

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE GAVILAN UNIT AREA  
COUNTY OF RIO ARRIBA  
STATE OF NEW MEXICO

SAN JUAN GAS CORPORATION

EXHIBIT NO. 5

CASE NO. 1066

MAY 16, 1956

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

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 1956, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto",

W I T N E S S E T H:

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 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 resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an act of the Legislature (Chapter 88, Laws 1943) to consent to and approve the development or operation of lands of the State of New Mexico under this agreement; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by an act of the Legislature (Chapter 72, Laws 1935, as amended by Chapter 193, Laws of 1937, Chapter 166, Laws of 1941, and Chapter 168, Laws of 1949) to approve this agreement and the conservation provisions hereof; and

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

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

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

1. ENABLING ACT AND REGULATIONS.

The act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of New Mexico are hereby accepted and made a part of this agreement.

2. UNIT AREA.

The following-described land is hereby designated and recognized as constituting the unit area:

New Mexico Principal Meridian

Township 24 North, Range 2 West

Sections 1 and 2:	All
Section 3:	E/2, E/2 W/2
Section 10:	E/2
Sections 11 through 14, incl.:	All
Section 15:	E/2
Section 22:	E/2
Sections 23 through 27, incl.:	All
Section 33:	S/2
Sections 34 through 36, incl.:	All

Township 25 North, Range 2 West

Sections 1 through 30, incl.:	All
Sections 33 through 36, incl.:	All

containing 30,244.18 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as

"Commissioner", and not less than six (6) copies of the revised exhibits shall be filed with the Supervisor and copies thereof shall be filed with the Commissioner and the New Mexico Oil Conservation Commission, hereinafter referred to as the "Commission".

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

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

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

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

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the Director, <sup>the</sup> Commissioner and the Commission, become effective as of the date prescribed in the notice thereof.

(e) Notwithstanding any other provisions of this agreement, any lease, no portion of which is included within a participating area within five (5) years after the first sale of unitized substances from any lands subject hereto on or after the effective date of this agreement, shall be automatically

eliminated from this agreement and said lease, and the lands covered thereby, 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 drilling operations are in progress on such lease, in which event the lands covered by such lease shall remain subject hereto and within said unit area for so long as such drilling operations are continued diligently and, so long thereafter as such lands or any portion thereof may be included in a participating area hereunder. Inasmuch as any elimination under this section is automatic, the Unit Operator shall, within ninety (90) days after any such elimination hereunder, describe the area so eliminated, and promptly notify all parties in interest.

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.

San Juan Gas Corporation, an Oklahoma corporation with offices at Tulsa, Oklahoma, is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR.

Unit Operator shall have the right to resign at any<sup>1</sup>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 six (6) months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Director,<sup>the</sup> Commissioner and the Commission, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and by the Commission as to other lands, 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, at any time for any reason whatsoever there is no Unit Operator, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than thirty (30) days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

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

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

If resignation, or if removal because of default or failure, occurs during the existence of a participating area established hereunder, the working interest owners jointly shall be responsible for performance of the duties of the Unit Operator until a successor Unit Operator is selected and approved as herein provided and shall, not later than the effective date of such removal or resignation, appoint a common agent to represent them in any action to be taken hereunder.

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

6. SUCCESSOR UNIT OPERATOR.

Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator; Provided, That, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Director and<sup>the</sup> Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and<sup>the</sup> Commissioner at their 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 in the first instance by Unit Operator, and such costs and expenses so paid by Unit Operator shall be apportioned among and borne by the owners of working interests and the Unit Operator reimbursed, 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/<sup>(3)</sup>true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor prior to approval of this unit agreement by the Director.

Notwithstanding any provision contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

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.

Inasmuch as wells capable of producing unitized substances in paying quantities (to-wit: quantities sufficient to repay the costs of drilling and producing operations, with a reasonable profit) from the Pictured Cliffs formation have already been drilled, tested, and completed within the unit area and several other wells within the unit area are in various stages of drilling and completion, no initial test well for discovery shall be required under the terms of this unit agreement.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION.

