

EXHIBIT "B" - NORTH KING CAMP UNIT AREA, CHAVES COUNTY, NEW MEXICO
May 1, 1968 (Revised May 20, 1968)

Tract No.	Description of Land	Number of Acres	Serial No. & Expiration Date of Lease	Basic Royalty and Ownership Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
<u>FEDERAL LAND</u>							
1	T-13S, R-29E						
	Sec. 14: N/2 NE/4, N/2 SE/4, S/2 NW/4, SW/4	1240	NM-358 8-31-76	USA - All (12.5%)	Pan American Petroleum Corporation	Patricia N. Harding and husband, J. W. Harding - 3%	Pan American Petroleum Corporation - 100%
	Sec. 15: N/2 NE/4, S/2 NW/4, S/2						
	Sec. 23: NW/4, N/2 NE/4						
	Sec. 25: NE/4 SE/4, S/2 SE/4						
1-A	Sec. 25: NE/4, S/2 NW/4, NW/4 SE/4, S/2 SW/4	360	NM-358 8-31-76	USA - All (12.5%)	Pan American Petroleum Corporation	Patricia N. Harding and husband, J. W. Harding - 3%	Atlantic Richfield Company - 100%
2	Sec. 23: S/2	320	NM-359 8-31-76	USA - All (12.5%)	Pan American Petroleum Corporation	Vincent J. Duncan and wife, Anna Marie Duncan - \$2,000 per acre production payment out of 5%	Pan American Petroleum Corporation - 100%
3	Sec. 21: NE/4 NW/4, S/2 NW/4, NE/4, S/2	2360	NM-2824 7-31-77	USA - All (12.5%)	Pan American Petroleum Corporation	Charles M. Spofford and wife, Carolyn S. Spofford - \$750 per acre production payment out of 5%	Pan American Petroleum Corporation - 100%
4	Sec. 27: All Sec. 28: N/2, N/2 S/2, S/2 SE/4 Sec. 21: NW/4 NW/4	40	NM-2825 7-31-77	USA - All (12.5%)	Pan American Petroleum Corporation	Julius M. Cieslik - 5%	Pan American Petroleum Corporation - 100%

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5	<u>T-13S, R-29E</u>	236.91	NM-3065-A 8-31-77	USA - A11 (12.5%)	Pan American Petroleum Corporation	B. H. Rosenblatt and wife, Sally H. Rosenblatt - 3%	Pan American Petroleum Corporation - 100%
	Sec. 19: S/2 NE/4, Lots 3, 4, E/2 SW/4						
6	Sec. 20: W/2 E/2	160	NM-4036 12-31-77	USA - A11 (12.5%)	Pan American Petroleum Corporation	A. Lansdale - 5%	Pan American Petroleum Corporation - 100%
7	Sec. 25: NE/4 NW/4	40	NM-029430 6-30-69(2)	USA - A11 (12.5%)	Wilson Oil Company	None	Wilson Oil Company - 100%
8	<u>T-13S, R-30E</u>	240.81	NM-076034 5-31-70(2)	USA - A11 (12.5%)	Pan American Petroleum Corporation	W. A. Lyons, W. B. Yarborough and wife, Katharine Searcy Yarborough - 3%	Pan American Petroleum Corporation - 100%
	Sec. 30: Lot 1, NE/4 NW/4 Sec. 31: SE/4						
9	<u>T-13S, R-29E</u>	160	NM-099190 6-30-70(2)	USA - A11 (12.5%)	Pan American Petroleum Corporation	Bryan Bell and wife, Rubie C. Bell \$750 per acre production payment out of 5%	Pan American Petroleum Corporation - 100%
	Sec. 17: NE/4						
10	Sec. 8: NE/4	160	NM-0107043 4-30-71	USA - A11 (12.5%)	Pan American Petroleum Corporation	Rubie C. Bell and husband, Bryan Bell - \$750 per acre production payment out of 5%	Pan American Petroleum Corporation - 100%
11	Sec. 33: SW/4	160	NM-0137790 6-30-71	USA - A11 (12.5%)	Pan American Petroleum Corporation	A. W. Dillard, Jr. and wife, Jane Wallace Dillard - 2% Amco Oil Corp. - 3%	Pan American Petroleum Corporation - 100%

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12	<u>T-13S, R-29E</u> Sec. 25: NW/4 NW/4	40	NM-0143050 11-30-71	USA - All (12.5%)	Atlantic Richfield Company	Randall B. Johnston and wife, Shirley A. Johnston - 3%	Atlantic Richfield Company - 100%
13	Sec. 17: SE/4	160	NM-0172347 7-31-71	USA - All (12.5%)	Pan American Petroleum Corporation	Carl T. Smith, Jr., and wife, Lisa Skillern Smith - \$750 per acre production payment out of 5%	Pan American Petroleum Corporation - 100%
14	Sec. 17: NE/4 NW/4	40	NM-0229393 2-29-72	USA - All (12.5%)	Pan American Petroleum Corporation	S. C. Helbing and wife, Ellen S. Helbing, F. W. Podpechan and wife, Jane A. Podpechan - 5%	Pan American Petroleum Corporation - 100%
15	<u>T-13S, R-30E</u> Sec. 30: Lots 2, 3, 4, SE/4 NW/4, E/2 SW/4, E/2 Sec. 31: NE/4 NW/4, N/2 NE/4, SE/4 NE/4	719.99	NM-0240993 2-29-72	USA - All (12.5%)	Pan American Petroleum Corporation	Lawrence C. Harris and wife, Marion V. Harris - \$750 per acre production payment out of 5%	Pan American Petroleum Corporation - 100%
16	<u>T-13S, R-29E</u> Sec. 17: NW/4 NW/4, S/2 NW/4, SW/4 Sec. 18: E/2, E/2 W/2	760	NM-0324243 11-30-72	USA - All (12.5%)	Pan American Petroleum Corporation	E. C. Skinner and wife, Lucille Skinner - 3%	Pan American Petroleum Corporation - 100%

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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
17	T-13S, R-29E Sec. 7: E/2, E/2 W/2 Sec. 8: W/2 Sec. 33: N/2, SE/4	1280	NM-0333078 1-31-73	USA - All (12.5%)	Pan American Petroleum Corporation	J. Mort Walker and wife, Maria de los Reyes Walker - \$750 per acre production payment out of 5%	Pan American Petroleum Corporation - 100%
18	Sec. 26: N/2 SW/4 Sec. 34: All	720	NM-0333078-A 1-31-73	USA - All (12.5%)	Chevron Oil Company	J. Mort Walker and wife, Maria de los Reyes Walker - \$400 per acre production payment out of 3%	Chevron Oil Company - 100%
19	Sec. 26: N/2, S/2 SW/4 Sec. 35: N/2, SE/4	880	NM-0333227 5-31-73	USA - All (12.5%)	Atlantic Richfield Company	George H. O'Brien Jr., and wife, Janet I. O'Brien - 3%	Atlantic Richfield Company - 100%
20	Sec. 26: SE/4 Sec. 35: SW/4	320	NM-0343484 5-31-73	USA - All (12.5%)	Chevron Oil Company	Melvin A. Brown and wife, Julie L. Brown - 3%	Chevron Oil Company - 100%
21	Sec. 19: N/2 NE/4, E/2 NW/4, W/2 SE/4	240	NM-0477652 12-31-73	USA - All (12.5%)	C R A, Inc.	None	C R A, Inc. - 100%
22	Sec. 8: SE/4	160	NM-0556086 1-31-75	USA - All (12.5%)	Pan American Petroleum Corporation	Nola Grace Ptasyński and husband, Harry Ptasyński - 5%	Pan American Petroleum Corporation - 100%

