

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
BRUSHY DRAW DEEP UNIT AREA  
COUNTY OF EDDY  
STATE OF NEW MEXICO  
NO. 4081

THIS AGREEMENT, entered into as of the 1<sup>st</sup> day of MARCH, 1969, 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 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 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 (Sec. 7-11-39 N.M. 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 1  
2 Mexico is authorized by an Act of the Legislature (Chapter 72, Laws 2  
3 of 1935, as amended by Chapter 193, Laws of 1937, Chapter 166, Laws 3  
4 of 1941, and Chapter 168, Laws of 1949) to approve this agreement 4  
5 and the conservation provisions hereof; and, 5

6 WHEREAS, the parties hereto hold sufficient interests in the 6  
7 Brushy Draw Deep Unit Area covering the land hereinafter described 7  
8 to give reasonably effective control of operations therein; and 8

9 WHEREAS, it is the purpose of the parties hereto to conserve 9  
10 natural resources, prevent waste, and secure other benefits obtain- 10  
11 able through development and operation of the area subject to this 11  
12 agreement under the terms, conditions, and limitations herein set 12  
13 forth; 13

14 NOW, THEREFORE, in consideration of the premises and the 14  
15 promises herein contained, the parties hereto commit to this agree- 15  
16 ment their respective interests in the below-defined unit area, and 16  
17 agree severally among themselves as follows: 17

18 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 18  
19 February 25, 1920, as amended, supra, and all valid pertinent regu- 19  
20 lations, including operating and unit plan regulations, heretofore 20  
21 issued thereunder or valid, pertinent, and reasonable regulations 21  
22 hereafter issued thereunder are accepted and made a part of this 22  
23 agreement as to Federal lands, provided such regulations are not in- 23  
24 consistent with the terms of this agreement; and as to non-Federal 24  
25 lands, the oil and gas operating regulations in effect as of the 25  
26 effective date hereof governing drilling and producing operations, 26  
27 not inconsistent with the terms hereof or the laws of the State in 27  
28 which the non-Federal land is located, are hereby accepted and made 28  
29 a part of this agreement. 29

30 2. UNIT AREA. The following-described land is hereby desig- 30  
31 nated and recognized as constituting the unit area: 31

Township 26 South, Range 29 East, N.M.P.M.

Section 12: S $\frac{1}{2}$   
Section 13: All  
Section 24: All  
Section 25: All  
Section 36: All

Township 26 South, Range 30 East, N.M.P.M.

Section 7: S $\frac{1}{2}$   
Section 8: S $\frac{1}{2}$   
Section 16: All  
Section 17: All  
Section 18: All  
Section 19: All  
Section 20: All  
Section 21: All  
Section 28: All  
Section 29: All  
Section 30: All  
Section 31: All  
Section 32: All  
Section 33: All

containing 9,672.53 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 "Land Commissioner", and not less than five (5) copies of the revised Exhibits shall be filed with the Supervisor and two (2) copies thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission".

1           The above-described unit area shall when practicable be ex- 1  
2           panded to include therein any additional lands or shall be con- 2  
3           tracted to exclude lands whenever such expansion or contraction is 3  
4           deemed to be necessary or advisable to conform with the purposes 4  
5           of this agreement. Such expansion or contraction shall be effected 5  
6           in the following manner: 6

7           (a) Unit Operator, on its own motion or on demand of the 7  
8           Director of the Geological Survey, hereinafter referred to as 8  
9           "Director", or on demand of the Land Commissioner, after preliminary 9  
10          concurrence by the Director, shall prepare a notice of proposed 10  
11          expansion or contraction describing the contemplated changes in the 11  
12          boundaries of the unit area, the reasons therefor, and the proposed 12  
13          effective date thereof, preferably, the first day of a month subse- 13  
14          quent to the date of notice. 14

15          (b) Said notice shall be delivered to the Supervisor, the 15  
16          Land Commissioner and the State Commission, and copies thereof mailed 16  
17          to the last known address of each working interest owner, lessee, 17  
18          and lessor whose interests are affected, advising that thirty (30) 18  
19          days will be allowed for submission to the Unit Operator of any ob- 19  
20          jections. 20

21          (c) Upon expiration of the 30-day period provided in the 21  
22          preceding item (b) hereof, Unit Operator shall file with the Super- 22  
23          visor, the Land Commissioner and the State Commission, evidence of 23  
24          mailing of the notice of expansion or contraction and a copy of any 24  
25          objections thereto which have been filed with the Unit Operator, to- 25  
26          gether with an application in sufficient number, for approval of 26  
27          such expansion or contraction and with appropriate joinders. 27

28          (d) After due consideration of all pertinent information, 28  
29          the expansion or contraction shall, upon approval by the Supervisor, 29  
30          the Land Commissioner, become effective as of the date prescribed in 30  
31          the notice thereof. 31

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, 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. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said 5-year period. However, when such diligent drilling operations cease, all nonparticipating lands shall be automatically eliminated effective as of the 91st day thereafter. 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 Supervisor and the Land 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

1 years may be accomplished by consent of the owners of 90% of the 1  
2 working interests in the current nonparticipating unitized lands and 2  
3 the owners of 60% of the basic royalty interests (exclusive of the 3  
4 basic royalty interests of the United States) in nonparticipating 4  
5 unitized lands with approval of the Director and the Land Commission- 5  
6 er, provided such extension application is submitted to the Director 6  
7 and the Land Commissioner not later than 60 days prior to the expir- 7  
8 ation of said 10-year period. 8

9 Any expansion of the unit area pursuant to this section which 9  
10 embraces lands theretofore eliminated pursuant to this subsection 10  
11 2(e) shall not be considered automatic commitment or recommitment of 11  
12 such lands. 12

13 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All oil and gas 13  
14 in the hereinabove specified lands committed to this agreement as 14  
15 to all formations 1,000 feet below the top of the Delaware limestone, 15  
16 which for the purpose of this agreement, is identified at 3,125 feet 16  
17 as shown on the Gamma Ray Sonic Log run December 3, 1958 by Schlum- 17  
18 berger Well Surveying Corporation in the Curtis Hankamer No. 1 18  
19 Federal Gulf located 660 feet from the South line and 1,980 feet 19  
20 from the West line of Section 13, Township 26 South, Range 29 East, 20  
21 are unitized and designated as unitized substances under the terms 21  
22 of this Agreement and said lands shall constitute lands referred to 22  
23 herein as unitized subject to this agreement. 23

24 4. UNIT OPERATOR. Curtis Hankamer is hereby designated as 24  
25 Unit Operator and by signature hereto as Unit Operator agrees and 25  
26 consents to accept the duties and obligations of Unit Operator for 26  
27 the discovery, development, and production of unitized substances as 27  
28 herein provided. Whenever reference is made herein to the Unit 28  
29 Operator, such reference means the Unit Operator acting in that 29  
30 capacity and not as an owner of interest in unitized substances, and 30  
31 the term "working interest owner" when used herein shall include or 31

