

Exhibit 1

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

INDEX

Acc. 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)

BEFORE EXAMINER MUTTER	
OIL CONSERVATION COMMISSION	
Appd	EXHIBIT NO. <u>1</u>
C. E. 100	<u>2025</u>

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
LONG DRAW UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO
NO. _____

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

WITNESSETH:

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

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

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

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

1 WHEREAS, the Oil Conservation Commission of the State of New Mexico is 1
2 authorized by 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

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

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

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

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

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

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

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

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between the unit agreement and the unit operating agreement, this unit agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor and two true copies with the Commissioner, prior to approval of this unit agreement.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator.

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

9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor if such location is upon lands of the United States, and if upon State or patented lands, such location shall be approved by the Commission and the Commissioner, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until all formations of Pennsylvanian age have been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor as to wells on Federal lands, or to the Commission and the Commissioner as to wells on State or patented lands, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 9,300 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 6 months between the completion of one well and the beginning of the next well, at locations approved by the Supervisor if such locations are on lands of the United States, and if upon State or patented lands at locations approved by the Commission and the Commissioner, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor and Commissioner or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.

Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

The Director and the Commissioner may modify the drilling requirements of this

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 addres- 5
6 ses, 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

proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director and the Commissioner and the Commission. No land shall be excluded from a participating area on account of depletion of the unitized substances.

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

In the absence of agreement at any time between the Unit Operator and the Director, the Commissioner and the Commission as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the United States and the State of New Mexico, which shall be determined by the Supervisor and the Commissioner, respectively, and the amount thereof deposited, as directed by the Supervisor and the Commissioner, respectively, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

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

Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

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

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

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

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

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operator on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

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

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director, the Commissioner and the Unit Operator prior to the approval of this agreement by the Director and the Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owners is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor and the Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Director or the Commissioner, provided that, as to state lands, subsequent joinder must be approved by the Commissioner.

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

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

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

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

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

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

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

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

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

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

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

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

UNIT OPERATOR

~~ATTTEST:~~

PAN AMERICAN PETROLEUM CORPORATION

~~Assistant Secretary~~

By _____
Attorney in Fact

DATE:

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

4-6-64

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 6th 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.

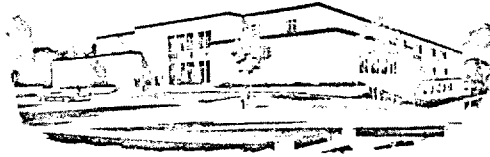
My commission expires:

Notary Public in and for

County, _____

John

State of New Mexico



Commissioner of Public Lands

E. S. JOHNNY WALKER
COMMISSIONER



P. O. BOX 791
SANTA FE, NEW MEXICO

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/mmr/v