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
23	<u>T-13S, R-29E</u> Sec. 9: All	640	NM-0556855 4-30-75	USA - All (12.5%)	Pan American Petroleum Corporation - 50% Cactus Drilling Corporation of Texas - 50%	None	Pan American Petroleum Corporation - 50% Cactus Drilling Corporation of Texas - 50%
24	Sec. 20: NW/4 Sec. 28: S/2 SW/4	240	NM-0557327 6-30-75	USA - All (12.5%)	Pan American Petroleum Corporation	F. J. Bradshaw and wife, B. J. Bradshaw - 5%	Pan American Petroleum Corporation - 100%
25	Sec. 14: N/2 NW/4, S/2 NE/4, S/2 SE/4 Sec. 15: N/2 NW/4, S/2 NE/4 Sec. 23: S/2 NE/4 Sec. 25: N/2 SW/4	560	NM-0557829 8-31-75	USA - All (12.5%)	Duncan Miller	None	Duncan Miller - 100%
26	Sec. 19: E/2 SE/4 Sec. 20: W/2 SW/4, SE/4 SW/4	200	NM-0559793 4-30-76	USA - All (12.5%)	Pan American Petroleum Corporation	Jack W. Bales and wife, Joyce C. Bales - 3% W. B. Barnhill and wife, Catharine W. Barnhill - \$750 per acre production payment out of 2%.	Pan American Petroleum Corporation - 100%
27	Sec. 20: NE/4 SW/4	40	NM-0559794 4-30-76	USA - All (12.5%)	Pan American Petroleum Corporation	Arthur L. Behneman; Elmer R. Behneman and wife, Leone Behneman - 3%	Pan American Petroleum Corporation - 100%

28 Federal Tracts: 12,477.71 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>							
28	<u>T-13S, R-29E</u>	40	B-8156-46 HBP	State - 12.5%	Pan American Petroleum Corporation	Ida Rothman Feely - 5%	Pan American Petroleum Corporation - 100%
	Sec. 36: SW/4 NE/4						
29	Sec. 20: SE/4 SE/4	40	B-8156-57 HBP	State - 12.5%	Madeline S. Schoff	None	Madeline S. Schoff - 100%
30	Sec. 36: NW/4 NE/4, E/2 NW/4, NE/4 SW/4, SW/4 SE/4, SE/4 NE/4	240	K-6646-1 1-17-77	State - 12.5%	Pan American Petroleum Corporation	Elk Oil Company - 5%	Pan American Petroleum Corporation - 100%
31	Sec. 16: All	640	L-94 7-18-77	State - 12.5%	Pan American Petroleum Corporation	None	Pan American Petroleum Corporation - 100%
32	Sec. 22: N/2 NW/4	80	L-443 11-21-77	State - 12.5%	Pan American Petroleum Corporation	None	Pan American Petroleum Corporation - 100%
33	Sec. 7: Lots 1, 2, 3, 4 Sec. 18: Lots 1, 2, 3, 4 Sec. 19: Lots 1, 2	384.90	L-538 1-16-78	State - 12.5%	Pan American Petroleum Corporation	None	Pan American Petroleum Corporation - 100%
34	Sec. 20: E/2 NE/4, NE/4 SE/4 Sec. 36: NE/4 NE/4, W/2 NW/4, NW/4 SW/4, S/2 SW/4, N/2 SE/4, SE/4 SE/4	480	L-647 2-20-78	State - 12.5%	Pan American Petroleum Corporation	None	Pan American Petroleum Corporation - 100%

7 State Tracts: 1,904.90 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>FEE LAND</u>							
35	<u>T-13S, R-30E</u>	314.32	2-19-73	Dartmouth College	Pan American Petroleum Corporation	None	Pan American Petroleum Corporation - 50%
	Sec. 31: Lots 1, 2, 3, 4, SW/4 NE/4, SE/4 NW/4, E/2 SW/4			- 50% (9.375% ($\frac{1}{2}$ of 18.75%))			
			Unleased - $\frac{1}{2}$	(Mineral Owner - Bogle Farms, Inc.)			Bogle Farms, Inc. - 50%

1 Fee Tract: 314.32 Acres

Total	Federal	-	12,477.71 Acres
	State	-	1,904.90 "
	Fee	-	314.32 "
			<u>14,696.93 Acres</u>

UNIT OPERATING AGREEMENT
NORTH KING CAMP UNIT AREA
CHAVES COUNTY, NEW MEXICO

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BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Copy EXHIBIT NO. E
CASE NO. 3780

Exhibit E

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UNIT OPERATING AGREEMENT
NORTH KING CAMP UNIT AREA
CHAVES COUNTY, NEW MEXICO

THIS AGREEMENT entered into as of the 1st day of May, 1968, by and between the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof.

WITNESSETH:

WHEREAS, the parties hereto as working interest owners have entered into, as of the date hereof, a Unit Agreement for the Development and Operation of the North King Camp Unit Area, Chaves County, New Mexico, hereinafter referred to as the "unit agreement", which, among other things, provides for a "Unit Operating Agreement", to be entered into by and between the working interest owners for the purpose of providing for the allocation of costs of operation and development of the unit area and the production of unitized substances therefrom among the working interest owners, and to otherwise provide for the development and operation of the unit area as set forth in said unit agreement.

NOW, THEREFORE, it is mutually agreed by and between the parties hereto as follows:

ARTICLE I

CONFIRMATION OF UNIT AGREEMENT

1.1 The aforesaid unit agreement and all exhibits attached thereto are hereby confirmed and made a part of this agreement. This agreement and said unit agreement, however, shall not be effective as to Tracts 8, 26, 30 and 36, as described in Exhibits "A" and "B" of said unit agreement, which tracts will not be committed to said unit agreement or to this agreement. Said unit agreement and this unit operating agreement, therefore, shall be effective as to all of the tracts described and identified in Exhibits "A" and "B" of said unit agreement except Tracts 8, 26, 30 and 36.

ARTICLE II

TITLE EXAMINATION
AND LOSS OF LEASES

2.1 Title Examination: The parties hereto shall, as soon as practicable, submit to unit operator copies of their respective leases embracing lands committed to the unit area, together with all rentals receipts and copies of any and all

title opinions covering said lands, and shall loan to unit operator for examination all abstracts which they may have covering said lands. Unit operator shall procure all supplemental abstracts and other title papers which may be necessary or required to examine title to the leasehold interests pertinent to any drillsite and all expenses incurred in examining title shall be charged as an expense to the parties participating in the drilling of any test well in proportion to their respective interests.

2.2 Failure of Title: Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall nevertheless continue in force as to all remaining leases and interests; and

(1) Each party whose lease or interest therein is affected by the failure of title shall bear alone the entire loss resulting from failure of title to such party's lease or interest therein, and it shall not be entitled to recover from operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and

(2) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is finally determined that title failure has occurred, so that the interest of the party or parties whose lease or interest is affected by the title failure will thereafter be reduced in the unit area by the amount of the interest lost; and

(3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the unit area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(4) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development or equipment previously paid under this agreement, such amount shall be proportionately paid to the

party or parties hereto who in the first instance paid the costs which are so refunded; and

(5) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the parties in the same proportion in which they shared in such prior production.

2.3 Loss of Leases for Causes Other Than Title Failure: If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of the participating interests of the parties hereto on account thereof.

ARTICLE III

MANAGEMENT OF UNIT

3.1 Unit Operator and Employees: Pan American Petroleum Corporation, of Fort Worth, Texas, the party hereto named as unit operator of the unit area under the provisions of the unit agreement, or its duly appointed successor unit operator, shall have the exclusive right to develop and operate the unit area subject to the provisions of this agreement and the unit agreement. All individuals employed by unit operator in the conduct of operations hereunder shall be the employees of unit operator alone and their working hours, rates of compensation and all other matters relating to their employment shall be determined solely by unit operator.