1 refer to Unit Operator as the owner of a working interest when such 1  
2 an interest is owned by it. 2

3 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator 3  
4 shall have the right to resign at any time prior to the establish- 4  
5 ment of a participating area or areas hereunder, but such resigna- 5  
6 tion shall not become effective so as to release Unit Operator from 6  
7 the duties and obligations of Unit Operator and terminate Unit 7  
8 Operator's rights as such for a period of 6 months after notice of 8  
9 intention to resign has been served by Unit Operator on all working 9  
10 interest owners and the Supervisor and the Land Commissioner, and 10  
11 until all wells then drilled hereunder are placed in a satisfactory 11  
12 condition for suspension or abandonment whichever is required by the 12  
13 Supervisor as to Federal lands and the State Commission as to State 13  
14 lands, unless a new Unit Operator shall have been selected and 14  
15 approved and shall have taken over and assumed the duties and obli- 15  
16 gations of Unit Operator prior to the expiration of said period. 16

17 Unit Operator shall have the right to resign in like manner 17  
18 and subject to like limitations as above provided at any time a par- 18  
19 ticipating area established hereunder is in existence, but, in all 19  
20 instances of resignation or removal, until a successor unit operator 20  
21 is selected and approved as hereinafter provided, the working inter- 21  
22 est owners shall be jointly responsible for performance of the duties 22  
23 of unit operator, and shall not later than 30 days before such resig- 23  
24 nation or removal becomes effective appoint a common agent to repre- 24  
25 sent them in any action to be taken hereunder. 25

26 The resignation of Unit Operator shall not release Unit Oper- 26  
27 ator from any liability for any default by it hereunder occurring 27  
28 prior to the effective date of its resignation. 28

29 The Unit Operator may, upon default or failure in the perfor- 29  
30 mance of its duties or obligations hereunder, be subject to removal 30  
31 by the same percentage vote of the owners of working interests as 31

herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Supervisor and the Land Commissioner.

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 wells, equipment, materials, and appurtenances used in conducting the unit operations to the new duly qualified successor Unit Operator or to the common agent, 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, or a change of Unit Operator is negotiated by working interest owners, 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 75 per cent 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 Supervisor

and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the Director and the Land 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 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 this unit agreement and the unit operating agreement, this unit agreement shall govern. 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 Land Commissioner, prior to approval of this unit agreement.

1           8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as other- 1  
2 wise specifically provided herein, the exclusive right, privilege, 2  
3 and duty of exercising any and all rights of the parties hereto 3  
4 which are necessary or convenient for prospecting for, producing, 4  
5 storing, allocating, and distributing the unitized substances are 5  
6 hereby delegated to and shall be exercised by the Unit Operator as 6  
7 herein provided. Acceptable evidence of title to said rights shall 7  
8 be deposited with said Unit Operator and, together with this agree- 8  
9 ment, shall constitute and define the rights, privileges, and obli- 9  
10 gations of Unit Operator. Nothing herein, however, shall be con- 10  
11 strued to transfer title to any land or to any lease or operating 11  
12 agreement, it being understood that under this agreement the Unit 12  
13 Operator, in its capacity as Unit Operator, shall exercise the rights 13  
14 of possession and use vested in the parties hereto only for the pur- 14  
15 poses herein specified. 15

16           9. DRILLING TO DISCOVERY. Within six (6) months after the 16  
17 effective date hereof, the Unit Operator shall begin to drill an 17  
18 adequate test well at a location approved by the Supervisor, if on 18  
19 Federal land, or by the Land Commissioner, if on State land, unless 19  
20 on such effective date a well is being drilled conformably with the 20  
21 terms hereof, and thereafter continue such drilling diligently until 21  
22 formations of the Devonian age have been tested, or until at a lesser 22  
23 depth unitized substances shall be discovered which can be produced 23  
24 in paying quantities (to-wit: quantities sufficient to repay the 24  
25 costs of drilling and producing operations, with a reasonable profit) 25  
26 or the Unit Operator shall at any time establish to the satisfaction 26  
27 of the Supervisor if on Federal land, or the Land Commissioner if on 27  
28 State land, that further drilling of said well would be unwarranted 28  
29 or impracticable; provided, however, that Unit Operator shall not in 29  
30 any event be required to drill said well to a depth in excess of 30  
31 16,000 feet. Until the discovery of a deposit of unitized sub- 31

stances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, 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 Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well provided for in this section within the time allowed, including any extension of time granted by the Supervisor and the Land Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and the Land Commissioner may, after 15-days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor and the Land Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Land Commissioner, shall constitute the further drilling and operating obligations of the Unit

1 Operator under this agreement for the period specified therein. 1

2 Thereafter, from time to time before the expiration of any existing 2  
3 plan, the Unit Operator shall submit for the approval of the Super- 3  
4 visor and the Land Commissioner a plan for an additional specified 4  
5 period for the development and operation of the unitized land. 5

6 Any plan submitted pursuant to this section shall provide for 6  
7 the exploration of the unitized area and for the diligent drilling 7  
8 necessary for determination of the area or areas thereof capable of 8  
9 producing unitized substances in paying quantities in each and every 9  
10 productive formation and shall be as complete and adequate as the 10  
11 Supervisor and the Land Commissioner may determine to be necessary 11  
12 for timely development and proper conservation of the oil and gas 12  
13 resources of the unitized area and shall: 13

14 (a) specify the number and locations of any wells to be 14  
15 drilled and the proposed order and time for such drilling; and 15

16 (b) to the extent practicable specify the operating practices 16  
17 regarded as necessary and advisable for proper conservation of 17  
18 natural resources. 18

19 Separate plans may be submitted for separate productive zones, sub- 19  
20 ject to the approval of the Supervisor and the Land Commissioner. 20

21 Plans shall be modified or supplemented when necessary to meet 21  
22 changed conditions or to protect the interests of all parties to 22  
23 this agreement. Reasonable diligence shall be exercised in comply- 23  
24 ing with the obligations of the approved plan of development. The 24  
25 Supervisor and the Land Commissioner are authorized to grant a 25  
26 reasonable extension of the 6-month period herein prescribed for 26  
27 submission of an initial plan of development where such action is 27  
28 justified because of unusual conditions or circumstances. After com- 28  
29 pletion hereunder of a well capable of producing any unitized sub- 29  
30 stance in paying quantities, no further wells, except such as may 30  
31 be necessary to afford protection against operations not under this 31

1 agreement and such as may be specifically approved by the Supervisor 1  
2 and the Land Commissioner, shall be drilled except in accordance 2  
3 with a plan of development approved as herein provided. 3

