as the "unit operating agreement". Such unit 13  
14 operating agreement shall also provide the manner in which the working interest 14  
15 owners shall be entitled to receive their respective proportionate and allocated 15  
16 share of the benefits accruing hereto in conformity with their underlying operat- 16  
17 ing agreements, leases, or other independent contracts, and such other rights 17  
18 and obligations as between Unit Operator and the working interest owners as may 18  
19 be agreed upon by Unit Operator and the working interest owners; however, no such 19  
20 unit operating agreement shall be deemed either to modify any of the terms and 20  
21 conditions of this unit agreement or to relieve the Unit Operator of any right 21  
22 or obligation established under this unit agreement, and in case of any in- 22  
23 consistency or conflict between the unit agreement and the unit operating agree- 23  
24 ment, this unit agreement shall prevail. Three true copies of any unit operat- 24  
25 ing agreement executed pursuant to this section should be filed with the Super- 25  
26 visor and two true copies with the Commissioner, prior to approval of this unit 26  
27 agreement. 27

28 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise speci- 28  
29 fically provided herein, the exclusive right, privilege, and duty of exercis- 29  
30 ing any and all rights of the parties hereto which are necessary or conven- 30  
31 ient for prospecting for, producing, storing, allocating, and distributing the 31  
32 unitized substances are hereby delegated to and shall be exercised by the Unit 32  
33 Operator as herein provided. Acceptable evidence of title to said rights shall 33  
34 be deposited with said Unit Operator and, together with this agreement, shall 34  
35 constitute and define the rights, privileges, and obligations of Unit Operator. 35

1 Nothing herein, however, shall be construed to transfer title to any land or to 1  
2 any lease or operating agreement, it being understood that under this agreement 2  
3 the Unit Operator, in its capacity as Unit Operator, shall exercise the rights 3  
4 of possession and use vested in the parties hereto only for the purposes here- 4  
5 in specified. 5

6 9. DRILLING TO DISCOVERY. Within 6 months after the effective date here- 6  
7 of, the Unit Operator shall begin to drill an adequate test well at a location 7  
8 approved by the Supervisor if such location is upon lands of the United States, 8  
9 and if upon State or patented lands, such location shall be approved by the 9  
10 Commission and the Commissioner, unless on such effective date a well is being 10  
11 drilled conformably with the terms hereof, and thereafter continue such drill- 11  
12 ing diligently until all formations of Pennsylvanian age have been tested or un- 12  
13 til at a lesser depth unitized substances shall be discovered which can be pro- 13  
14 duced in paying quantities (to wit: quantities sufficient to repay the costs of 14  
15 drilling, and producing operations, with a reasonable profit) or the Unit Opera- 15  
16 tor shall at any time establish to the satisfaction of the Supervisor as to wells 16  
17 on Federal lands, or to the Commission and the Commissioner as to wells on State 17  
18 or patented lands, that further drilling of said well would be unwarranted 18  
19 or impracticable, provided, however, that Unit Operator shall not in any 19  
20 event be required to drill said well to a depth in excess of 9,300 feet. Un- 20  
21 til the discovery of a deposit of unitized substances capable of being produced 21  
22 in paying quantities, the Unit Operator shall continue drilling diligently one 22  
23 well at a time, allowing not more than 6 months between the completion of one 23  
24 well and the beginning of the next well, at locations approved by the Super- 24  
25 visor if such locations are on lands of the United States, and if upon State 25  
26 or patented lands at locations approved by the Commission and the Commissioner, 26  
27 until a well capable of producing unitized substances in paying quantities is 27  
28 completed to the satisfaction of said Supervisor and Commissioner or until 28  
29 it is reasonably proved that the unitized land is incapable of producing uni- 29  
30 tized substances in paying quantities in the formations drilled hereunder. 30  
31 Nothing in this section shall be deemed to limit the right of the Unit Opera- 31  
32 tor to resign as provided in Section 5 hereof, or as requiring Unit Operator to 32  
33 commence or continue any drilling during the period pending such resignation 33  
34 becoming effective in order to comply with the requirements of this section. 34  
35 The Director and the Commissioner may modify the drilling requirements of this 35

1 section by granting reasonable extensions of time when, in their opinion, such 1  
2 action is warranted. 2

3 Upon failure to comply with the drilling provisions of this section, the 3  
4 Director and the Commissioner may, after reasonable notice to the Unit Operator, 4  
5 and each working interest owner, lessee, and lessor at their last known address, 5  
6 declare this Unit Agreement terminated. 6

7 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after com- 7  
8 pletion of a well capable of producing unitized substances in paying quantities, 8  
9 the Unit Operator shall submit for the approval of the Supervisor, the Commis- 9  
10 sioner and the Commission an acceptable plan of development and operation for 10  
11 the unitized land which, when approved by the Supervisor, the Commissioner and 11  
12 the Commission, shall constitute the further drilling and operating obligations 12  
13 of the Unit Operator under this agreement for the period specified therein. 13  
14 Thereafter, from time to time before the expiration of any existing plan, the 14  
15 Unit Operator shall submit for the approval of the Supervisor, the Commissioner 15  
16 and the Commission a plan for an additional specified period for the development 16  
17 and operation of the unitized land. 17

18 Any plan submitted pursuant to this section shall provide for the explora- 18  
19 tion of the unitized area and for the diligent drilling necessary for deter- 19  
20 mination of the area or areas thereof capable of producing unitized substances 20  
21 in paying quantities in each and every productive formation and shall be as com- 21  
22 plete and adequate as the Supervisor, the Commissioner and the Commission may 22  
23 determine to be necessary for timely development and proper conservation of the 23  
24 oil and gas resources of the unitized area and shall 24

25 (a) specify the number and locations of any wells to be drilled and the 25  
26 proposed order and time for such drilling; and 26

27 (b) to the extent practicable specify the operating practices regarded 27  
28 as necessary and advisable for proper conservation of natural resources. 28

29 Separate plans may be submitted for separate productive zones, subject to the 29  
30 approval of the Supervisor, the Commissioner and the Commission. 30

31 Plans shall be modified or supplemented when necessary to meet changed 31  
32 conditions or to protect the interests of all parties to this agreement. 32  
33 Reasonable diligence shall be exercised in complying with the obligations of 33  
34 the approved plan of development. The Supervisor and the Commissioner are 34

1 authorized to grant a reasonable extension of the 6-month period herein pre- 1  
2 scribed for submission of an initial plan of development where such action is 2  
3 justified because of unusual conditions or circumstances. After completion 3  
4 hereunder of a well capable of producing any unitized substance in paying quan- 4  
5 tities, no further wells, except such as may be necessary to afford protection 5  
6 against operations not under this agreement or such as may be specifically ap- 6  
7 proved by the Supervisor and the Commissioner, shall be drilled except in ac- 7  
8 cordance with a plan of development approved as herein provided. 8

9 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of 9  
10 producing unitized substances in paying quantities or as soon thereafter as re- 10  
11 quired by the Supervisor and the Commissioner, the Unit Operator shall submit 11  
12 for approval by the Director, the Commissioner and the Commission, a schedule 12  
13 based on subdivisions of the public-land survey or aliquot parts thereof, of 13  
14 all unitized land then regarded as reasonably proved to be productive of uni- 14  
15 tized substances in paying quantities; all lands in said schedule on approval 15  
16 of the Director, the Commissioner and the Commission to constitute a partici- 16  
17 pating area, effective as of the date of completion of such well or the effec- 17  
18 tive date of the unit agreement, whichever is later. The acreages of both 18  
19 Federal and non-Federal lands shall be based upon appropriate computations from 19  
20 the courses and distances shown on the last approved public-land survey as of 20  
21 the effective date of the initial participating area. Said schedule also shall 21  
22 set forth the percentage of unitized substances to be allocated as herein pro- 22  
23 vided to each unitized tract in the participating area so established, and 23  
24 shall govern the allocation of production from and after the date the parti- 24  
25 cipating area becomes effective. A separate participating area shall be es- 25  
26 tablished in like manner for each separate pool or deposit of unitized sub- 26  
27 stances or for any group thereof produced as a single pool or zone, and any 27  
28 two or more participating areas so established may be combined into one with 28  
29 the consent of the owners of all working interests in the lands within the 29  
30 participating areas so to be combined, on approval of the Director, the Com- 30  
31 missioner and the Commission. The participating area or areas so established 31  
32 shall be revised from time to time, subject to like approval, whenever such 32  
33 action appears proper as a result of further drilling operations or otherwise 33  
34 to include additional land then regarded as reasonably proved to be produc- 34  
35 tive in paying quantities, or to exclude land then regarded as reasonably 35

1 proved not to be productive in paying quantities and the percentage of alloca- 1  
2 tion shall also be revised accordingly. The effective date of any revision 2  
3 shall be the first of the month in which is obtained the knowledge or informa- 3  
4 tion on which such revision is predicated, provided, however, that a more ap- 4  
5 propriate effective date may be used if justified by the Unit Operator and ap- 5  
6 proved by the Director and the Commissioner and the Commission. No land shall 6  
7 be excluded from a participating area on account of depletion of the unitized 7  
8 substances. 8

9 It is the intent of this section that a participating area shall represent 9  
10 the area known or reasonably estimated to be productive in paying quantities; 10  
11 but, regardless of any revision of the participating area, nothing herein con- 11  
12 tained shall be construed as requiring any retroactive adjustment for produc- 12  
13 tion obtained prior to the effective date of the revision of the participating 13  
14 area. 14

15 In the absence of agreement at any time between the Unit Operator and the 15  
16 Director, the Commissioner and the Commission as to the proper definition or re- 16  
17 definition of a participating area, or until a participating area has, or areas 17  
18 have, been established as provided herein, the portion of all payments affected 18  
19 thereby may be impounded in a manner mutually acceptable to the owners of work- 19  
20 ing interests, except royalties due the United States and the State of New 20  
21 Mexico, which shall be determined by the Supervisor and the Commissioner, re- 21  
22 spectively, and the amount thereof deposited, as directed by the Supervisor and 22  
23 the Commissioner, respectively, to be held as unearned money until a partici- 23  
24 pating area is finally approved and then applied as earned or returned in ac- 24  
25 cordance with a determination of the sum due as Federal and State royalty on 25  
26 the basis of such approved participating area. 26

27 Whenever it is determined, subject to the approval of the Supervisor, as 27  
28 to the wells on Federal lands, the Commissioner as to wells on State lands, 28  
29 and the Commission as to wells on patented lands, that a well drilled under 29  
30 this agreement is not capable of production in paying quantities and inclusion 30  
31 of the land on which it is situated in a participating area is unwarranted, 31  
32 production from such well shall, for the purposes of settlement among all par- 32  
33 ties other than working interest owners, be allocated to the land on which the 33  
34 well is located so long as such land is not within a participating area es- 34  
35 tablished for the pool or deposit from which such production is obtained. 35



1 Settlement for working interest benefits from such a well shall be made as pro- 1  
2 vided in the unit operating agreement. 2

3 12. ALLOCATION OF PRODUCTION. All unitized substances produced from each 3  
4 participating area established under this agreement, except any part thereof 4  
5 used in conformity with good operating practices within the unitized area for 5  
6 drilling, operating, camp and other production or development purposes, for re- 6  
7 pressuring or recycling in accordance with a plan of development approved by 7  
8 the Supervisor, the Commissioner and the Commission, or unavoidably lost, shall 8  
9 be deemed to be produced equally on an acreage basis from the several tracts of 9  
10 unitized land of the participating area established for such production and, for 10  
11 the purpose of determining any benefits accruing under this agreement, each such 11  
12 tract of unitized land shall have allocated to it such percentage of said produc- 12  
13 tion as the number of acres of such tract included in said participating area 13  
14 bears to the total acres of unitized land in said participating area, except that 14  
15 allocation of production hereunder for purposes other than for settlement of the 15  
16 royalty, overriding royalty, or payment out of production obligations of the re- 16  
17 spective working interest owners, shall be on the basis prescribed in the unit 17  
18 operating agreement whether in conformity with the basis of allocation herein 18  
19 set forth or otherwise. It is hereby agreed that production of unitized sub- 19  
20 stances from a participating area shall be allocated as provided herein regard- 20  
21 less of whether any wells are drilled on any particular part or tract of said 21  
22 participating area. If any gas produced from one participating area is used 22  
23 for repressuring or recycling purposes in another participating area, the first 23  
24 gas withdrawn from such last-mentioned participating area for sale during the 24  
25 life of this agreement shall be considered to be the gas so transferred until 25  
26 an amount equal to that transferred shall be so produced for sale and such gas 26  
27 shall be allocated to the participating area from which initially produced as 27  
28 constituted at the time of such final production. 28

29 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. 29  
30 Any party hereto owning or controlling the working interest in any unitized 30  
31 land having thereon a regular well location may with the approval of the 31  
32 Supervisor, the Commissioner or the Commission, at such party's sole risk, 32  
33 costs, and expense, drill a well to test any formation for which a partici- 33  
34 pating area has not been established or to test any formation for which a 34

1 participating area has been established if such location is not within said 1  
2 participating area, unless within 90 days of receipt of notice from said party 2  
3 of his intention to drill the well the Unit Operator elects and commences to 3  
4 drill such a well in like manner as other wells are drilled by the Unit Opera- 4  
5 tor under this agreement. 5

6 If any well drilled as aforesaid by a working interest owner results in 6  
7 production such that the land upon which it is situated may properly be in- 7  
8 cluded in a participating area, such participating area shall be established 8  
9 or enlarged as provided in this agreement and the well shall thereafter be 9  
10 operated by the Unit Operator in accordance with the terms of this agreement 10  
11 and the unit operating agreement. 11

12 If any well drilled as aforesaid by a working interest owner obtains pro- 12  
13 duction in quantities insufficient to justify the inclusion in a participating 13  
14 area of the land upon which such well is situated, such well may be operated 14  
15 and produced by the party drilling the same subject to the conservation re- 15  
16 quirements of this agreement. The royalties in amount or value of production 16  
17 from any such well shall be paid as specified in the underlying lease and agree- 17  
18 ments affected. 18

19 14. ROYALTY SETTLEMENT. The United States and the State of New Mexico and 19  
20 all royalty owners who, under existing contract, are entitled to take in kind 20  
21 a share of the substances now unitized hereunder produced from any tract, shall 21  
22 hereafter be entitled to the right to take in kind their share of the unitized 22  
23 substances allocated to such tract, and Unit Operator, or in case of the opera- 23  
24 tion of a well by a working interest owner as herein in special cases provided 24  
25 for, such working interest owner, shall make deliveries of such royalty share 25  
26 taken in kind in conformity with the applicable contracts, laws, and regula- 26  
27 tions. Settlement for royalty interest not taken in kind shall be made by 27  
28 working interest owners responsible therefor under existing contracts, laws 28  
29 and regulations on or before the last day of each month for unitized sub- 29  
30 stances produced during the preceding calendar month; provided, however, that 30  
31 nothing herein contained shall operate to relieve the lessees of any land 31  
32 from their respective lease obligations for the payment of any royalties due 32  
33 under their leases. 33

34 If gas obtained from lands not subject to this agreement is introduced 34

1 into any participating area hereunder, for use in repressuring, stimulation of 1  
2 production, or increasing ultimate recovery, which shall be in conformity with 2  
3 a plan first approved by the Supervisor and the Commissioner, a like amount of 3  
4 gas, after settlement as herein provided for any gas transferred from any ot- 4  
5 her participating area and with due allowance for loss or depletion from any 5  
6 cause, may be withdrawn from the formation into which the gas was introduced, 6  
7 royalty free as to dry gas, but not as to the products extracted therefrom; pro-7  
8 vided that such withdrawal shall be at such time as may be provided in the plan 8  
9 of operations or as may otherwise be consented to by the Supervisor, the Com- 9  
10 missioner and the Commission as conforming to good petroleum engineering prac- 10  
11 tice; and provided further, that such right of withdrawal shall terminate on 11  
12 the termination of this unit agreement. 12

