

UNIT AGREEMENT FOR THE DEVELOPMENT  
AND OPERATION OF THE TRAIL CANYON UNIT AREA  
COUNTY OF EDDY, STATE OF NEW MEXICO

U. S. DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT  
ROSWELL, NEW MEXICO

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Exhibit "A" (Map)

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

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
TRAIL CANYON UNIT AREA  
COUNTY OF EDDY  
STATE OF NEW MEXICO  
NO. \_\_\_\_\_

1           THIS AGREEMENT, entered into as of the 1st day of February,  
2 1974, by and between the parties subscribing, ratifying, or consenting  
3 hereto, and herein referred to as the "parties hereto,"

4           WITNESSETH:

5           WHEREAS the parties hereto are the owners of working, royalty,  
6 or other oil and gas interests in the unit area subject to this agree-  
7 ment; and

8           WHEREAS the Mineral Leasing Act of February 25, 1920, 41 Stat.  
9 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees  
10 and their representatives to unite with each other, or jointly or separately  
11 with others, in collectively adopting and operating a cooperative or  
12 unit plan of development or operation of any oil or gas pool, field,  
13 or like area, or any part thereof for the purpose of more properly  
14 conserving the natural resources thereof whenever determined and certified  
15 by the Secretary of the Interior to be necessary or advisable in the  
16 public interest; and

17           WHEREAS, the Commissioner of Public Lands of the State of  
18 New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 88,  
19 Laws 1943 as amended by Sec. 1 of Chapter 162, Laws of 1951), (Chap. 7,  
20 Art. 11, Sec. 39, N.M. Statutes 1953 Annot.), to consent to and approve  
21 the development or operation of State lands under agreements made by  
22 lessees of State land jointly or severally with other lessees where  
23 such agreements provide for the unit operation or development of part  
24 of or all of any oil or gas pool, field, or area; and

25           WHEREAS, the Commissioner of Public Lands of the State of  
26 New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162,  
27 Laws of 1951, Chap. 7, Art. 11, Sec. 41 N.M. Statutes 1953 Annotated)  
28 to amend with the approval of lessee, evidenced by the lessee's execution

1 of such agreement or otherwise, any oil and gas lease embracing State  
2 lands so that the length of the term of said lease may coincide with  
3 the term of such agreements for the unit operation and development  
4 of part or all of any oil or gas pool, field or area; and

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

10 WHEREAS the parties hereto hold sufficient interests in the  
11 Trail Canyon Unit Area covering the land hereinafter described to give  
12 reasonably effective control of operations therein; and

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

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

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

32 2. UNIT AREA. The area specified on the map attached hereto  
33 marked Exhibit "A" is hereby designated and recognized as constituting  
34 the unit area, containing 5758.4 acres, more or less.

35 Exhibit "A" shows, in addition to the boundary of the unit  
36 area, the boundaries and identity of tracts and leases in said area

1 to the extent known to the Unit Operator. Exhibit "B" attached hereto  
2 is a schedule showing to the extent known to the Unit Operator the  
3 acreage, percentage, and kind of ownership of oil and gas interests  
4 in all land in the unit area. However, nothing herein or in said schedule  
5 or map shall be construed as a representation by any party hereto as  
6 to the ownership of any interest other than such interest or interests  
7 as are shown in said map or schedule as owned by such party. Exhibits  
8 "A" and "B" shall be revised by the Unit Operator whenever changes  
9 in the unit area render such revision necessary, or when requested  
10 by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor"  
11 and not less than five copies of the revised exhibits shall be filed  
12 with the Supervisor, and two copies with the Commissioner of Public Lands  
13 of the State of New Mexico, hereinafter referred to as the "Commissioner",  
14 and one copy with the New Mexico Oil Conservation Commission, hereinafter  
15 referred to as "State Commission".