On or before the submittal of this unit agreement for final approval, the Unit Operator shall submit for the approval of the Supervisor, the

Commissioner, and the Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Commissioner and the Commission, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Such plan of development shall provide that within sixty (60) days after the effective date of this unit agreement, if a well is not then in process of drilling, Unit Operator shall commence the drilling of a well at a location approved by the Supervisor if such location is on Federal land, or if on State or privately-owned land such location shall be approved by the Commission. Pursuant to such plan, Unit Operator shall thereafter continue drilling operations on the unit area, with not more than thirty (30) days of elapsed time between the completion of one well and the commencement of the next succeeding well, until an aggregate of ten (10) wells commenced after March 1, 1956, (whether commenced before or after the effective date of this agreement), shall have been drilled thereon at locations selected by the Unit Operator and approved by the Supervisor if on Federal land, or by the Commission if on State or patented land, so spaced over the unit area and not less than one mile from each other, as to determine so far as may be practicable the productive acreage and gas reserves in the Pictured Cliffs and shallower formations underlying said unit area, provided that with respect to such 10 initial wells not less than three (3) wells shall be located within T. 24 N., R. 2 W., and not less than five (5) wells shall be located within T. 25 N., R. 2 W. Unit Operator shall continue drilling diligently on each of the above wells so commenced until such wells have reached the Pictured Cliffs formation unless at a lesser depth unitized substances shall be discovered which can be produced in paying quantities as defined in Section 9 hereof, or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if on Federal land, or the Commissioner if on State land, or the Commission if on patented land that further drilling of such wells or any of them would be unwarranted or impracticable. Unit Operator shall not in any event be required to drill any well in the initial plan of development to a depth in excess of four thousand (4,000) feet, but any such well may be carried voluntarily to a greater depth to test a deeper formation after adequately testing the Pictured Cliffs formation.

Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor, the

Commissioner and the Commission, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the continued exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor, the Commissioner and the Commission may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor, the Commissioner and the Commission. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. After completion hereunder of the drilling program outlined in the initial plan of development, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor, the Commissioner and the Commission, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION.

(a) Mesaverde and Shallower Formations:

That portion of the unit area as to all formations lying above the base of the Mesaverde formation is hereby divided into Drilling Blocks containing 320 acres each, more or less, which Drilling Blocks shall constitute one-half sections, by government survey, the sections being divided by a line running north and south in such manner that each Drilling Block shall be either the East Half (E/2) or the West Half (W/2) of each given section; provided, however, that in any instances of irregular surveys that portion of a section which most nearly constitutes either the East Half (E/2) or the West Half (W/2) shall constitute a Drilling Block even though its acreage may be irregular, and provided further that any irregular strips or small tracts shall attach to the adjacent Drilling Blocks to which they most logically attach within the

limitations for Drilling Blocks as herein set forth. Portions within the unit area of Sections 3 and 33 in T. 24 N., R. 2 W., and all of Sections 6, 7, 18, 19 and 30 in T. 25 N., R. 2 W., do not conform to the Drilling Blocks as defined herein, and it is agreed by the parties hereto that the lands in said sections shall be regarded as acceptable Drilling Blocks for all purposes hereunder and that wells thereon shall be located as set forth immediately hereafter:

<u>Acceptable Drilling Blocks</u>	<u>Well Location</u>
Lots 1, 2, 3, SE/4 NW/4, S/2 NE/4 Section 3, T. 24 N., R. 2 W.	NE/4 NW/4 or SE/4 NW/4 Section 3
W/2 SW/4, SE/4 Section 3, T. 24 N., R. 2 W.	SE/4 Section 3
S/2 Section 33, T. 24 N., R. 2 W.	SE/4 Section 33
Lots 1, 2, 3, 4 Section 6 and Lot 1 Section 7, T. 25 N., R. 2 W.	Lot 3 or 4 Section 6
Lots 2, 3, 4 Section 7 and Lots 1, 2 Section 18, T. 25 N., R. 2 W.	Lot 3 or 4 Section 7
Lots 3, 4 Section 18, and Lots 1, 2, 3 Section 19, T. 25 N., R. 2 W.	Lot 4 Section 18 or Lot 1 Section 19
Lot 4 Section 19, and Lots 1, 2, 3, 4 Section 30, T. 25 N., R. 2 W.	Lot 2 or 3 Section 30