3.2 Unit Operator - Duties: Unit operator shall in the conduct of operations hereunder:

(a) Conduct the operations in a good and workmanlike manner, and in the exercise of its judgment and discretion, acting in good faith;

(b) Consult freely with working interest owners concerning unit operations, and keep working interest owners informed of all matters arising during the operation of the unit area which unit operator, in the exercise of

its best judgment, considers important;

(c) Keep full and accurate records of all costs incurred, rentals and royalties paid, and controllable materials and equipment, which records, receipts and vouchers in support thereof shall be available for inspection by authorized representatives of the working interest owners at reasonable intervals during usual business hours, at the office of the unit operator;

(d) Permit the working interest owners, each through their duly authorized representatives, but at their sole risk and expense, to have access to the unit area at all times, and to the derrick floor of each well drilled or being drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting jointly owned materials, equipment and other property, and to have access at reasonable times to information and data in the possession of unit operator concerning the unit area;

(e) Furnish to each of the other parties who make timely written request therefor copies of all drilling reports, well logs and samples of cores or cuttings taken from wells drilled hereunder, containers therefor to be furnished by the party requesting such samples;

(f) Comply with the terms and conditions of the unit agreement and all valid applicable federal and state laws and regulations; and

(g) Keep the land in the unit area free from liens and encumbrances occasioned by its operations, except such liens as the working interest owners elect to contest, and save only the lien granted the unit operator under this agreement.

3.3 Unit Operator - Restrictions: The unit operator shall not do any of the following things without the consent of the working interest owners obtained as herein provided:

(a) Locate, drill, deepen or plug back any well or let any contract therefor. The approval of the drilling, deepening or plugging back of any well shall be construed to mean and include the approval of any necessary expenditures incurred in completing and equipping such well, including flow lines, separators and necessary tankage if a producer, and if a dry hole, the plugging and abandonment thereof, except as otherwise provided in Article V hereof;

(b) Make any expenditures in excess of Ten Thousand Dollars (\$10,000.00) for any one single project. Operator shall furnish copies of its "Authority for Expenditures" for any such items.

(c) Make any expenditure for expert technical advise, including any extra services rendered by unit operator's technical staff, not contemplated by the provisions of Exhibit "D" attached hereto, and not covered by the overhead, district and camp expenses therein authorized, which overhead in Exhibit "D" is intended to cover only normal development and operations;

(d) Make any partial relinquishment of the rights of the unit operator;

(e) Abandon any well which has been completed as a producing well or dispose of any major items of surplus material or equipment, other than junk, having an original cost of Three Thousand Dollars (\$3,000.00) or more (any such item or items of less cost may be disposed of without such approval), except as may otherwise be provided herein;

(f) Designate the lands to be included in any participating area or enlargement thereof, or submit for approval any plan for the development and operation of the unit area or any participating area or supplement or amendment thereto in accordance with the provisions of the unit agreement;

(g) Determine whether to drill a demanded offset well or pay compensatory royalty;

(h) Drill or abandon any injection wells or convert any well into an injection well; and

(i) Determine not to pay the annual rental, advance rental or delay rental under any lease.

In case of blowout, explosion, fire, flood or other sudden emergency, unit operator may take such steps and incur such expense as, in its opinion, are required to deal with the emergency and to safeguard life and property; provided that, unit operator shall, as promptly as possible, report the emergency to the other parties and shall endeavor to secure any sanction that might otherwise have been required.

Subject to the provisions of this agreement, unit operator shall have

full control of the premises subjected hereto and shall conduct and manage the development and operation of unitized lands for the production of unitized substances therefrom for the account of the parties hereto.

3.4 Designation of Representatives: Each working interest owner shall in writing inform unit operator of the names and addresses of its representative and alternate who are authorized to represent and bind such working interest owner with respect to unit operations. The representative or alternate may be changed from time to time by written notice to unit operator.

3.5 Meetings: All meetings of working interest owners shall be called by unit operator upon its own motion or at the request of two (2) or more working interest owners. No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached. Working interest owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of unit operator shall be chairman of each meeting.

3.6 Voting Procedure: Working interest owners shall decide all matters coming before them as follows:

3.6.1 Voting Interest: Each working interest owner shall have a voting interest equal to its percentage of participation as set out in Column 6 of Exhibit "C" hereof.

3.6.2 Vote Required: Working interest owners shall act upon and determine all matters coming before them by an affirmative vote of 75% of the voting power of the working interest owners having leasehold interests committed to the unit agreement; provided, however, should any one working interest owner have 75% or more voting interest its vote must be supported by the vote of one or more working interest owner having a combined vote of at least 5%.

3.6.3 Vote at Meeting by Nonattending Working Interest Owner: Any working interest owner who is not represented at a meeting may vote either by written proxy or by letter or telegram addressed to the representative of the unit operator, provided such letter or telegram is received prior to the submission of such item to vote. If the vote is by letter or telegram such vote shall not be counted with respect to any item on the agenda which has been materially changed at the meeting.

3.6.4 Poll Votes: Working interest owners may vote on and decide, by letter or telegram, any matter submitted in writing to working interest owners, if no meeting is requested as provided in Section 3.5 within seven (7) days after the proposal is sent to working interest owners. Unit operator shall give prompt notice of the results of the voting to all working interest owners.

3.7 Unit Operator - Liabilities: Unit operator shall not be liable to any of the working interest owners for anything done or omitted to be done by it in the conduct of operations hereunder while acting in compliance with Section 3.2 (a) hereof. The provisions of this section shall not relieve operator of its duty to obtain the consent of the working interest owners in accordance with the provisions of Section 3.6.

ARTICLE IV

COST OF OPERATIONS

4.1 Cost of Operations and Accounting Procedure: Except as herein otherwise specifically provided, operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the unit area pursuant to the unit agreement and this agreement and shall charge, in accordance with the applicable percentages set forth in Exhibit "C", each of the parties hereto with its respective proportionate share upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "D". If any provisions of Exhibit "D" should be inconsistent with any provision contained in the body of this agreement, the provisions of this agreement shall prevail.

4.2 Advances: Operator, at its election, shall have the right from time to time to demand and receive from the other parties which are participating in the unit operation then being carried on payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice

is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of eight percent (8%) per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that such party shall bear and pay its proportionate part of actual costs incurred, and no more.

4.3 Taxes: All of the jointly owned personal property within the unit area shall be rendered by the unit operator for ad valorem taxes if necessary. The unit operator shall pay all ad valorem taxes rendered or assessed against said properties, and all such amounts so paid by the unit operator shall be charged to the joint account of the parties hereto. All other taxes which may be levied upon or against the respective leasehold interests or measured by the production of unitized substances allocated to the respective tracts under the terms of the unit agreement and this agreement shall be paid by the respective working interest owners having interests in such tracts. In the event any party hereto owns less than the entire seven-eighths leasehold interest covered by this agreement, the obligation of such party hereunder shall be adjusted so as to reflect a credit for payments based upon values assigned to and made on the basis of outstanding excess royalties, overriding royalties and production payments.

4.4 Insurance:

The unit operator shall carry insurance for the benefit of the joint account covering operations upon the unit area subject to the unit operating agreement as follows:

- (a) Workmen's compensation insurance: In compliance with the workmen's compensation laws of the State of New Mexico, including employer's liability.
- (b) Comprehensive general liability insurance, excluding products: A single combined limit of \$500,000.00 each accident for bodily injuries or death and property damage.
- (c) Automobile public liability and property damage insurance with a single combined limit of \$500,000.00 each accident for bodily injuries or death and property damage.

The unit operator shall require its contractors and subcontractors working or performing services upon the unit area to comply with the workmen's compensation laws of the State of New Mexico and to carry such other insurance and in such amounts as the unit operator shall deem necessary.

4.5 Unit Operator's Lien: Unit operator is given a first and preferred lien on the interest of each party covered by this agreement, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to unit operator.

In the event any party fails to pay any amount owing by it to unit operator as its share of such costs and expenses or such advance estimate within the time limited for payment thereof, unit operator, without prejudice to other existing remedies, is authorized at its election (unless there is a bona fide dispute) to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the unit area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon unit operator's statement as to the amount owing by such party.