16 The above-described unit area shall when practicable be expanded  
17 to include therein any additional lands or shall be contracted to exclude  
18 lands whenever such expansion or contraction is deemed to be necessary  
19 or advisable to conform with the purposes of this agreement. Such  
20 expansion or contraction shall be effected in the following manner:

- 21 (a) Unit Operator, on its own motion or on demand of the  
22 Director of the Geological Survey, hereinafter referred  
23 to as "Director," or on demand of the Commissioner  
24 after preliminary concurrence by the Director, shall  
25 prepare a notice of proposed expansion or contraction  
26 describing the contemplated changes in the boundaries  
27 of the unit area, the reasons therefor, and the proposed  
28 effective date thereof, preferably the first day of  
29 a month subsequent to the date of notice.
- 30 (b) Said notice shall be delivered to the Supervisor and  
31 the Commissioner and copies thereof mailed to the last  
32 known address of each working interest owner, lessee, and lessor  
33 whose interests are affected, advising that 30 days will be  
34 allowed for submission to the Unit Operator of any objections.
- 35 (c) Upon expiration of the 30-day period provided in the  
36 preceding item (b) hereof, Unit Operator shall file

1 with the Supervisor and the Commissioner evidence of  
2 mailing of the notice of expansion or contraction and  
3 a copy of any objections thereto which have been filed  
4 with the Unit Operator, together with an application  
5 in sufficient number, for approval of such expansion  
6 or contraction and with appropriate joinders.

7 (d) After due consideration of all pertinent information,  
8 the expansion or contraction shall, upon approval by  
9 the Supervisor and the Commissioner, become effective  
10 as of the date prescribed in the notice thereof.

11 (e) All legal subdivisions of lands (i.e., 40 acres by Govern-  
12 ment survey or its nearest lot or tract equivalent;  
13 in instances of irregular surveys unusually large lots  
14 or tracts shall be considered in multiples of 40 acres  
15 or the nearest aliquot equivalent thereof), no parts  
16 of which are entitled to be in a participating area  
17 on or before the fifth anniversary of the effective  
18 date of the first initial participating area established  
19 under this unit agreement, shall be eliminated automatically  
20 from this agreement, effective as of said fifth anniversary,  
21 and such lands shall no longer be a part of the unit  
22 area and shall no longer be subject to this agreement,  
23 unless diligent drilling operations are in progress  
24 on unitized lands not entitled to participation on said  
25 fifth anniversary, in which event all such lands shall  
26 remain subject hereto for so long as such drilling operations  
27 are continued diligently, with not more than 90 days'  
28 time elapsing between the completion of one such well  
29 and the commencement of the next such well. All legal  
30 subdivisions of lands not entitled to be in a participating  
31 area within 10 years after the effective date of the  
32 first initial participating area approved under this  
33 agreement shall be automatically eliminated from this  
34 agreement as of said tenth anniversary. All lands proved  
35 productive by diligent drilling operations after the  
36 aforesaid 5-year period shall become participating in

1 the same manner as during said 5-year period. However,  
2 when such diligent drilling operations cease, all nonpartici-  
3 pating lands shall be automatically eliminated effective  
4 as of the 91st day thereafter. The unit operator shall  
5 within 90 days after the effective date of any elimination  
6 hereunder, describe the area so eliminated to the satisfaction  
7 of the Supervisor and Commissioner and promptly notify  
8 all parties in interest.

9 If conditions warrant extension of the 10-year period  
10 specified in this subsection 2(e), a single extension  
11 of not to exceed 2 years may be accomplished by consent  
12 of the owners of 90% of the working interests in the  
13 current nonparticipating unitized lands and the owners  
14 of 60% of the basic royalty interests (exclusive of  
15 the basic royalty interests of the United States) in  
16 nonparticipating unitized lands with approval of the  
17 Director and Commissioner, provided such extension application  
18 is submitted to the Director and the Commissioner not  
19 later than 60 days prior to the expiration of said 10-  
20 year period.

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

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

30 4. UNIT OPERATOR. Amoco Production Company is hereby designated  
31 as Unit Operator and by signature hereto as Unit Operator agrees and  
32 consents to accept the duties and obligations of Unit Operator for  
33 the discovery, development, and production of unitized substances as  
34 herein provided. Whenever reference is made herein to the Unit Operator,

1 such reference means the Unit Operator acting in that capacity and  
2 not as an owner of interest in unitized substances, and the term "working  
3 interest owner" when used herein shall include or refer to Unit Operator  
4 as the owner of a working interest when such an interest is owned by  
5 it.

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

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

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

31 The Unit Operator may, upon default or failure in the perform-  
32 ance of its duties or obligations hereunder, be subject to removal  
33 by the same percentage vote of the owners of working interests as herein  
34 provided for the selection of a new Unit Operator. Such removal shall  
35 be effective upon notice thereof to the Supervisor and the Commissioner.