The initial well drilled to the Pictured Cliffs formation on the Drilling Blocks, except for the well location specified for the irregular acceptable Drilling Blocks listed above, shall be located in the Northwest Quarter (NW/4) or Southeast Quarter (SE/4) of the respective governmental sections and in accordance with the applicable well spacing rules and regulations of the Commission. A second well shall be drilled to the Pictured Cliffs formation on any Drilling Block offsetting noncommitted land or land not within the unit area on which wells drilled to a density of one well to each 160 acres and completed to said formation are capable of production in paying quantities as defined herein, to protect the unit area from drainage as provided in Section 17 of this agreement, unless such requirement is waived in writing by the Supervisor and the Commissioner. A second well may be drilled to the Pictured Cliffs formation on any Drilling Block at the election of the majority of the owners of working interest in the lands within the participating area for said formation if and when economic conditions warrant such drilling. The well spacing provisions and requirements of this paragraph shall be applicable likewise to wells drilled to any formation above the Pictured Cliffs.

Within thirty (30) days after the effective date of this agreement as to wells theretofore completed in the Pictured Cliffs formation or within the

month of completion, if practicable, or as soon thereafter as required by the Supervisor or the Commissioner, the Unit Operator shall determine whether said wells are capable of producing unitized substances in paying quantities as defined in Section 9 hereof and shall advise the Supervisor, the Commissioner, the Commission and the working interest owners of its conclusion in that regard, giving the data upon which its conclusion is based and identifying the Drilling Blocks upon which said wells are located. Protests against said conclusion may be filed with the Director, the Commissioner and the Commission within fifteen (15) days thereafter, but unless the Director, the Commissioner or the Commission shall, within thirty (30) days after the filing of the original statement of conclusion by Unit Operator, disapprove of such conclusion, the decision of the Unit Operator shall thereafter be binding upon the parties hereto. All of the land in the Drilling Blocks for wells completed in the Pictured Cliffs formation so determined to be capable of producing unitized substances in paying quantities as defined herein shall constitute the initial participating area for the Pictured Cliffs formation, effective <sup>as of the date of completion of the respective</sup> wells or the effective date of this unit agreement, whichever is later. Likewise, if any well completed in a formation above or below the Pictured Cliffs and above the base of the Mesaverde formation is determined to be capable of producing unitized substances in paying quantities as defined herein, the same procedure as to the Pictured Cliffs formation shall be applicable in establishing a participating area in that particular formation. Unit Operator shall prepare a schedule setting forth the percentage of unitized substances to be allocated, as herein provided, to each unitized tract in any participating area so established, and upon approval of the initial schedule by the Director, the Commissioner and the Commission, and automatically for subsequent revisions thereof in the absence of timely disapproval as above provided, said schedule shall govern the allocation of production from and after the date the participating area becomes effective.

A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof producing as a single pool or zone, and all of the provisions of this section of this agreement shall be considered as applicable separately for each such participating area. It is hereby agreed for the purposes of this agreement that all wells completed for production of unitized substances in paying quantities in a particular formation shall be regarded as producing from a single zone or pool and the name of said formation shall be used immediately preceding the respective

Drilling Block to distinguish it separately from Drilling Blocks for other formations above the base of the Mesaverde formation.