ARTICLE V

WELLS

5.1 Initial Test Well: Within thirty (30) days after the effective date of the unit agreement, unit operator shall commence operations upon the initial test well which is required to be drilled pursuant to the provisions of Section 9 of the unit agreement, unless such test well is commenced prior to the effective date of the unit agreement. Said test well shall be located in the Northwest Quarter (NW/4) of Section 22, Township 13 South, Range 29 East, N.M.P.M., Chaves County, New Mexico, and shall be drilled in compliance with Section 9 of the unit agreement and applicable regulations of the Department of the Interior and the New Mexico Oil Conservation Commission; provided that, unit operator shall not in any event be required to drill said test well to a depth in excess of 9,200 feet. The drilling of said test well may be discontinued at a lesser depth if granite or other practically impenetrable substance should be encountered, or if all of the parties hereto agree to complete the well as a lesser depth; provided that, in the event difficulty should be encountered in drilling which results in the loss of the hole, making it necessary that the hole be abandoned, a substitute well may be commenced within thirty (30) days after such

abandonment, and such substitute well shall be considered the same as the initial test well, and all provisions hereof applicable to the initial test well shall be applicable to the substitute well. Unit operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil or gas in sufficient quantities to warrant testing.

All costs incurred in drilling, completing and placing said well on production, if completed as a producer, and of plugging and abandoning the same, if completed as a dry hole, shall be borne only by the parties hereto as shown in Column 5 of Exhibit "C" attached hereto and made a part hereof.

In the event of the discovery of unitized substances in paying quantities, the initial test well shall be completed and placed on production as such wells are usually and customarily completed in accordance with good oil field practices and all casing, tubing, wellhead connections, flow lines, tanks and other equipment which may be installed in or used in connection with said well shall be owned by the parties participating in the cost of drilling said well in the proportions shown in Column 5 of said Exhibit "C" until said well shall have paid out as herein provided.

Atlantic-Richfield Company has agreed to make an acreage contribution to Pan American Petroleum Corporation and CRA, Inc., toward the drilling of the initial test well upon the terms and conditions hereinafter provided. Upon the initial test well being drilled to the depth provided herein and being completed as a dry hole or as a well capable of producing unitized substances, Pan American Petroleum Corporation and CRA, Inc., shall be entitled (in the proportions of an undivided 10,862.61/11,102.61 interest to Pan American Petroleum Corporation and an undivided 240/11,102.61 interest to CRA, Inc.) to an undivided one-half interest in and to all lease rights of Atlantic-Richfield Company in and to the leasehold interests committed by Atlantic-Richfield Company to the unit agreement as shown in Exhibit "B" attached thereto. In addition, Pan American Petroleum Corporation and CRA, Inc., shall be entitled to receive, in the proportions hereinabove set forth, and Atlantic-Richfield Company does hereby relinquish to Pan American Petroleum Corporation and CRA, Inc., all of its right to participate in and to any of the production of unitized substances from the initial test well

until such time as said well has been paid out as hereinafter defined; provided, however, that Atlantic-Richfield Company shall be entitled to receive the following overriding royalty interest, based upon all unitized substances produced, saved and sold from the initial test well until said well has been paid out, as hereinafter defined:

Atlantic-Richfield Company 9.31410% of 1/16 of 8/8.

Upon the completion of said initial test well, or said substitute well, as a dry hole, or as a well capable of producing unitized substances, Atlantic-Richfield Company shall, within thirty (30) days after completion of such well, execute and deliver to Pan American Petroleum Corporation and CRA, Inc., in the proportions hereinabove indicated, conveyances, without warranty of title, of an undivided one-half interest in and to all lease rights in and to the leasehold interests committed by Atlantic-Richfield Company to the unit agreement. The acreage contribution provided herein is reflected on Exhibit "C" attached hereto.

For the purpose of this agreement the initial test well, or the substitute well therefor, shall be considered as being paid out as of 7:00 A.M. on the first day of the month following the month in which Pan American Petroleum Corporation and CRA, Inc., have recovered out of production which would otherwise have been attributable to Atlantic-Richfield Company, after deducting all severance, ad valorem and production taxes apportionable thereto, that portion of the actual cost of drilling, completing, testing and equipping said well (including necessary wellhead connections, flow lines, tanks, pumping and other equipment in connection with said well), together with all costs of operating said well during the payout period which would otherwise have been allocated to Atlantic-Richfield Company in connection with said test well. Unit operator shall furnish to all of the parties hereto, as soon as possible, and in any event within sixty (60) days from the date of the completion of said well, an itemized statement of the cost of drilling, testing, completing and placing the well on production, and the unit operator shall also furnish to the parties hereto monthly reports showing the unitized substances produced, saved and marketed from said well and the operating costs incurred in connection therewith. All costs incurred in connection with said well shall be in accordance with the Accounting Procedure attached hereto as Exhibit "D".

From and after the time of payout of the initial test well as herein provided, the overriding royalties herein provided for to be paid to Atlantic-Richfield Company shall terminate, and Atlantic-Richfield Company shall thereafter be entitled to receive its proportionate part of the production of unitized substances from said well on the basis of its respective interest as shown in Column 6 of Exhibit "C" attached hereto, and the parties hereto shall own their proportionate parts of all equipment installed in or used in connection with production from said well the same as if said parties had participated in the cost of drilling and completing the initial test well according to the percentages set forth in Column 6 of said Exhibit "C".

5.2 Modification of Drilling Requirements of Unit Agreement: The unit operator may apply for and obtain a modification of the drilling requirements of said unit agreement or an extension or extensions of time within which to comply therewith as provided by the terms of said unit agreement, and any such application or applications may be made without the consent of any of the working interest owners subscribing hereto as parties hereto.

5.3 Drilling Contracts: All wells drilled on the unit area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Unit operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, and the rate of such charges shall be agreed upon by the participating parties in writing before drilling operations are commenced, and such work shall be performed by unit operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

5.4 Development and Operation Subsequent to Discovery of Unitized Substances in Paying Quantities: After the discovery of unitized substances in paying quantities on the unit area, unit operator shall only drill such wells as may be provided for in any plan of development and operation for the unit area or amendment or supplement thereto filed and approved as provided by Section 10 of the unit agreement after approval by the parties hereto as provided by Section 3.3 hereof, and all such wells shall be drilled for the joint account of the

parties hereto and the production of unitized substances therefrom shall be allocated to said parties as provided in Column 6 of Exhibit "C"; provided, however, the drilling, deepening, plugging back or reworking of any such well shall be subject to the nonconsent provisions of Section 5.5 hereof.

5.5 Operations by Less Than All Parties: If all of the parties cannot mutually agree upon the drilling of any well on the unit area (other than the initial test well provided for in Section 5.1), or upon the reworking, deepening, or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the unit area, any party or parties wishing to drill, rework, deepen, or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except where a drilling rig is on location the period shall be limited to forty-eight (48) hours exclusive of Saturdays, Sundays or holidays) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "non-consenting party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "consenting parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be), actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the consenting parties in the proportions that their respective interests bear to the aggregate interests of the consenting parties. Consenting parties

shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the consenting parties. If such an operation results in a dry hole, the consenting parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil or gas in paying quantities, the consenting parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to unit operator and shall be operated at the expense and for the account of the consenting parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by consenting parties in accordance with the provisions of this section, each non-consenting party shall be deemed to have relinquished to consenting parties, and consenting parties shall own and be entitled to receive, in proportion to their respective interests, all of such non-consenting party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such non-consenting party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such non-consenting party's share of the cost of operation of the well commencing with first production and continuing until each such non-consenting party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each non-consenting party's share of such costs and equipment will be that interest which would have been chargeable to each non-consenting party had it participated in the well from the beginning of the operation; and

(b) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 9.2, and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead

connections), which would have been chargeable to such non-consenting party if it had participated therein.

In the case of any reworking, plugging back or deeper drilling operation, the consenting parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged, and upon abandonment of a well after such reworking, plugging back or deeper drilling, the consenting parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value.

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the consenting parties shall furnish each non-consenting party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the consenting parties are being reimbursed as above provided, the consenting parties shall furnish the non-consenting parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a non-consenting party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such non-consenting party shall revert to it as above provided, if there is a credit balance it shall be paid to such non-consenting party.

If and when the consenting parties recover from a non-consenting party's relinquished interest the amounts provided for above, the relinquished interests of such non-consenting party shall automatically revert to it and from

and after such reversion such non-consenting party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such non-consenting party would have owned had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, said non-consenting party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure, Exhibit "D", attached hereto.

