

UNIT AGREEMENT FOR THE DEVELOPMENT
AND OPERATION OF THE CEDAR POINT UNIT AREA
COUNTY OF CHAVES, STATE OF NEW MEXICO

INDEX

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

Exhibit "A" (Map)

Exhibit "B" (Description of interests subject to agreement)

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
<i>App.</i>	EXHIBIT NO. <u>2</u>
CASE NO.	<u>4183</u>

1 UNIT AGREEMENT 1
2 FOR THE DEVELOPMENT AND OPERATION 2
3 OF THE 3
4 CEDAR POINT UNIT AREA 4
5 COUNTY OF CHAVES 5
6 STATE OF NEW MEXICO 6

7 No. _____ 7

8 THIS AGREEMENT, entered into as of the 1st day of March, 1969 8
9 by and between the parties subscribing, ratifying, or consenting hereto, and 9
10 herein referred to as the "parties hereto", 10

11 WITNESSETH: 11

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

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

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

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

1 WHEREAS, the Oil Conservation Commission of the State of New Mexico is 1
2 authorized by Act of Legislature (Chap. 168, Laws 1949) to approve this agree- 2
3 ment and the conservation provisions hereof; and 3
4 WHEREAS, the parties hereto hold sufficient interests in the Cedar Point 4
5 Unit Area covering the land hereinafter described to give reasonably effective 5
6 control of operations therein; and 6
7 WHEREAS, it is the purpose of the parties hereto to conserve natural re- 7
8 sources, prevent waste, and secure other benefits obtainable through develop- 8
9 ment and operation of the area subject to this agreement under the terms, con- 9
10 ditions, and limitations herein set forth; 10
11 NOW, THEREFORE, in consideration of the premises and the promises herein 11
12 contained, the parties hereto commit to this agreement their respective in- 12
13 terests in the below-defined unit area, and agree severally among themselves 13
14 as follows: 14
15 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 15
16 1920, as amended, supra, and all valid pertinent regulations, including opera- 16
17 ting and unit plan regulations, heretofore issued thereunder or valid, perti- 17
18 nent, and reasonable regulations hereafter issued thereunder are accepted and 18
19 made a part of this agreement as to Federal lands, provided such regulations 19
20 are not inconsistent with the terms of this agreement; and as to non-Federal 20
21 lands, the oil and gas operating regulations in effect as of the effective 21
22 date hereof governing drilling and producing operations, not inconsistent with 22
23 the terms hereof or the laws of the State in which the non-Federal land is 23
24 located, are hereby accepted and made a part of this agreement. 24
25 2. UNIT AREA. The area specified on the map attached hereto marked Ex- 25
26 hibit A is hereby designated and recognized as constituting the unit area, con- 26
27 taining 5,120 acres, more or less. 27
28 Exhibit A shows, in addition to the boundary of the unit area, the 28
29 boundaries and identity of tracts and leases in said area to the extent known 29
30 to the Unit Operator. Exhibit B attached hereto is a schedule showing to the 30
31 extent known to the Unit Operator the acreage, percentage, and kind of owner- 31
32 ship of oil and gas interests in all land in the unit area. However, nothing 32
33 herein or in said schedule or map shall be construed as a representation by 33
34 any party hereto as to the ownership of any interest other than such interest 34

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

9 The above-described unit area shall when practicable be expanded to 9
10 include therein any additional lands, or shall be contracted to exclude lands, 10
11 whenever such expansion or contraction is deemed to be necessary or advisable, 11
12 to conform with the purposes of this agreement. Such expansion or contraction 12
13 shall be effected in the following manner: 13

14 (a) Unit Operator, on its own motion or on demand of the Director of 14
15 the Geological Survey, hereinafter referred to as "Director", or on demand of 15
16 the Commissioner after preliminary concurrence by the Director, shall prepare 16
17 a notice of proposed expansion or contraction describing the contemplated 17
18 changes in the boundaries of the unit area, the reasons therefor, and the 18
19 proposed effective date thereof, preferably the first day of a month subse- 19
20 quent to the date of notice. 20

21 (b) Said notice shall be delivered to the Supervisor and the Commis- 21
22 sioner and copies thereof mailed to the last known address of each working 22
23 interest owner, lessee, and lessor whose interests are affected, advising that 23
24 30 days will be allowed for submission to the Unit Operator of any objections. 24

25 (c) Upon expiration of the 30-day period provided in the preceding 25
26 item (b) hereof, Unit Operator shall file with the Supervisor and the Commis- 26
27 sioner evidence of mailing of the notice of expansion or contraction and a 27
28 copy of any objections thereto which have been filed with the Unit Operator, 28
29 together with an application in sufficient number, for approval of such expan- 29
30 sion or contraction and with appropriate joinders. 30

31 (d) After due consideration of all pertinent information, the expan- 31
32 sion or contraction shall, upon approval by the Supervisor and the Commis- 32
33 sioner, become effective as of the date prescribed in the notice thereof. 33

1 (e) All legal subdivisions of lands (i.e., 40 acres by government 1
2 survey or its nearest lot or tract equivalent; in the instances of irregular 2
3 surveys unusually large lots or tracts shall be considered in multiples of 40 3
4 acres or the nearest aliquot equivalent thereof), no parts of which are entit- 4
5 led to be in a participating area on or before the fifth anniversary of the 5
6 effective date of the first initial participating area established under this 6
7 unit agreement, shall be eliminated automatically from this agreement, effec- 7
8 tive as of said fifth anniversary, and such lands shall no longer be a part 8
9 of the unit area and shall no longer be subject to this agreement, unless dili- 9
10 gent drilling operations are in progress on unitized lands not entitled to 10
11 participation on said fifth anniversary, in which event all such lands shall 11
12 remain subject hereto for so long as such drilling operations are continued 12
13 diligently, with not more than 90 days' time elapsing between the completion 13
14 of one such well and the commencement of the next such well. All legal sub- 14
15 divisions on lands not entitled to be in a participating area within 10 years 15
16 after the effective date of the first initial participating area approved 16
17 under this agreement shall be automatically eliminated from this agreement as 17
18 of said tenth anniversary. All lands proved productive by diligent drilling 18
19 operations after the aforesaid 5-year period shall become participating in 19
20 the same manner as during said 5-year period. However, when such diligent 20
21 drilling operations cease, all non-participating lands shall be automatically 21
22 eliminated effective as of the 91st day thereafter. The Unit Operator shall 22
23 within 90 days after the effective date of any elimination hereunder, describe 23
24 the area so eliminated to the satisfaction of the Supervisor and the Commis- 24
25 sioner and promptly notify all parties in interest. 25

26 If conditions warrant extension of the 10-year period specified in 26
27 this subsection 2(e), a single extension of not to exceed 2 years may be 27
28 accomplished by consent of the owners of 90% of the working interests in the 28
29 current non-participating unitized lands, and the owners of 60% of the basic 29
30 royalty interests (exclusive of the basic royalty interests of the United 30
31 States) in non-participating unitized lands with the approval of the Direc- 31
32 tor and the Commissioner, provided such extension application is submitted 32
33 to the Director and the Commissioner not later than 60 days prior to the 33
34 expiration of said 10-year period. 34

1 Any expansion of the unit area pursuant to this section which embraces 1
2 lands theretofore eliminated pursuant to this subsection 2(e) shall not be 2
3 considered automatic commitment or recommitment of such lands. 3

4 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this 4
5 agreement shall constitute land referred to herein as "unitized land" or 5
6 "land subject to this agreement". All oil and gas in any and all formations 6
7 of the unitized land are unitized under the terms of this agreement and herein 7
8 are called "unitized substances". 8