Additional Drilling Blocks, subject to any applicable limitations elsewhere set out in this agreement, shall be admitted to the respective participating area on the first day of the month following the month in which it has been established that a well capable of production of unitized substances in paying quantities has been drilled on any such Drilling Block, and the percentage of allocation shall be revised accordingly, in which event all of the production prior to the effective date of admission of such Drilling Block to the participating area shall be credited solely to the account of that particular block. The Unit Operator shall deliver notice of such determination to the Supervisor, the Commissioner, the Commission and the working interest owners, which notice includes the data upon which the determination is based, identifies the Drilling Block upon which the well is located, and specifies the effective date of the addition to the respective participating area, subject to the right of any interested party to protest in writing against said determination to the Unit Operator, the Director, the Commissioner and the Commission within fifteen (15) days thereafter, however, in any event, such determination shall become effective within thirty (30) days from the date thereof and it shall be deemed that the capability of the well to produce unitized substances in paying quantities has been established unless such determination is disapproved within said 30-day period by the Director, <sup>the</sup> / Commissioner, or <sup>the</sup> / Commission. In the event such determination is not upheld and changed conditions subsequently warrant, a new determination based on new showings and a new effective date may be submitted and processed in the same manner as aforesaid.

In the event that any Drilling Block is admitted to a participating area as hereinabove provided when it lies directly north, south, east or west of any Drilling Block already included or being included in said participating area by the completion thereon of a well capable of producing unitized substances in paying quantities and where there is one, but only one intervening Drilling Block on which no well has then been drilled to the same formation, said intervening Drilling Block shall also be admitted to said participating area at the same time, in the same manner and subject to the same conditions as the Drilling Block which is then admitted to such participating area. An undrilled Drilling Block adjoining the exterior boundary of the unit area shall also be admitted to a participating area as an intervening Drilling Block when it lies

directly between a Drilling Block already included or being included in said participating area by the completion thereon of a well capable of producing unitized substances in paying quantities and a well spacing unit conforming to well spacing requirements of the Commission lying outside of but adjoining the exterior boundary of the unit area on which it has been established that a well capable of producing in paying quantities as defined herein from the same formation has been drilled and completed, in the same manner and subject to the same conditions as other Drilling Blocks, and effective on the first day of the month following the month in which the later of the two wells necessary to effectuate this provision has been in like manner established to be productive in paying quantities as defined herein. In any event, the drilling of a well on such undrilled intervening Drilling Block shall be commenced within one year from the effective date of said Drilling Block's inclusion in a participating area unless sooner required by the Supervisor as to Federal land or the Commissioner as to State land to protect the unit area from drainage as provided in Section 17 of this agreement, or unless said time be extended by the Director, or the Commissioner, and shall be continued with due diligence to a depth necessary to test the horizon from which production is secured in said participating area. Notwithstanding the provisions of this paragraph, however, a Drilling Block on which is located a dry hole or well determined to be incapable of production of unitized substances in paying quantities shall not be admitted to a participating area as an intervening Drilling Block.

No Drilling Block, once included in a participating area, shall be excluded therefrom on account of depletion of unitized substances, or otherwise, except that an intervening Drilling Block, after admission to a participating area, on which a well subsequently drilled to the participating formation is completed as a dry hole or as a well incapable of production in paying quantities as described herein, shall have excluded from such participating area the 160 acres, or equivalent subdivision, on which such well is located, effective as of the first day of the month following the date said well is completed as a dry hole, or is established to be incapable of production in paying quantities, without retroactive adjustment for the period the entire intervening Drilling Block was included in the participating area, provided that if such dry hole or well incapable of production in paying quantities is completed on an irregular Drilling Block in Sections 6, 7, 18, 19 or 30, T. 25 N., R. 2 W., or in the W/2 W/2 Section 3, T. 24 N., R. 2 W., only the 40-acre tract or lot on which

such well is located and the 40-acre tract or lot nearest to the actual well location shall be so excluded from such participating area. Any production from such a well so completed shall not be allocated.

If the initial well on any Drilling Block is not capable of production in paying quantities and at a later date a well is drilled on such Drilling Block which is capable of production of unitized substances in paying quantities, then that portion of the Drilling Block considered to be capable of production in paying quantities by reasonable geologic inference and where practicable conformable with the well spacing units for that formation set forth in applicable rules and regulations of the Commission shall be admitted to the participating area upon recommendation of the Unit Operator and approval of the Director, the Commissioner and the Commission. If geologic inference is not applicable, the forty-acre tract by government survey, existing or projected, on which the producible well is drilled and all other untested forty-acre tracts or lots approximating 40 acres lying within the Drilling Block and where practicable conformable with said rules and regulations of the Commission for well spacing units for that formation shall be admitted to the participating area.