No well drilled by less than all parties pursuant to the provisions of this Section 5.5 shall be completed as a gas well in the same formation as any other gas well then producing, or capable of producing, gas in paying quantities from the unit area unless the same be located on a regular well spacing or proration unit established for the area by the New Mexico Conservation Commission so that the well density in the same formation will not be greater than that established or prescribed by the Commission for said area. No well drilled or completed by less than all of the parties pursuant to the provisions of this Section 5.5 shall be completed as an oil well in the same formation as any other oil well then producing from the unit area if, as a result of the completion of said well, there would exist on the unit area a well density in the same formation of more than one producing oil well to a proration unit.

If any party hereto shall hereafter create any overriding royalty, production payment or other burden against its working interest production, and if any other party or parties should conduct non-consent operations pursuant to the provisions of this Section 5.5 and as a result become entitled to receive the working interest production otherwise belonging to the non-participating party, the party or parties entitled to receive the working interest production of the non-participating party shall receive such production free and clear of burdens against such production which may have been created subsequent to this agreement and the non-participating party creating such burdens shall save the participating party or parties harmless with respect to the receipt of such working interest production.

5.6 Abandonment of Producing Wells: No well, other than any well which has been drilled or reworked pursuant to Section 5.5 hereof for which the consenting parties have not been fully reimbursed as therein provided, which has

been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of Exhibit "D", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the unit area to the aggregate of the percentages of participation in the unit area of all assignees. There shall be no readjustment of interests in the remaining portion of the unit area.

After the assignment, the assignors shall have no further responsibility, liability or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, unit operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional costs and charges which may arise as the result of the separate ownership of the assigned well.

ARTICLE VI

RENTALS AND SHUT-IN WELL PAYMENTS

6.1 Rentals: Each party holding the record title to an oil and gas lease subject to this agreement shall, before the due date, pay all rentals which may become due under the lease or leases contributed by it, and each party paying such rentals or royalties shall, within ten (10) days after the payment thereof, but at least ten (10) days prior to the due date, notify unit operator of such payment. Unit operator shall furnish similar information as to its leases to the other parties

hereto upon request. The financial burden of paying rentals shall fall entirely upon the party holding the record title and required to make the particular payment. Rental payments shall not be charged to the joint account, but any other party hereto, other than the record title holder, having an interest therein, shall reimburse the party paying such rentals for such party's proportionate part thereof. In the event of failure to make proper payment of any rental through mistake or oversight, where such payment is required to continue a lease in force (it being understood that any such failure shall not be regarded as a title failure within the meaning of any other provision of this agreement), there shall be no monetary liability on the part of the party charged with the responsibility of making such payment, but such party shall make a bona fide effort to secure (at its sole cost and expense) a new lease covering the same interest and in the event of failure to secure a new lease within a reasonable time the interests of the parties shall be revised so that the party or parties charged with the responsibility of bearing the particular payment will not be credited with the ownership of their lease which was lost because of failure properly to make a required rental payment.

6.2 Shut-in Well Payments: If any well is completed on the unit area pursuant to the unit agreement as a gas well and is shut-in due to the lack of a market or for any other reason, unit operator shall notify all of the parties hereto thereof and shall make a bona fide effort to pay any shut-in royalties which may become due and payable on account of such well and charge the same to the joint account of the parties hereto in proportion to their respective rights to participate in the production from such well pursuant to the provisions of this agreement; provided that, unit operator shall suffer no liability for inadvertent failures to pay shut-in gas well royalties hereunder.

ARTICLE VII

RIGHT TO TAKE PRODUCTION IN KIND

7.1 Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the unit area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered all royalties, overriding royalties or other payments due on its share of such production and

shall hold the other parties free from any liability therefor. Any extra expenditure incurred in taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the unit area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the unit area, unit operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which unit operator receives for its portion of the oil and gas produced from the unit area. Any such purchase or sale by unit operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, unit operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

ARTICLE VIII

CHANGE OF OWNERSHIP

8.1 Maintenance of Unit Ownership: For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the unit area and in wells, equipment and production unless such disposition covers either:

(a) the entire interest of the party in all leases and equipment and production; or

(b) an equal undivided interest in all leases and equipment and production in the unit area.

Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties.

If at any time the interest of any party as set forth in Column 6 of Exhibit "C" is divided among and owned by four or more co-owners, unit operator may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with and with power to bind the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the unit area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

Should a sale be made by unit operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new unit operator. If a new unit operator is not so selected, the transferee of the present unit operator shall assume the duties of and act as unit operator. In either case, the retiring unit operator shall continue to serve as unit operator, and discharge its duties in that capacity under this agreement until its successor unit operator is selected and begins to function, but the present unit operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

8.2 Termination of Interest and Withdrawal of Party: Should any party at any time desire to surrender any lease committed to the unit agreement and the other parties should not agree thereto the party desiring to surrender shall assign, without express or implied warranty of title, subject to the approval of the Bureau of Land Management as to federal lands and the Commissioner of Public Lands as to state lands, all of such party's interest in such lease to the other parties hereto in proportion to the interests then severally held by them on an acreage basis in the unit area. If all of the parties are not willing to accept the assignment of such interest, the assignment shall be made to those willing to accept such interest in the proportions that their respective interests bear to the aggregate of their

interests in the unit area on an acreage basis. Such assignment shall be free and clear of all liens and encumbrances except all lease burdens existing as of the effective date of the unit agreement and upon delivery thereof the assigning party shall be relieved of all further obligations with respect to the lease or leases so assigned.

Likewise, if any party hereto so desires it may withdraw from this agreement by assigning, without warranty either express or implied, all of such party's interests committed to the unit agreement to the other parties hereto or if all of said parties are not willing to accept the assignment, to those who are willing to accept such assignment upon the same terms and conditions as hereinabove set forth.

All assignments made pursuant to the provisions of this Section 8.2 shall include all of the assignor's interest in all wells, casing, material, equipment, fixtures and other personal property belonging to the joint account. Such assignment shall not relieve assignor from any obligation or liability accruing or incurred prior to the date thereof; provided, however, the assignees shall pay the assignor for its interest in such casing, material, equipment, fixtures and other personal property owned by the joint account on the basis of the salvage value thereof determined in accordance with the Accounting Procedure attached hereto as Exhibit "D".

8.3 Subsequent Joinder: Prior to commencement of operations under the unit agreement, all owners of working interests in the unit area who have joined in the unit agreement shall be privileged to join in this agreement by subscribing to the unit agreement and this agreement. After commencement of operations under the unit agreement, however, subsequent joinder in the unit agreement and this agreement by any party owning a working interest in the unit area shall be on such reasonable terms and conditions as the parties who are then committed to the unit agreement and this agreement may require in view of the circumstances existing at the time such subsequent joinder is sought.

ARTICLE IX

MISCELLANEOUS PROVISIONS

9.1 Overriding Royalties and Other Lease Burdens: All overriding

royalties, production payments or other lease burdens payable out of the working interest production from the respective leasehold interests committed to the unit agreement shall be paid by the owner or owners of such lease or leases out of the unitized substances allocated to the respective tracts committed to the unit agreement and the percentages of participation of the parties hereto shown in Columns 5 and 6 of Exhibit "C" attached hereto shall be subject to the payment of all such overriding royalties, production payments and other lease burdens.

9.2 Contributions Toward Drilling: Any contribution, either in money or property interest, toward the drilling of any well drilled on the unit area pursuant to the provisions of this agreement, other than the initial test well, shall be shared by the parties hereto in proportion to their participating interests in such well; provided, however, participation in acreage contributions shall be optional with the respective parties.