9 4. UNIT OPERATOR. Pan American Petroleum Corporation is hereby desig- 9
10 nated as Unit Operator and by signature hereto as Unit Operator agrees and 10
11 consents to accept the duties and obligations of Unit Operator for the dis- 11
12 covery, development, and production of unitized substances as herein provided. 12
13 Whenever reference is made herein to the Unit Operator, such reference means 13
14 the Unit Operator acting in that capacity and not as an owner of interest in 14
15 unitized substances, and the term "working interest owner" when used herein 15
16 shall include or refer to Unit Operator as the owner of a working interest 16
17 when such an interest is owned by it. 17

18 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have 18
19 the right to resign at any time prior to the establishment of a participating 19
20 area or areas hereunder, but such resignation shall not become effective so 20
21 as to release Unit Operator from the duties and obligations of Unit Operator 21
22 and terminate Unit Operator's rights as such for a period of 6 months after 22
23 notice of intention to resign has been served by Unit Operator on all work- 23
24 ing interest owners and the Supervisor and the Commissioner, and until all 24
25 wells then drilled hereunder are placed in a satisfactory condition for sus- 25
26 pension or abandonment whichever is required by the Supervisor, as to the wells 26
27 on Federal lands the Commissioner as to the wells on State lands, unless a 27
28 new Unit Operator shall have been selected and approved and shall have taken 28
29 over and assumed the duties and obligations of Unit Operator prior to the 29
30 expiration of said period. 30

31 Unit Operator shall have the right to resign in like manner and 31
32 subject to like limitations as above provided at any time a participating 32
33 area established hereunder is in existence, but, in all instances of resig- 33
34 nation or removal, until a successor Unit Operator is selected and approved 34

1 as hereinafter provided, the working interest owners shall be jointly respons- 1
2 ible for performance of the duties of Unit Operator, and shall not later than 2
3 30 days before such resignation or removal becomes effective appoint a common 3
4 agent to represent them in any action to be taken hereunder. 4

5 The resignation of Unit Operator shall not release Unit Operator from 5
6 any liability for any default by it hereunder occurring prior to the effective 6
7 date of its resignation. 7

8 The Unit Operator may, upon default or failure in the performance of 8
9 its duties or obligations hereunder, be subject to removal by the same per- 9
10 centage vote of the owners of working interests as herein provided for the 10
11 selection of a new Unit Operator. Such removal shall be effective upon notice 11
12 thereof to the Supervisor and the Commissioner. 12

13 The resignation or removal of Unit Operator under this agreement shall 13
14 not terminate its right, title, or interest as the owner of a working interest 14
15 or other interest in unitized substances, but upon the resignation or removal 15
16 of Unit Operator becoming effective, such Unit Operator shall deliver posses- 16
17 sion of all wells, equipment, materials, and appurtenances used in conducting 17
18 the unit operations to the new duly qualified successor Unit Operator or to the 18
19 common agent, if no such new Unit Operator is elected, to be used for the pur- 19
20 pose of conducting unit operations hereunder. Nothing herein shall be construed 20
21 as authorizing removal of any material, equipment and appurtenances needed for 21
22 the preservation of any wells. 22

23 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender 23
24 his or its resignation as Unit Operator or shall be removed as hereinabove 24
25 provided, or a change of Unit Operator is negotiated by working interest 25
26 owners, the owners of the working interests in the participating area or areas 26
27 according to their respective acreage interests in such participating area or 27
28 areas, or, until a participating area shall have been established, the owners 28
29 of the working interests according to their respective acreage interests in 29
30 all unitized land, shall by majority vote select a successor Unit Operator: 30
31 Provided, that, if a majority but less than 75 per cent of the working interests 31
32 qualified to vote are owned by one party to this agreement, a concurring vote 32
33 of one or more additional working interest owners shall be required to select 33

1 a new operator. Such selection shall not become effective until 1

2 (a) a Unit Operator so selected shall accept in writing the duties 2
3 and responsibilities of Unit Operator, and 3

4 (b) the selection shall have been approved by the Supervisor and the 4
5 Commissioner. 5

6 If no successor Unit Operator is selected and qualified as herein 6
7 provided, the Director and the Commissioner at their election may declare this 7
8 unit agreement terminated. 8

9 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit 9
10 Operator is not the sole owner of working interests, costs and expenses in- 10
11 curred by Unit Operator in conducting unit operations hereunder shall be paid 11
12 and apportioned among and borne by the owners of working interests, all in 12
13 accordance with the agreement or agreements entered into by and between the 13
14 Unit Operator and the owners of working interests, whether one or more, separat- 14
15 ely or collectively. Any agreement or agreements entered into between the work- 15
16 ing interest owners and the Unit Operator as provided in this section, whether 16
17 one or more, are herein referred to as the "unit operating agreement". Such 17
18 unit operating agreement shall also provide the manner in which the working 18
19 interest owners shall be entitled to receive their respective proportionate 19
20 and allocated share of the benefits accruing hereto in conformity with their 20
21 underlying operating agreements, leases, or other independent contracts, and 21
22 such other rights and obligations as between Unit Operator and the working 22
23 interest owners as may be agreed upon by Unit Operator and the working interest 23
24 owners; however, no such unit operating agreement shall be deemed either to 24
25 modify any of the terms and conditions of this unit agreement or to relieve 25
26 the Unit Operator of any right or obligation established under this unit 26
27 agreement, and in case of any inconsistency or conflict between the unit 27
28 agreement and the unit operating agreement, this unit agreement shall govern. 28
29 Three true copies of any unit operating agreement executed pursuant to this 29
30 section should be filed with the Supervisor and two true copies with the 30
31 Commissioner, prior to approval of this unit agreement. 31

32 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise speci- 32
33 fically provided herein the exclusive right, privilege, and duty of exercis- 33
34 ing any and all rights of the parties hereto which are necessary or convenient 34

1 for prospecting for, producing, storing, allocating, and distributing the 1
2 unitized substances are hereby delegated to and shall be exercised by the 2
3 Unit Operator as herein provided. Acceptable evidence of title to said rights 3
4 shall be deposited with said Unit Operator and, together with this agreement, 4
5 shall constitute and define the rights, privileges, and obligations of Unit 5
6 Operator. Nothing herein, however, shall be construed to transfer title to 6
7 any land or to any lease or operating agreement, it being understood that under 7
8 this agreement the Unit Operator, in its capacity as Unit Operator, shall 8
9 exercise the rights of possession and use vested in the parties hereto only 9
10 for the purposes herein specified. 10

11 9. DRILLING TO DISCOVERY. Within 6 months after the effective date here- 11
12 of, the Unit Operator shall begin to drill an adequate test well at a location 12
13 approved by the Supervisor if such location is upon lands of the United States, 13
14 and if upon State lands, such location shall be approved by the Commissioner, 14
15 unless on such effective date a well is being drilled conformably with the 15
16 terms hereof, and thereafter continue such drilling diligently until the Mis- 16
17 sissippian formation is encountered or until at a lesser depth unitized sub- 17
18 stances shall be discovered which can be produced in paying quantities (to-wit: 18
19 quantities sufficient to repay the costs of drilling, completing, and produc- 19
20 ing operations, with a reasonable profit) or the Unit Operator shall at any 20
21 time establish to the satisfaction of the Supervisor as to wells on Federal 21
22 lands, or to the Commissioner as to wells on State lands, that further drill- 22
23 ing of said well would be unwarranted or impracticable, provided, however, that 23
24 Unit Operator shall not in any event be required to drill said well to a depth 24
25 in excess of 11,000 feet. Until the discovery of a deposit of unitized sub- 25
26 stances capable of being produced in paying quantities, the Unit Operator 26
27 shall continue drilling one well at a time, allowing not more than 6 months 27
28 between the completion of one well and the beginning of the next well, until 28
29 a well capable of producing unitized substances in paying quantities is com- 29
30 pleted to the satisfaction of said Supervisor and Commissioner or until it 30
31 is reasonably proved that the unitized land is incapable of producing uni- 31
32 tized substances in paying quantities in the formation drilled hereunder. 32