13 Royalty due the United States shall be computed as provided in the opera- 13  
14 ting regulations and paid in value or delivered in kind as to all unitized sub- 14  
15 stances on the basis of the amounts thereof allocated to unitized Federal land 15  
16 as provided herein at the rates specified in the respective Federal leases, 16  
17 or at such lower rate or rates as may be authorized by law or regulation; pro- 17  
18 vided, that for leases on which the royalty rate depends on the daily average 18  
19 production per well, said average production shall be determined in accordance 19  
20 with the operating regulations as though each participating area were a single 20  
21 consolidated lease. 21

22 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases com- 22  
23 mitted hereto shall be paid by working interest owners responsible therefor 23  
24 under existing contracts, laws, and regulations, provided that nothing herein 24  
25 contained shall operate to relieve the lessees of any land from their respec- 25  
26 tive lease obligations for the payment of any rental or minimum royalty in 26  
27 lieu thereof due under their leases. Rental or minimum royalty for lands of 27  
28 the United States subject to this agreement shall be paid at the rate speci- 28  
29 fied in the respective leases from the United States unless such rental or 29  
30 minimum royalty is waived, suspended, or reduced by law or by approval of the 30  
31 Secretary or his duly authorized representative. Rentals on State of New 31  
32 Mexico lands subject to this agreement shall be paid at the rates specified 32  
33 in the respective leases, or may be reduced and suspended upon the order of 33  
34 the Commissioner of Public Lands of the State of New Mexico pursuant to ap- 34  
35 plicable laws and regulations. 35

1 With respect to any lease on non-Federal land containing provisions which 1  
2 would terminate such lease unless drilling operations were within the time 2  
3 therein specified commenced upon the land covered thereby or rentals paid for 3  
4 the privilege of deferring such drilling operations, the rentals required there- 4  
5 by shall, notwithstanding any other provision of this agreement, be deemed to 5  
6 accrue and become payable during the term thereof as extended by this agreement 6  
7 and until the required drilling operations are commenced upon the land covered 7  
8 thereby or some portion of such land is included within a participating area. 8

9 16. CONSERVATION. Operations hereunder and production of unitized sub- 9  
10 stances shall be conducted to provide for the most economical and efficient 10  
11 recovery of said substances without waste, as defined by or pursuant to State 11  
12 or Federal law or regulation. 12

13 17. DRAINAGE. The Unit Operator shall take appropriate and adequate 13  
14 measures to prevent drainage of unitized substances from unitized land by wells 14  
15 on land not subject to this agreement, or, with prior consent of the Director 15  
16 and the Commissioner, pursuant to applicable regulations pay a fair and reason- 16  
17 able compensatory royalty as determined by the Supervisor and the Commissioner. 17

18 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, 18  
19 and provisions of all leases, subleases, and other contracts relating to ex- 19  
20 ploration, drilling, development, or operation for oil or gas of lands com- 20  
21 mitted to this agreement are hereby expressly modified and amended to the ex- 21  
22 tent necessary to make the same conform to the provisions hereof, but other- 22  
23 wise to remain in full force and effect; and the parties hereto hereby con- 23  
24 sent that the Secretary and the Commissioner, respectively, shall and by their 24  
25 approval hereof, or by the approval hereof by their duly authorized represen- 25  
26 tatives, do hereby establish, alter, change, or revoke the drilling, pro- 26  
27 ducing, rental, minimum royalty, and royalty requirements of Federal and 27  
28 State leases committed hereto and the regulations in respect thereto to con- 28  
29 form said requirements to the provisions of this agreement, and, without 29  
30 limiting the generality of the foregoing, all leases, subleases, and con- 30  
31 tracts are particularly modified in accordance with the following: 31

32 (a) The development and operation of lands subject to this agreement 32  
33 under the terms hereof shall be deemed full performance of all obligations 33

1 for development and operation with respect to each and every part or separately 1  
2 owned tract subject to this agreement, regardless of whether there is any de- 2  
3 velopment of any particular part or tract of the unit area, notwithstanding any- 3  
4 thing to the contrary in any lease, operating agreement or other contract by 4  
5 and between the parties hereto, or their respective predecessors in interest, 5  
6 or any of them. 6

7 (b) Drilling and producing operations performed hereunder upon any tract 7  
8 of unitized lands will be accepted and deemed to be performed upon and for the 8  
9 benefit of each and every tract of unitized land, and no lease shall be deemed 9  
10 to expire by reason of failure to drill or produce wells situated on the land 10  
11 therein embraced. 11

12 (c) Suspension of drilling or producing operations on all unitized lands 12  
13 pursuant to direction or consent of the Secretary and the Commissioner, or their 13  
14 duly authorized representatives, shall be deemed to constitute such suspension 14  
15 pursuant to such direction or consent as to each and every tract of unitized land. 15

16 (d) Each lease, sublease or contract relating to the exploration, drill- 16  
17 ing, development or operation for oil or gas of lands other than those of the 17  
18 United States committed to this agreement, which, by its terms might expire 18  
19 prior to the termination of this agreement, is hereby extended beyond any such 19  
20 term so provided therein so that it shall be continued in full force and effect 20  
21 for and during the term of this agreement. 21

22 (e) Any Federal lease for a fixed term of twenty (20) years or any re- 22  
23 newal thereof or any part of such lease which is made subject to this agree- 23  
24 ment shall continue in force beyond the term provided therein until the ter- 24  
25 mination hereof. Any other Federal lease committed hereto shall continue in 25  
26 force beyond the term so provided therein or by law as to the land committed 26  
27 so long as such lease remains subject hereto, provided that production is had 27  
28 in paying quantities under this unit agreement prior to the expiration date 28  
29 of the term of such lease, or in the event actual drilling operations are 29  
30 commenced on unitized land, in accordance with the provisions of this agree- 30  
31 ment, prior to the end of the primary term of such lease and are being dili- 31  
32 gently prosecuted at that time, such lease shall be extended for two years and 32

1 so long thereafter as oil or gas is produced in paying quantities in accordance 1  
2 with the provisions of the Mineral Leasing Act Revision of 1960. 2

3 (f) Each sublease or contract relating to the operation and development 3  
4 of unitized substances from lands of the United States committed to this agree- 4  
5 ment, which by its terms would expire prior to the time at which the underlying 5  
6 lease, as extended by the immediately preceding paragraph, will expire, is here- 6  
7 by extended beyond any such term so provided therein so that it shall be con- 7  
8 tinued in full force and effect for and during the term of the underlying lease 8  
9 as such term is herein extended. 9

10 (g) The segregation of any Federal lease committed to this agreement is 10  
11 governed by the following provision in the fourth paragraph of Sec. 17(j) of 11  
12 the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 12  
13 781-784): "Any (Federal) lease heretofore or hereafter committed to any such 13  
14 (unit) plan embracing lands that are in part within and in part outside of the 14  
15 area covered by any such plan shall be segregated into separate leases as to the 15  
16 lands committed and the lands not committed as of the effective date of unitiza- 16  
17 tion: Provided, however, That any such lease as to the nonunitized portion shall 17  
18 continue in force and effect for the term thereof but for not less than two 18  
19 years from the date of such segregation and so long thereafter as oil or gas is 19  
20 produced in paying quantities." 20

21 (h) Any lease, other than a Federal lease, having only a portion of its 21  
22 lands committed hereto shall be segregated as to the portion committed and the 22  
23 portion not committed, and the provisions of such lease shall apply separately 23  
24 to such segregated portions commencing as of the effective date hereof. In 24  
25 the event any such lease provides for a lump-sum rental payment, such payment 25  
26 shall be prorated between the portions so segregated in proportion to the acre- 26  
27 age of the respective tracts. 27

28 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to 28  
29 be covenants running with the land with respect to the interest of the parties 29  
30 hereto and their successors in interest until this agreement terminates, and 30  
31 any grant, transfer, or conveyance of interest in land or leases subject here- 31  
32 to shall be and hereby is conditioned upon the assumption of all privileges 32  
33 and obligations hereunder by the grantee, transferee, or other successor in in- 33  
34 terest. No assignment or transfer of any working interest, royalty, or other 34

1 interest subject hereto shall be binding upon Unit Operator until the first day 1  
2 of the calendar month after Unit Operator is furnished with the original, pho- 2  
3 tostatic, or certified copy of the instrument of transfer. 3

4 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon 4  
5 approval by the Secretary and the Commissioner or their duly authorized repre- 5  
6 sentatives and shall terminate five (5) years from said effective date unless 6

7 (a) such date of expiration is extended by the Director and the Commis- 7  
8 sioner, or 8

9 (b) it is reasonably determined prior to the expiration of the fixed 9  
10 term of any extension thereof that the unitized land is incapable of pro- 10  
11 duction of unitized substances in paying quantities in the formations tested 11  
12 hereunder and after notice of intention to terminate the agreement on such 12  
13 ground is given by the Unit Operator to all parties in interest at their last 13  
14 known addresses, the agreement is terminated with the approval of the Director 14  
15 and the Commissioner, or 15

16 (c) a valuable discovery of unitized substances has been made or accepted 16  
17 on unitized land during said initial term or any extension thereof, in which 17  
18 event the agreement shall remain in effect for such term and so long as uni- 18  
19 tized substances can be produced in quantities sufficient to pay for the cost 19  
20 of producing same from wells on unitized land within any participating area 20  
21 established hereunder and, should production cease, so long thereafter as dili- 21  
22 gent operations are in progress for the restoration of production or discovery 22  
23 of new production and so long thereafter as the unitized substances so dis- 23  
24 covered can be produced as aforesaid, or 24

25 (d) it is terminated as heretofore provided in this agreement. 25

26 This agreement may be terminated at any time by not less than 75 per centum, 26  
27 on an acreage basis, of the owners of working interests signatory hereto, 27  
28 with the approval of the Director and the Commissioner; notice of any such 28  
29 approval to be given by the Unit Operator to all parties hereto. 29

30 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is 30  
31 hereby vested with authority to alter or modify from time to time in his dis- 31  
32 cretion the quantity and rate of production under this agreement when such 32  
33 quantity and rate is not fixed pursuant to Federal or State law or does not 33  
34 conform to any state-wide voluntary conservation or allocation program, which 34

1 is established, recognized, and generally adhered to by the majority of opera- 1  
2 tors in such State, such authority being hereby limited to alteration or modi- 2  
3 fication in the public interest, the purpose thereof and public interest to 3  
4 be served thereby to be stated in the order of alteration or modification. 4  
5 Without regard to the foregoing, the Director is also hereby vested with auth- 5  
6 ority to alter or modify from time to time in his discretion the rate of pros- 6  
7 pecting and development and the quantity and rate of production under this 7  
8 agreement when such alteration or modification is in the interest of attain- 8  
9 ing the conservation objectives stated in this agreement and is not in viola- 9  
10 tion of any applicable Federal or State law; provided, further, no such alter- 10  
11 ation or modification shall be effective as to any land of the State of New 11  
12 Mexico as to the rate of prospecting and development in the absence of the 12  
13 specific written approval thereof by the Commissioner and as to lands of the 13  
14 State of New Mexico or privately owned lands subject to this agreement as to 14  
15 the quantity and rate of production in the absence of specific written ap- 15  
16 proval thereof by the Commissioner. 16  
17 Powers in this section vested in the Director shall only be exercised af- 17  
18 ter notice to Unit Operator and opportunity for hearing to be held not less 18  
19 than 15 days from notice. 19  
20 22. APPEARANCES. Unit Operator shall, after notice to other parties af- 20  
21 fected, have the right to appear for and on behalf of any and all interests 21  
22 affected hereby before the Department of the Interior and to appeal from or- 22  
23 ders issued under the regulations of said Department or to apply for relief 23  
24 from any of said regulations or in any proceedings relative to operations be- 24  
25 fore the Department of the Interior or any other legally constituted author- 25  
26 ity; provided, however, that any other interested party shall also have the 26  
27 right at his own expense to be heard in any such proceeding. 27  
28 23. NOTICES. All notices, demands or statements required hereunder to 28  
29 be given or rendered to the parties hereto shall be deemed fully given if 29  
30 given in writing and personally delivered to the party or sent by postpaid 30  
31 registered mail, addressed to such party or parties at their respective ad- 31  
32 dresses set forth in connection with the signatures hereto or to the ratifi- 32  
33 cation or consent hereof or to such other address as any such party may have 33  
34 furnished in writing to party sending the notice, demand or statement. 34



1           24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained 1  
2 shall be construed as a waiver by any party hereto of the right to assert any 2  
3 legal or constitutional right or defense as to the validity or invalidity of 3  
4 any law of the State wherein said unitized lands are located, or of the United 4  
5 States, or regulations issued thereunder in any way affecting such party, or 5  
6 as a waiver by any such party of any right beyond his or its authority to waive. 6

7           25. UNAVOIDABLE DELAY. All obligations under this agreement requiring 7  
8 the Unit Operator to commence or continue drilling or to operator on or pro- 8  
9 duce unitized substances from any of the lands covered by this agreement shall 9  
10 be suspended while, but only so long as, the Unit Operator despite the exer- 10  
11 cise of due care and diligence is prevented from complying with such obliga- 11  
12 tions, in whole or in part, by strikes, acts of God, Federal, State, or munici- 12  
13 pal law or agencies, unavoidable accidents, uncontrollable delays in transporta- 13  
14 tion, inability to obtain necessary materials in open market, or other matters 14  
15 beyond the reasonable control of the Unit Operator whether similar to matters 15  
16 herein enumerated or not. 16

17           26. NONDISCRIMINATION. In connection with the performance of work under 17  
18 this agreement, the operator agrees to comply with all of the provisions of 18  
19 Section 301(1) to (7), inclusive, of Executive Order 10925, as amended (28 F.R. 19  
20 6485), which are hereby incorporated by reference in this agreement. 20

21           27. LOSS OF TITLE. In the event title to any tract of unitized land shall 21  
22 fail and the true owner cannot be induced to join in this unit agreement, such 22  
23 tract shall be automatically regarded as not committed hereto and there shall 23  
24 be such readjustment of future costs and benefits as may be required on account 24  
25 of the loss of such title. In the event of a dispute as to title as to any 25  
26 royalty, working interest, or other interests subject thereto, payment or 26  
27 delivery on account thereof may be withheld without liability for interest 27  
28 until the dispute is finally settled; provided, that, as to Federal and State 28  
29 land or leases, no payments of funds due the United States or the State of New 29  
30 Mexico should be withheld, but such funds shall be deposited as directed by 30  
31 the Supervisor and the Commissioner, respectively, to be held as unearned 31  
32 money pending final settlement of the title dispute, and then applied as 32  
33 earned or returned in accordance with such final settlement. 33

34           Unit Operator as such is relieved from any responsibility for any defect 34  
35 or failure of any title hereunder. 35

1           28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial   1  
2 interest in a tract within the unit area fails or refuses to subscribe or con-   2  
3 sent to this agreement, the owner of the working interest in that tract may   3  
4 withdraw said tract from this agreement by written notice to the Director, the   4  
5 Commissioner and the Unit Operator prior to the approval of this agreement by   5  
6 the Director and the Commissioner. Any oil or gas interests in lands within   6  
7 the unit area not committed hereto prior to submission of this agreement for   7  
8 final approval may thereafter be committed hereto by the owner or owners thereof   8  
9 subscribing or consenting to this agreement, and, if the interest is a working   9  
10 interest, by the owner of such interest also subscribing to the unit operating   10  
11 agreement. After operations are commenced hereunder, the right of subsequent   11  
12 joinder, as provided in this section, by a working interest owners is subject   12  
13 to such requirements or approvals, if any, pertaining to such joinder, as may   13  
14 be provided for in the unit operating agreement. After final approval hereof   14  
15 joinder by a non-working interest owner must be consented to in writing by the   15  
16 working interest owner committed hereto and responsible for the payment of any   16  
17 benefits that may accrue hereunder in behalf of such non-working interest.   17  
18 Joinder by any owner of a non-working interest, at any time, must be accompanied   18  
19 by appropriate joinder by the owner of the corresponding working interest in or-   19  
20 der for the interest to be regarded as committed hereto. Joinder + the unit   20  
21 agreement by a working interest owner, at any time, must be accompanied by ap-   21  
22 propriate joinder to the unit operating agreement, if more than one committed   22  
23 working interest owner is involved, in order for the interest to be regarded as   23  
24 committed to this unit agreement. Except as may otherwise herein be provided,   24  
25 subsequent joinders to this agreement shall be effective as of the first day   25  
26 of the month following the filing with the Supervisor and the Commissioner of   26  
27 duly executed counterparts of all or any papers necessary to establish effec-   27  
28 tive commitment of any tract to this agreement unless objection to such joinder   28  
29 is duly made within 60 days by the Director or the Commissioner, provided that,   29  
30 as to state lands, subsequent joinder must be approved by the Commissioner.   30