9.3 Provisions Conformed with Laws and Regulations: All of the provisions of this agreement are hereby expressly made subject to all valid, enforceable and applicable federal or state laws, orders, rules and regulations, and in the event this contract or any provisions hereof are found to be inconsistent with or contrary to any such law, order, rule or regulation, the latter shall be deemed to control, and this contract shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

9.4 Notices: All notices authorized or required by any of the provisions of this agreement shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the addresses shown opposite the signatures of the respective parties hereto. The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

9.5 Liability of Parties: The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the unit area. Accordingly, the lien granted by each party to unit operator in Section 4.5 is given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

9.6 Income Tax Election, Subchapter K, of Chapter 1, Subtitle A, Internal Revenue Code: Notwithstanding any provisions herein that the rights and liabilities of the parties hereto are several and not joint or collective, or that this agreement and the operations hereunder shall not constitute a partnership, if for federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elects that it be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of said Code and the regulations promulgated thereunder. Operator is hereby authorized and directed to execute such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements and data required by the Code and applicable regulations. Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the State of New Mexico, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided in Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted by such laws. In

making this election, each of the parties hereto hereby states that the income derived by it from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

9.7 Force Majeure: If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all possible diligence to remove the force majeure as quickly as possible.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulties by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

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

9.8 Effective Date and Term: This agreement shall become effective as of the effective date of the unit agreement and shall remain in full force and effect during the term of said unit agreement and any and all extensions or renewals thereof, and in the event of the termination of the unit agreement for any reason, this agreement shall continue in full force and effect as to all wells which have not been plugged and abandoned as of the time of the termination of the unit agreement, and the rights and interests of the parties hereto in such wells and their participation in the production therefrom and in the cost of the operation thereof shall be governed by the provisions hereof and this agreement with respect thereto shall remain in full force and effect so long as any such well

is capable of producing oil or gas in paying quantities and thereafter until all accounts hereunder are closed.

9.9 Counterparts: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all other working interest owners, or may be ratified or consented to by separate instrument in writing specifically referring hereto, but shall not be effective until all parties hereto have executed either the original or a counterpart hereof or joined by consent and ratification.

IN WITNESS WHEREOF, this agreement is executed by the undersigned parties hereto as of the day and year first hereinabove written.

ATTEST:

PAN AMERICAN PETROLEUM CORPORATION

Assistant Secretary

By _____
Attorney in Fact

Date: _____

Address: P. O. Box 1410

Fort Worth, Texas 76101

UNIT OPERATOR AND WORKING INTEREST OWNER

WORKING INTEREST OWNERS

ATTEST:

ATLANTIC-RICHFIELD COMPANY

Secretary

By _____
President

Date: _____

Address: _____

ATTEST:

CHEVRON OIL COMPANY

Secretary

By _____
President

Date: _____

Address: _____

ATTEST:

CACTUS DRILLING CORPORATION

Secretary

By _____
President

Date: _____

Address: _____

ATTEST:

CRA, INC.

Secretary

By _____
President

Date: _____

Address: _____

STATE OF TEXAS)
)
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me this _____ day of _____, 1968, by _____, as Attorney in Fact on behalf of PAN AMERICAN PETROLEUM CORPORATION.

My Commission expires:

June 1, 1969

Notary Public in and for
Tarrant County, Texas

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1968, by _____, President of ATLANTIC-RICHFIELD COMPANY.

My Commission expires:

Notary Public in and for
_____ County, _____

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1968, by _____, President of CHEVRON OIL COMPANY.

My Commission expires:

Notary Public in and for
_____ County, _____

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1968, by _____, President of CACTUS DRILLING COMPANY.

My Commission expires:

Notary Public in and for
_____ County, _____

STATE OF _____)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of
_____, 1968, by _____, _____ President
of CRA, INC.

My Commission expires:

Notary Public in and for
_____ County, _____

EXHIBIT "C"
NORTH KING CAMP UNIT OPERATING AGREEMENT
CHAVES COUNTY, NEW MEXICO

	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
Tract	Working interest owners	Committed acres	Percentage committed	Acreage contributions initial test well	Acreage after contributions initial test well	Percentage participation cost subsequent wells, operating costs, production therefrom and operating costs and production initial well after payout
1,2,3,4,5,6,8,9,10,11,13,14,15,16,17,22,23,24,26,27,28,30,31,32,33,34	Pin American Petroleum Corporation	10,862.61	79.04328	0	11,488.61	88.15604* 83.59846
1A, 12, 19	Atlantic-Richfield Company	1,280.00	9.31410	640.00	640.00	4.65705
18,20	Chevron Oil Company	1,040.00	7.56770	0	1,040.00	7.56770
23	Cactus Drilling Corporation of Texas	320.00	2.32853	0	320.00	2.32853
21	CIA, Inc.	240.00	1.74639	0	254.00	1.94773* 1.84826
Total		13,742.61	100.00000%	640.00	13,742.61	100.00000% 100.00000%

*Subject to payment of proportionate part of 9.31410% of 1/16 of 8/8 overriding royalty to Atlantic-Richfield Company until payout of initial test well.

EXHIBIT " D "

Attached to and made a part of North King Camp Unit Operating Agreement dated May 1, 1968, between Pan American Petroleum Corporation and Other Parties.

ACCOUNTING PROCEDURE (JOINT OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this "Accounting Procedure" is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Conflict with Agreement

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

3. Collective Action by Non-Operators

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

4. Statements and Billings

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

A. Statement in detail of all charges and credits to the Joint Account.

B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

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

5. Payment and Advances by Non-Operators

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

eight per cent (8%)

6. Adjustments

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

7. Audits

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

II. DIRECT CHARGES

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

1. Rentals and Royalties

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

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

6. Services

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. Damages and Losses to Joint Property

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

8. Legal Expense

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

9. Taxes

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

10. Insurance Premiums

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

11. Other Expenditures

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

III. INDIRECT CHARGES

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

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

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

1. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's

office located at or near _____ (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. Administrative Overhead

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

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
0 - 100 feet	100.00	100.00	100.00	100.00
101 - 200 feet	200.00	200.00	200.00	200.00
201 - 300 feet	300.00	300.00	300.00	300.00
301 - 400 feet	400.00	400.00	400.00	400.00
401 - 500 feet	500.00	500.00	500.00	500.00
501 - 600 feet	600.00	600.00	600.00	600.00
601 - 700 feet	700.00	700.00	700.00	700.00
701 - 800 feet	800.00	800.00	800.00	800.00
801 - 900 feet	900.00	900.00	900.00	900.00
901 - 1000 feet	1000.00	1000.00	1000.00	1000.00
Over 1000 feet	1000.00	1000.00	1000.00	1000.00

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

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

4. **Combined Fixed Rates**

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

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
0-4000'	\$382	\$ 80	\$ 74	\$ 57
4000-8000'	552	114	97	80
8000-12000'	672	136	120	102
Over 12000'	758	154	136	120

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

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

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

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

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

1. **Purchases**

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

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

A. New Material (Condition "A")

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

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

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

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

5. Equipment and Facilities Furnished by Operator

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

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

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

V. DISPOSAL OF MATERIAL

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

1. Material Purchased by the Operator or Non-Operators

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

2. Division in Kind

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

3. Sales to Outsiders

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

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

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

3. Good Used Material

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

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

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

4. Other Used Material

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

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

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

5. Bad-Order Material

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

6. Junk Material

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

7. Temporarily Used Material

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

VII. INVENTORIES

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

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

State of New Mexico



Commissioner of Public Lands



GUYTON B. RAYS
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO

April 23, 1968

Pan American Petroleum Corporation
P. O. Box 1410
Fort Worth, Texas 76101

Re: North King Camp Unit
Chaves County, New Mexico

ATTENTION: Mr. Jack D. Anderson

Gentlemen:

The Commissioner of Public Lands approves as to form and content the proposed North King Camp Unit Agreement, Chaves County, New Mexico.

Enclosed is your Official Receipt No. 29639 in the amount of One Hundred and Fifteen (\$115.00) Dollars which covers the filing fee.