1 Nothing in this section shall be deemed to limit the right of the Unit Opera- 1
2 tor to resign as provided in Section 5, hereof, or as requiring Unit Operator 2
3 to commence or continue any drilling during the period pending such resigna- 3
4 tion becoming effective in order to comply with the requirements of this sec- 4
5 tion. The Supervisor and the Commissioner may modify the drilling requirements 5
6 of this section by granting reasonable extensions of time when, in their opin- 6
7 ion, such action is warranted. 7

8 Upon failure to commence any well provided for in this section within 8
9 the time allowed, including any extension of time granted by the Supervisor 9
10 and the Commissioner, this agreement will automatically terminate; upon fail- 10
11 ure to continue drilling diligently any well commenced hereunder, the Super- 11
12 visor and Commissioner may, after 15-days' notice to the Unit Operator, de- 12
13 clare this unit agreement terminated. 13

14 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after 14
15 completion of a well capable of producing unitized substances in paying quanti- 15
16 ties, the Unit Operator shall submit for the approval of the Supervisor, and 16
17 the Commissioner an acceptable plan of development and operation for the 17
18 unitized land which, when approved by the Supervisor, and the Commissioner 18
19 shall constitute the further drilling and operating obligations of the Unit 19
20 Operator under this agreement for the period specified therein. Thereafter, 20
21 from time to time before the expiration of any existing plan, the Unit Opera- 21
22 tor shall submit for the approval of the Supervisor, and the Commissioner a 22
23 plan for an additional specified period for the development and operation of 23
24 unitized land. 24

25 Any plan submitted pursuant to this section shall provide for the 25
26 exploration of the unitized area and for the diligent drilling necessary for 26
27 determination of the area or areas thereof capable of producing unitized sub- 27
28 stances in paying quantities in each and every productive formation and shall 28
29 be as complete and adequate as the Supervisor, and the Commissioner may deter- 29
30 mine to be necessary for timely development and proper conservation of the 30
31 oil and gas resources of the unitized area and shall 31

32 (a) specify the number and location of any wells to be drilled and 32
33 the proposed order and time for such drilling; and 33

34 (b) to the extent practicable specify the operating practices re- 34
35 garded as necessary and advisable for proper conservation of natural resources. 35

1 Separate plans may be submitted for separate productive zones, subject 1
2 to the approval of the Supervisor, and the Commissioner. 2

3 Plans shall be modified or supplemented when necessary to meet changed 3
4 conditions or to protect the interests of all parties to this agreement. Reason- 4
5 able diligence shall be exercised in complying with the obligations of the ap- 5
6 proved plan of development. The Supervisor and the Commissioner are author- 6
7 ized to grant a reasonable extension of the 6-month period herein prescribed 7
8 for submission of an initial plan of development where such action is justified 8
9 because of unusual conditions or circumstances. After completion hereunder of 9
10 a well capable of producing any unitized substance in paying quantities, no 10
11 further wells, except such as may be necessary to afford protection against 11
12 operations not under this agreement and such as may be specifically approved by 12
13 the Supervisor and the Commissioner, shall be drilled except in accordance with 13
14 a plan of development approved as herein provided. 14

15 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of 15
16 producing unitized substances in paying quantities or as soon thereafter as re- 16
17 quired by the Supervisor and the Commissioner, the Unit Operator shall submit 17
18 for approval by the Supervisor, and the Commissioner, a schedule, based on sub- 18
19 divisions of the public-land survey or aliquot parts thereof, of all land then 19
20 regarded as reasonably proved to be productive in paying quantities; all lands 20
21 in said schedule on approval of the Supervisor, and the Commissioner to con- 21
22 stitute a participating area, effective as of the date of completion of such 22
23 well or the effective date of the unit agreement, whichever is later. The 23
24 acreages of both Federal and non-Federal lands shall be based upon appropriate 24
25 computations from the courses and distances shown on the last approved public- 25
26 land survey as of the effective date of each initial participating area. Said 26
27 schedule shall also set forth the percentage of unitized substances to be al- 27
28 located as herein provided to each tract in the participating area so estab- 28
29 lished, and shall govern the allocation of production commencing with the 29
30 effective date of the participating area. A separate participating area 30
31 shall be established for each separate pool or deposit of unitized substances 31
32 or for any group thereof which is produced as a single pool or zone, and 32
33 any two or more participating areas so established may be combined into one, on 33

1 approval of the Supervisor, and the Commissioner. When production from 1
2 two or more participating areas, so established, is subsequently found to be 2
3 from a common pool or deposit, said participating areas shall be combined into 3
4 one effective as of such appropriate date as may be approved or prescribed by 4
5 the Supervisor, and the Commissioner. The participating area or areas so 5
6 established shall be revised from time to time, subject to like approval, to 6
7 include additional land then regarded as reasonably proved to be productive 7
8 in paying quantities or necessary for unit operations, or to exclude land 8
9 then regarded as reasonably proved not to be productive in paying quantities 9
10 and the schedule of allocation percentages shall be revised accordingly. 10
11 The effective date of any revision shall be the first of the month in which 11
12 is obtained the knowledge or information on which such revision is predi- 12
13 cated, provided, however, that a more appropriate effective date may be used 13
14 if justified by the Unit Operator and approved by the Supervisor and the Com- 14
15 missioner. No land shall be excluded from a participating area on account of 15
16 depletion of the unitized substances, except that any participating area 16
17 established under the provisions of this unit agreement shall terminate auto- 17
18 matically whenever all completions in the formation on which the participating 18
19 area is based are abandoned. 19

20 It is the intent of this section that a participating area shall re- 20
21 present the area known or reasonably estimated to be productive in paying 21
22 quantities; but, regardless of any revision of the participating area, nothing 22
23 herein contained shall be construed as requiring any retroactive adjustment 23
24 for production obtained prior to the effective date of the revision of the 24
25 participating area. 25

26 In the absence of agreement at any time between the Unit Operator, 26
27 the Supervisor, and the Commissioner as to the proper definition or redefini- 27
28 tion of a participating area, or until a participating area has, or areas 28
29 have, been established as provided herein, the portion of all payments affected 29
30 thereby shall be impounded in a manner mutually acceptable to the owners of 30
31 working interests and the Supervisor and the Commissioner. Royalties due 31
32 the United States and the State of New Mexico, shall be determined by the 32
33 Supervisor and the Commissioner, respectively, and the amount thereof shall be 33

1 deposited, as directed by the Supervisor and the Commissioner, respectively, 1
2 to be held as unearned money until a participating area is finally approved 2
3 and then applied as earned or returned in accordance with a determination of 3
4 the sum due as Federal and State royalty on the basis of such approved parti- 4
5 cipating area. 5