4 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well 4  
5 capable of producing unitized substances in paying quantities or as 5  
6 soon thereafter as required by the Supervisor or the Land Commission- 6  
7 er, the Unit Operator shall submit for approval by the Supervisor 7  
8 and the Land Commissioner a schedule, based on subdivisions of the 8  
9 public-land survey or aliquot parts thereof, of all land then re- 9  
10 garded as reasonably proved to be productive in paying quantities; 10  
11 all lands in said schedule on approval of the Supervisor and the Land 11  
12 Commissioner to constitute a participating area, effective as of the 12  
13 date of completion of such well or the effective date of this unit 13  
14 agreement, whichever is later. The acreages of both Federal and non- 14  
15 Federal lands shall be based upon appropriate computations from the 15  
16 courses and distances shown on the last approved public-land survey 16  
17 as of the effective date of each initial participating area. Said 17  
18 schedule shall also set forth the percentage of unitized substances 18  
19 to be allocated as herein provided to each tract in the participating 19  
20 area so established, and shall govern the allocation of production 20  
21 commencing with the effective date of the participating area. A 21  
22 separate participating area shall be established for each separate 22  
23 pool or deposit of unitized substances or for any group thereof which 23  
24 is produced as a single pool or zone, and any two or more partici- 24  
25 pating areas so established may be combined into one, on approval of 25  
26 the Supervisor and the Land Commissioner. When production from two 26  
27 or more participating areas, so established, is subsequently found 27  
28 to be from a common pool or deposit said participating areas shall 28  
29 be combined into one effective as of such appropriate date as may be 29  
30 approved or prescribed by the Supervisor and the Land Commissioner. 30  
31 The participating area or areas so established shall be revised from 31

1 time to time, subject to like approval, to include additional land 1  
2 then regarded as reasonably proved to be productive in paying quan- 2  
3 tities or necessary for unit operations, or to exclude land then 3  
4 regarded as reasonably proved not to be productive in paying quan- 4  
5 tities and the schedule of allocation percentages shall be revised 5  
6 accordingly. The effective date of any revision shall be the first 6  
7 of the month in which is obtained the knowledge or information on 7  
8 which such revision is predicated, provided, however, that a more 8  
9 appropriate effective date may be used if justified by the Unit 9  
10 Operator and approved by the Supervisor and the Land Commissioner. 10  
11 No land shall be excluded from a participating area on account of 11  
12 depletion of the unitized substances, except that any participating 12  
13 area established under the provisions of this unit agreement shall 13  
14 terminate automatically whenever all completions in the formation on 14  
15 which the participating area is based are abandoned. 15

16 It is the intent of this section that a participating area 16  
17 shall represent the area known or reasonably estimated to be produc- 17  
18 tive in paying quantities; but, regardless of any revision of the 18  
19 participating area, nothing herein contained shall be construed as 19  
20 requiring any retroactive adjustment for production obtained prior 20  
21 to the effective date of the revision of the participating area. 21

22 In the absence of agreement at any time between the Unit 22  
23 Operator and the Supervisor and the Land Commissioner as to the 23  
24 proper definition or redefinition of a participating area, or until 24  
25 a participating area has, or areas have, been established as pro- 25  
26 vided herein, the portion of all payments affected thereby shall be 26  
27 impounded in a manner mutually acceptable to the owners of working 27  
28 interests and the Supervisor and the Land Commissioner. Royalties 28  
29 due the United States shall be determined by the Supervisor for 29  
30 Federal lands and the Land Commissioner for State lands and the 30  
31 amount thereof shall be deposited, as directed by the Supervisor and 31

1 the Land Commissioner, to be held as unearned money until a partici- 1  
2 pating area is finally approved and then applied as earned or re- 2  
3 turned in accordance with a determination of the sum due as Federal 3  
4 and State royalty on the basis of such approved participating area. 4

5 Whenever it is determined, subject to the approval of the 5  
6 Supervisor and the Land Commissioner, that a well drilled under this 6  
7 agreement is not capable of production in paying quantities and in- 7  
8 clusion of the land on which it is situated in a participating area 8  
9 is unwarranted, production from such well shall, for the purposes of 9  
10 settlement among all parties other than working interest owners, be 10  
11 allocated to the land on which the well is located unless such land 11  
12 is already within the participating area established for the pool 12  
13 or deposit from which such production is obtained. Settlement for 13  
14 working interest benefits from such a well shall be made as provided 14  
15 in the unit operating agreement. 15

16 12. ALLOCATION OF PRODUCTION. All unitized substances pro- 16  
17 duced from each participating area established under this agreement, 17  
18 except any part thereof used in conformity with good operating prac- 18  
19 tices within the unitized area for drilling, operating, camp and 19  
20 other production or development purposes, for repressuring or re- 20  
21 cycling in accordance with a plan of development approved by the 21  
22 Supervisor and Land Commissioner, or unavoidably lost, shall be 22  
23 deemed to be produced equally on an acreage basis from the several 23  
24 tracts of unitized land of the participating area established for 24  
25 such production and, for the purpose of determining any benefits 25  
26 accruing under this agreement, each such tract of unitized land shall 26  
27 have allocated to it such percentage of said production as the num- 27  
28 ber of acres of such tract included in said participating area bears 28  
29 to the total acres of unitized land in said participating area, ex- 29  
30 cept that allocation of production hereunder for purposes other than 30  
31 for settlement of the royalty, overriding royalty, or payment out of 31

1 production obligations of the respective working interest owners, 1  
2 shall be on the basis prescribed in the unit operating agreement 2  
3 whether in conformity with the basis of allocation herein set forth 3  
4 or otherwise. It is hereby agreed that production of unitized sub- 4  
5 stances from a participating area shall be allocated as provided 5  
6 herein regardless of whether any wells are drilled on any particular 6  
7 part or tract of said participating area. If any gas produced from 7  
8 one participating area is used for repressuring or recycling pur- 8  
9 poses in another participating area, the first gas withdrawn from 9  
10 such last-mentioned participating area for sale during the life of 10  
11 this agreement shall be considered to be the gas so transferred un- 11  
12 til an amount equal to that transferred shall be so produced for 12  
13 sale and such gas shall be allocated to the participating area from 13  
14 which initially produced as such area was last defined at the time 14  
15 of such final production. 15

16 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR 16  
17 FORMATIONS. Any party hereto owning or controlling the working 17  
18 interest in any unitized land having thereon a regular well location 18  
19 may with the approval of the Supervisor and the Land Commissioner, 19  
20 at such party's sole risk, costs, and expense, drill a well to test 20  
21 any formation for which a participating area has not been established 21  
22 or to test any formation for which a participating area has been 22  
23 established if such location is not within said participating area, 23  
24 unless within 90 days of receipt of notice from said party of his 24  
25 intention to drill the well the Unit Operator elects and commences 25  
26 to drill such a well in like manner as other wells are drilled by 26  
27 the Unit Operator under this agreement. 27