Very truly yours,

GUYTON B. RAYS
COMMISSIONER OF PUBLIC LANDS

BY: Eddie Lopez
Eddie Lopez, Supervisor
Unit Division

GBH/TB/EL/s

Exhibit D

PAN AMERICAN PETROLEUM CORPORATION

OIL AND GAS BUILDING

P. O. BOX 1410

FORT WORTH, TEXAS—76101

August 22, 1968

AFE 42,944
North King Camp Unit
Chaves County, New Mexico

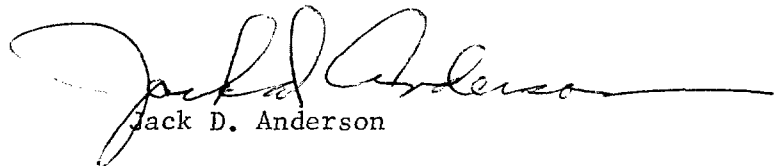
New Mexico Oil Conservation Commission
Box 871
Santa Fe, New Mexico

Gentlemen:

In accordance with Paragraph 3 contained on Page 2 of the Order of the Commission, being Case No. 3784, Order No. R-3436, and in accordance with our telephone conversation this date with Mr. Daniel S. Nutter, we enclose xerox copy of the North King Camp Unit Agreement along with xerox copy of the Certificate of Approval by the Commissioner of Public Lands dated August 5, 1968, and xerox copy of the Certification and Determination of the United States Geological Survey wherein the Unit Agreement was approved effective August 6, 1968.

Yours very truly,

PAN AMERICAN PETROLEUM CORPORATION


Jack D. Anderson

cp

Enclosures

CERTIFICATE OF APPROVAL


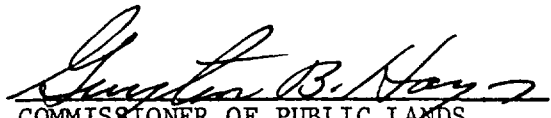
COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO
NORTH KING CAMP UNIT
CHAVES COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated May 1, 1968, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, and 7-11-48, New Mexico Statutes Annotated, 1953 Compilation, I, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and, further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions and requirements of the afore-said statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 5th. day of August, 19 68.



COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

68 AUG 23 11 11 AM

CERTIFICATION--DETERMINATION

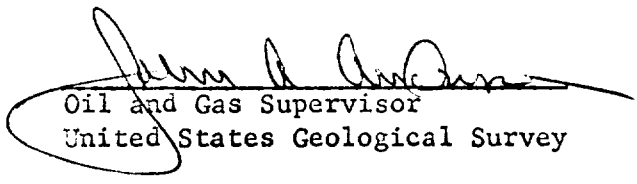
Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Oil and Gas Supervisors of the Geological Survey (33 F.R. 5812), I do hereby:

A. Approve the attached agreement for the development and operation of the North King Camp Unit Area, State of New Mexico.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated August 6, 1968


Oil and Gas Supervisor
United States Geological Survey

Contract Number 14-08-0001-8974

UNIT AGREEMENT FOR THE DEVELOPMENT
AND OPERATION OF THE NORTH KING CAMP UNIT AREA
COUNTY OF CHAVES, STATE OF NEW MEXICO

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30 Aug 23 PM 3 31

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTH KING CAMP UNIT AREA
COUNTY OF CHAVES
STATE OF NEW MEXICO
No. _____

THIS AGREEMENT, entered into as of the 1st day of May, 1968,
by and between the parties subscribing, ratifying, or consenting hereto, and
herein referred to as the "parties hereto",

WITNESSETH:

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

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

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

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

1 WHEREAS, the Oil Conservation Commission of the State of New Mexico is 1
2 authorized by Act of Legislature (Chap. 168, Laws 1949) to approve this agree- 2
3 ment and the conservation provisions hereof; and 3

4 WHEREAS, the parties hereto hold sufficient interests in the North King 4
5 Camp Unit Area covering the land hereinafter described to give reasonably 5
6 effective 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 date 21
22 hereof governing drilling and producing operations, not inconsistent with the 22
23 terms hereof or the laws of the State in which the non-Federal land is located, 23
24 are hereby accepted and made a part of this agreement. 24

25 2. UNIT AREA. The area specified on the map attached hereto marked Ex- 25
26 hibit A is hereby designated and recognized as constituting the unit area, con- 26
27 taining 14,696.93 acres, more or less. 27

28 Exhibit A shows, in addition to the boundary of the unit area, the boun- 28
29 daries and identity of tracts and leases in said area to the extent known to 29
30 the Unit Operator. Exhibit B attached hereto is a schedule showing to the 30
31 extent known to the Unit Operator the acreage, percentage, and kind of owner- 31
32 ship of oil and gas interests in all land in the unit area. However, nothing 32
33 herein or in said schedule or map shall be construed as a representation by 33
34 any party hereto as to the ownership of any interest other than such interest 34

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

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

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

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

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

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

1 (e) All legal subdivisions of unitized lands (i.e., 40 acres by Govern- 1
2 ment survey or its nearest lot or tract equivalent in instances of irregular 2
3 surveys, however, unusually large lots or tracts shall be considered in mul- 3
4 tiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose 4
5 of elimination under this subsection), no parts of which are entitled to be in 5
6 a participating area within 5 years commencing the first day of the month follow- 6
7 ing the effective date of the first initial participating area established under 7
8 this unit agreement, shall be eliminated automatically from this agreement, ef- 8
9 fective as of the first day thereafter, and such lands shall no longer be a 9
10 part of the unit area and shall no longer be subject to this agreement, unless 10
11 at the expiration of said 5-year period diligent drilling operations are in 11
12 progress on unitized lands not entitled to participation, in which event all 12
13 such lands shall remain subject hereto for so long as such drilling operations 13
14 are continued diligently, with not more than 90 days' time elapsing between the 14
15 completion of one such well and the commencement of the next such well, except 15
16 that the time allowed between such wells shall not expire earlier than 30 days 16
17 after the expiration of any period of time during which drilling operations are 17
18 prevented by a matter beyond the reasonable control of unit operator as set 18
19 forth in the section hereof entitled "Unavoidable Delay"; provided that all 19
20 legal subdivisions of lands not in a participating area and not entitled to 20
21 become participating under the applicable provisions of this agreement within 21
22 10 years after said first day of the month following the effective date of said 22
23 first initial participating area shall be eliminated as above specified. De- 23
24 termination of creditable "Unavoidable Delay" time shall be made by unit op- 24
25 erator and subject to approval of the Director and the Commissioner. Elimina- 25
26 tion taking place after the completion of a well that has deferred elimination 26
27 shall be effective on the first day after the time allowed to commence the next 27
28 well. The unit operator shall, within 90 days after the effective date of any 28
29 elimination hereunder, describe the area so eliminated to the satisfaction of 29
30 the Director and the Commissioner and promptly notify all parties in interest. 30

31 If conditions warrant extension of the 10-year period specified in this 31
32 subsection 2(e), a single extension of not to exceed 2 years may be accomplished 32
33 by consent of the owners of 90% of the current unitized working interests and 33
34 60% of the current unitized basic royalty interests (exclusive of the basic 34
35 royalty interests of the United States), on a total-nonparticipating-acreage 35
36 basis, respectively, with approval of the Director and the Commissioner, 36
37 provided such extension application is submitted to the Director and the 37

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 9. DRILLING TO DISCOVERY. Within 6 months after the effective date here- 6
7 of, the Unit Operator shall begin to drill an adequate test well at a location 7
8 approved by the Supervisor if such location is upon lands of the United States, 8
9 and if upon State or patented lands, such location shall be approved by the 9
10 Commission and the Commissioner, unless on such effective date a well is being 10
11 drilled conformably with the terms hereof, and thereafter continue such drill- 11
12 ing diligently until the Mississippian formation is encountered or until at 12
13 a lesser depth unitized substances shall be discovered which can be produced 13
14 in paying quantities (to-wit: quantities sufficient to repay the costs of drill- 14
15 ing, and producing operations, with a reasonable profit) or the Unit Operator 15
16 shall at any time establish to the satisfaction of the Supervisor as to wells 16
17 on Federal lands, or to the Commission and the Commissioner as to wells on 17
18 State or patented lands, that further drilling of said well would be unwarrant- 18
19 ed or impracticable, provided, however, that Unit Operator shall not in any 19
20 event be required to drill said well to a depth in excess of 9,200 feet. Un- 20
21 til the discovery of a deposit of unitized substances capable of being produced 21
22 in paying quantities, the Unit Operator shall continue drilling diligently one 22
23 well at a time, allowing not more than 6 months between the completion of one 23
24 well and the beginning of the next well, at locations approved by the Super- 24
25 visor if such locations are on lands of the United States, and if upon State 25
26 or patented lands at locations approved by the Commission and the Commissioner, 26
27 until a well capable of producing unitized substances in paying quantities is 27
28 completed to the satisfaction of said Supervisor and Commissioner or until 28
29 it is reasonably proved that the unitized land is incapable of producing uni- 29
30 tized substances in paying quantities in the formations drilled hereunder. 30
31 Nothing in this section shall be deemed to limit the right of the Unit Opera- 31
32 tor to resign as provided in Section 5 hereof, or as requiring Unit Operator to 32
33 commence or continue any drilling during the period pending such resignation 33
34 becoming effective in order to comply with the requirements of this section. 34
35 The Director and the Commissioner may modify the drilling requirements of this 35