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

16 12. ALLOCATION OF PRODUCTION. All unitized substances produced from each 16
17 participating area established under this agreement, except any part thereof 17
18 used in conformity with good operating practices within the unitized area for 18
19 drilling, operating, camp and other production or development purposes, for 19
20 repressuring or recycling in accordance with a plan of development approved by 20
21 the Supervisor, and the Commissioner, or unavoidably lost, shall be deemed to 21
22 be produced equally on an acreage basis from the several tracts of unitized 22
23 land of the participating area established for such production and, for the 23
24 purpose of determining any benefits accruing under this agreement, each such 24
25 tract of unitized land shall have allocated to it such percentage of said pro- 25
26 duction as the number of acres of such tract included in said participating 26
27 area bears to the total acres of unitized land in said participating area, 27
28 except that allocation of production hereunder for purposes other than for 28
29 settlement of the royalty, overriding royalty, or payment out of production 29
30 obligations of the respective working interest owners, shall be on the basis 30
31 prescribed in the unit operating agreement whether in conformity with the basis 31
32 of allocation herein set forth or otherwise. It is hereby agreed that produc- 32
33 tion of unitized substances from a participating area shall be allocated as 33

1 provided herein regardless of whether any wells are drilled on any particular 1
2 part or tract of said participating area. If any gas produced from one parti- 2
3 cipating area is used for repressuring or recycling purposes in another parti- 3
4 cipating area, the first gas withdrawn from such last-mentioned participating 4
5 area for sale during the life of this agreement shall be considered to be the 5
6 gas so transferred until an amount equal to that transferred shall be so pro- 6
7 duced for sale and such gas shall be allocated to the participating area from 7
8 which initially produced as such area was last defined at the time of such 8
9 final production. 9

10 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. 10
11 Any party hereto owning or controlling the working interest in any unitized 11
12 land having thereon a regular well location may with the approval of the 12
13 Supervisor, as to locations on Federal lands, and the Commissioner as to lo- 13
14 cations on State lands, at such party's sole risk, cost, and expense, drill 14
15 a well to test any formation for which a participating area has not been 15
16 established or to test any formation for which a participating area has been 16
17 established if such location is not within said participating area, unless 17
18 within 90 days of receipt of notice from said party of his intention to drill 18
19 the well the Unit Operator elects and commences to drill such a well in like 19
20 manner as other wells are drilled by the Unit Operator under this agreement. 20

21 If any well drilled as aforesaid by a working interest owner results 21
22 in production such that the land upon which it is situated may properly be in- 22
23 cluded in a participating area, such participating area shall be established 23
24 or enlarged as provided in this agreement and the well shall thereafter be 24
25 operated by the Unit Operator in accordance with the terms of this agreement 25
26 and the unit operating agreement. 26

27 If any well drilled as aforesaid by a working interest owner obtains 27
28 production in quantities insufficient to justify the inclusion of the land 28
29 upon which such well is situated in a participating area, such well may be 29
30 operated and produced by the party drilling the same subject to the conser- 30
31 vation requirements of this agreement. The royalties in amount or value of 31
32 production from any such well shall be paid as specified in the underlying 32
33 lease and agreements affected. 33

1 14. ROYALTY SETTLEMENT. The United States and the State of New Mexico 1
2 and any royalty owner who is entitled to take in kind a share of the substances 2
3 now unitized hereunder shall hereafter be entitled to the right to take in kind 3
4 its share of the unitized substances, and Unit Operator, or the working interest 4
5 owner in case of the operation of a well by a working interest owner as herein 5
6 provided for in special cases, shall make deliveries of such royalty share taken 6
7 in kind in conformity with the applicable contracts, laws, and regulations. 7
8 Settlement for royalty interest not taken in kind shall be made by working 8
9 interest owners responsible therefor under existing contracts, laws and regula- 9
10 tions, or by the Unit Operator, on or before the last day of each month for 10
11 unitized substances produced during the preceding calendar month; provided, 11
12 however, that nothing herein contained shall operate to relieve the lessees of 12
13 any land from their respective lease obligations for the payment of any royal- 13
14 ties due under their leases. 14

15 If gas obtained from lands not subject to this agreement is intro- 15
16 duced into any participating area hereunder, for use in repressuring, stimu- 16
17 lation of production, or increasing ultimate recovery, in conformity with a 17
18 plan of operations approved by the Supervisor and the Commissioner, a like 18
19 amount of gas, after settlement as herein provided for any gas transferred from 19
20 any other participating area and with appropriate deduction for loss from any 20
21 cause, may be withdrawn from the formation into which the gas is introduced, 21
22 royalty free as to dry gas, but not as to any products which may be extracted 22
23 therefrom; provided that such withdrawal shall be at such time as may be pro- 23
24 vided in the approved plan of operations or as may otherwise be consented to 24
25 by the Supervisor, and the Commissioner as conforming to good petroleum en- 25
26 gineering practice; and provided further, that such right of withdrawal shall 26
27 terminate on the termination of this unit agreement. 27

28 Royalty due the United States shall be computed as provided in the 28
29 operating regulations and paid in value or delivered in kind as to all unit- 29
30 ized substances on the basis of the amounts thereof allocated to unitized 30
31 Federal land as provided herein at the rates specified in the respective 31
32 Federal leases, or at such lower rate or rates as may be authorized by law 32
33 or regulation; provided, that for leases on which the royalty rate depends 33
34 on the daily average production per well, said average production shall be 34

1 determined in accordance with the operating regulations as though each partici- 1
2 pating area were a single consolidated lease. Royalty due the State of New 2
3 Mexico shall be computed and paid on the basis of the amounts allocated to 3
4 unitized State land as provided herein at the rate specified in the State Oil 4
5 and Gas Lease. 5

6 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases com- 6
7 mitted hereto shall be paid by working interest owners responsible therefor 7
8 under existing contracts, laws, and regulations, provided that nothing herein 8
9 contained shall operate to relieve the lessees of any land from their respec- 9
10 tive lease obligations for the payment of any rental or minimum royalty due 10
11 under their leases. Rental or minimum royalty for lands of the United States 11
12 subject to this agreement shall be paid at the rate specified in the respec- 12
13 tive leases from the United States unless such rental or minimum royalty is 13
14 waived, suspended, or reduced by law or by approval of the Secretary or his 14
15 duly authorized representative. Rentals on State of New Mexico lands subject 15
16 to this agreement shall be paid at the rates specified in the respective leases, 16
17 or may be reduced and suspended upon the order of the Commissioner of Public 17
18 Lands of the State of New Mexico pursuant to applicable laws and regulations. 18

19 With respect to any lease on non-Federal land containing provisions 19
20 which would terminate such lease unless drilling operations are commenced upon 20
21 the land covered thereby within the time therein specified or rentals are paid 21
22 for the privilege of deferring such drilling operations, the rentals required 22
23 thereby shall, notwithstanding any other provision of this agreement, be deemed 23
24 to accrue and become payable during the term thereof as extended by this agree- 24
25 ment and until the required drilling operations are commenced upon the land 25
26 covered thereby or until some portion of such land is included within a parti- 26
27 cipating area. 27

28 16. CONSERVATION. Operations hereunder and production of unitized sub- 28
29 stances shall be conducted to provide for the most economical and efficient 29
30 recovery of said substances without waste, as defined by or pursuant to State 30
31 or Federal law or regulation. 31

32 17. DRAINAGE. The Unit Operator shall take such measures as the Super- 32
33 visor and the Commissioner deem appropriate and adequate to prevent drainage 33

1 of unitized substances from unitized land by wells on land not subject to this 1
2 agreement. 2