31           29. COUNTERPARTS. This agreement may be executed in any number of   31  
32 counterparts, no one of which needs to be executed by all parties, or may be   32  
33 ratified or consented to by separate instrument in writing specifically re-   33  
34 ferring hereto and shall be binding upon all those parties who have executed   34  
35 such a counterpart, ratification, or consent hereto with the same force and   35  
36 effect as if all such parties had signed the same document and regardless of   36

1 whether or not it is executed by all other parties owning or claiming an in- 1  
2 terest in the lands within the above-described unit area. 2

3 30. SURRENDER. Nothing in this agreement shall prohibit the exercise by 3  
4 any working interest owner of the right to surrender vested in such party in 4  
5 any lease, sub-lease, or operating agreement as to all or any part of the lands 5  
6 covered thereby, provided that each party who will or might acquire such work- 6  
7 ing interest by such surrender or by forfeiture as hereafter set forth, is 7  
8 bound by the terms of this agreement. 8

9 If as a result of any such surrender, the working interest rights as to 9  
10 such lands become vested in any party other than the fee owner of the uni- 10  
11 tized substances, said party shall forfeit such rights and no further bene- 11  
12 fits from operation hereunder as to said land shall accrue to such party, 12  
13 unless within ninety (90) days thereafter said party shall execute this agree- 13  
14 ment and the unit operating agreement as to the working interest acquired 14  
15 through such surrender, effective as though such land had remained continuously 15  
16 subject to this agreement and the unit operating agreement. And in the event 16  
17 such agreements are not so executed, the party next in the chain of title shall 17  
18 be and become the owner of such working interest at the end of such ninety (90) 18  
19 day period, with the same force and effect as though such working interest had 19  
20 been surrendered to such party. 20

21 If as the result of any such surrender or forfeiture the working interest 21  
22 rights as to such lands become vested in the fee owner of the unitized sub- 22  
23 stances, such owner may: 23

24 (1) Execute this agreement and the unit operating agreement as a 24  
25 working interest owner, effective as though such land had remained contin- 25  
26 uously subject to this agreement and the unit operating agreement. 26

27 (2) Again lease such lands but only under the condition that the holder 27  
28 of such lease shall within thirty (30) days after such lands are so leased 28  
29 execute this agreement and the unit operating agreement as to each partici- 29  
30 pating area theretofore established hereunder, effective as though such land 30  
31 had remained continuously subject to this agreement and the unit operating 31  
32 agreement. 32

33 (3) Operate or provide for the operation of such land independently of 33  
34 this agreement as to any part thereof or any oil or gas deposits therein not 34

1 then included within a participating area. 1

2 If the fee owner of the unitized substances does not execute this agree- 2

3 ment and the unit operating agreement as a working interest owner or again 3

4 lease such lands as above provided with respect to each existing participa- 4

5 ting area, within six (6) months after any such surrender or forfeiture, such 5

6 fee owner shall be deemed to have waived the right to execute the unit operat- 6

7 ing agreement or lease such lands as to each such participating area, and to 7

8 have agreed, in consideration for the compensation hereinafter provided, that 8

9 operations hereunder as to any such participating area or areas shall not be 9

10 affected by such surrender. 10

11 For any period the working interest in any lands are not expressly com- 11

12 mitted to the unit operating agreement as the result of any such surrender or 12

13 forfeiture, the benefits and obligations of operations accruing to such lands 13

14 under this agreement and the unit operating agreement shall be shared by the 14

15 remaining owners of unitized working interests in accordance with their respec- 15

16 tive participating working interest ownerships in any such participating area or 16

17 areas, and such owners of working interests shall compensate the fee owner of 17

18 unitized substances in such lands by paying sums equal to the rentals, minimum 18

19 royalties, and royalties applicable to such lands under the lease in effect 19

20 when the lands were unitized, as to such participating area or areas. 20

21 Upon commitment of a working interest to this agreement and the unit op- 21

22 erating agreement as provided in this section, an appropriate accounting and 22

23 settlement shall be made, to reflect the retroactive effect of the commit- 23

24 ment, for all benefits accruing to or payments and expenditures made or in- 24

25 curred on behalf of such surrendered working interest during the period be- 25

26 tween the date of surrender and the date of recommitment, and payment of any 26

27 moneys found to be owing by such an accounting shall be made as between the 27

28 parties then signatory to the unit operating agreement and this agreement 28

29 within thirty (30) days after the recommitment. The right to become a par- 29

30 ty to this agreement and the unit operating agreement as a working interest 30

31 owner by reason of a surrender or forfeiture as provided in this section 31

32 shall not be defeated by the nonexistence of a unit operating agreement and 32

33 in the event no unit operating agreement is in existence and a mutually ac- 33

34 ceptable agreement between the proper parties thereto cannot be consummated, 34

1 the Supervisor and the Commissioner may prescribe such reasonable and equitable 1  
2 agreement as they deem warranted under the circumstances. 2

3 Nothing in this section shall be deemed to limit the right of joinder or 3  
4 subsequent joinder to this agreement as provided elsewhere in this agreement. 4  
5 The exercise of any right vested in a working interest owner to reassign such 5  
6 working interest to the party from whom obtained shall be subject to the same 6  
7 conditions as set forth in this section in regard to the exercise of a right 7  
8 to surrender. 8

9 31. TAXES. The working interest owners shall render and pay for their 9  
10 account and the account of the royalty owners all valid taxes on or measured 10  
11 by the unitized substances in and under or that may be produced, gathered and 11  
12 sold from the land subject to this contract after the effective date of this 12  
13 agreement, or upon the proceeds or net proceeds derived therefrom. The work- 13  
14 ing interest owners on each tract shall and may charge the proper proportion 14  
15 of said taxes to the royalty owners having interests in said tract, and may 15  
16 currently retain and deduct sufficient of the unitized substances or deriva- 16  
17 tive products, or net proceeds thereof from the allocated share of each royal- 17  
18 ty owner to secure reimbursement for the taxes so paid. No such taxes shall 18  
19 be charged to the United States or to any lessor who has a contract with his 19  
20 lessee which requires the lessee to pay such taxes. 20

21 32. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the working 21  
22 interest owners nor any of them shall be subject to any forfeiture, termina- 22  
23 tion, or expiration of any rights hereunder or under any leases or contracts 23  
24 subject hereto, or to any penalty or liability for delay or failure in whole 24  
25 or in part to comply therewith to the extent that the said Unit Operator, 25  
26 working interest owners or any of them are hindered, delayed, or prevented 26  
27 from complying therewith by reason of failure of the Unit Operator to obtain 27  
28 with the exercise of due diligence the concurrence of the representatives of 28  
29 the United States and the representatives of the State of New Mexico in and 29  
30 about any matters or thing concerning which it is required herein that such 30  
31 concurrence be obtained. The parties hereto, including the Commission, agree 31  
32 that all powers and authority vested in the Commission in and by any provi- 32  
33 sions of this contract are vested in the Commission and shall be exercised by 33  
34 it pursuant to the provisions of the laws of the State of New Mexico and 34

1 subject in any case to appeal or judicial review as may now or hereafter be 1  
2 provided by the laws of the State of New Mexico. 2

3 33. NO PARTNERSHIP. It is expressly agreed that the relation of the par- 3  
4 ties hereto is that of independent contractors and nothing in this agreement 4  
5 contained, expressed or implied, nor any operations conducted hereunder, shall 5  
6 create or be deemed to have created a partnership or association between the 6  
7 parties hereto or any of them. 7

8 IN WITNESS WHEREOF, the parties hereto have caused this agreement to be 8  
9 executed and have set opposite their respective names the date of execution. 9

UNIT OPERATOR

~~ATTEST:~~

PAN AMERICAN PETROLEUM CORPORATION

~~Assistant Secretary~~

By [Signature] Attorney in Fact

LCA.  
REP

DATE:

4-6-64

P. O. Box 1410  
Oil and Gas Building  
Fort Worth, Texas

WORKING INTEREST OWNERS

ATTEST: DATE: CALIFORNIA OIL COMPANY

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

Address: \_\_\_\_\_

ATTEST: DATE: LEONARD OIL COMPANY

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

Address: \_\_\_\_\_

ATTEST: DATE: GULF OIL CORPORATION

\_\_\_\_\_  
Secretary By \_\_\_\_\_ Attorney in Fact

Address: \_\_\_\_\_

ATTEST: DATE: UNION OIL COMPANY OF CALIFORNIA

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

Address: \_\_\_\_\_

ATTEST: DATE: HONDO OIL & GAS COMPANY

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

Address: \_\_\_\_\_

Address: DATE: \_\_\_\_\_  
THOMAS CONNELL

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

THE STATE OF TEXAS :  
:  
COUNTY OF TARRANT :

The foregoing instrument was acknowledged before me this 6<sup>th</sup> day of April, 1964, by D. B. MASON, JR., as Attorney in Fact on behalf of PAN AMERICAN PETROLEUM CORPORATION.

My commission expires:

6-1-65

Velma B. Craft  
Notary Public in and for  
Tarrant County, Texas  
VELMA B. CRAFT

THE STATE OF \_\_\_\_\_ :  
:  
COUNTY OF \_\_\_\_\_ :

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

My commission expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for  
\_\_\_\_\_  
County, \_\_\_\_\_

THE STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ :

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

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

Notary Public in and for  
County, \_\_\_\_\_

THE STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ :

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_, as Attorney in Fact on behalf of GULF OIL CORPORATION.

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

Notary Public in and for  
County, \_\_\_\_\_

THE STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ :

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

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

Notary Public in and for  
County, \_\_\_\_\_

THE STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ :

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_, President of the HONDO OIL & GAS COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

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

Notary Public in and for  
County, \_\_\_\_\_



THE STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ :

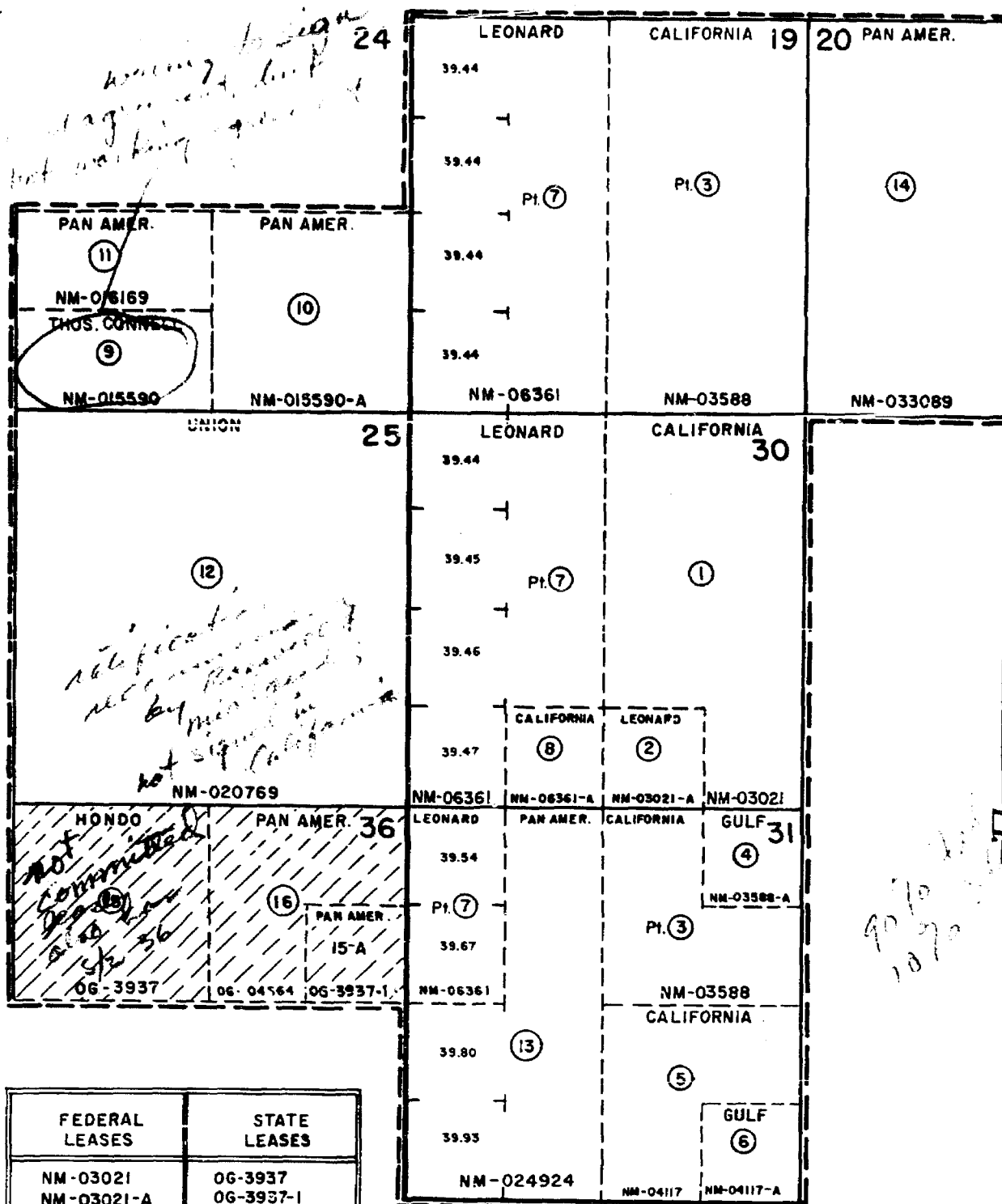
The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by THOMAS CONNELL.