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 With respect to any lease on non-Federal land containing provisions which 1
2 would terminate such lease unless drilling operations were within the time 2
3 therein specified commenced upon the land covered thereby or rentals paid for 3
4 the privilege of deferring such drilling operations, the rentals required 4
5 thereby shall, notwithstanding any other provision of this agreement, be deemed 5
6 to accrue and become payable during the term thereof as extended by this agree- 6
7 ment and until the required drilling operations are commenced upon the land 7
8 covered thereby or some portion of such land is included within a participating 8
9 area. 9

10 16. CONSERVATION. Operations hereunder and production of unitized sub- 10
11 stances shall be conducted to provide for the most economical and efficient 11
12 recovery of said substances without waste, as defined by or pursuant to State 12
13 or Federal law or regulation. 13

14 17. DRAINAGE. The Unit Operator shall take appropriate and adequate 14
15 measures to prevent drainage of unitized substances from unitized land by wells 15
16 on land not subject to this agreement, or, with prior consent of the Director 16
17 or the Commissioner, pursuant to applicable regulations pay a fair and reason- 17
18 able compensatory royalty as determined by the Supervisor or the Commissioner. 18

19 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, 19
20 and provisions of all leases, subleases, and other contracts relating to ex- 20
21 ploration, drilling, development, or operation for oil or gas of lands com- 21
22 mitted to this agreement are hereby expressly modified and amended to the ex- 22
23 tent necessary to make the same conform to the provisions hereof, but other- 23
24 wise to remain in full force and effect; and the parties hereto hereby con- 24
25 sent that the Secretary and the Commissioner, respectively, shall and by their 25
26 approval hereof, or by the approval hereof by their duly authorized represen- 26
27 tatives, do hereby establish, alter, change, or revoke the drilling, pro- 27
28 ducing, rental, minimum royalty, and royalty requirements of Federal and 28
29 State leases committed hereto and the regulations in respect thereto to con- 29
30 form said requirements to the provisions of this agreement, and, without 30
31 limiting the generality of the foregoing, all leases, subleases, and con- 31
32 tracts are particularly modified in accordance with the following: 32

33 (a) The development and operation of lands subject to this agreement 33
34 under the terms hereof shall be deemed full performance of all obligations 34

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

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

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

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

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

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

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

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease 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, other than a Federal lease, having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts.

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

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

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

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

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

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

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

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

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

1 is established, recognized, and generally adhered to by the majority of opera- 1
2 tors in such State, such authority being hereby limited to alteration or modi- 2
3 fication in the public interest, the purpose thereof and public interest to 3
4 be served thereby to be stated in the order of alteration or modification. 4

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

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

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

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

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

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

17 26. NONDISCRIMINATION. In connection with the performance of work under 17
18 this agreement, the operator agrees to comply with all of the provisions of 18
19 Section 202(1) to (7), inclusive, of Executive Order 11246 (30 F.R. 12319), 19
20 which are hereby incorporated by reference in this agreement. 20

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

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

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

30 29. COUNTERPARTS. This agreement may be executed in any number of 30
31 counterparts no one of which needs to be executed by all parties or may be 31
32 ratified or consented to by separate instrument in writing specifically re- 32
33 ferring hereto and shall be binding upon all those parties who have executed 33
34 such a counterpart, ratification, or consent hereto with the same force and 34
35 effect as if all such parties had signed the same document and regardless of 35

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

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

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

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

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

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

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

1 then included within a participating area. 1

2 If the fee owner of the unitized substances does not execute this agree- 2
3 ment and the unit operating agreement as a working interest owner or again 3
4 lease such lands as above provided with respect to each existing participa- 4
5 ting area, within six (6) months after any such surrender or forfeiture, such 5
6 fee owner shall be deemed to have waived the right to execute the unit operat- 6
7 ing agreement or lease such lands as to each such participating area, and to 7
8 have agreed, in consideration for the compensation hereinafter provided, that 8
9 operations hereunder as to any such participating area or areas shall not be 9
10 affected by such surrender. 10

11 For any period the working interest in any lands are not expressly com- 11
12 mitted to the unit operating agreement as the result of any such surrender or 12
13 forfeiture, the benefits and obligations of operations accruing to such lands 13
14 under this agreement and the unit operating agreement shall be shared by the 14
15 remaining owners of unitized working interests in accordance with their respec- 15
16 tive participating working interest ownerships in any such participating area or 16
17 areas, and such owners of working interests shall compensate the fee owner of 17
18 unitized substances in such lands by paying sums equal to the rentals, minimum 18
19 royalties, and royalties applicable to such lands under the lease in effect 19
20 when the lands were unitized, as to such participating area or areas. 20

21 Upon commitment of a working interest to this agreement and the unit op- 21
22 erating agreement as provided in this section, an appropriate accounting and 22
23 settlement shall be made, to reflect the retroactive effect of the commit- 23
24 ment, for all benefits accruing to or payments and expenditures made or in- 24
25 curred on behalf of such surrendered working interest during the period be- 25
26 tween the date of surrender and the date of recommitment, and payment of any 26
27 moneys found to be owing by such an accounting shall be made as between the 27
28 parties then signatory to the unit operating agreement and this agreement 28
29 within thirty (30) days after the recommitment. The right to become a par- 29
30 ty to this agreement and the unit operating agreement as a working interest 30
31 owner by reason of a surrender or forfeiture as provided in this section 31
32 shall not be defeated by the nonexistence of a unit operating agreement and 32
33 in the event no unit operating agreement is in existence and a mutually ac- 33
34 ceptable agreement between the proper parties thereto cannot be consummated, 34

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

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

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

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

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

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

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

UNIT OPERATOR

ATTEST:

PAN AMERICAN PETROLEUM CORPORATION

Assistant Secretary

By

Attorney in Fact

DATE:

P. O. Box 1410
Oil and Gas Building
Fort Worth, Texas 76101

5/31/68

WORKING INTEREST OWNERS

ATTEST:

DATE:

Secretary

By

President

Address: _____

ATTEST:

DATE:

Secretary

By

President

Address: _____

ATTEST:

DATE:

Secretary

By

President

Address: _____

ATTEST:

DATE:

Secretary

By

President

Address: _____

STATE OF TEXAS

COUNTY OF TARRANT

The foregoing instrument was acknowledged before me this 31st day of May, 1968, by L. D. Mason, Jr., as Attorney in Fact on behalf of PAN AMERICAN PETROLEUM CORPORATION.

My Commission expires:

June 1, 1969

Catherine Wright
Notary Public in and for
Tarrant County, Texas

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1968, by _____, President of ATLANTIC-RICHFIELD COMPANY.

My Commission expires:

Notary Public in and for

County, _____

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1968, by _____, President of CHEVRON OIL COMPANY.

My Commission expires:

Notary Public in and for

County, _____

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1968, by _____, President of CACTUS DRILLING COMPANY.

My Commission expires:

Notary Public in and for

County, _____

STATE OF _____)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1968, by _____, _____ President of CRA, INC.

My Commission expires:

Notary Public in and for
_____ County, _____