3 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, 3
4 and provisions of all leases, subleases, and other contracts relating to ex- 4
5 ploration, drilling, development, or operation for oil or gas on lands com- 5
6 mitted to this agreement are hereby expressly modified and amended to the ex- 6
7 tent necessary to make the same conform to the provisions hereof, but other- 7
8 wise to remain in full force and effect; and the parties hereto hereby con- 8
9 sent that the Secretary and the Commissioner, respectively, shall, and by their 9
10 approval hereof, or by the approval hereof by their duly authorized representa- 10
11 tives, do hereby establish, alter, change, or revoke the drilling, producing, 11
12 rental, minimum royalty, and royalty requirements of Federal and State leases 12
13 committed hereto and the regulations in respect thereto to conform said re- 13
14 quirements to the provisions of this agreement, and, without limiting the gen- 14
15 erality of the foregoing, all leases, subleases, and contracts are particularly 15
16 modified in accordance with the following: 16

17 (a) The development and operation of lands subject to this agreement 17
18 under the terms hereof shall be deemed full performance of all obligations for 18
19 development and operation with respect to each and every separately owned tract 19
20 subject to this agreement, regardless of whether there is any development of 20
21 any particular tract of the unit area. 21

22 (b) Drilling and producing operations performed hereunder upon any 22
23 tract of unitized lands will be accepted and deemed to be performed upon and 23
24 for the benefit of each and every tract of unitized land, and no lease shall 24
25 be deemed to expire by reason of failure to drill or produce wells situated 25
26 on the land therein embraced. 26

27 (c) Suspension of drilling or producing operations on all unitized 27
28 lands pursuant to direction or consent of the Secretary or his duly author- 28
29 ized representative, and on all unitized lands of the State of New Mexico 29
30 pursuant to the consent of the Commissioner, or his duly recognized repre- 30
31 sentative, shall be deemed to constitute such suspension pursuant to such 31
32 direction or consent as to each and every tract of unitized land. A suspen- 32
33 sion of drilling or producing operations limited to specified lands shall be 33
34 applicable only to such lands. 34

1 (d) Each lease, sublease or contract relating to the exploration, 1
2 drilling, development or operation for oil or gas of lands other than those of 2
3 the United States and the State of New Mexico committed to this agreement, 3
4 which, by its terms might expire prior to the termination of this agreement, is 4
5 hereby extended beyond any such term so provided therein so that it shall be 5
6 continued in full force and effect for and during the term of this agreement. 6

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

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

27 (g) The segregation of any Federal lease committed to this agreement 27
28 is governed by the following provision in the fourth paragraph of Sec. 17(j) 28
29 of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 29
30 781-784): "Any (Federal) lease heretofore or hereafter committed to any such 30
31 (unit) plan embracing lands that are in part within and in part outside of the 31
32 area covered by any such plan shall be segregated into separate leases as to 32
33 the lands committed and the lands not committed as of the effective date of 33

1 unitization: Provided, however, that any such lease as to the nonunitized 1
2 portion shall continue in force and effect for the term thereof but for not 2
3 less than two years from the date of such segregation and so long thereafter 3
4 as oil or gas is produced in paying quantities." 4

5 (h) Any lease embracing lands of the State of New Mexico which is 5
6 made subject to this agreement shall continue in force beyond the term pro- 6
7 vided therein as to the lands committed hereto until the termination hereof. 7

8 (i) Any lease embracing lands of the State of New Mexico having 8
9 only a portion of its land committed hereto shall be segregated as to that 9
10 portion committed and that not committed, and the terms of such lease shall 10
11 apply separately to such segregated portions commencing as of the effective 11
12 date hereof. Provided, however, that notwithstanding any of the provisions 12
13 of this agreement to the contrary, such lease shall continue in full force 13
14 and effect beyond the term provided therein as to all lands embraced in such 14
15 lease if oil or gas is, or has heretofore been discovered in paying quanti- 15
16 ties on some part of the lands embraced in such lease committed to this agree- 16
17 ment or, so long as a portion of the unitized substances produced from the 17
18 unit area is, under the terms of this agreement, allocated to the portion of 18
19 the lands covered by such lease committed to this agreement, or, at any time 19
20 during the term hereof, as to any lease that is then valid and subsisting 20
21 and upon which the lessee or the Unit Operator is then engaged in bona fide 21
22 drilling, reworking, or secondary recovery operations on any part of the 22
23 lands embraced in such lease, then the same as to all lands embraced therein 23
24 shall remain in full force and effect so long as such operations are dili- 24
25 gently prosecuted, and if they result in the production of oil or gas, said 25
26 lease shall continue in full force and effect as to all of the lands embraced 26
27 therein, so long thereafter as oil or gas in paying quantities is being pro- 27
28 duced from any portion of said lands. 28

29 (j) Any lease, other than a Federal lease, having only a portion 29
30 of its lands committed hereto shall be segregated as to the portion committed 30
31 and the portion not committed, and the provisions of such lease shall apply 31
32 separately to such segregated portions commencing as of the effective date 32
33 hereof. In the event any such lease provides for a lump-sum rental payment, 33

1 such payment shall be prorated between the portions so segregated in proportion 1
2 to the acreage of the respective tracts. 2

3 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to 3
4 be covenants running with the land with respect to the interest of the parties 4
5 hereto and their successors in interest until this agreement terminates, and 5
6 any grant, transfer, or conveyance of interest in land or leases subject here- 6
7 to shall be and hereby is conditioned upon the assumption of all privileges 7
8 and obligations hereunder by the grantee, transferee, or other successor in 8
9 interest. No assignment or transfer of any working interest, royalty, or other 9
10 interest subject hereto shall be binding upon Unit Operator until the first 10
11 day of the calendar month after Unit Operator is furnished with the original, 11
12 photostatic, or certified copy of the instrument of transfer. 12

13 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon 13
14 approval by the Secretary and the Commissioner or their duly authorized repre- 14
15 sentatives and shall terminate five (5) years from said effective date unless 15

16 (a) such date of expiration is extended by the Director and the Com- 16
17 missioner, or 17

18 (b) it is reasonably determined prior to the expiration of the fixed 18
19 term or any extension thereof that the unitized land is incapable of produc- 19
20 tion of unitized substances in paying quantities in the formations tested 20
21 hereunder and after notice of intention to terminate the agreement on such 21
22 ground is given by the Unit Operator to all parties in interest at their 22
23 last known addresses, the agreement is terminated with the approval of the 23
24 Supervisor and the Commissioner, or 24

25 (c) a valuable discovery of unitized substances has been made or 25
26 accepted on unitized land during said initial term or any extension thereof, 26
27 in which event the agreement shall remain in effect for such term and so long 27
28 as unitized substances can be produced in quantities sufficient to pay for the 28
29 cost of producing same from wells on unitized land within any participating 29
30 area established hereunder and, should production cease, so long thereafter 30
31 as diligent operations are in progress for the restoration of production or 31
32 discovery of new production and so long thereafter as the unitized substances 32
33 so discovered can be produced as aforesaid, or 33

34 (d) it is terminated as heretofore provided in this agreement. 34

1 This agreement may be terminated at any time by not less than 75 per centum, 1
2 on an acreage basis, of the working interest owners signatory hereto, with the 2
3 approval of the Supervisor and the Commissioner; notice of any such approval 3
4 to be given by the Unit Operator to all parties hereto. 4