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

\_\_\_\_\_  
Notary Public in and for  
County, \_\_\_\_\_

R23E

R24E

T  
20  
S

FEDERAL LEASES	STATE LEASES
NM-03021	OG-3937
NM-03021-A	OG-3937-1
NM-03389	OG-4664
NM-03588	
NM-03588-A	
NM-04117	
NM-04117-A	
NM-015590	
NM-015590-A	
NM-016169	
NM-06361	
NM-06361-A	
NM-020769	
NM-024924	
NM-033089	

NOTE: ALL SECTIONS CONTAIN 640 AC. EXCEPT AS INDICATED  
 TOTAL ACRES IN UNIT-----3514.52

## LEGEND

-----	Unit Boundary
②	Tract Number
	State Land
	Federal Land

EXHIBIT "A"  
 LONG DRAW UNIT  
 EDDY COUNTY, NEW MEXICO  
 SCALE: 1"=2000'

EXHIBIT "B" - Long Draw Unit Area, Eddy County, New Mexico

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Notes
<u>Federal Land</u>							
1	T-20-S, R-24-E Sec. 30: NE/4 N/2 SE/4 SE/4 SE/4	280	NM 03021 5-31-64(3)	USA - 12 1/2%	California Oil Company	John D. Meredith - 3%	Calif Compa
2	Sec. 30: SW/4 SE/4	40	NM 03021-A 5-31-64(3)	USA - 12 1/2%	Leonard Oil Company	John D. Meredith - 3%	Leona - All
3	Sec. 19: E/2 Sec. 31: S/2 NE/4 NW/4 NE/4	440	NM 03588 4-30-64(3)	USA - 12 1/2%	California Oil Company	John R. Norton - 3%	Calif Compa
4	Sec. 31: NE/4 NE/4	40	NM 03588-A 4-30-64(3)	USA - 12 1/2%	Gulf Oil Corporation	John R. Norton - 3%	Gulf Corpo
5	Sec. 31: N/2 SE/4 SW/4 SE/4	120	NM 04117 7-31-64(3)	USA - 12 1/2%	California Oil Company	Thomas Connell et ux. Emily K. Connell - 3%	Calif Compa
6	Sec. 31: SE/4 SE/4	40	NM 04117-A 7-31-64(3)	USA - 12 1/2%	Gulf Oil Corporation	Thomas Connell et ux. Emily K. Connell - 3%	Gulf Corpo
7	Sec. 19: Lots 1,2,3,4 E/2 W/2 Sec. 30: Lots 1,2,3,4 E/2 NW/4 NE/4 SW/4 Sec. 31: Lots 1 and 2	674.79	NM 06361 4-30-64(3)	USA - 12 1/2%	Leonard Oil Company	Lawson L. Nelson - 1%	Leona - All
8	Sec. 30: SE/4 SW/4	40	NM 06361-A 4-30-64(3)	USA - 12 1/2%	California Oil Company	Lawson L. Nelson - 1% Leonard Oil Company - 2%	Calif Compa

EXHIBIT "B" - Long Draw Unit Area, Eddy County, New Mexico

Portion of	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
NE 1/4 E/2 SE 1/4 SE 1/4 SE 1/4	280	NM 03021 5-31-64(3)	USA - 12 1/2%	California Oil Company	John D. Meredith - 3%	California Oil Company - All(A)
SW 1/4 SE 1/4	40	NM 03021-A 5-31-64(3)	USA - 12 1/2%	Leonard Oil Company	John D. Meredith - 3%	Leonard Oil Company - All(B)
E/2 S/2 NE 1/4 NW 1/4 NE 1/4	440	NM 03588 4-30-64(3)	USA - 12 1/2%	California Oil Company	John R. Norton - 3%	California Oil Company - All(A)
NE 1/4 NW 1/4	40	NM 03588-A 4-30-64(3)	USA - 12 1/2%	Gulf Oil Corporation	John R. Norton - 3%	Gulf Oil Corporation - All
N/2 SE 1/4 SW 1/4 SE 1/4	120	NM 04117 7-31-64(3)	USA - 12 1/2%	California Oil Company	Thomas Connell et ux. Emily K. Connell - 3%	California Oil Company - All(A)
SE 1/4 SE 1/4	40	NM 04117-A 7-31-64(3)	USA - 12 1/2%	Gulf Oil Corporation	Thomas Connell et ux. Emily K. Connell - 3%	Gulf Oil Corporation - All
Lots 1,2,3,4 E/2 W/2 Lots 1,2,3,4 E/2 NW 1/4 NE 1/4 SW 1/4 Lots 1 and 2	674.79	NM 06361 4-30-64(3)	USA - 12 1/2%	Leonard Oil Company	Lawson L. Nelson - 1%	Leonard Oil Company - All (B)
SE 1/4 SW 1/4	40	NM 06361-A 4-30-64(3)	USA - 12 1/2%	California Oil Company	Lawson L. Nelson - 1% Leonard Oil Company - 2%	California Oil Company - All(A)

Exhibit "B" - Long Draw Unit Area, Eddy County, New Mexico

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
9	T-20-S, R-23-E Sec. 24: S/2 SW/4	80	NM 015590 11-30-64(2)	USA - 12½%	Thomas Connell	None	Thomas Connell
10	Sec. 24: SE/4	160	NM 015590-A 11-30-64(2)	USA - 12½%	Pan American Petroleum Corp.	Thomas Connell et ux Emily K. Connell - 5%	Pan American Petroleum Corp.
11	Sec. 24: N/2 SW/4	80	NM 016169 11-30-64(2)	USA - 12½%	Pan American Petroleum Corp.	Fred M. Cassidy et ux Margaret Cassidy - ½ of 1% ORR, \$400 per acre production payment out of 2% ORR owned by Marion V. Harris and Lawrence C. Harris	Pan American Petroleum Corp.
12	Sec. 25: All	640	NM 020769 1-31-66(2)	USA - 12½%	Union Oil Company of California	John Younger - ¼ of 1% ORR, \$500 per acre production payment out of 3% ORR payable to Edith Riggs	Union Oil Company of California
13	T-20-S, R-24-E Sec. 31: Lots 3,4 E/2 W/2	239.73	NM 024924 1-31-68(2)	USA - 12½%	Pan American Petroleum Corp.	Blanche V. White and Emmett D. White - 2%	Pan American Petroleum Corp.
14	Sec. 20: W/2	320	NM 033089 3-31-68	USA - 12½%	Pan American Petroleum Corp.	\$500 per acre production payment out of 5% owned as follows: Edward C. Donohue - 40% Wilma E. Donohue - 40% Wilma D. Moleen - 10% Wilma D. Moleen as trustee for George Edward Donohue Moleen - 10%	Pan American Petroleum Corp.

14 Federal Tracts: 3,194.52 Acres, or 90.8949%

## Exhibit "B" - Long Draw Unit Area, Eddy County, New Mexico

Page 2

of	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
3-E 1/2 SW/4	80	NM 015590 11-30-64(2)	USA - 12½%	Thomas Connell	None	Thomas Connell - All
E/4	160	NM 015590-A 11-30-64(2)	USA - 12½%	Pan American Petroleum Corp.	Thomas Connell et ux Emily K. Connell - 5%	Pan American Petroleum Corp. - All
1/2 SW/4	80	NM 016169 11-30-64(2)	USA - 12½%	Pan American Petroleum Corp.	Fred M. Cassidy et ux Margaret Cassidy - ½ of 1% ORR, \$400 per acre production payment out of 2% ORR owned by Marion V. Harris and Lawrence C. Harris	Pan American Petroleum Corp. - All
11	640	NM 020769 1-31-66(2)	USA - 12½%	Union Oil Company of California	John Younger - ¼ of 1% ORR, \$500 per acre pro- duction payment out of 3% ORR payable to Edith Riggs	Union Oil Company of California - All
4-E pts 3,4 1/2 W/2	239.73	NM 024924 1-31-68(2)	USA - 12½%	Pan American Petroleum Corp.	Blanche V. White and Emmett D. White - 2%	Pan American Petroleum Corp. - All(C)
1/2	320	NM 033089 3-31-68	USA - 12½%	Pan American Petroleum Corp.	\$500 per acre produc- tion payment out of 5% owned as follows: Edward C. Donohue - 40% Wilma E. Donohue - 40% Wilma D. Moleen - 10% Wilma D. Moleen as trustee for George Edward Donohue Moleen - 10%	Pan American Petroleum Corp. - All

,194.52 Acres, or 90.8949%

## Exhibit "B" - Long Draw Unit Area, Eddy County, New Mexico

Page 3

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
<u>State Lands</u>							
15	<u>T-20-S, R-23-E</u> Sec. 36: NW/4	160	OG-3937 6-17-68	State of New Mexico - 12 $\frac{1}{2}$ %	Hondo Oil & Gas Company	None	Hondo Oil & Gas Company - All
15-A	Sec. 36: SE/4 NE/4	40	OG-3937-1 6-17-68	State of New Mexico - 12 $\frac{1}{2}$ %	Pan American Petroleum Corp.	None	Pan American Petroleum Corporation (D)
16	Sec. 36: N/2 NE/4 SW/4 NE/4	120	OG-4664 10-21-68	State of New Mexico - 12 $\frac{1}{2}$ %	Pan American Petroleum Corp.	None	Pan American Petroleum Corporation

3 State Tracts: 320 acres, or 9.1051%

TOTAL: 17 Tracts - 3,514.52 acres in Entire Unit Area

RECAPITULATION

<u>Land</u>	<u>Acres</u>	<u>Percentages</u>
Federal	3194.52	90.8949%
State	320.00	9.1051%
Patented	<u>0</u>	<u>0</u>
TOTAL UNIT AREA	3514.52	100.0000%

(A) California Oil Company has agreed to convey to Pan American Petroleum Corporation an undivided 3/4 interest in Tracts 1, 3, 5 and 8 upon completion of the initial unit well.

Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
0	OG-3937 6-17-68	State of New Mexico - 12 $\frac{1}{2}$ %	Hondo Oil & Gas Company	None	Hondo Oil & Gas Company - All
0	OG-3937-1 6-17-68	State of New Mexico - 12 $\frac{1}{2}$ %	Pan American Petroleum Corp.	None	Pan American Petroleum Corporation-All (D)
0	OG-4664 10-21-68	State of New Mexico - 12 $\frac{1}{2}$ %	Pan American Petroleum Corp.	None	Pan American Petroleum Corporation-All

051%

in Entire Unit Area

RECAPITULATION

<u>nd</u>	<u>Acres</u>	<u>Percentages</u>
eral	3194.52	90.8949%
te	320.00	9.1051%
ented	<u>0</u>	<u>0</u>
TOTAL UNIT AREA	3514.52	100.0000%

pany has agreed to convey to Pan American Petroleum Corporation an undivided 3/4 interest and 8 upon completion of the initial unit well.



- 
- (B) Leonard Oil Company has agreed to either pay its share of costs of the initial well or convey to Pan American Petroleum Corporation an undivided  $3/4$  interest in Tracts 2 and 7 upon completion of the initial well, such election to be made on or before April 15, 1964.
  - (C) Monsanto Chemical Company has agreed to assign all interest in Tract 13 to Pan American Petroleum Corporation.
  - (D) Hondo Oil & Gas Company has assigned all interest in Tract 15-A to Pan American Petroleum Corporation.

Upon receipt of the conveyances or assignments referred to in (A) through (D), Pan American will file such instruments with the proper authorities for approval.

*Exhibit 1*

UNIT OPERATING AGREEMENT  
LONG DRAW UNIT  
COUNTY OF EDDY  
STATE OF NEW MEXICO

---

THIS AGREEMENT, made and entered into as of the 6th day of April, 1964, by and between PAN AMERICAN PETROLEUM CORPORATION, hereinafter referred to as "Pan American", "Unit Operator", or "Operator", and CALIFORNIA OIL COMPANY, LEONARD OIL COMPANY, GULF OIL CORPORATION, UNION OIL COMPANY OF CALIFORNIA, HONDO OIL & GAS COMPANY, all corporations, and THOMAS CONNELL, an individual, hereinafter referred to collectively as "Non-Operator", Thomas Connell being joined by his wife,

WITNESSETH, THAT:

WHEREAS, the parties hereto have executed or ratified as of the date hereof a certain Unit Agreement for the Development and Operation of the Long Draw Unit Area in Eddy County, New Mexico, hereinafter referred to as "Unit Agreement", and

WHEREAS, pursuant to the provisions of Section 7 of said Unit Agreement the parties hereto desire to enter into a Unit Operating Agreement covering the leases and land in the Long Draw Unit Area, said leases and lands being sometimes referred to herein as the "lease acreage";

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, including the Operating Provisions, Exhibit "A", and the Accounting Procedure, Exhibit "B", and the Ownership Schedule, Exhibit "C", it is understood and agreed by and between the parties hereto as follows:

1. UNIT PLAN CONFIRMED:

The aforesaid Unit Agreement and all of the exhibits which are attached hereto are hereby confirmed and made a part of this agreement. In the event of any inconsistency or conflict between the provisions of this agreement and the Unit Agreement, the provisions of the Unit Agreement shall prevail to the extent of such inconsistency or conflict.

2. UNIT OPERATOR:

Subject to the terms, covenants and conditions hereinafter set forth, Pan American, for and during the term of this agreement, is hereby designated as Unit Operator of the lease acreage covered hereby and all of the physical equipment of the parties hereto used, had or obtained in connection with the operation and development of said lease acreage, for the joint account of the parties hereto. As the Unit Operator, Pan American shall have the exclusive control and management of

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
EXHIBIT NO.	<u>4</u>
CASE NO.	<u>1000</u>

the operation and development of the said lease acreage for the joint account of the parties hereto, and shall conduct such operations in a good and workmanlike manner, but shall have no liability as Unit Operator to the other parties hereto for losses sustained, or liabilities incurred, except such as may result from its gross negligence or willful misconduct.

3. TITLES:

The Non-Operator who is the working interest owner of any wellsite tract, shall furnish unto Pan American all title opinions, abstracts and other title papers that such Non-Operator may have in their files, together with photocopies of the basic leases, all intermediate assignments, delay rental receipts and such other documents as are pertinent to the title. The Unit Operator shall cause such title to be supplemented to a current date and shall furnish all of the other parties with copies thereof. The Non-Operator which has contributed the proposed wellsite tract to the unit area shall make a bona fide effort to satisfy any requirements made by Pan American's examining attorney, and the opinion of Pan American's attorney as to the condition of such title shall be final.

4. TEST WELL:

Unit Operator, on or before April 30, 1964, provided the Unit Agreement is finally approved by the United States Geological Survey, shall commence or cause to be commenced operations for the drilling of a test well for the joint account of the parties hereto at a location in the SE/4 of Section 25, Township 20 South, Range 23 East, a portion of the lease acreage lying within the unit area, and shall prosecute the drilling of said test well diligently, without unnecessary delay and in a workmanlike manner to a total depth of 9,300 feet, unless the top of the Mississippian Formation is penetrated at a lesser depth, or unless granite or other impenetrable substance or condition rendering further drilling impractical, is encountered at a lesser depth; provided, however, that Unit Operator shall not be required in any event to drill said well to a depth in excess of such total depth of 9,300 feet. All costs and expenses incurred in connection with the drilling, completing, testing, equipping (including necessary wellhead connections, flow lines, tankage and pumping and other equipment initially installed in connection with the completion of said test well), and, if a dry hole, the plugging and abandoning of said test well, shall be

borne by the parties hereto in the proportions set out in the Ownership Schedule attached and made a part hereof as Exhibit "C", as shown in the column styled "Per Cent of Participation in Cost of Drilling and Completing First Test Well".

Additional test wells drilled in the unit area shall be drilled in accordance with the percentages shown in the column styled "Per Cent of Participation in Cost of Drilling and Completing Subsequent Wells", as set out in said Exhibit "C". It is agreed that encumbrances shall be spread throughout the unit area as indicated in the last column of said Exhibit "C". As of the date hereof, Hondo Oil & Gas Company and Thomas Connell have not executed the subject Unit Agreement, and this Unit Operating Agreement, and in the event of their subsequent joinder, Exhibit "C" shall be revised by the Unit Operator, subject to approval by the parties participating in the first test well so as to indicate the new percentages of participation which have occurred by reason of such subsequent joinder of either or both of such parties.

5. ANNUAL RENTALS AND SHUT-IN ROYALTIES:

Each of the parties hereto shall bear and pay all annual rentals and shut-in royalties which become due and payable under the terms and provisions of the lease or leases of each of such parties covered hereby and committed by them to the unit area.

6. INSURANCE:

Unit Operator or Unit Operator's subcontractors shall carry for the benefit of the joint account insurance to cover all operations on the lease acreage covered by this agreement as follows:

- (a) Workmen's Compensation Insurance, including employers' liability: In compliance with the workmen's compensation laws of the State of New Mexico;
- (b) Comprehensive General Liability Insurance, excluding products: A single combined limit of \$500,000.00 each accident for bodily injuries or death and property damage;
- (c) Automobile Public Liability and Property Damage Insurance with a single combined limit of \$500,000.00 each accident for bodily injuries or death and property damage.

7. NOTICES:

Except as herein otherwise expressly provided, all notices, reports and other communications required or permitted hereunder shall be deemed to have been properly given or delivered when delivered personally or when sent by registered mail or telegraph, with all postage or charges fully prepaid, and addressed to the parties at the following addresses:

Operator:

Pan American Petroleum Corporation  
Oil and Gas Building  
P. O. Box 1410  
Fort Worth 1, Texas

Non-Operator:

California Oil Company  
200 West First Street  
Roswell, New Mexico

Gulf Oil Corporation  
P. O. Box 1938  
Roswell, New Mexico

Thomas Connell and wife,  
Emily K. Connell  
538 Whitney Bank Bldg.  
New Orleans, Louisiana

Leonard Oil Company  
1000 Security National Bank Bldg.  
Roswell, New Mexico

Union Oil Company of California  
300 Security National Bank Bldg.  
Roswell, New Mexico

Hondo Oil & Gas Company  
P. O. Box 1978  
Roswell, New Mexico

The date of service by mail shall be the date on which such written notice or other communication is deposited in the United States Post Office, addressed as above provided. Each party hereto shall have the right to change its address for all purposes of this Article 7 by notifying the other parties hereto thereof in writing.

8. OPERATING PROVISIONS:

The provisions of Article 19 of the Operating Provisions, Exhibit "A", shall not apply to the drilling of the first test well under the terms of this agreement.