28 If any well drilled as aforesaid by a working interest owner 28  
29 results in production such that the land upon which it is situated 29  
30 may properly be included in a participating area, such participating 30  
31 area shall be established or enlarged as provided in this agreement 31

1 and the well shall thereafter be operated by the Unit Operator in 1  
2 accordance with the terms of this agreement and the unit operating 2  
3 agreement. 3

4 If any well drilled as aforesaid by a working interest owner 4  
5 obtains production in quantities insufficient to justify the in- 5  
6 clusion of the land upon which such well is situated in a partici- 6  
7 pating area, such well may be operated and produced by the party 7  
8 drilling the same subject to the conservation requirements of this 8  
9 agreement. The royalties in amount or value of production from any 9  
10 such well shall be paid as specified in the underlying lease and 10  
11 agreements affected. 11

12 14. ROYALTY SETTLEMENT. The United States and any State 12  
13 and any royalty owner who, is entitled to take in kind a share of 13  
14 the substances now unitized hereunder shall hereafter be entitled 14  
15 to the right to take in kind its share of the unitized substances, 15  
16 and Unit Operator, or the working interest owner in case of the 16  
17 operation of a well by a working interest owner as herein provided 17  
18 for in special cases, shall make deliveries of such royalty share 18  
19 taken in kind in conformity with the applicable contracts, laws, 19  
20 and regulations. Settlement for royalty interest not taken in kind 20  
21 shall be made by working interest owners responsible therefor under 21  
22 existing contracts, laws and regulations, or by the Unit Operator, 22  
23 on or before the last day of each month for unitized substances 23  
24 produced during the preceding calendar month; provided, however, 24  
25 that nothing herein contained shall operate to relieve the lessees 25  
26 of any land from their respective lease obligations for the pay- 26  
27 ment of any royalties due under their leases. 27

28 If gas obtained from lands not subject to this agreement is 28  
29 introduced into any participating area hereunder, for use in re- 29  
30 pressuring, stimulation of production, or increasing ultimate re- 30  
31 covery, in conformity with a plan of operations approved by the 31

Supervisor and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor and the Land Commissioner 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 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 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 containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are 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 until 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 such measures as the Supervisor and Land Commissioner deem appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement.

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 on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary, as to Federal leases and the Land Commissioner, as to

1 State leases, shall and each by his approval hereof, or by the 1  
2 approval hereof by his duly authorized representative, does hereby 2  
3 establish, alter, change, or revoke the drilling, producing, rental, 3  
4 minimum royalty, and royalty requirements of Federal and State 4  
5 leases committed hereto and the regulations in respect thereto to 5  
6 conform said requirements to the provisions of this agreement, and, 6  
7 without limiting the generality of the foregoing, all leases, sub- 7  
8 leases, and contracts are particularly modified in accordance with 8  
9 the following: 9

10 (a) The development and operation of lands subject to this 10  
11 agreement under the terms hereof shall be deemed full performance of 11  
12 all obligations for development and operation with respect to each 12  
13 and every separately owned tract subject to this agreement, regard- 13  
14 less of whether there is any development of any particular tract of 14  
15 the unit area. 15

16 (b) Drilling and producing operations performed hereunder 16  
17 upon any tract of unitized lands will be accepted and deemed to be 17  
18 performed upon and for the benefit of each and every tract of uni- 18  
19 tized land, and no lease shall be deemed to expire by reason of 19  
20 failure to drill or produce wells situated on the land therein em- 20  
21 braced. 21

22 (c) Suspension of drilling or producing operations on all 22  
23 unitized lands pursuant to direction or consent of the Secretary and 23  
24 the Land Commissioner, or his duly authorized representative, shall 24  
25 be deemed to constitute such suspension pursuant to such direction 25  
26 or consent as to each and every tract of unitized land. A suspension 26  
27 of drilling or producing operations limited to specified lands shall 27  
28 be applicable only to such lands. 28

29 (d) Each lease, sublease or contract relating to the ex- 29  
30 ploration, drilling, development or operation for oil or gas of 30  
31 lands other than those of the United States and State of New Mexico 31

1 committed to this agreement, which, by its terms might expire prior 1  
2 to the termination of this agreement, is hereby extended beyond any 2  
3 such terms so provided therein so that it shall be continued in full 3  
4 force and effect for and during the term of this agreement. 4

5 (e) Any Federal lease for a fixed term of twenty (20) years 5  
6 or any renewal thereof or any part of such lease which is made sub- 6  
7 ject to this agreement shall continue in force beyond the term pro- 7  
8 vided therein until the termination hereof. Any other Federal lease 8  
9 committed hereto shall continue in force beyond the term so provided 9  
10 therein or by law as to the land committed so long as such lease re- 10  
11 mains subject hereto, provided that production is had in paying quan- 11  
12 tities under this unit agreement prior to the expiration date of 12  
13 the term of such lease, or in the event actual drilling operations 13  
14 are commenced on unitized land, in accordance with the provisions 14  
15 of this agreement, prior to the end of the primary term of such 15  
16 lease and are being diligently prosecuted at that time, such lease 16  
17 shall be extended for two years and so long thereafter as oil or gas 17  
18 is produced in paying quantities in accordance with the provisions 18  
19 of the Mineral Leasing Act Revision of 1960. 19

20 (f) Each sublease or contract relating to the operation 20  
21 and development of unitized substances from lands of the United 21  
22 States committed to this agreement, which by its terms would expire 22  
23 prior to the time at which the underlying lease, as extended by the 23  
24 immediately preceding paragraph, will expire, is hereby extended 24  
25 beyond any such term so provided therein so that it shall be con- 25  
26 tinued in full force and effect for and during the term of the under- 26  
27 lying lease as such term is herein extended. 27

28 (g) The segregation of any Federal lease committed to this 28  
29 agreement is governed by the following provision in the fourth para- 29  
30 graph of Sec. 17(j) of the Mineral Leasing Act, as amended by the 30  
31 Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease 31

heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, That any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(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.