5 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is 5
6 hereby vested with authority to alter or modify from time to time in his dis- 6
7 cretion the quantity and rate of production under this agreement when such 7
8 quantity and rate is not fixed pursuant to Federal or State law or does not 8
9 conform to any state-wide voluntary conservation or allocation program, which 9
10 is established, recognized, and generally adhered to by the majority of opera- 10
11 tors in such State, such authority being hereby limited to alteration or modi- 11
12 fication in the public interest, the purpose thereof and public interest to 12
13 be served thereby to be stated in the order of alteration or modification. 13
14 Without regard to the foregoing, the Director is also hereby vested with auth- 14
15 ority to alter or modify from time to time in his discretion the rate of pros- 15
16 pecting and development and the quantity and rate of production under this 16
17 agreement when such alteration or modification is in the interest of attain- 17
18 ing the conservation objectives stated in this agreement and is not in viola- 18
19 tion of any applicable Federal or State law; provided, further, no such alter- 19
20 ation or modification shall be effective as to any land of the State of New 20
21 Mexico as to the rate of prospecting and development in the absence of the 21
22 specific written approval thereof by the Commissioner and as to lands of the 22
23 State of New Mexico or privately owned lands subject to this agreement as to 23
24 the quantity and rate of production in the absence of specific written approval 24
25 thereof by the Commissioner. 25

26 Powers in this section vested in the Director shall only be exercised 26
27 after notice to Unit Operator and opportunity for hearing to be held not less 27
28 than 15 days from notice. 28

29 22. APPEARANCES. Unit Operator shall, after notice to other parties af- 29
30 fected, have the right to appear for and on behalf of any and all interests 30
31 affected hereby before the Department of the Interior and to appeal from 31
32 orders issued under the regulations of said Department or to apply for relief 32
33 from any of said regulations or in any proceedings relative to operations be- 33
34 fore the Department of the Interior, the Commissioner, the Commission, or any 34

1 other legally constituted authority; provided, however, that any other in- 1
2 terested party shall also have the right at his own expense to be heard in 2
3 any such proceeding. 3

4 23. NOTICES. All notices, demands or statements required hereunder to 4
5 be given or rendered to the parties hereto shall be deemed fully given if 5
6 given in writing and personally delivered to the party or sent by postpaid 6
7 registered or certified mail, addressed to such party or parties at their 7
8 respective addresses set forth in connection with the signatures hereto or 8
9 to the ratification or consent hereof or to such other address as any such 9
10 party may have furnished in writing to party sending the notice, demand or 10
11 statement. 11

12 24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained 12
13 shall be construed as a waiver by any party hereto of the right to assert any 13
14 legal or constitutional right or defense as to the validity or invalidity of 14
15 any law of the State wherein said unitized lands are located, or of the United 15
16 States, or regulations issued thereunder in any way affecting such party, or 16
17 as a waiver by any such party of any right beyond his or its authority to 17
18 waive. 18

19 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring 19
20 the Unit Operator to commence or continue drilling or to operate on or pro- 20
21 duce unitized substances from any of the lands covered by this agreement shall 21
22 be suspended while the Unit Operator, despite the exercise of due care and 22
23 diligence, is prevented from complying with such obligations, in whole or in 23
24 part, by strikes, acts of God, Federal, State, or municipal law or agencies, 24
25 unavoidable accidents, uncontrollable delays in transportation, inability to 25
26 obtain necessary materials in open market, or other matters beyond the reason- 26
27 able control of the Unit Operator whether similar to matters herein enumerated 27
28 or not. No unit obligation which is suspended under this section shall become 28
29 due less than thirty (30) days after it has been determined that the suspen- 29
30 sion is no longer applicable. Determination of creditable "Unavoidable Delay" 30
31 time shall be made by the Unit Operator subject to approval of the Supervisor 31
32 and Commissioner. 32

33 26. NONDISCRIMINATION. In connection with the performance of work 33
34 under this agreement, the operator agrees to comply with all of the pro- 34

1 visions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 1
2 12319), which are hereby incorporated by reference in this agreement. 2

3 27. LOSS OF TITLE. In the event title to any tract of unitized land 3
4 shall fail and the true owner cannot be induced to join in this unit agree- 4
5 ment, such tract shall be automatically regarded as not committed hereto and 5
6 there shall be such readjustment of future costs and benefits as may be re- 6
7 quired on account of the loss of such title. In the event of a dispute as 7
8 to title as to any royalty, working interest, or other interests subject 8
9 thereto, payment or delivery on account thereof may be withheld without lia- 9
10 bility for interest until the dispute is finally settled; provided, that, as 10
11 to Federal and State land or leases, no payments of funds due the United 11
12 States or the State of New Mexico should be withheld, but such funds shall 12
13 be deposited as directed by the Supervisor and the Commissioner, respectiv- 13
14 ely, to be held as unearned money pending final settlement of the title dis- 14
15 pute, and then applied as earned or returned in accordance with such final 15
16 settlement. 16

17 Unit Operator as such is relieved from any responsibility for any 17
18 defect or failure of any title hereunder. 18

19 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial 19
20 interest in a tract within the unit area fails or refuses to subscribe or con- 20
21 sent to this agreement, the owner of the working interest in that tract may 21
22 withdraw said tract from this agreement by written notice delivered to the 22
23 Supervisor, the Commissioner and the Unit Operator prior to the approval of 23
24 this agreement by the Supervisor and the Commissioner. Any oil or gas in- 24
25 terests in lands within the unit area not committed hereto prior to submis- 25
26 sion of this agreement for final approval may thereafter be committed hereto 26
27 by the owner or owners thereof subscribing or consenting to this agreement, 27
28 and, if the interest is a working interest, by the owner of such interest 28
29 also subscribing to the unit operating agreement. After operations are com- 29
30 menced hereunder, the right of subsequent joinder, as provided in this sec- 30
31 tion, by a working interest owner is subject to such requirements or approv- 31
32 als, if any, pertaining to such joinder, as may be provided for in the unit 32
33 operating agreement. After final approval hereof, joinder by a non-working 33

1 interest owner must be consented to in writing by the working interest owner 1
2 committed hereto and responsible for the payment of any benefits that may 2
3 accrue hereunder in behalf of such non-working interest. A non-working in- 3
4 terest may not be committed to this unit agreement unless the corresponding 4
5 working interest is committed hereto. Joinder to the unit agreement by a 5
6 working-interest owner, at any time, must be accompanied by appropriate 6
7 joinder to the unit operating agreement, if more than one committed working- 7
8 interest owner is involved, in order for the interest to be regarded as com- 8
9 mitted to this unit agreement. Except as may otherwise herein be provided, 9
10 subsequent joinders to this agreement shall be effective as of the first day 10
11 of the month following the filing with the Supervisor and the Commissioner 11
12 of duly executed counterparts of all or any papers necessary to establish 12
13 effective commitment of any tract to this agreement unless objection to such 13
14 joinder is duly made within 60 days by the Supervisor or the Commissioner; 14
15 provided that, as to State lands all subsequent joinders must be approved by 15
16 the Commissioner. 16

17 29. COUNTERPARTS. This agreement may be executed in any number of 17
18 counterparts, no one of which needs to be executed by all parties or may be 18
19 ratified or consented to by separate instrument in writing specifically re- 19
20 ferring hereto and shall be binding upon all those parties who have executed 20
21 such a counterpart, ratification, or consent hereto with the same force and 21
22 effect as if all such parties had signed the same document and regardless of 22
23 whether or not it is executed by all other parties owning or claiming an in- 23
24 terest in the lands within the above-described unit area. 24

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

31 If as a result of any such surrender the working interest rights as 31
32 to such lands become vested in any party other than the fee owner of the uni- 32
33 tized substances, said party may forfeit such rights and further benefits 33

1 from operation hereunder as to said land to the party next in the chain of 1
2 title who shall be and become the owner of such working interest. 2