9. COUNTERPARTS:

This agreement may be executed in counterpart and shall be binding upon those parties who execute or ratify the same, regardless of whether all of the parties join herein.

EXECUTED as of the day and year first above written.

~~ATTEST:~~

~~Assistant Secretary~~

DATE:

4-6-68

PAN AMERICAN PETROLEUM CORPORATION

By [Signature]  
Attorney in Fact

ATTEST:

Secretary

DATE:

CALIFORNIA OIL COMPANY

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

ATTEST:

Secretary

DATE:

LEONARD OIL COMPANY

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

ATTEST:

Secretary

DATE:

GULF OIL CORPORATION

By \_\_\_\_\_  
Attorney in Fact

ATTEST: \_\_\_\_\_ DATE: \_\_\_\_\_ UNION OIL COMPANY OF CALIFORNIA  
Secretary \_\_\_\_\_ By \_\_\_\_\_ President

ATTEST: \_\_\_\_\_ DATE: \_\_\_\_\_ HONDO OIL & GAS COMPANY  
Secretary \_\_\_\_\_ By \_\_\_\_\_ President

DATE: \_\_\_\_\_  
\_\_\_\_\_  
THOMAS CONNELL  
\_\_\_\_\_  
EMILY K. CONNELL

STATE OF TEXAS )  
COUNTY OF TARRANT )

The foregoing instrument was acknowledged before me this 6<sup>th</sup> day of April, 1964, by D. B. MASON, JR., as Attorney in Fact on behalf of PAN AMERICAN PETROLEUM CORPORATION.

My commission expires:  
June 1, 1965

Velma B. Craft  
Notary Public, in and for  
Tarrant County, Texas VELMA B. CRAFT

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

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

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

\_\_\_\_\_  
Notary Public, in and for  
\_\_\_\_\_  
County, \_\_\_\_\_

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

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

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

\_\_\_\_\_  
Notary Public, in and for  
\_\_\_\_\_  
County, \_\_\_\_\_

STATE OF \_\_\_\_\_ }  
COUNTY OF \_\_\_\_\_ }

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_, as Attorney in Fact on behalf of GULF OIL CORPORATION.

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

\_\_\_\_\_  
Notary Public, in and for  
County, \_\_\_\_\_

STATE OF \_\_\_\_\_ }  
COUNTY OF \_\_\_\_\_ }

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

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

\_\_\_\_\_  
Notary Public, in and for  
County, \_\_\_\_\_

STATE OF \_\_\_\_\_ }  
COUNTY OF \_\_\_\_\_ }

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by \_\_\_\_\_, President of HONDO OIL & GAS COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

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

\_\_\_\_\_  
Notary Public, in and for  
County, \_\_\_\_\_

THE STATE OF \_\_\_\_\_ }  
COUNTY OF \_\_\_\_\_ }

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1964, by THOMAS CONNELL and wife, EMILY K. CONNELL.

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

\_\_\_\_\_  
Notary Public, in and for  
County, \_\_\_\_\_

EXHIBIT " A "

OPERATING PROVISIONS

Attached to and made a part of that certain Operating Agreement, dated the \_\_\_\_\_ day of \_\_\_\_\_, 19 64, by and between

PAN AMERICAN PETROLEUM CORPORATION, as

Operator, and CALIFORNIA OIL COMPANY ET AL.,

as Non-Operator

1. TERMINOLOGY:

The terms "lease acreage", "Operator" and "Non-Operator" shall have the same meaning, respectively, as are attributed to them in the Operating Agreement to which this exhibit is attached. The words "it" or "its", wherever used herein, shall refer to an individual (male or female) as well as to a corporation or other legal entity and, where the context permits, shall include the plural number.

2. OPERATIONS:

Except as may be authorized by the mutual agreement of all the parties hereto, the Operator shall not permit or suffer any lien or other encumbrances to be filed or to remain against any lease or physical equipment covered hereby as a result of its operations hereunder.

The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all employees, in connection with operations hereunder, shall be determined by the Operator. All employees and contractors used in operations hereunder shall be the employees and contractors of the Operator and not the employees or contractors of the Non-Operator.

In the event the Operator should sell, transfer, or otherwise dispose of all its interest in the property or properties covered by this Operating Agreement, then the right to operate said property or properties hereunder shall not pass to Operator's successor in interest but a new Operator shall be selected as set out in the following paragraph.

Operator may resign its appointment hereunder after first giving sixty (60) days' notice in writing of its intended resignation to Non-Operator; or if Operator should liquidate, become insolvent, die, or terminate its corporate existence, or should Operator sell or transfer or otherwise dispose of all its interest in the joint property, its appointment hereunder shall thereupon terminate. In any such



event the other party or parties hereto or their respective successor (or successors) in interest shall by vote representing the majority percentage of interest in the joint property select and designate a new Operator. Provided, however, if there is only one Non-Operator owning fifty per cent (50%) or more of the working interest, then it shall have the option of becoming the new Operator of the joint property.

The Operator shall not be relieved of operations hereunder until sixty (60) days after the effective date of such resignation, sale, transfer, or other disposition of all of its interest, unless a new Operator selected as hereinabove provided, shall assume operations hereunder at an earlier date.

3. LOSS OR FAILURE OF TITLE:

In the event of the loss or failure of the title, in whole or in part, of any party hereto to any lease, or any interest therein, covered hereby, the interest of such party in and to the production obtained from the lease acreage shall be reduced in proportion to such loss or failure of title as of the date such loss or failure of title is finally determined; provided, that such revision of ownership interest shall not be retroactive as to operating costs and expenses incurred or as to revenues or production obtained prior to such date; and provided, further, that each party hereto whose title has been lost or has failed, as aforesaid, shall indemnify the other parties hereto against, and shall hold such other parties harmless from, all loss, cost, damage and expense which may result from, or in any manner arise because of, the delivery to such party of production obtained hereunder from the lease acreage covered hereby or the payment to such party of proceeds derived from the sale of any such production, prior to the date said loss or failure of title is finally determined.

4. DURATION OF AGREEMENT:

This agreement shall remain in full force and effect, unless sooner terminated by the mutual agreement of the parties hereto, so long as any lease covered hereby, or any extension or renewal thereof, remains in full force and effect, whether by production or otherwise; provided, that, if a party hereto should transfer all or part of its interest in leases covered hereby or if a party's title should fail in whole or in part, this agreement shall not thereby terminate, except as to a party which thereafter retains no interest covered hereby.

5. COSTS AND EXPENSES:

Unless the Operator elects to require the Non-Operator to advance its

share of the costs and expenses, as hereinafter provided, the Operator initially shall advance and pay all costs and expenses for the drilling, development and operation of said lease acreage and shall charge the Non-Operator its share thereof, said share being equal to its percentage of ownership of production and equipment as set out in the foregoing Operating Agreement to which these Operating Provisions are attached as an exhibit.

All such costs, expenses, credits and related matters, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the schedule of accounting procedure, attached to the Operating Agreement to which this exhibit is attached, marked Exhibit "B" and hereby made a part of said Operating Agreement. (In the event of any conflict between the provisions contained in this exhibit and those contained in said Exhibit "B", the provisions of this exhibit shall govern to the extent of such conflict. In the event of any conflict between the provisions contained in either of said exhibits and those contained in the body of said Operating Agreement, the provisions contained in the body of said Operating Agreement shall govern to the extent of such conflict.)

The Operator shall make no single expenditure in excess of Five Thousand Dollars (\$5,000.00) without first obtaining the consent thereto of the Non-Operator; provided, however, that in case of accident or other emergency, the Operator shall have the right and duty to take such action as in its judgment may be required for the protection of life and property and to incur for the joint account of the parties hereto the necessary costs and expenses in connection therewith, said accident or other emergency, and the action taken, to be reported by the Operator to the Non-Operator as soon as reasonably possible; and provided, further, that the approval of the drilling of a well shall include all expenditures for the drilling, completing, testing and equipping of such well, including the necessary lines, separators and lease tankage.

In the event that the Operator elects to require the Non-Operator to advance its proportionate share of the above mentioned costs and expenses, the Operator, on or before the 10th day of the month, shall submit an itemized estimate of such costs and expenses for the succeeding calendar month to the Non-Operator, showing therein the proportionate part of such estimated costs and expenses which is chargeable to the Non-Operator. Within fifteen (15) days after receipt of said estimate, the Non-Operator shall pay to the Operator its proportionate share of said estimated costs and expenses. If payment of said estimated costs and expenses is not made when due,

the unpaid balance thereof shall bear interest at the rate of six per cent (6%) per annum from the due date until paid. Adjustments between estimated and actual costs and expenses shall be made by the Operator at the close of each calendar month and the accounts of the parties hereto adjusted accordingly.

6. OPERATOR'S LIEN:

The Operator is hereby granted a lien upon the working interest and leasehold estate of the Non-Operator covered hereby and upon the Non-Operator's interest in the well or wells located on lease acreage covered hereby, in the production obtained from said well or wells and in the physical equipment used, had and obtained in connection with the operations of said well or wells to secure the payment of said Non-Operator's proportionate share of said costs and expenses and of said estimated costs and expenses, together with interest thereon at the rate of six per cent (6%) per annum. Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by Non-Operator in payment of chargeable costs and expenses, Operator shall have the right to collect and receive from the purchaser or purchasers the Non-Operator's proceeds from production from the lease acreage covered hereby until the amount owed of such indebtedness by such Non-Operator, plus interest, as aforesaid, has been paid. By execution hereof, each subscribing party hereto agrees that each such purchaser shall be entitled to rely upon Operator's statement concerning the existence and amount of any such default.

7. DRILLING WELLS ON BASIS OF COMPETITIVE CONTRACT PRICE:-

The Operator shall have the right to drill any well to be drilled hereunder on lease acreage covered hereby with its own or rented tools and equipment or to cause such well to be drilled by a responsible drilling contractor selected by the Operator. Each such well shall be drilled on the basis of the competitive contract price prevailing in the field at the time the parties hereto agree to the drilling thereof; and, if possible, such price shall be agreed upon by the parties hereto in advance. If the parties hereto are unable mutually to agree on said competitive contract price, the Operator shall obtain bids from at least three (3) responsible drilling contractors who are ready, able and willing to drill a well of the type contemplated by the parties hereto on lease acreage covered hereby; and said competitive contract price shall be the lowest acceptable bid received which will result in the most economical drilling of said well.

8. DISPOSAL OF PRODUCTION:

Each of the parties hereto shall own and, at its own expense, shall take in kind or separately dispose of its proportionate part of all the oil, gas, casing-head gas, and other hydrocarbon substances produced and saved from the lease acreage covered hereby, exclusive of the production which may be used by the Operator in developing and producing operations and in preparing and treating oil for market purposes and of production unavoidably lost; and provided, that each of the parties hereto shall pay, or secure the payment of, the royalty interest in its proportionate part of said production. At such time or times as a Non-Operator shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, the Operator shall have the authority, revocable by the Non-Operator at will, to sell all or part of such production to others at the same price which the Operator receives for its own portion of the production; provided, that Operator shall not make a sale in interstate commerce of any Non-Operator's share of gas produced and saved from said lease acreage unless Operator shall have given such Non-Operator written notice of such intended sale, and Non-Operator, for a period of sixty (60) days from and after receipt of such notice, shall have failed to revoke the authority of Operator to sell its share of such gas. All such sales by the Operator of a Non-Operator's production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such sale be for a period in excess of one (1) year.

9. ADDITIONAL DRILLING:

For purposes of this article, the term "drilling operation" shall include drilling, completing, testing and (if a producer) the installation of lease equipment for a new well so as to enable delivery of such production to the purchaser or so as to enable such production to be transported from the premises, or (if a dry hole) plugging and abandonment, and shall include a reworking operation costing in excess of \$5,000.00, recompletion, multiple completion, deepening or plugging back of an existing well, and the acquiring of any additional equipment related thereto, but shall not include any simple workover or other operation performed to maintain, increase or restore production not costing in excess of \$5,000.00. No drilling operation which is not expressly provided for in this article shall be undertaken on said lease acreage for the joint account of the parties without the mutual agreement of all of the parties hereto.

If all of the parties hereto cannot mutually agree upon a proposed drilling operation, the party (whether one or more) desiring to conduct such operation (hereinafter referred to as "drilling party"); may do so after notifying the other parties in

writing of such desire, specifying the location and type of operation contemplated and the estimated costs thereof, including the estimated costs if a dry hole or if a producer. The other parties shall have twenty (20) days, exclusive of Saturdays, Sundays and holidays, from receipt of such notice within which to notify the drilling party in writing as to whether or not such party elects to join in the drilling operation. If such notice involves a drilling operation on a well actively rigged for drilling, then a written reply as to whether or not a party elects to participate therein shall be required within forty-eight (48) hours after receipt of such notice, exclusive of Saturdays, Sundays and holidays. The failure of a party to notify drilling party in writing within the time required shall constitute an election not to join in the drilling operation.

If all of the parties hereto mutually agree to the drilling operation, then such operation shall be conducted by the Operator hereunder for the joint account of the parties. If all of the parties do not agree to the drilling operation, then the drilling party shall conduct such operation hereunder at drilling party's sole cost, risk and expense. If Operator is one of the drilling parties, the drilling operation shall be conducted by Operator, but if Operator is not one of the drilling parties, then the drilling operation shall be conducted by a party designated by drilling parties.

If all of the parties hereto do not participate in the drilling operation and if the same results in production, then the drilling party shall own all production from said well and all equipment placed thereon by the drilling party until such time as the drilling party has received revenue from production from said well that otherwise would have been payable to the non-drilling party or parties (exclusive of royalties, overriding royalties and any other payments out of production to which the non-drilling party's interest was subject at the time of the execution of this Operating Agreement) an amount in excess of taxes on production equal to:

(1) Two Hundred Per Cent (200%) of the proportion of the cost incurred in the drilling operation that otherwise would have been payable by the non-drilling party or parties; and

(2) One Hundred Per Cent (100%) of the proportion of the costs and expenses incurred in operating the well that otherwise would have been payable by the non-drilling party or parties during the time required by the drilling party to recover the costs above specified.

After the drilling party has been so reimbursed and paid, the parties hereto shall participate in the ownership of material and equipment installed in connection with

such operation and in the production resulting from such operation in the ratio of their respective interests in the lease acreage covered hereby; and thereafter, the well involved shall be operated by Operator as a well drilled with the mutual consent of the parties hereto for the joint account in accordance with the provisions of this agreement. If the amounts to be reimbursed as specified above are not fully reimbursed as specified herein but if, by adding the salvage value of the equipment obtained and used by drilling party in the operation undertaken the reimbursement would exceed the amounts specified to be reimbursed, then such excess amount shall be credited or distributed to the drilling and non-drilling parties according to their respective interests. During such time as the drilling party is operating said well and receiving production therefrom, said drilling party agrees to furnish the non-drilling party or parties a monthly statement, segregated by costs, expenses and revenue, showing the status of the payout of said well. All such costs and expenses shall be determined in accordance with the applicable terms and provisions of this Operating Agreement and Exhibit "B", Accounting Procedure, attached hereto.

No drilling operation shall be conducted on a well which is producing in paying quantities without the mutual consent of the parties hereto owning a majority interest of the leasehold estate in the land upon which the well is situated.

If, under any provisions of this Article 9, more than one party hereto has either (a) the obligation to participate in costs, expenses or risks or (b) the right to receive the payment of money or production from a well, working interest or leasehold estate, said parties shall participate therein (unless otherwise agreed by the parties involved) in the ratio of their respective interests in the lease acreage upon which the well is located at the time said operation was undertaken.