Regardless of any revision of the participating area, and except as herein elsewhere specifically provided, there shall be no retroactive adjustment for production obtained prior to the effective date of any such revision of the participating area.

Whenever it is determined, in the manner provided in this agreement, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the Drilling Block on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among royalty interest owners, be allocated only to the Drilling Block 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.

(b) Formations below the Mesaverde:

Upon completion of a well capable of producing unitized substances in paying quantities as defined in Section 9 from formations lying below the base of the Mesaverde, or as soon thereafter as required by the Supervisor and the Commissioner, the Unit Operator shall submit for approval by the Director, the Commissioner, and the Commission, a schedule based on subdivisions of the

public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all land in said schedule on approval of the Director, the Commissioner, and the Commission to constitute a participating area, effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective.

A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined upon approval of the Director, the Commissioner, and the Commission. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities or to exclude land then regarded as reasonably proved to be nonproductive 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, a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this Subsection (b) 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 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 hereby 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 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 wells on Federal land, the Commissioner as to wells on State land, and the Commission as to patented land, 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, for the purposes of settlement among all parties other than working interest owners, shall 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 the 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,<sup>and</sup> overriding royalty, 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 AND DRILLING OF WELLS NOT MUTUALLY AGREED UPON.

Any party or parties hereto owning or controlling the working interests or a majority of the working interests in any unitized land having thereon a regular well location may, with the approval of the Supervisor as to Federal land, or the Commission as to State land and privately-owned land, and subject to the provisions of the unit operating agreement, at such party's sole risk, cost and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, or drill any well not mutually agreed to by all interested parties, unless within ninety (90) days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such well in like manner as other wells are drilled by the Unit Operator under this agreement.

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

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

14. ROYALTY SETTLEMENT.

The United States and the State of New Mexico and all royalty owners who, under existing contracts, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws, and regulations, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

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

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation; provided, that for leases on which the royalty rate depends on the daily average production per

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

Royalty due on account of State and privately-owned lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

15. RENTAL SETTLEMENT.

Rental or minimum royalties due on leases committed hereto shall be paid by working interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases.

With respect to any lease on non-Federal land, if and when committed to this agreement, 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, including wells on adjacent unit areas, or with the consent of the Director and the Commissioner, pay a fair and reasonable

compensatory royalty as determined by the Supervisor for Federal lands or as approved by the Commissioner for State lands pursuant to applicable regulations.

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 as to Federal leases and the Commissioner as to State leases shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary, or his duly authorized representative, and the Commissioner or with the approval of the Commission shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land.

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands other than those of the United States and the State of New Mexico, committed to this agreement, if any,

which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such lease remains subject hereto, provided, that production is had in paying quantities under this agreement prior to the expiration date of the term of such lease.

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

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(b) of the Act of February 25, 1920, as amended by the Act of July 29, 1954, (68 Stat. 583, 585): "Any (Federal) lease hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two (2) years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(h) Any lease embracing lands of the State of New Mexico, which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof, provided, however, termination of this agreement shall not affect any such lease which pursuant to the terms thereof or applicable law shall continue in full force and effect thereafter.

(i) Any lease, other than a Federal lease, having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts. Provided, however, notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if unitized substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease, or from a Drilling Block or well spacing unit defined or approved by the Commission including some part of the lands embraced in such lease, committed to this agreement, or if production in paying quantities is being produced from some part of the lands embraced in such lease outside this unit area, at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, or on a Drilling Block or well spacing unit defined or approved by the Commission including some part of the lands embraced in such lease, the same as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of unitized substances, said lease shall continue in full force and effect as to all lands embraced therein, and so long thereafter as unitized substances in paying quantities are being produced from any portion of said lands.