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; 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 oil or gas is discovered and is capable of being produced in paying quantities from some part of the lands embraced in such lease 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, 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 oil

1 or gas, said lease shall continue in full force and effect as to all 1  
2 of the lands embraced therein, so long thereafter as oil or gas in 2  
3 paying quantities is being produced from any portion of said lands. 3

4 19. COVENANTS RUN WITH LAND. The covenants herein shall 4  
5 be construed to be covenants running with the land with respect to 5  
6 the interest of the parties hereto and their successors in interest 6  
7 until this agreement terminates, and any grant, transfer, or convey- 7  
8 ance, of interest in land or leases subject hereto shall be and here- 8  
9 by is conditioned upon the assumption of all privileges and obli- 9  
10 gations hereunder by the grantee, transferee, or other successor in 10  
11 interest. No assignment or transfer of any working interest, roy- 11  
12 alty, or other interest subject hereto shall be binding upon Unit 12  
13 Operator until the first day of the calendar month after Unit Opera- 13  
14 tor is furnished with the original, photostatic, or certified copy 14  
15 of the instrument of transfer. 15

16 20. EFFECTIVE DATE AND TERM. This agreement shall become 16  
17 effective upon approval by the Secretary and the Land Commissioner 17  
18 or his duly authorized representative, and shall terminate five (5) 18  
19 years from said effective date unless 19

20 (a) such date of expiration is extended by the Director 20  
21 and the Land Commissioner, or 21

22 (b) it is reasonably determined prior to the expiration of 22  
23 the fixed term or any extension thereof that the unitized land is 23  
24 incapable of production of unitized substances in paying quantities 24  
25 in the formations tested hereunder and after notice of intention to 25  
26 terminate the agreement on such ground is given by the Unit Operator 26  
27 to all parties in interest at their last known addresses, the agree- 27  
28 ment is terminated with the approval of the Supervisor and the Land 28  
29 Commissioner, or 29

30 (c) a valuable discovery of unitized substances has been 30  
31 made or accepted on unitized land during said initial term or any 31

extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities sufficient to pay for the cost 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 unitized substances so discovered can be produced as aforesaid, or

(d) it is terminated as heretofore provided in this agreement. This agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the Supervisor and the Land Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, 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. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law;

provided further, 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 a specific written approval thereof by the Commissioner.

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 15 days from notice.

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior or the Land Commissioner 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.

23. 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 or certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

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 uni-

1 tized lands are located, or of the United States, or regulations 1  
2 issued thereunder in any way affecting such party, or as a waiver by 2  
3 any such party of any right beyond his or its authority to waive. 3

4 25. UNAVOIDABLE DELAY. All obligations under this agree- 4  
5 ment requiring the Unit Operator to commence or continue drilling or 5  
6 to operate on or produce unitized substances from any of the lands 6  
7 covered by this agreement shall be suspended while the Unit Operator, 7  
8 despite the exercise of due care and diligence, is prevented from 8  
9 complying with such obligations, in whole or in part, by strikes, 9  
10 acts of God, Federal, State, or municipal law or agencies, unavoi- 10  
11 dable accidents, uncontrollable delays in transportation, inability 11  
12 to obtain necessary materials in open market, or other matters be- 12  
13 yond the reasonable control of the Unit Operator whether similar to 13  
14 matters herein enumerated or not. No unit obligation which is sus- 14  
15 pended under this section shall become due less than thirty (30) 15  
16 days after it has been determined that the suspension is no longer 16  
17 applicable. Determination of creditable "Unavoidable Delay" time 17  
18 shall be made by the unit operator subject to approval of the Super- 18  
19 visor and the Land Commissioner. 19

20 26. NONDISCRIMINATION. In connection with the performance 20  
21 of work under this agreement, the operator agrees to comply with 21  
22 all the provisions of section 202 (1) to (7) inclusive of Executive 22  
23 Order 11246 (30 F.R. 12319), which are hereby incorporated by refer- 23  
24 ence in this agreement. 24

25 27. LOSS OF TITLE. In the event title to any tract of 25  
26 unitized land shall fail and the true owner cannot be induced to 26  
27 join in this unit agreement, such tract shall be automatically re- 27  
28 garded as not committed hereto and there shall be such readjustment 28  
29 of future costs and benefits as may be required on account of the 29  
30 loss of such title. In the event of a dispute as to title as to any 30  
31 royalty, working interest, or other interests subject thereto, pay- 31

1 ment or delivery on account thereof may be withheld without liabil- 1  
2 ity for interest until the dispute is finally settled; provided, 2  
3 that, as to Federal and State land or leases, no payments of funds 3  
4 due the United States or the State of New Mexico should be withheld, 4  
5 but such funds shall be deposited as directed by the Supervisor and 5  
6 such funds of the State of New Mexico shall be deposited as directed 6  
7 by the Land Commissioner, to be held as unearned money pending 7  
8 final settlement of the title dispute, and then applied as earned 8  
9 or returned in accordance with such final settlement. 9

10 Unit Operator as such is relieved from any responsibility 10  
11 for any defect or failure of any title hereunder. 11

12 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of 12  
13 any substantial interest in a tract within the unit area fails or 13  
14 refuses to subscribe or consent to this agreement, the owner of the 14  
15 working interest in that tract may withdraw said tract from this 15  
16 agreement by written notice delivered to the Supervisor and the 16  
17 Land Commissioner and the Unit Operator prior to the approval of 17  
18 this agreement by the Supervisor and the Land Commissioner. Any 18  
19 oil or gas interests in lands within the unit area not committed 19  
20 hereto prior to submission of this agreement for final approval may 20  
21 thereafter be committed hereto by the owner or owners thereof sub- 21  
22 scribing or consenting to this agreement, and, if the interest is 22  
23 a working interest, by the owner of such interest also subscribing 23  
24 to the unit operating agreement. After operations are commenced 24  
25 hereunder, the right of subsequent joinder, as provided in this 25  
26 section, by a working interest owner is subject to such requirements 26  
27 or approvals, if any, pertaining to such joinder, as may be pro- 27  
28 vided for in the unit operating agreement. After final approval 28  
29 hereof, joinder by a non-working interest owner must be consented 29  
30 to in writing by the working interest owner committed hereto and 30  
31 responsible for the payment of any benefits that may accrue here- 31

1 under in behalf of such non-working interest. A non-working inter- 1  
2 est may not be committed to this unit unless the corresponding work- 2  
3 ing interest is committed hereto. Joinder to the unit agreement by 3  
4 a working-interest owner, at any time, must be accompanied by appro- 4  
5 priate joinder to the unit operating agreement, if more than one 5  
6 committed working-interest owner is involved, in order for the 6  
7 interest to be regarded as committed to this unit agreement. Ex- 7  
8 cept as may otherwise herein be provided, subsequent joinders to 8  
9 this agreement shall be effective as of the first day of the month 9  
10 following the filing with the Supervisor and the Land Commissioner 10  
11 of duly executed counterparts of all or any papers necessary to 11  
12 establish effective commitment of any tract to this agreement un- 12  
13 less objection to such joinder is duly made within 60 days by the 13  
14 Supervisor and the Land Commissioner. 14

15 29. COUNTERPARTS. This agreement may be executed in any 15  
16 number of counterparts no one of which needs to be executed by all 16  
17 parties or may be ratified or consented to by separate instrument in 17  
18 writing specifically referring hereto and shall be binding upon all 18  
19 those parties who have executed such a counterpart, ratification, 19  
20 or consent hereto with the same force and effect as if all such 20  
21 parties had signed the same document and regardless of whether or 21  
22 not it is executed by all other parties owning or claiming an inter- 22  
23 est in the lands within the above-described unit area. 23