10. GEOPHONE AND CONTINUOUS VELOCITY SURVEYING INSTRUMENTS:

In the event parties hereto mutually agree toward the drilling of a test well, then Operator shall notify the Non-Operator approximately forty-eight (48) hours in advance of the time that Operator anticipates reaching the depth mutually agreed upon for the drilling of such test well hereunder and thereafter shall notify Non-Operator when such depth has been reached. At the time of giving the latter notice, unless it is necessary to perform and evaluate additional tests necessary to make a determination of the nature of the next operation in said well, in which event notice will be given with as little lost time as possible, Operator shall notify Non-Operator whether Operator proposes to plug and abandon said well, or whether Operator proposes to make further tests, or whether Operator intends to complete said well as a producer of oil or gas, or both oil and

gas, specifying what formations are to be tested further, or in what formation completion is to be attempted. Non-Operator shall have six (6) hours from and after receipt of the latter notification within which to advise Operator whether or not Non-Operator elects to conduct the tests for which provision is made hereinafter; and failure so to notify Operator within said six- (6-) hour period shall be deemed to constitute a decision not to conduct such tests. If Non-Operator notifies Operator that Non-Operator elects to conduct such tests, then Operator shall permit Non-Operator, at Non-Operator's sole expense, to lower a geophone and any type of continuous velocity surveying instrument in said well for the purpose of making a velocity survey and to run any other type down hole surveys or tests desired by Non-Operator. During the time Non-Operator is conducting any such surveys or tests, Non-Operator shall bear all costs of standby time on the drilling rig at the rate which may be specified in Operator's contract with the drilling contractor for said well; and, if Operator is drilling said well with Operator's own or rented equipment, then Non-Operator shall pay Operator at the standby rate customary in the area in which the well is drilled. Standby time shall begin to accrue subsequent to six (6) hours after Non-Operator has received the latter notice, if Non-Operator has notified Operator that it desires to conduct the tests. If said test well is dry and Operator has determined that it should be plugged and abandoned upon the completion of the tests being made by Non-Operator, then Non-Operator shall be under no liability to the other parties in the event the instrument lowered in the hole, or cable (or both), should be lost in the hole, unless such would result in additional expense to Operator in complying with plugging regulations of the State or Federal authority having jurisdiction thereof; and, should such additional expense result, Non-Operator shall be liable and shall bear and pay such additional expense. If Operator has previously notified Non-Operator that Operator wishes to test certain specified horizons upon completion of the tests being conducted by Non-Operator, or that Operator intends to complete said well as a producer of oil or gas (or both oil and gas), then, in the event Non-Operator should damage the drill hole, Non-Operator's liability shall be limited to, and Non-Operator shall bear, the costs of restoring the drill hole to as usable and workable condition as that which existed prior to the tests conducted by Non-Operator; and, if the damaged drill hole cannot be restored to a condition which will permit its utilization for the purposes Operator contemplated as aforesaid, then Non-Operator shall bear and pay the cost of drilling a hole to the depth at which the specified formations were encountered concerning which Operator has previously advised Non-Operator that further tests were to be

made, or to the depth at which Operator had previously advised Non-Operator completion as a producer would be attempted. The cost of drilling a hole to the depth at which the specified formations were encountered shall be deemed to be inclusive of a whip-stock drilling operation to restore the damaged hole to usable condition. Non-Operator shall never be required to pay the costs of drilling a hole to the depth at which the specified formations were encountered unless and until the drilling operations are actually commenced and thereafter concluded in the specified formations with all due diligence. The benefits of this Article shall never inure to the advantage of a party who has not previously elected and agreed to participate in the drilling of the test well. Data obtained by a party hereunder shall never be subject to the provisions of Article 15 of this Exhibit.

11. ABANDONMENT OF WELLS:

No well which is producing or has once produced shall be abandoned without the mutual consent thereto of the parties hereto. If any party (whether one or more) desires to abandon a well and the other party (whether one or more) does not agree to abandon same, the party desiring to abandon shall so notify the other party in writing, and the latter shall have ten (10) days after the receipt of such notice in which to elect whether to agree to such abandonment. If the party receiving said notice elects to agree to such abandonment, such well shall be abandoned by the Operator at the expense of the joint account and as much as possible of the casing and other equipment in and on said well shall be salvaged for the benefit of the parties hereto. If the party receiving said notice fails so to make an election or elects not to agree to said abandonment, such party shall purchase the interest of the party desiring to abandon in said well, in the physical equipment therein and thereon and in that portion of the working interest and leasehold estate hereinafter in this Article 11 provided; and, within twenty-five (25) days after the receipt of said notice by the party not electing to abandon, the party desiring to abandon shall execute and deliver to the other party an assignment, without warranty of title, of its interest in said well and physical equipment and in the working interest and leasehold estate in a tract surrounding said well of an area equal to that prescribed for one well by the spacing rule of state or federal authority; provided, that, if there be no such established spacing rule, the assignment shall cover the interest of the party desiring to abandon in said well and physical equipment and the working interest and leasehold estate in the forty (40) acres surrounding said well if it is an oil well or in the six hundred and forty (640) acres surrounding said well if it is a gas well, as nearly as possible in the form of a square, with said well in the approximate center thereof; and provided, further,



that such assignment shall convey the assignor's leasehold estate in the particular horizon from which said well is producing, or last produced, but shall not include any other well or any other formation or horizon. In exchange for said assignment, the purchasing party shall pay to the assigning party the salvage value of the latter's interest in the salvageable casing and other physical equipment in and on said well, such value to be determined in accordance with the provisions of the Accounting Procedure, being said Exhibit "B".

If, under any provision of the last preceding paragraph of this Article 11, more than one of the parties hereto has either (a) the obligation to pay money or to assign interests in a well, physical equipment or working interest and leasehold estate or (b) the right to receive the payment of money or an assignment of any interest in a well, physical equipment or working interest and leasehold estate, said parties shall pay said money, make such assignment, receive and divide such payment or take the interest so assigned, as the case may be, (unless otherwise specifically agreed by the parties involved) in the ratio of their respective interests in the lease acreage covered hereby prior to any such assignment.

12. TAXES:

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

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

of outstanding excess royalties, overriding royalties, and production payments.

In the event that any taxable valuation is assessed upon or against said property or any portion thereof, which the Operator deems to be unreasonable, it shall be the duty of the Operator to protest said taxable valuation within the time and manner as prescribed by law and to prosecute such protest to a final determination unless the parties agree to abandon such protest prior to final determination. When any such protested valuation of such property shall have been determined, the Operator shall pay for the joint account the taxes thereon, together with any interest or penalty accrued by reason of such protest, and shall bill the Non-Operator for its proportionate share of such payments in accordance with the Accounting Procedure, being said Exhibit "B".

13. OPTION TO PURCHASE:

In the event that any party hereto receives a bona fide offer which it is willing to accept for the purchase of such party's lease or leases covered hereby, or any part thereof or interest therein, from a person, firm or corporation ready, able and willing to purchase such lease or leases, or part thereof or interest therein, the party hereto receiving said offer immediately shall give written notice thereof to each of the other parties hereto, including in said notice the name and address of such offeror, the price offered and all other pertinent terms and conditions of the offer. The other parties hereto, for a period of fifteen (15) days after the receipt of said notice, shall have the prior and preferred right and option, in the ratio of their respective interests in the lease acreage covered hereby, to purchase the lease or leases, or part thereof or interest therein, covered by said offer, at the price and according to the terms and conditions specified in said offer.

If more than one of the other parties hereto desire to exercise such right and option, such parties shall purchase the lease or leases, or part thereof or interest therein, covered by said offer in the ratio of their respective interests in the lease acreage covered hereby.

If only one of the other parties hereto desires to exercise such right and option, it shall have the right to purchase all the rights and interests covered by said offer. If none of the other parties hereto exercises said right and option by giving written notice of its acceptance within fifteen (15) days after receipt of the above mentioned notice, the party which received said offer shall accept said offer and complete said sale to the offeror in accordance with said offer within sixty (60) days after the expiration of said period of fifteen (15) days; provided, that, if the

party which received said offer fails to accept said offer or to complete said sale within said period of sixty (60) days, the preferred right and option of the other parties hereto under this Article 13 shall be considered as revived, and the party which received said offer shall not complete said sale to said offeror unless and until said offer again has been presented to the other parties hereto, as hereinabove provided, and said other parties again have failed to elect to purchase on the terms and conditions of said offer. All offers at any time made to any party hereto for the purchase of its lease or leases covered hereby, or part thereof or interest therein, shall be subject to all the terms and conditions of this Article 13. In the event any offer to purchase which any party hereto is willing to accept includes other leases or properties in addition to the lease acreage, or part thereof, covered hereby, then, during the period of time above provided, the other parties hereto shall have the prior and preferred right to purchase such lease acreage, or part thereof, segregated from the other leases or properties included in such offer and at the fair cash market value thereof as of the date of such offer.

The provisions of this Article 13 shall not apply to a transfer by a corporate party hereto made in connection with any transaction between such party and its parent, subsidiary or an affiliated company.

14. RELATION OF PARTIES:

The rights, duties, obligations and liabilities of the parties hereto shall be several, and not joint or collective, it being the express purpose and intention of the parties hereto that their ownership in the lease acreage covered hereby shall be as tenants in common; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any or all of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations, as set out in this Agreement.

Each party hereto hereby elects to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, insofar as such Subchapter or any portion or portions thereof may be applicable to the parties in respect to the operations covered by this Agreement. Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such additional or further evidence of said election as may be required by regulations issued under said Subchapter K, or, should said regulations require each party to execute such further evidence, each party agrees to execute such evidence, or to join in the execution

thereof.

15. ACCESS TO PREMISES, LOGS AND REPORTS:

The Operator shall keep accurate logs of all wells drilled on said lease acreage, which logs shall be available at all reasonable times for inspection by the Non-Operator. Upon request by a Non-Operator, the Operator shall furnish to such Non-Operator copies of said logs, samples of cores and cuttings of formations encountered; and monthly reports relative to the development and operation of said lease acreage, together with any other information which may be reasonably requested pertaining to such wells. The Non-Operator shall have access to said lease acreage and to all books and records pertaining to operations hereunder for the purpose of inspection at all reasonable times.

16. SURRENDER, EXPIRATION, ABANDONMENT OR RELEASE OF LEASE:

No lease or leases covered hereby shall be surrendered, let to expire, abandoned or released, in whole or in part, unless the parties hereto mutually consent thereto in writing. In the event that less than all the parties hereto should elect to surrender, let expire, abandon or release all or any part of a lease or leases covered hereby and the other party (whether one or more) does not consent or agree thereto, the party (whether one or more) so electing shall notify the other party not less than sixty (60) days in advance of such surrender, expiration, abandonment or release and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party all its rights, title and interest in and to said lease or leases, the well or wells located thereon and the casing and other physical equipment in or on said well or wells. If the party not so electing fails to request such assignment within said period of sixty (60) days, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases or any part thereof. In the event such assignment is so requested, the party to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the salvageable casing and other physical equipment in or on the assigned lease acreage. said value to be determined in accordance with the provisions of the Accounting Procedure, being said Exhibit "B". After the delivery of any such assignment, the party making the assignment shall be released from and discharged of all the duties and obligations thereafter accruing or arising hereunder with respect to the assigned lease or leases in connection with the operation and development of the lease acreage. If more than one of the parties hereto are assignees in any such assignment, such as-

signees shall take the rights, property and interests assigned thereby, and shall pay said salvage value in the ratio of their respective interests in the lease acreage covered thereby just prior to the assignment.

17. LAWS AND REGULATIONS:

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

18. FORCE MAJEURE:

In the event that any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, other than the obligation to make payments of amounts due hereunder, upon such party's giving notice and reasonably full particulars of such force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, the obligations of the party giving said notice, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure as far as possible shall be remedied with all reasonable dispatch.

The term "force majeure" as employed herein shall mean an act of God, strike, lockout or other industrial disturbance, act of the public enemy, war, blockade, riot, lightning, fire, storm, flood, explosion, governmental restraint, and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension.

The settlement of strikes, lockouts and other labor difficulties shall be entirely within the discretion of the party having the difficulty. The above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts or other labor difficulty by acceding to the demands of opponents therein when such course is inadvisable in the discretion of the party having the difficulty.

19. CONTRIBUTIONS FROM OTHERS:

If any party hereto at any time while this agreement is in force receives

a contribution of cash or acreage, or both, toward the drilling of any well upon the lease acreage covered hereby, said contribution shall be owned by the parties hereto in the ratio of their respective interests in said well. All cash contributions so received shall be paid to the Operator and by it credited to the parties hereto according to their respective interests in said well; provided, that such portion of said cash contribution which is credited to each party hereto as is not required to liquidate any unpaid balance of indebtedness due by said party to the Operator shall be paid by the Operator to such party. In the event that an acreage contribution is made to one of the parties hereto, the party to which such contribution is made shall promptly execute and deliver to the other parties hereto an assignment, without warranty, covering proportionate interests in said acreage equal to their respective interests in the well for which said contribution was made.

20. EFFECT OF AGREEMENT:

The terms, covenants and conditions of this agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors (or heirs) and assigns; and said terms, covenants and conditions shall be covenants running with the land and leasehold estates covered hereby and with each transfer or assignment of said land or leasehold estates.

21. ROYALTY, OVERRIDING ROYALTIES, PRODUCTION PAYMENTS, ETC.:

All royalty, overriding royalties, production payments, carried working interests, net profits obligations, and royalty in excess of one-eighth (1/8), to which any party's lease covered hereby is subject, shall be borne and paid by such party in accordance with the provisions of the lease, assignment or other instrument creating or pertaining to such obligations.

## EXHIBIT " B "

Attached to and made a part of Unit Operating Agreement, Long  
Draw Unit, County of Eddy, State of New Mexico

# ACCOUNTING PROCEDURE (JOINT OPERATIONS)

## I. GENERAL PROVISIONS

### 1. Definitions

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

### 2. Conflict with Agreement

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

### 3. Collective Action by Non-Operators

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

### 4. Statements and Billings

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

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

### 5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

### 6. Adjustments

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

### 7. Audits

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

## II. DIRECT CHARGES

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

### 1. Rentals and Royalties

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

### 2. Labor

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

3. **Employee Benefits**

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost; provided however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

4. **Material**

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

5. **Transportation**

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
- C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.

6. **Services**

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 3 of this Section II and Paragraph 2 of Section III.
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. **Damages and Losses to Joint Property**

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. **Legal Expense**

All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

9. **Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

10. **Insurance Premiums**

Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.

11. **Other Expenditures**

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.

**III. INDIRECT CHARGES**

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

**OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:**

- ☐ Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- ☒ Paragraph 4. (Combined fixed rate)

1. **District Expense**

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's ..... office located at or near ..... (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. **Administrative Overhead**

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

**WELL BASIS (RATE PER WELL PER MONTH)**

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.



3. **Operator's Fully Owned Warehouse Operating and Maintenance Expense**  
(Describe fully the agreed procedure to be followed by the Operator.)

4. **Combined Fixed Rates**

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

**WELL BASIS (RATE PER WELL PER MONTH)**

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
0-4000'	\$325	\$ 65	\$ 60	\$ 45
4000-8000'	475	95	80	65
8000-12000'	575	115	100	85
Over 12000'	650	130	115	100

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

5. **Application of Administrative Overhead or Combined Fixed Rates**

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

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

**IV. BASIS OF CHARGES TO JOINT ACCOUNT**

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

1. **Purchases**

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

2. **Material furnished from Operator's Warehouse or Other Properties**

A. **New Material (Condition "A")**

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which cannot be classified as Condition "B" but which,
  - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
  - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

(4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

### 3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

### 4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

### 5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

## V. DISPOSAL OF MATERIAL

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

### 1. Material Purchased by the Operator or Non-Operators

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

### 2. Division in Kind

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.

### 3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

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

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

### 1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

### 2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

### 3. Good Used Material

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or

B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

### 4. Other Used Material

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

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

### 5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

### 6. Junk Material

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

### 7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

## VII. INVENTORIES

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

### 1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator, who shall in that event furnish Non-Operators with a copy thereof.

### 2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

### 3. Special Inventories

Special inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

Exhibit "C"

OWNERSHIP SCHEDULE  
LONG DRAW UNIT AREA

Tract No.	Working Interest Owner	Net Acres in Unit Area	Per Cent of Acreage Committed to Unit	Per Cent of Participation in Cost of Drilling and Completing First Test Well	Per Cent of Cost of Drilling and Completing Subsequent Wells	Per Cent of Production in Production of All Wells After Royalty, Cost of Royalty and Production
1, 3, 5, 8	California Oil Company	220.00	26.87417	None	6.71854	6.69
2, 7	Leonard Oil Company	714.79	21.82885	21.82885	21.82885	22.18
4, 6	Gulf Oil Corporation	80.00	2.44310	2.44310	2.44311	2.43
10, 11, 13, 14, 15-A, 16, 1, 3, 5, 8	Pan American Petroleum Corporation	1619.73	29.30903	56.18320	49.46465	49.24
12	Union Oil Company of California	640.00	19.54485	19.54485	19.54485	19.43
9	Thomas Connell	80.00	None	None	None	None
15	Hondo Oil & Gas Company	160.00	None	None	None	None
		3514.52	100.00000%	100.00000%	100.00000%	100.00

NOTE: Since Hondo Oil & Gas Company and also Thomas Connell et ux. are uncommitted to this Unit Operating Agreement as of the date hereof, their net acreage has been excluded, leaving a balance of 3,274.52 acres, which figure was used for the above computations.