19. CONVENANTS RUN WITH LAND.

The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after

Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM.

This agreement shall become effective the first day of the month following approval by the Director or his duly authorized representative and shall remain in effect until July 1, 1960, and so long thereafter as unitized substances can be produced in paying quantities, i.e., in this particular instance in quantities sufficient to pay for the costs of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or it is terminated as heretofore provided in this agreement.

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

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION.

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

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

22. CONFLICT OF SUPERVISION.

Neither the Unit Operator nor the working interest owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provision thereof to the extent that the said Unit Operator, working interest owners or any of them are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or thing concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

23. APPEARANCES.

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

24. NOTICES.

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

25. NO WAIVER OF CERTAIN RIGHTS.

Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

26. UNAVOIDABLE DELAY.

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

27. FAIR EMPLOYMENT.

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

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

28. LOSS OF TITLE.

In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, so that such tract is not fully committed to this agreement and the operation thereof hereunder becomes impractical as a result thereof, 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 land 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 of the United States shall be deposited as directed by the Supervisor, and such funds of the State shall be deposited as directed by the Commissioner, 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.

29. 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. Any such tract not so withdrawn shall be considered as unitized, and any necessary adjustments of royalty occasioned by failure of the royalty and record owner to join will be for the account of the corresponding working interest owner. 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 owner 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 effectively

committed hereto. 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 sixty (60) days by the Director or the Commissioner.

30. 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.

31. 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 operations 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 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 then included within a participating area.

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

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

Upon commitment of a working interest to this agreement and the unit operating agreement as provided in this section, an appropriate accounting and settlement shall be made, to reflect the retroactive effect of the commitment, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered working interest during the period between the date

of surrender and the date of recommitment, and payment of any moneys found to be owing/<sup>by</sup> such an accounting shall be made as between the parties then signatory to the unit operating agreement and this agreement within thirty (30) days after the recommitment. The right to become a party to this agreement and the unit operating agreement as a working interest owner by reason of a surrender or forfeiture as provided in this section shall not be defeated by the non-existence of a unit operating agreement and in the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor and the Commissioner may prescribe such reasonable and equitable agreement as they deem warranted under the circumstances.

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

IN WITNESS WHEREOF, this unit agreement is executed by the undersigned parties hereto as of the dates set opposite their respective signatures:

UNIT OPERATOR AND WORKING INTEREST OWNER

SAN JUAN GAS CORPORATION

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

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

ATTEST:

\_\_\_\_\_  
Secretary  
1716 First National Building  
Tulsa, Oklahoma

GARDNER PETROLEUM COMPANY

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

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

ATTEST:

\_\_\_\_\_  
Secretary  
411 Mayo Building  
Tulsa, Oklahoma

SKELLY OIL COMPANY

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

By: \_\_\_\_\_  
Vice President

ATTEST:

\_\_\_\_\_  
Assistant Secretary  
Skelly Building  
Tulsa, Oklahoma

GILCREASE OIL COMPANY

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

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

ATTEST:

\_\_\_\_\_  
Secretary  
San Antonio, Texas

HUMBLE OIL & REFINING COMPANY

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

By: \_\_\_\_\_  
Vice President

ATTEST:

\_\_\_\_\_  
Assistant Secretary  
P. O. Box 2180  
Houston, Texas

MAGNOLIA PETROLEUM COMPANY

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

By: \_\_\_\_\_  
Vice President

ATTEST:

\_\_\_\_\_  
Secretary  
P. O. Box 900  
Dallas, Texas

GULF OIL CORPORATION

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

By: \_\_\_\_\_  
Vice President

ATTEST:

\_\_\_\_\_  
Secretary  
P. O. Box 661  
Tulsa, Oklahoma

SINCLAIR OIL & GAS COMPANY

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

By: \_\_\_\_\_  
Vice President

ATTEST:

\_\_\_\_\_  
Secretary  
P. O. Box 521  
Tulsa, Oklahoma