3 If as a result of any such surrender or forfeiture working interest 3
4 rights become vested in the fee owner of the unitized substances, such owner 4
5 may: 5

6 (1) Accept those working interest rights subject to this agreement 6
7 and the unit operating agreement; or 7

8 (2) Lease the portion of such land as is included in a participating 8
9 area established hereunder subject to this agreement and the unit operating 9
10 agreement; or 10

11 (3) Provide for the independent operation of any part of such land 11
12 that is not then included within a participating area established hereunder. 12

13 If the fee owner of the unitized substances does not accept the work- 13
14 ing interest rights subject to this agreement and the unit operating agreement 14
15 or lease such lands as above provided within six (6) months after the surrender 15
16 or forfeited working interest rights become vested in the fee owners, the 16
17 benefits and obligations of operations accruing to such lands under this agree- 17
18 ment and the unit operating agreement shall be shared by the remaining owners 18
19 of unitized working interests in accordance with their respective working 19
20 interest ownerships, and such owners of working interests shall compensate 20
21 the fee owner of unitized substances in such lands by paying sums equal to the 21
22 rentals, minimum royalties, and royalties applicable to such lands under the 22
23 lease in effect when the lands were unitized. 23

24 An appropriate accounting and settlement shall be made for all benefits 24
25 accruing to or payments and expenditures made or incurred on behalf of such sur- 25
26 render or forfeited working interest subsequent to the date of surrender or for- 26
27 feiture, and payment of any moneys found to be owing by such an accounting shall 27
28 be made as between the parties within thirty (30) days. In the event no unit 28
29 operating agreement is in existence and a mutually acceptable agreement between 29
30 the proper parties thereto cannot be consummated, the Supervisor and the Commis- 30
31 sioner may prescribe such reasonable and equitable agreement as they deem war- 31
32 ranted under the circumstances. The exercise of any right vested in a working 32
33 interest owner to reassign such working interest to the party from whom obtained 33

1 shall be subject to the same conditions as set forth in this section in regard 1
2 to the exercise of a right to surrender. 2

3 31. TAXES. The working interest owners shall render and pay for their 3
4 account and the account of the royalty owners all valid taxes on or measured 4
5 by the unitized substances in and under or that may be produced, gathered and 5
6 sold from the land subject to this contract after the effective date of this 6
7 agreement, or upon the proceeds or net proceeds derived therefrom. The work- 7
8 ing interest owners on each tract shall and may charge the proper proportion 8
9 of said taxes to the royalty owners having interests in said tract, and may 9
10 currently retain and deduct sufficient of the unitized substances or deriva- 10
11 tive products, or net proceeds thereof from the allocated share of each royalty 11
12 owner to secure reimbursement for the taxes so paid. No such taxes shall be 12
13 charged to the United States or to the State of New Mexico nor to any lessor 13
14 who has a contract with his lessee which requires the lessee to pay such taxes. 14

15 32. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working 15
16 interest owners nor any of them shall be subject to any forfeiture, termina- 16
17 tion, or expiration of any rights hereunder or under any leases or contracts 17
18 subject hereto, or to any penalty or liability for delay or failure in whole 18
19 or in part to comply therewith to the extent that the said Unit Operator, 19
20 working interest owners or any of them are hindered, delayed, or prevented 20
21 from complying therewith by reason of failure of the Unit Operator to obtain 21
22 with the exercise of due diligence the concurrence of the representatives of 22
23 the United States and the representatives of the State of New Mexico in and 23
24 about any matters or thing concerning which it is required herein that such 24
25 concurrence be obtained. The parties hereto, including the Commission, agree 25
26 that all powers and authority vested in the Commission in and by any provi- 26
27 sions of this contract are vested in the Commission and shall be exercised by 27
28 it pursuant to the provisions of the laws of the State of New Mexico and 28
29 subject in any case to appeal or judicial review as may now or hereafter be 29
30 provided by the laws of the State of New Mexico. 30

31 33. NO PARTNERSHIP. It is expressly agreed that the relation of the 31
32 parties hereto is that of independent contractors and nothing in this agree- 32
33 ment contained, expressed or implied, nor any operations conducted hereunder 33

1 shall create or be deemed to have created a partnership or association between 1
2 the parties hereto or any of them. 2

3 IN WITNESS WHEREOF, the parties hereto have caused this agreement to be 3
4 executed and have set opposite their respective names the date of execution. 4

UNIT OPERATOR

ATTEST: DATE: PAN AMERICAN PETROLEUM CORPORATION

_____ By _____
Its Attorney in Fact

Address: P. O. Box 1410, Oil and Gas Building, Ft. Worth, Texas 76101

WORKING INTEREST OWNERS

ATTEST: DATE:

_____ By _____
Secretary President

Address: _____

ATTEST: DATE:

_____ By _____
Secretary President

Address: _____

ATTEST: DATE:

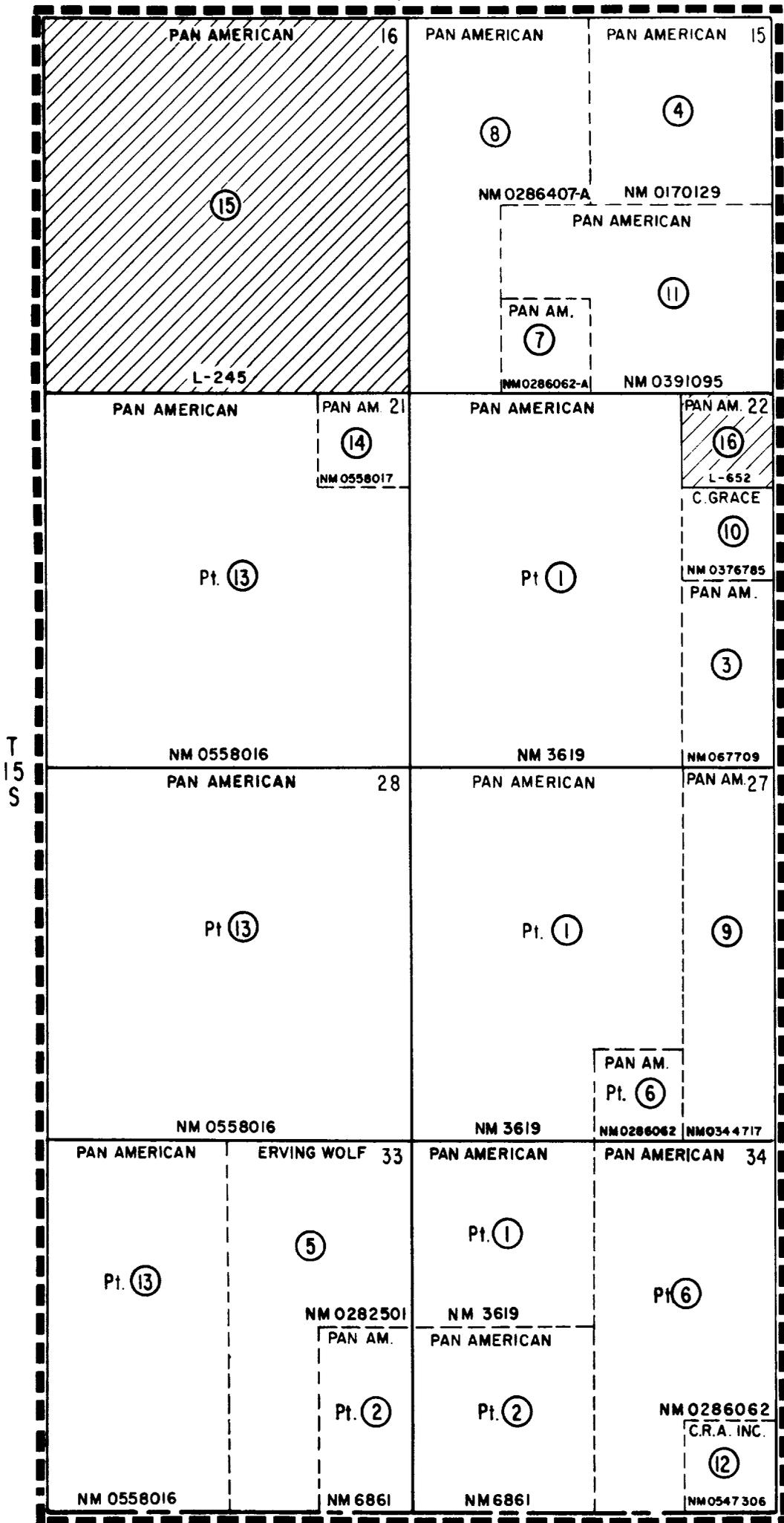
_____ By _____
Secretary President

Address: _____

ATTEST: DATE:

_____ By _____
Secretary President

R 30 E



- FEDERAL LEASES**
- NM 3619
 - NM 6861
 - NM 067709
 - NM 0170129
 - NM 0282501
 - NM 0286062
 - NM 0286062-A
 - NM 0286407-A
 - NM 0344717
 - NM 0376785
 - NM 0391095
 - NM 0547306
 - NM 0558016
 - NM 0558017
- STATE LEASES**
- L - 245
 - L - 652

NOTE: ALL SECTIONS CONTAIN 640.00 AC.

Federal Lease Acres 4440.00
 State Lease Acres 680.00
 Total Acres In Unit 5120.00

LEGEND

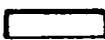
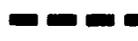
-  = FEDERAL LAND
-  = STATE LAND
-  = TRACT NUMBER
-  = UNIT BOUNDARY

EXHIBIT "A"
 TO ACCOMPANY
CEDAR POINT UNIT
 CHAVES COUNTY, NEW MEXICO.
 SCALE: 1" = 2000'

EXHIBIT "B" - CEDAR POINT UNIT AREA, CHAVES COUNTY, NEW MEXICO

March 1, 1969

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
<u>FEDERAL LAND</u>							
<u>T-15S, R-30E</u>							
1	Sec. 22: W/2, W/2 E/2 27: W/2, W/2 NE/4, NW/4 SE/4 34: NW/4	1080	NM-3619 10-31-77	USA - All (12.5%)	Pan American Petroleum Corporation	Emil J. Roth, a single man - \$750 per acre production payment out of 5%	Pan American Petroleum Corporation - 100%
2	Sec. 33: E/2 SE/4 34: SW/4	240	NM-6861 8-31-73	USA - All (Schedule B)	Pan American Petroleum Corporation	None	Pan American Petroleum Corporation - 100%
3	Sec. 22: E/2 SE/4	80	NM-067709 2-28-70	USA - All (12.5%)	Pan American Petroleum Corporation	Joe Schutz and wife, Rosina Schutz - 1½%, Gwen Gaukel Taylor and husband, Charles G. Taylor - 1½% Tesoro Petroleum Corporation - 5%	Pan American Petroleum Corporation - 100%
4	Sec. 15: NE/4	160	NM-0170129 6-30-71	USA - All (12.5%)	Pan American Petroleum Corporation	Lucille Skinner and husband, E. C. Skinner - 3%	Pan American Petroleum Corporation - 100%
5	Sec. 33: NE/4, W/2 SE/4	240	NM-0282501 5-31-72	USA - All (12.5%)	Erving Wolf	Julie L. Brown and husband, Melvin A. Brown - 3%	Erving Wolf - 100%
6	Sec. 27: SW/4 SE/4 34: NE/4, N/2 SE/4, SW/4 SE/4	320	NM-0286062 8-31-72	USA - All (12.5%)	Pan American Petroleum Corporation	Barbara K. Martin and husband, Gary A. Martin - 3%	Pan American Petroleum Corporation - 100%
7	Sec. 15: SE/4 SW/4	40	NM-0286062-A 8-31-72	USA - All (12.5%)	Pan American Petroleum Corporation	Barbara K. Martin and husband, Gary A. Martin - 3%	Pan American Petroleum Corporation - 100%

EXHIBIT "B" - CEDAR POINT UNIT AREA, CHAVES COUNTY, NEW MEXICO

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
8	T-155, R-30E Sec. 15: NW/4, W/2 SW/4	240	NM-0286407-A 8-31-72	USA - All (12.5%)	Pan American Petroleum Corporation	Joseph G. Kluthe and wife, Laural L. Kluthe - 3/4 of 1%; Max H. Christensen - 1/4 of 1%; James R. Russell and wife, B. K. Russell - 2% Tesoro Petroleum Corporation - 5%	Pan American Petroleum Corporation - 100%
9	Sec. 27: E/2 E/2	160	NM-0344717 3-31-73	USA - All (12.5%)	Pan American Petroleum Corporation	Don R. Link and wife, Alberta Link - 4.5%, E. L. Kramer and wife, Blanche V. Kramer - .5%	Pan American Petroleum Corporation - 100%
10	Sec. 22: SE/4 NE/4	40	NM-0376785 4-30-73	USA - All (12.5%)	Corrine Grace	None	Corrine Grace - 100%
11	Sec. 15: SE/4, NE/4 SW/4	200	NM-0391095 5-31-73	USA - All (12.5%)	Pan American Petroleum Corporation	Leonard Glade and wife, Lula B. Glade; Bernard H. Levy and wife, Maria C. Levy; Morris Campbell and wife Yvonne L. Campbell - \$300.00 per acre production payment out of 3%	Pan American Petroleum Corporation - 100%
12	Sec. 34: SE/4 SE/4	40	NM-0547306 4-30-74	USA - All (12.5%)	CRA, Inc.	None	CRA, Inc. - 100%
13	Sec. 21: W/2, W/2 E/2, SE/4 NE/4, E/2 SE/4 28: All 33: W/2	1560	NM-0558016 9-30-75	USA - All (12.5%)	Pan American Petroleum Corporation	Max W. Coll, II and wife, Martha M. Coll - 2%; Anne W. Lundbeck - 1.5%; Joseph Homan - 1.5%	Pan American Petroleum Corporation - 100%

EXHIBIT "B" - CEDAR POINT UNIT AREA, CHAVES COUNTY, NEW MEXICO

Page 3.

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
14	<u>T-155, R-30E</u> Sec. 21: <u>NE/4</u> NE/4	40	NM-0558017 9-30-75	USA - All (12.5%)	Pan American Petroleum Corporation	Fred M. Wilkendorf, a single man - 3%	Pan American Petroleum Corporation - 100%

14 Federal Tracts: 4,440 Acres.

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
<u>STATE LAND</u>							
15	<u>T-15S, R-30E</u> Sec. 16: A11	640	L-245 9-19-77	State - 12.5%	Pan American Petroleum Corporation	None	Pan American Petroleum Corporation - 100%
16	Sec. 22: NE/4 NE/4	40	L-652 2-20-78	State - 12.5%	Pan American Petroleum Corporation	None	Pan American Petroleum Corporation - 100%

2 State Tracts: 680 Acres

Total	Federal -	4,440 Acres
	State -	680 "
		<u>5,120 Acres</u>