Exhibit "C"

OWNERSHIP SCHEDULE  
LONG DRAW UNIT AREA

Interest Owner	Net Acres in Unit Area	Per Cent of Acreage Com- mitted to Unit	Per Cent of Parti- cipation in Cost of Drilling and Completing First Test Well	Per Cent of Cost of Drilling and Completing Sub- sequent Wells	Per Cent of Participa- tion in Production from All Wells After Payment of Royalty, Overriding Roy- alty and Production Payments
1 Company	220.00	26.87417	None	6.71854	6.69768
Company	714.79	21.82885	21.82885	21.82885	22.18456
oration	80.00	2.44310	2.44310	2.44311	2.43552
Petroleum	1619.73	29.30903	56.18320	49.46465	49.24831
pany of	640.00	19.54485	19.54485	19.54485	19.43393
1	80.00	None	None	None	None
Gas	160.00	None	None	None	None
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	3514.52	100.00000%	100.00000%	100.00000%	100.00000%

NOTE: Since Hondo Oil & Gas Company and also Thomas Connell et ux. are uncommitted to this Unit Operating Agreement as of the date hereof, their net acreage has been excluded, leaving a balance of 3,274.52 acres, which figure was used for the above computations.

3-18-64

April 8 Glenview

DOCKET No. 100

3-27-64

Telephone from John Thompson, Pan Am, Lubbock  
Long Draw comprising 35 1/4. 52  
acres State & Fed land

T 20 S R 23 E 24 E Eddy County

Case No

Agree of Pan American Petroleum  
Corporation for a unit agreement, Eddy  
County, New Mexico. Agree in the above-  
styled cause, seeks approval of the  
Long Draw Unit Area comprising  
35 1/4 acres, more or less, of State  
and Federal lands in Township 20  
South, Range 23 and 24 East,  
Eddy County, New Mexico.

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
April 8, 1964

Examiner HEARING

IN THE MATTER OF:

Application of Pan American Petroleum  
Corporation for a unit agreement, Eddy  
County, New Mexico.

Case No. 3025

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

DEARNLEY-MEIER REPORTING SERVICE, Inc.

FARMINGTON, N. M.  
PHONE 325-1182

SANTA FE, N. M.  
PHONE 983-3971

ALBUQUERQUE, N. M.  
PHONE 243-6591



MR. NUTTER: We will call Case 3025.

MR. DURRETT: Application of Pan American Petroleum Corporation for a unit agreement, Eddy County, New Mexico.

MR. MALONE: May it please the Commission, Charlie Malone of Atwood and Malone, for the applicant. We have two witnesses and six exhibits. Could our witnesses be sworn?

(Witnesses sworn.)

(Whereupon, Applicant's Exhibits 1 through 6 marked for identification.)

JOHN H. THOMPSON, called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MALONE:

Q Would you please state your name and your business address?

A John H. Thompson, of Lubbock, Texas.

Q Your occupation, Mr. Thompson?

A I'm Staff Landman for Pan American Petroleum Corporation at Lubbock.

Q Is the area involved in this application under the jurisdiction of your office?

A Yes, it is.

Q Are you personally familiar with the application and its contents?

A Yes, I am.



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General Court Reporting Service

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PAGE 3

Q Briefly, what does the applicant seek here?

A We seek the approval of the Long Draw Unit Area comprising approximately 3514 acres in Township 20 South, Ranges 23 and 24 East, Eddy County, New Mexico.

Q Does Pan American have any specific desires with respect to the information which will be put in the record today?

A Yes. We would like for the information to be kept confidential for a limited time.

Q Referring now to what has been marked as Exhibit 1, would you state what this is, please?

A That is the proposed form of unit agreement.

Q What form was used for drafting this exhibit?

A Its the model form revised according to the present regulations.

Q And in speaking of the model form, you mean the one prescribed by the Code of Federal Regulations for Federal Lands?

A That is right.

Q Has the form, as shown in Exhibit 1, been approved by the Commissioner of Public Lands?

A It was approved, but there have been some modifications in it, in accordance with the request of the U. S. Geological Survey.

Q And have those changes requested by the United States Geological Survey been submitted to the Commissioner?





DEARNLEY, MEIER, WILKINS and CROWNOVER

General Court Reporting Service

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PAGE 4

A They were submitted yesterday, and Mrs. Reah, R-e-a-h, of the Commissioner's Office, advised me verbally this morning that she had no objection to these changes.

Q Will you be willing to obtain from Mrs. Reah a letter affirming the approval of the Commissioner to these changes and furnish it to the Commission?

A Yes, I am willing.

Q With respect to Exhibit Number 2, does this represent the original letter from the Commissioner approving the form of the unit agreement?

A Yes, it does.

Q Prior to these last minute changes that you mentioned?

A Yes, it does.

Q Does Exhibit Number 3 represent the approval by Arthur Baker, the Accounting Director of the United States Geological Survey, of the form of the unit agreement?

A Yes, it does.

Q I notice in the center paragraph in Exhibit Number 3 the letter of Mr. Baker, that he has stated that there were some changes made in colored pencil on the form submitted to him. Have those changes which he mentioned, been made prior to today, and are they reflected in Exhibit 1?

A Yes, they are.

Q Would you state briefly the situation which exists today



with respect to joinder of owners of working interests in the proposed Unit Area?

A All of the parties owning working interest in the Unit Area have agreed to commit their acreage with the exception of Tract Number 9, which is an 80 acre tract owned by Thomas Connell, who at the present time says he is willing to sign the unit agreement but not the unit operating agreement, which of course, would not be a commitment, and therefore that is something we shall have to work out. However, the size of the tract and its location, we do not believe, will interfere with the operation of the unit.

Q For the clarity of the record this Connell tract, which you designated as Number 9, appears on Exhibit A to the Unit Agreement, and this Exhibit A for the ready reference of the Examiner has a paper clip on it. It's toward the back of the Unit Agreement. This Connell tract is in the extreme northwest part of the proposed unit, is that correct?

A That is correct. In addition to that we do not have the commitment of Hendo Oil and Gas Company of Tract 15, which is a 160 acre tract in the southeast corner, and the reason they do not wish to commit that at this time is that their lease comprises the south half of Section 36, in addition to the northwest quarter of Section 36.

Q And it is the northwest quarter of 36 which is designated Tract 15 in the proposed area?



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PAGE 6

A That is correct. However we feel that this will not interfere also with the operation of the unit.

Q The total acreage in the two tracts you've mentioned, 9 and 15, referred to as Connell and Hondo, is a total of 240 acres out of the proposed area of 3,514, is that correct?

A That is correct. I might mention that in connection with Tract 12, which is owned by Union Oil Company, covering all of Section 25, the ratification of the unit and the unit operating agreement, has been recommended by their District Office at Roswell and by their Division Office at Midland to their California Executive Committee, but due to the shortness of time the Executive Committee in California has not yet acted, or at least early this morning; however, they do expect approval momentarily.

Q Is it true that you have some deadlines in connection with these leases which has caused the proposal of this unit to be done rather quickly?

A Yes, it is. Two of the Federal leases expire on April 30, 1964. Inasmuch as neither one of them are the drill site, why these leases will expire on that date unless the unit is approved by both the State and the United States Geological Survey, and the drilling of the well commenced prior to that time.

Q What does the unit agreement provide now with respect to joinder of uncommitted interests?



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PAGE 7

A There is the usual provision for subsequent joinder in both the unit agreement and the unit operating agreement.

Q Is there anything further that you wish to state with respect to the ownership of the lands as reflected on Exhibit A contained in Commission Exhibit 1. What is the percentage of the Federal and State ownership, and is there any Fee ownership?

A There is no fee ownership and the area comprises approximately 90 percent Federal land and 10 percent State land.

Q Under the proposed unit agreement, what is the drilling operation of the operator with respect to depth?

A The unit agreement the obligation is to test all forms of Pennsylvanian age. We are proposing maximum depth of 9300 feet, which we believe will penetrate the Mississippian formation probably 200 feet, so that we feel that it will be adequately tested.

Q In other words, you feel that you will go beyond the Pennsylvanian something like 200 feet?

A That is correct.

Q What is your Exhibit Number 4, please?

A Exhibit Number 4 is our prepared unit operating agreement which has been submitted to all parties.

Q Were Exhibit Number 1, the proposed unit agreement, and 4, the operating agreement, prepared either by you or under your direct supervision?



A Yes, they were.

Q In your opinion in the handling of oil and gas lands and leases, would the approval of this application by the Commission tend to prevent waste and protect correlative rights?

A In my opinion it would.

Q Do you have anything further that you wish to add to your testimony at this time?

A Only that we would certainly appreciate prompt action by the Commission in order that we can accomplish this purpose by April 30th.

MR. MALONE: That concludes the direct examination of this witness.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Thompson, I misunderstood you I think. At first didn't you state that all the working interests has agreed to sign except Tract 9 and 15, or did you state that they had signed?

A No.

Q And then that would exclude Tract 12?

A I probably should correct that, that due to the short length of time since the United States Geological Survey approved our form, which was just last Thursday evening, why we have been working pretty hard to get those, and so that we have pretty well assured as to Tract 12, by both the District and Division offices



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of Union, and they tell us that in 99 percent of the cases which they have submitted to their California office they have received approval.

Q The other working interest owners being California Company, Leonard, --

A Gulf.

Q Gulf and Pan American?

A Pan American, they have all agreed.

Q Have they actually signed?

A They have not signed. We do have telegraph commitments from each one, but they are willing to sign them.

MR. NUTTER: Any other questions of Mr. Thompson? You have another witness to testify to the geology?

MR. MALONE: Yes, Mr. Examiner.

MR. NUTTER: Mr. Thompson may be excused.

(Witness excused.)

H. P. TEEL, called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MALONE:

Q Would you please state your name and business address?

A H. P. Teel, Pan American Petroleum Corporation, Lubbock, Texas.

Q Your occupation?



A I am District Geologist for Pan American .

Q Mr. Teel, are you familiar, personally, with the matters dealt with in this application?

A Yes, sir, I am.

Q You have not previously testified before this Commission on matters of geology, is that correct?

A That is correct.

Q Would you briefly state your training and experience in this field?

A Yes, sir. I graduated from the University of Texas in 1939 with a Bachelor of Science in Geology. I have worked 17 years for Pan American Petroleum Corporation, the last ten years being District Geologist, the last five years I have been handling Southeastern New Mexico.

Q And the area in this application is under your jurisdiction at Lubbock?

A Yes, sir.

MR. MALONE: Would the qualifications of this witness be satisfactory?

A Yes, sir, they are.

Q Refer now to Exhibit 5; would you state what that is?

A Yes, sir. Exhibit 5 is an isopac map of the Grosse-Abe reef which includes the proposed Long Draw Unit. The area outlined in red, of course, being the Long Draw Unit; the green



colored areas being the trend of the Abo reef. The Abo reef is pretty well defined by control that we have both at the north and the south end of the maps, and we know from past history that the Abo reef is not continuous around the rim of the Delaware Basin, but that it is breached or interrupted in many places. We have an indication here in Section 21 that the northeast corner of the Long Draw Unit, the Carper Drilling Company Number C, Number 1-A which had zero feet of reef, that indicated a breach in the reef at this point. We also have a gravity minimum in this area which back up this particular breaching. At the southeast end of the proposed unit --

Q Pardon me for interrupting. Is that southwest?

A Southwest, I beg your pardon. At the southwest corner of the proposed Long Draw Unit our gravity information again indicates that we have a breach in the reef. Also on our enclosure Number 6 we can indicate breaching on another map.

Q That's the exhibit which you will discuss next?

A Yes.

Q Would you go to that now, just to clarify that point, please?

A All right. You will note that the proposed Long Draw Unit on Exhibit Number 6 is a structure map of the top of the Cinco. Over this proposed unit we have a very very strong nose. We have a syncline located to the northeast end of the unit, which





is also backed up by gravity and also by the Carper Well which has no reef.

At the southwest corner of the area we have a breach in the reef which is backed up by gravity and also indicated by this syncline on the contour map.

Q That syncline you mentioned at the southwest corner of the proposed unit area, is the nose extending from the lower right side to the upper left side of the southwest corner of the unit?

A That is correct.

Q Why have you depicted Abo as you evaluate it here on Exhibit 5, why is the Abo pertinent?

A We believe that it is the primary objective within this particular area. As I further stated, we generally know where the reef trends through this area. We think, we know that the reef is tilted to the northeast and if such breaching occurs at the southwest corner of the unit which we believe, then there's an excellent possibility for an Abo reef field in this area.

Q I notice on your other map you have shown on there zones.

A Yes, sir.

Q What is the opinion of the applicant, or your opinion, I should say, with respect to these other zones, and possible production?

A We think that the proposed Long Draw Unit has three possible pay zones within the area. You will note to the north of



the unit some seven or eight miles, in Section 18 we have the Tom Brown Drilling Company well.

Q You are referring now to Exhibit 6, aren't you?

A Exhibit 6, yes, sir. Which was completed from a Cisco Carbonate for 2.2 million cubic feet of gas per day. You have the Brown well to the south, Brown Number 1, and Antelope 6-N. It was dense in this zone and also dense in Tom Brown Number 1 Kewanee in Section 2. Therefore, we believe that porous carbonate swings to the east of both of the Brown wells, and swings around this nose. Therefore, in this particular unit area we have an excellent chance for Upper Cisco carbonates producing similar to the Tom Brown well here in Section 18.

Furthermore, now we have the Morrow production, which has been established in the Brown Number 1 Kewanee located in Section 2. It was completed for 2.6 million cubic feet of gas per day. We also, further to the south in the most active area in New Mexico is the Indian Basin country producing from the Cisco Canyon, and drilled from the Morrow. Most of the wells down here, which there are some ten or twelve, in number, are producing from the Morrow. The highest potential is in the Ralph Low Number 1-A Indian Basin, which completed for 15,000,000 cubic feet of gas from the Morrow. Therefore, we are sitting between the two Morrow producers.

Q Referring to the Ralph Low and the Tom Brown --



A Kewanee State.

Q --Kewanee State?

A Therefore, in this particular area we think we have a stacking of pay zones, being the Abo Reef of roughly 3950, the Cisco at 6450, the Atoka Morrow section at 8500 feet.

Q Is it the intention of the applicant in the test well under this proposed unit to test all of these three formations?

A Yes, sir. We plan to drill at least 200 feet into the Mississippian formation to be positive that we completely penetrate all of the Pennsylvanian.

Q In your opinion, would the unitization and operation of this proposed area under the proposed unit agreement tend to prevent waste and protect correlative rights in the area?

A Yes, sir, it would.

Q Were Exhibit Numbers 5 and 6 prepared by you or under your direct supervision?

A Yes, sir, they were.

Q Mr. Tool, do you have anything further that you wish to add to your testimony?

A No, sir, nothing further.

MR. MALONE: That completes the direct examination. We would move the admission in evidence of Exhibits 3 through 6.

MR. NUTTER: Pan American's Exhibits 1 through 6 will be admitted in evidence.



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General Court Reporting Service

Phone 243-6691

Albuquerque, New Mexico

Suite 1120 Simms Building

PAGE 15

(Whereupon, Applicant's Exhibits 1 through 6 were admitted in evidence.)

MR. NUTTER: Does anyone have any questions of Mr. Teel? He may be excused. You covered it pretty adequately.

(Witness excused.)

MR. NUTTER: You have nothing further, Mr. Malone?

MR. MALONE: Nothing further, Mr. Examiner.