24 30. SURRENDER. Nothing in this agreement shall prohibit 24  
25 the exercise by any working interest owner of the right to surrender 25  
26 vested in such party by any lease, sublease, or operating agreement 26  
27 as to all or any part of the lands covered thereby, provided that 27  
28 each party who will or might acquire such working interest by such 28  
29 surrender or by forfeiture as hereafter set forth, is bound by the 29  
30 terms of this agreement. 30

31 If as a result of any such surrender the working interest 31

1 rights as to such lands become vested in any party other than the 1  
2 fee owner of the unitized substances, said party may forfeit such 2  
3 rights and further benefits from operation hereunder as to said 3  
4 land to the party next in the chain of title who shall be and be- 4  
5 come the owner of such working interest. 5

6 If as the result of any such surrender or forfeiture working 6  
7 interest rights become vested in the fee owner of the unitized sub- 7  
8 stances, such owner may: 8

9 (1) Accept those working interest rights subject to this 9  
10 agreement and the unit operating agreement; or 10

11 (2) Lease the portion of such land as is included in a 11  
12 participating area established hereunder subject to this agreement 12  
13 and the unit operating agreement. 13

14 (3) Provide for the independent operation of any part of 14  
15 such land that are not then included within a participating area 15  
16 established hereunder. 16

17 If the fee owner of the unitized substances does not accept 17  
18 the working interest rights subject to this agreement and the unit 18  
19 operating agreement or lease such lands as above provided within 19  
20 six (6) months after the surrendered or forfeited working interest 20  
21 rights become vested in the fee owner, the benefits and obligations 21  
22 of operations accruing to such lands under this agreement and the 22  
23 unit operating agreement shall be shared by the remaining owners of 23  
24 unitized working interests in accordance with their respective 24  
25 working interest ownerships, and such owners of working interests 25  
26 shall compensate the fee owner of unitized substances in such lands 26  
27 by paying sums equal to the rentals, minimum royalties, and royal- 27  
28 ties applicable to such lands under the lease in effect when the 28  
29 lands were unitized. 29

30 An appropriate accounting and settlement shall be made, for 30  
31 all benefits accruing to or payments and expenditures made or in- 31

1 curred on behalf of such surrendered or forfeited working interest 1  
2 subsequent to the date of surrender or forfeiture, and payment of 2  
3 any moneys found to be owing by such an accounting shall be made as 3  
4 between the parties within thirty (30) days. In the event no unit 4  
5 operating agreement is in existence and a mutually acceptable agree- 5  
6 ment between the proper parties thereto cannot be consummated, the 6  
7 Supervisor and the Land Commissioner may prescribe such reasonable 7  
8 and equitable agreement as he deems warranted under the circum- 8  
9 stances. 9

10 The exercise of any right vested in a working interest owner 10  
11 to reassign such working interest to the party from whom obtained 11  
12 shall be subject to the same conditions as set forth in this section 12  
13 in regard to the exercise of a right to surrender. 13

14 31. TAXES. The working interest owners shall render and 14  
15 pay for their account and the account of the royalty owners all 15  
16 valid taxes on or measured by the unitized substances in and under 16  
17 or that may be produced, gathered and sold from the land subject to 17  
18 this contract after the effective date of this agreement, or upon 18  
19 the proceeds derived therefrom. The working interest owners on each 19  
20 tract shall and may charge the proper proportion of said taxes to 20  
21 the royalty owners having interests in said tract, and may currently 21  
22 retain and deduct sufficient of the unitized substances or deriva- 22  
23 tive products, or net proceeds thereof from the allocated share of 23  
24 each royalty owner to secure reimbursement for the taxes so paid. 24  
25 No such taxes shall be charged to the United States or the State of 25  
26 New Mexico or to any lessor who has a contract with his lessee which 26  
27 requires the lessee to pay such taxes. 27

28 32. NO PARTNERSHIP. It is expressly agreed that the re- 28  
29 lation of the parties hereto is that of independent contractors and 29  
30 nothing in this agreement contained, expressed or implied, nor any 30  
31 operations conducted hereunder, shall create or be deemed to have 31

1 created a partnership or association between the parties hereto or  
2 any of them.

3 33. CONFLICT OF SUPERVISION. Neither the Unit Operator  
4 nor the working interest owners, nor any of them, shall be subject  
5 to any forfeiture, termination or expiration of any right hereunder  
6 or under any leases or contracts subject hereto, or to any penalty  
7 or liability on account of delay or failure in whole or in part to  
8 comply with any applicable provisions thereof to the extent that the  
9 said Unit Operator or the working interest owners, or any of them,  
10 are hindered, delayed or prevented from complying therewith by reason  
11 of failure of the Unit Operator to obtain, in the exercise of due  
12 diligence, the concurrence of proper representatives of the United  
13 States and proper representatives of the State of New Mexico in and  
14 about any matters or things concerning which it is required herein  
15 that such concurrence be obtained. The parties hereto, including the  
16 State Commission, agree that all powers and authority vested in the  
17 State Commission in and by any provisions of this agreement are vest-  
18 ed in the State Commission and shall be exercised by it pursuant to  
19 the provisions of the laws of the State of New Mexico and subject in  
20 any case to appeal or judicial review as may now or hereafter be pro-  
21 vided by the laws of the State of New Mexico.

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

UNIT OPERATOR

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

Curtis Hankamer

Address: 714 Houston Bank & Trust  
Building  
Houston, Texas 77002

WORKING INTEREST OWNERS

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

Curtis Hankamer

Doris Hankamer, wife of Curtis  
Hankamer.

Address: Houston, Texas

GULF OIL CORPORATION

Date: \_\_\_\_\_ By \_\_\_\_\_  
Attorney-in-Fact

ATTEST: Address: \_\_\_\_\_  
\_\_\_\_\_  
Assistant Secretary

MOBIL OIL CORPORATION

Date: \_\_\_\_\_ By \_\_\_\_\_  
Attorney-in-Fact

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

UNION OIL COMPANY OF CALIFORNIA

Date: \_\_\_\_\_ By \_\_\_\_\_  
Attorney-in-Fact

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

THE SUPERIOR OIL COMPANY

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

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

SINCLAIR OIL & GAS COMPANY

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

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

PENNZOIL UNITED, INC.