MR. NUTTER: Does anyone have anything they wish to offer in Case 3025? We will take the case under advisement and recess the hearing until 1:30.

(Noon Recess.)



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Suite 1120 Simms Building Albuquerque, New Mexico Phone 243-6691

STATE OF NEW MEXICO )  
COUNTY OF BERNALILLO ) ss.

I, ADA DEARNLEY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 14th day of April, 1964.

*Ada Dearnley*  
Notary Public - Court Reporter

My Commission Expires:  
June 19, 1967

I do hereby certify that the foregoing is a correct copy of the proceedings in the case of *3026* held on *4/8* 1964.  
*James* Examiner  
New Mexico Oil Conservation Commission



BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
April 8, 1964

Examiner HEARING

IN THE MATTER OF:

Application of Pan American Petroleum  
Corporation for a unit agreement, Eddy  
County, New Mexico.

Case No. 3025

BEFORE: Daniel S. Matter, Examiner

TRANSCRIPT OF HEARING

DEARNLEY-MEIER REPORTING SERVICE, Inc.

FARMINGTON, N. M.  
PHONE 325-1182

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(Witnesses sworn.)

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A That is the proposed form of unit agreement.

Q What form was used for drafting this exhibit?

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Q And in speaking of the model form, you mean the one prescribed by the Code of Federal Regulations for Federal Lands?

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Q Has the form, as shown in Exhibit 1, been approved by the Commissioner of Public Lands?

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Q And have those changes requested by the United States Geological Survey been submitted to the Commissioner?





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PAGE 4

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Q Will you be willing to obtain from Mrs. Reah a letter affirming the approval of the Commissioner to these changes and furnish it to the Commission?

A Yes, I am willing.

Q With respect to Exhibit Number 2, does this represent the original letter from the Commissioner approving the form of the unit agreement?

A Yes, it does.

Q Prior to these last minute changes that you mentioned?

A Yes, it does.

Q Does Exhibit Number 3 represent the approval by Arthur Baker, the Accounting Director of the United States Geological Survey, of the form of the unit agreement?

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A Yes, they are.

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with respect to joinder of owners of working interests in the proposed Unit Area?

A All of the parties owning working interest in the Unit Area have agreed to commit their acreage with the exception of Tract Number 9, which is an 80 acre tract owned by Thomas Connell, who at the present time says he is willing to sign the unit agreement but not the unit operating agreement, which of course, would not be a commitment, and therefore that is something we shall have to work out. However, the size of the tract and its location, we do not believe will interfere with the operation of the unit.

Q For the clarity of the record this Connell tract, which you designated as Number 9, appears on Exhibit A to the Unit Agreement, and this Exhibit A for the ready reference of the Examiner has a paper clip on it. It's toward the back of the Unit Agreement. This Connell tract is in the extreme northwest part of the proposed unit, is that correct?

A That is correct. In addition to that we do not have the commitment of Hondo Oil and Gas Company of Tract 15, which is a 160 acre tract in the southwest corner, and the reason they do not wish to commit that at this time is that their lease comprises the south half of Section 36, in addition to the northwest quarter of Section 36.

Q And it is the northwest quarter of 36 which is designated Tract 15 in the proposed area?



A That is correct. However we feel that this will not interfere also with the operation of the unit.

Q The total acreage in the two tracts you've mentioned, 9 and 15, referred to as Connell and Hondo, is a total of 240 acres out of the proposed area of 3,514, is that correct?

A That is correct. I might mention that in connection with Tract 12, which is owned by Union Oil Company, covering all of Section 25, the ratification of the unit and the unit operating agreement, has been recommended by their District Office at Roswell and by their Division Office at Midland to their California Executive Committee, but due to the shortness of time the Executive Committee in California has not yet acted, or at least early this morning; however, they do expect approval momentarily.

Q Is it true that you have some deadlines in connection with these leases which has caused the proposal of this unit to be done rather quickly?

A Yes, it is. Two of the Federal leases expire on April 30, 1964. Inasmuch as neither one of them are the drill site, why these leases will expire on that date unless the unit is approved by both the State and the United States Geological Survey, and the drilling of the well commenced prior to that time.

Q What does the unit agreement provide now with respect to joinder of uncommitted interests?



A There is the usual provision for subsequent joinder in both the unit agreement and the unit operating agreement.

Q Is there anything further that you wish to state with respect to the ownership of the lands as reflected on Exhibit A contained in Commission Exhibit 1. What is the percentage of the Federal and State ownership, and is there any Fee ownership?

A There is no fee ownership and the area comprises approximately 90 percent Federal land and 10 percent State land.

Q Under the proposed unit agreement, what is the drilling operation of the operator with respect to depth?

A The unit agreement the obligation is to test all forms of Pennsylvanian age. We are proposing maximum depth of 9300 feet, which we believe will penetrate the Mississippian formation probably 200 feet, so that we feel that it will be adequately tested.

Q In other words, you feel that you will go beyond the Pennsylvanian something like 200 feet?

A That is correct.

Q What is your Exhibit Number 4, please?

A Exhibit Number 4 is our prepared unit operating agreement which has been submitted to all parties.

Q Were Exhibit Number 1, the proposed unit agreement, and 4, the operating agreement, prepared either by you or under your direct supervision?



A Yes, they were.

Q In your opinion in the handling of oil and gas lands and leases, would the approval of this application by the Commission tend to prevent waste and protect correlative rights?

A In my opinion it would.

Q Do you have anything further that you wish to add to your testimony at this time?

A Only that we would certainly appreciate prompt action by the Commission in order that we can accomplish this purpose by April 30th.

MR. MALONE: That concludes the direct examination of this witness.

#### CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Thompson, I misunderstood you I think. At first didn't you state that all the working interests has agreed to sign except Tract 9 and 15, or did you state that they had signed?

A No.

Q And then that would exclude Tract 12?

A I probably should correct that, that due to the short length of time since the United States Geological Survey approved our form, which was just last Thursday evening, why we have been working pretty hard to get these, and so that we have pretty well assured as to Tract 12, by both the District and Division offices



of Union, and they tell us that in 99 percent of the cases which they have submitted to their California office they have received approval.

Q The other working interest owners being California Company, Leonard, --

A Gulf.

Q Gulf and Pan American?

A Pan American, they have all agreed.

Q Have they actually signed?

A They have not signed. We do have telegraph commitments from each one, but they are willing to sign them.

MR. NUTTER: Any other questions of Mr. Thompson? You have another witness to testify to the geology?

MR. MALONE: Yes, Mr. Examiner.

MR. NUTTER: Mr. Thompson may be excused.

(Witness excused.)

H. D. TEEL, called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. MALONE:

Q Would you please state your name and business address?

A H. D. Teel, Pan American Petroleum Corporation, Lubbock, Texas.

Q Your occupation?



A I am District Geologist for Pan American .

Q Mr. Teel, are you familiar, personally, with the matters dealt with in this application?

A Yes, sir, I am.

Q You have not previously testified before this Commission on matters of geology, is that correct?

A That is correct.

Q Would you briefly state your training and experience in this field?

A Yes, sir. I graduated from the University of Texas in 1939 with a Bachelor of Science in Geology. I have worked 17 years for Pan American Petroleum Corporation, the last ten years being District Geologist, the last five years I have been handling Southeastern New Mexico.

Q And the area in this application is under your jurisdiction at Lubbock?

A Yes, sir.

MR. MALONE: Would the qualifications of this witness be satisfactory?

A Yes, sir, they are.

Q Refer now to Exhibit 5; would you state what that is?

A Yes, sir. Exhibit 5 is an isopac map of the Grosse-Abo reef which includes the proposed Long Draw Unit. The area outlined in red, of course, being the Long Draw Unit; the green



colored areas being the trend of the Abo reef. The Abo reef is pretty well defined by control that we have both at the north and the south end of the maps, and we know from past history that the Abo reef is not continuous around the rim of the Delaware Basin, but that it is breached or interrupted in many places. We have an indication here in Section 21 that the northeast corner of the Long Draw Unit, the Carper Drilling Company Number C, Number 1-A which had zero feet of reef, that indicated a breach in the reef at this point. We also have a gravity minimum in this area which back up this particular breaching. At the southeast end of the proposed unit --

Q Pardon me for interrupting. Is that southwest?

A Southwest, I beg your pardon. At the southwest corner of the proposed Long Draw Unit our gravity information again indicates that we have a breach in the reef. Also on our enclosure Number 6 we can indicate breaching on another map.

Q That's the exhibit which you will discuss next?

A Yes.

Q Would you go to that now, just to clarify that point, please?

A All right. You will note that the proposed Long Draw Unit on Exhibit Number 6 is a structure map of the top of the Cisco. Over this proposed unit we have a very very strong nose. We have a syncline located to the northeast end of the unit, which





is also backed up by gravity and also by the Carper Well which has no reef.

At the southwest corner of the area we have a breach in the reef which is backed up by gravity and also indicated by this syncline on the contour map.

Q That syncline you mentioned at the southwest corner of the proposed unit area, is the nose extending from the lower right side to the upper left side of the southwest corner of the unit?

A That is correct.

Q Why have you depicted Abo as you evaluate it here on Exhibit 5, why is the Abo pertinent?

A We believe that it is the primary objective within this particular area. As I further stated, we generally know where the reef trends through this area. We think, we know that the reef is tilted to the northeast and if such breaching occurs at the southwest corner of the unit which we believe, then there's an excellent possibility for an Abo reef field in this area.

Q I notice on your other map you have shown on there zones.

A Yes, sir.

Q What is the opinion of the applicant, or your opinion, I should say, with respect to these other zones, and possible production?

A We think that the proposed Long Draw Unit has three possible pay zones within the area. You will note to the north of



the unit some seven or eight miles, in Section 18 we have the Tom Brown Drilling Company well.

Q You are referring now to Exhibit 6, aren't you?

A Exhibit 6, yes, sir. Which was completed from a Cisco Carbonate for 2.2 million cubic feet of gas per day. You have the Brown well to the south, Brown Number 1, and Antelope 6-N. It was dense in this zone and also dense in Tom Brown Number 1 Kewanee in Section 2. Therefore, we believe that porous carbonate swings to the east of both of the Brown wells, and swings around this nose. Therefore, in this particular unit area we have an excellent chance for Upper Cisco carbonates producing similar to the Tom Brown well here in Section 18.

Furthermore, now we have the Morrow production, which has been established in the Brown Number 1 Kewanee located in Section 2. It was completed for 2.6 million cubic feet of gas per day. We also, further to the south in the most active area in New Mexico is the Indian Basin country producing from the Cisco Canyon, and dualled from the Morrow. Most of the wells down here, which there are some ten or twelve, in number, are producing from the Morrow. The highest potential is in the Ralph Lowe Number 1-A Indian Basin, which completed for 15,000,000 cubic feet of gas from the Morrow. Therefore, we are sitting between two known Morrow producers.

Q Referring to the Ralph Lowe and the Tom Brown --



A Kewanee State.

Q --Kewanee State?

A Therefore, in this particular area we think we have a stacking of pay zones, being the Abo Reef of roughly 3950, the Cisco at 6450, the Atoka Morrow section at 8500 feet.

Q Is it the intention of the applicant in the test well under this proposed unit to test all of these three formations?

A Yes, sir. We plan to drill at least 200 feet into the Mississippian formation to be positive that we completely penetrate all of the Pennsylvanian.

Q In your opinion, would the unitization and operation of this proposed area under the proposed unit agreement tend to prevent waste and protect correlative rights in the area?

A Yes, sir, it would.

Q Were Exhibit Numbers 5 and 6 prepared by you or under your direct supervision?

A Yes, sir, they were.

Q Mr. Teel, do you have anything further that you wish to add to your testimony?

A No, sir, nothing further.

MR. MALONE: That completes the direct examination. We would move the admission in evidence of Exhibits 1 through 6.

MR. NUTTER: Pan American's Exhibits 1 through 6 will be admitted in evidence.



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Suite 1120 Simms Building

Albuquerque, New Mexico

Phone 243-6691

PAGE 15

(Whereupon, Applicant's Exhibits 1 through 6 were admitted in evidence.)

MR. NUTTER: Does anyone have any questions of Mr. Teel? He may be excused. You covered it pretty adequately.

(Witness excused.)

MR. NUTTER: You have nothing further, Mr. Malone?

MR. MALONE: Nothing further, Mr. Examiner.

MR. NUTTER: Does anyone have anything they wish to offer in Case 3025? We will take the case under advisement and recess the hearing until 1:30.

(Noon Recess.)



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STATE OF NEW MEXICO )  
COUNTY OF BERNALILLO ) ss.

I, ADA DEARNLEY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 14th day of April, 1964.

*Ada Dearnley*  
Notary Public - Court Reporter

My Commission Expires:  
June 19, 1967

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 3025 heard by me on 4/8, 19 64.  
*[Signature]* Examined  
New Mexico Oil Conservation Commission



EXHIBIT "D"

March 10, 1964

GEOLOGICAL MEMORANDUM

CONCERNING

PROPOSED LONG DRAW UNIT  
T-20-S, R-23-&-24-E  
EDDY COUNTY, NEW MEXICO

The proposed unit is located approximately 24 miles west northwest of the city of Carlsbad, New Mexico, in the area of the origination of both the north and south prongs of Long Draw, including the S/2 of Section 24, all of Section 25, N/2 of Section 36, Township 20 south, Range 23 east, all Section 19, W/2 Section 20, and all of Sections 30 and 31, Township 20 south, Range 24 east, Eddy County, New Mexico. Since a high percentage of the acreage within this outline is Federal land, we believe it would be in the public interest to join them in a unit agreement before drilling a test well for oil and gas. It is recommended that the unitized substance include all horizons from the surface to the basement complex.

The primary objective within the recommended outline is dolomitized Abo age reefing. The attached isopachus map, Exhibit No. 1, shows an interpretation of the distribution of the gross reef interval in the area and within the proposed unit. The general trend of the reef is established by sparse but adequate well control in the area. This trend is further refined by using a shallow residual gravity map. It is well known that the Abo reef is not continuous around the rim of the Delaware Basin as it is interrupted or breached in many local areas. In western Eddy County an interruption can possibly be predicted by a gravity minimum and a possible commercial reef buildup might be portrayed by a gravity maximum. The unit is

EXHIBIT "D"

bounded on the northeast by a breach in the reef which is established by well control (Carper #1 "MA" in Section 21, Township 20 south, Range 24 east) and a gravity minimum. The unit is bounded on the southwest by another similar breach as indicated by a gravity minimum. The proposed unit includes gravity maxima interpreted as reef buildup. The trapping of oil and gas would be caused by the probable breaching at the southwest edge of the unit.

The attached structural contour map, Exhibit No. 2, contoured on the top of the Lower Cisco illustrates the Upper Cisco possibilities of the unit. The Upper Cisco shelf-edge carbonates which produces in the Tom Brown #1 Antelope Sink in Section 18, Township 19 south, Range 24 east, probably trends southward through the proposed unit due to the influence of the strong structural nosing as indicated on the exhibit. Production similar to the recent Morrow sand discovery, the Tom Brown #1 Kewanee State in Section 2, Township 20 south, Range 23 east, is also a good possibility in the proposed unit. Therefore, the unit outline embraces acreage where three possible pay horizons are stacked.

The following is a tabulation of the geological formations anticipated in this area as interpolated from nearby subsurface well control:

<u>Age</u>	<u>Formation</u>	<u>Approximate Depth</u>
Permian	San Andres	250'
	Yeso	2400'
	Abo	3950'
	Wolfcamp	5150'

-3-

<u>Age</u>	<u>Formation</u>	<u>Approximate Depth</u>
Pennsylvanian	Lower Cisco	6450'
	Canyon	7350'
	Strawn	7805'
	Atoka	8500'
Mississippian	Barnett	9100'

As possible pay zones include almost all of the formations through the Pennsylvanian, a test well is proposed in the SE/4 of Section 25, Township 20 south, Range 23 east, to an approximate total depth of 9300 feet in the Mississippian so that the entire prospective section can be penetrated and tested.

It is requested that the information contained herein and the exhibits attached hereto, be kept strictly confidential.

Very truly yours,

*B. F. Baldwin*

B. F. Baldwin  
Division Geologist for  
Pan American Petroleum Corporation