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

By \_\_\_\_\_

ATTEST: \_\_\_\_\_  
\_\_\_\_\_

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

ATLANTIC RICHFIELD COMPANY

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

By \_\_\_\_\_

Attorney-in-Fact

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

SUN OIL COMPANY

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

By \_\_\_\_\_

ATTEST: \_\_\_\_\_  
\_\_\_\_\_

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

CITIES SERVICE OIL COMPANY

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

By \_\_\_\_\_

ATTEST: \_\_\_\_\_  
\_\_\_\_\_

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

CONTINENTAL OIL COMPANY

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

By \_\_\_\_\_

Regional Manager

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

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

Joseph G. Lawler

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

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

Thos. F. McKenna

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

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

Mrs. Willie Stell Stancliff

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

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

Mabel E. Brunson

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

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

Stanton Brunson

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

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

A. G. McCarver

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

STATE OF TEXAS                    )  
                                      ) ss  
COUNTY OF                        )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by Curtis  
Hankamer and Doris Hankamer, his wife.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF                            )  
                                      ) ss  
COUNTY OF                        )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by \_\_\_\_\_  
\_\_\_\_\_, Attorney-in-Fact of Gulf Oil Corporation,  
a corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF                            )  
                                      ) ss  
COUNTY OF                        )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by \_\_\_\_\_  
\_\_\_\_\_, Attorney-in-Fact of Mobil Oil Corporation,  
a corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF                            )  
                                      ) ss  
COUNTY OF                        )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by \_\_\_\_\_  
\_\_\_\_\_, Attorney-in-Fact of Union Oil Company of  
California, a corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF                            )  
                                      ) ss  
COUNTY OF                        )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by \_\_\_\_\_  
\_\_\_\_\_, of The Superior Oil  
Company, a corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by \_\_\_\_\_  
\_\_\_\_\_ of Sinclair Oil & Gas  
Company, a corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by \_\_\_\_\_  
\_\_\_\_\_ of Pennzoil United, Inc.,  
a corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by \_\_\_\_\_  
\_\_\_\_\_, Attorney-in-Fact of Atlantic Richfield Company,  
a corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by \_\_\_\_\_  
\_\_\_\_\_ of Sun Oil Company, a  
corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by \_\_\_\_\_  
\_\_\_\_\_ of Cities Service Oil  
Company, a corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_ day of \_\_\_\_\_, 1969, by \_\_\_\_\_  
\_\_\_\_\_, Regional Manager of Continental Oil Com-  
pany, a corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

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

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_ day of \_\_\_\_\_, 1969, by Joseph G.  
Lawler \_\_\_\_\_.

My Commission Expires: \_\_\_\_\_

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

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_ day of \_\_\_\_\_, 1969, by Thos. F.  
McKenna \_\_\_\_\_.

My Commission Expires: \_\_\_\_\_

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

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_ day of \_\_\_\_\_, 1969, by Mrs. Willie  
Stell Stancliff.

My Commission Expires: \_\_\_\_\_

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

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_ day of \_\_\_\_\_, 1969, by Mabel E. Brunson.

My Commission Expires: \_\_\_\_\_

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

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by Stanton  
Brunson \_\_\_\_\_.

My Commission Expires:

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

STATE OF )  
 ) ss  
COUNTY OF )

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1969, by A. G.  
McCarver \_\_\_\_\_.

My Commission Expires:

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

R - 29 - E

R - 30 - E

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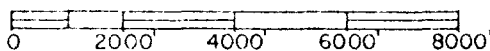
NEW MEXICO

COUNTY

EXHIBIT "A"

BRUSHY DRAW DEEP UNIT  
EDDY COUNTY, NEW MEXICO

SCALE



LEGEND

- FEDERAL LEASE
- STATE LEASE

**EXHIBIT "B"**  
**SCHEDULE SHOWING OWNERSHIP OF ALL LANDS WITHIN**  
**THE BRUSHY DRAW DEEP UNIT AREA**  
**EDDY COUNTY, NEW MEXICO**

Tract No.	Description	Number of Acres	Lease Serial No. & Expiration Date	Basic Royalty & Percentage	Lessee of Record and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage			
FEDERAL LANDS										
1	T-26-S, R-29-E Sec. 13: All	640.00	LC-061497 HBP	U.S.A. 12.5%	Gulf Oil Corporation	100%	Elsie G. Gorman Featherstone Farms, Ltd. Olen F. Featherstone 1%	1%	Gulf Oil Corporation	100%
2	T-26-S, R-29-E Sec. 24: All	640.00	LC-061581 HBP	U.S.A. 12.5%	Gulf Oil Corporation	100%	Mary Louise Beaty of 1% Featherstone Farms, Ltd. 2.7%	3/10	Gulf Oil Corporation	100%
3	T-26-S, R-29-E Sec. 12: SW $\frac{1}{4}$	160.00	LC-071066 HBP	U.S.A. 12.5%	Curtis Hankamer	100%	E. A. Hanson	6.25%	Curtis Hankamer	100%
4	T-26-S, R-30-E Sec. 18: Lots 1, 2, 3, 4 SE $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$	280.84	NM-031375-A 4/30/69	U.S.A. 12.5%	Thos. F. McKenna Mrs. Willie Stell Stanciliff Stanton Brunson Mabel E. Brunson	33.333% 33.333% 16.667% 16.667%	Thos. F. McKenna Mrs. Willie Stell Stanciliff Stanton Brunson Mabel E. Brunson	2.0833% 2.0833% 1.0417% 1.0417%	Thos. F. McKenna Mrs. Willie Stell Stanciliff Stanton Brunson Mabel E. Brunson	33.333% 33.333% 16.667% 16.667%
5	T-26-S, R-30-E Sec. 18: NE $\frac{1}{4}$ NW $\frac{1}{4}$	40.00	NM-031375-C 4/30/69	U.S.A. 12.5%	Joseph G. Lawler	100%	Joseph G. Lawler	6.25%	Joseph G. Lawler	100%
6	T-26-S, R-30-E Sec. 20: S $\frac{1}{2}$ NW $\frac{1}{4}$	80.00	NM-0132174 4/30/71	U.S.A. 12.5%	The Superior Oil Company	100%	R. G. Hanagan (until \$800 per acre has been paid) Ashmar Petroleum 3%	2%	The Superior Oil Company Union Oil Company of California	50%

Tract No.	Description	Number of Acres	Lease Serial No. & Expiration Date	Basic Royalty & Percentage	Lessee of Record and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage
7	T-26-S, R-30-E Sec. 19: W $\frac{1}{4}$	320.08	NM-0177920 7/31/71	U.S.A. 12.5%	The Superior Oil Company	100% Richard L. Peterson	3% The Superior Oil Company
8	T-26-S, R-29-E Sec. 25: E $\frac{1}{4}$ T-26-S, R-30-E Sec. 30: Lots 3, 4; E $\frac{1}{2}$ SW $\frac{1}{4}$ ; SE $\frac{1}{4}$ NW $\frac{1}{4}$ and E $\frac{1}{2}$ NW $\frac{1}{4}$ and E $\frac{1}{2}$ NW $\frac{1}{4}$ Sec. 31: N $\frac{1}{2}$ NE $\frac{1}{4}$ , Lots 4 and 5 Sec. 33: NW $\frac{1}{4}$ NW $\frac{1}{4}$	1,009.15	NM-0198001 10/31/71	U.S.A. 12.5%	The Superior Oil Company	100% Mrs. Mary Lee Sutton and husband, Charles Douglas Sutton (until \$500 per acre has been paid)	4% The Superior Oil Company
9	T-26-S, R-30-E Sec. 20: E $\frac{1}{4}$ , N $\frac{1}{2}$ NW $\frac{1}{4}$ , SW $\frac{1}{4}$ Sec. 28: N $\frac{1}{2}$ Sec. 29: NW $\frac{1}{4}$	1,040.00	NM-0208772 8/31/73	U.S.A. 12.5%	Sinclair Oil & Gas Company	100% Sinclair Oil & Gas Company	5% Sinclair Oil & Gas Company
10	T-26-S, R-30-E Sec. 29: NE $\frac{1}{4}$	160.00	NM-0222876 2/28/72	U.S.A. 12.5%	Union Oil Company of California	100% Margaret Hoover	5% Union Oil Company of California
11	T-26-S, R-30-E Sec. 21: All	640.00	NM-0233679 2/28/72	U.S.A. 12.5%	Union Oil Company of California	100% Velma M. Duncan	5% Union Oil Company of California
12	T-26-S, R-30-E Sec. 17: S $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ NW $\frac{1}{4}$ Sec. 28: S $\frac{1}{2}$	440.00	NM-0298017 7/31/72	U.S.A. 12.5%	Union Oil Company of California	100% Glen L. Gielenz	5% Union Oil Company of California

Tract No.	Description	Number of Acres	Lease No. & Expiration Date	Serial No.	Basic Royalty & Percentage	Lessee of Record and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage
13	T-26-S, R-29-E Sec. 12: E $\frac{1}{2}$ SE $\frac{1}{4}$	80.00	NM-0298076	7/31/72	U.S.A. 12.5%	Continental Oil Company	None	Continental Oil Company 100%
14	T-26-S, R-30-E Sec. 30: Lots 1 & 2, NE $\frac{1}{4}$ NW $\frac{1}{4}$ Sec. 31: Lots 1, 2, 3, NE $\frac{1}{4}$ NW $\frac{1}{4}$	248.81	NM-0430792	8/31/73	U.S.A. 12.5%	Cities Service Oil Company	Tracy P. Clark 1/2 of 1% Robert E. Bohling 1/2 of 1%	Cities Service Oil Company 100%
15	T-26-S, R-30-E Sec. 17: N $\frac{1}{2}$ NE $\frac{1}{4}$ , NW $\frac{1}{4}$ NW $\frac{1}{4}$ S $\frac{1}{2}$ NW $\frac{1}{4}$ , S $\frac{1}{2}$ Sec. 19: NE $\frac{1}{4}$ NE $\frac{1}{4}$	560.00	NM-0459214	12/31/73	U.S.A. 12.5%	The Superior Oil Company	Robert C. Blasam 5%	The Superior Oil Company Union Oil Company of California 50%
16	T-26-S, R-30-E Sec. 29: S $\frac{1}{2}$	320.00	NM-0459223	11/30/73	U.S.A. 12.5%	The Superior Oil Company	Francis W. O'Neill 5% (until \$2,000 per acre has been paid)	The Superior Oil Company Union Oil Company of California 50%
17	T-26-S, R-30-E Sec. 19: NW $\frac{1}{4}$ NE $\frac{1}{4}$ , S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$	280.00	NM-0480904	12/31/73	U.S.A. 12.5%	A. G. McCarver	A. G. McCarver 5%	A. G. McCarver 100%
18	T-26-S, R-30-E Sec. 33: Lot 1 & 2, N $\frac{1}{2}$ NE $\frac{1}{4}$	129.58	NM-0480904-A	12/31/73	U.S.A. 12.5%	Pennzoil United, Inc.	A. G. McCarver 3% (until \$150 per acre has been paid)	Pennzoil United, Inc. 100%
19	T-26-S, R-29-E Sec. 12: W $\frac{1}{2}$ SE $\frac{1}{4}$	80.00	NM-0555547	12/31/69	U.S.A. 12.5% plus (Schedule "B" Sliding Scale Royalty)	Mobil Oil Corporation	None	Mobil Oil Corporation 100%

Tract No.	Description	Number of Acres	Lease Serial No. & Expiration Date	Basic Royalty Percentage	Lessee of Record and Percentage	Overriding Royalty and Percentage	Worth
20	T-26-S, R-30-E Sec. 7: S $\frac{1}{4}$	320.81	NM-2832 7/31/77	U.S.A. 12.5%	Curtis Hankamer	100% R. P. Desmet	4% Curtis H
21	T-26-S, R-30-E Sec. 8: S $\frac{1}{4}$ Sec. 18: E $\frac{1}{4}$	640.00	NM-2833 7/31/77	U.S.A. 12.5%	Curtis Hankamer	100% J. S. Runnells	3% Curtis H
22	T-26-S, R-29-E Sec. 25: NE $\frac{1}{4}$ NW $\frac{1}{4}$ , S $\frac{1}{4}$ NW $\frac{1}{4}$ and SW $\frac{1}{4}$ T-26-S, R-30-E Sec. 33: Lots 3 and 4, NE $\frac{1}{4}$ NW $\frac{1}{4}$	369.50	NM-8031 10/31/78	U.S.A. 12.5%	Curtis Hankamer	100% Roy Ward (until \$500 per acre has been paid) E. S. Gear 1.6667%	Curtis H
23	T-26-S, R-29-E Sec. 25: NW $\frac{1}{4}$ NW $\frac{1}{4}$	40.00	Unleased	-	Unleased	-	-
		8,518.77					

23 TRACTS, FEDERAL LANDS, 8,518.77 ACRES - 88.07179% OF THE UNIT AREA

Tract No.	Description	Number of Acres	Lease No. & Expiration Date	Basic Royalty Percentage	Lessee of Record and Percentage	Overriding Royalty and Percentage	Working and Percentage
24	T-26-S, R-30-E Sec. 16: All	640.00	State K-761 9/20/70	New Mexico 12.5%	Sun Oil Company-DX Division	100%	None Sun Oil Company Division
25	T-26-S, R-30-E Sec. 32: All	258.16	State K-5614 1/18/71	New Mexico 12.5%	Atlantic Richfield Company	100%	Atlantic Richfield Company
26	T-26-S, R-29-E Sec. 36: All	255.60	State 06-6165 11/17/69	New Mexico 12.5%	Sun Oil Company-DX Division	100%	None Sun Oil Company Division
		1,153.76					

3 TRACTS, STATE LANDS, 1,153.76 ACRES - 11.92821% OF THE UNIT AREA

RECAPITULATION

Federal Lands	8,518.77 acres	88.07179%
State Lands	<u>1,153.76 acres</u>	<u>11.92821%</u>
Total Lands	9,672.53 acres	100.00000%