1           The resignation or removal of Unit Operator under this agreement  
2 shall not terminate its right, title, or interest as the owner of a  
3 working interest or other interest in unitized substances, but upon  
4 the resignation or removal of Unit Operator becoming effective, such  
5 Unit Operator shall deliver possession of all wells, equipment, materials,  
6 and appurtenances used in conducting the unit operations to the new  
7 duly qualified successor Unit Operator or to the common agent, if no  
8 such new Unit Operator is elected, to be used for the purpose of conduct-  
9 ing unit operations hereunder. Nothing herein shall be construed as  
10 authorizing removal of any material, equipment and appurtenances needed  
11 for the preservation of any wells.

12         6.       SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall  
13 tender his or its resignation as Unit Operator or shall be removed  
14 as hereinabove provided, or a change of Unit Operator is negotiated  
15 by working interest owners, the owners of the working interests in  
16 the participating area or areas according to their respective acreage  
17 interests in such participating area or areas, or, until a participating  
18 area shall have been established, the owners of the working interest  
19 according to their respective acreage interests in all unitized land,  
20 shall by majority vote select a successor Unit Operator: Provided,  
21 That, if a majority but less than 75 percent of the working interests  
22 qualified to vote are owned by one party to this agreement, a concurring  
23 vote of one or more additional working interest owners shall be required  
24 to select a new operator. Such selection shall not become effective  
25 until:

- 26           (a) A Unit Operator so selected shall accept in writing  
27               the duties and responsibilities of Unit Operator, and  
28           (b) The selection shall have been approved by the Supervisor  
29               and Commissioner.

30           If no successor Unit Operator is selected and qualified as  
31 herein provided, the Director at his election may declare this unit  
32 agreement terminated.



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

26           8.       RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise  
27 specifically provided herein, the exclusive right, privilege, and duty  
28 of exercising any and all rights of the parties hereto which are neces-  
29 sary or convenient for prospecting for, producing, storing, allocating,  
30 and distributing the unitized substances are hereby delegated to and shall

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

10 9. DRILLING TO DISCOVERY. Within 6 months after the effective  
11 date hereof, the Unit Operator shall begin to drill an adequate test  
12 well at a location approved by the Supervisor, if on Federal land and if  
13 upon State or patented lands, such location shall be approved by the  
14 Commissioner or State Commission unless on such effective date a well  
15 is being drilled conformably with the terms hereof, and thereafter continue  
16 such drilling diligently until all of the formations of Pennsylvanian Age  
17 have been tested or until at a lessor depth unitized substances shall be  
18 discovered which can be produced in paying quantities (to wit: quantities  
19 sufficient to repay the costs of drilling, completing, and producing  
20 operations, with a reasonable profit) or the Unit Operator shall at  
21 any time establish to the satisfaction of the Supervisor, if on Federal  
22 land or to the Commissioner and the State Commission as to wells on State  
23 or patented lands, that further drilling of said well would be unwarranted  
24 or impracticable, provided, however, that Unit Operator shall not in any  
25 event be required to drill said well to a depth in excess of 10,800 feet.  
26 Until the discovery of a deposit of unitized substances capable of being  
27 produced in paying quantities, the Unit Operator shall continue drilling  
28 diligently one well at a time, allowing not more than 6 months between  
29 the completion of one well and the beginning of the next well, until  
30 a well capable of producing unitized substances in paying quantities  
31 is completed to the satisfaction of said Supervisor, if it be on Federal  
32 land and if upon State or patented lands to the satisfaction of the  
33 Commissioner or the State Commission, or until it is reasonably proved  
34 that the unitized land is incapable of producing unitized substances in  
35 paying quantities in the formations drilled hereunder. Nothing in this

1 section shall be deemed to limit the right of the Unit Operator to resign  
2 as provided in Section 5, hereof, or as requiring Unit Operator to commence  
3 or continue any drilling during the period pending such resignation becoming  
4 effective in order to comply with the requirements of this section. The  
5 Supervisor and the Commissioner may modify the drilling requirements of this  
6 section by granting reasonable extensions of time when, in his opinion,  
7 such action is warranted.

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

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

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

- 1           (a) specify the number and locations of any wells to be  
2           drilled and the proposed order and time for such  
3           drilling; and  
4           (b) to the extent practicable specify the operating  
5           practices regarded as necessary and advisable for proper  
6           conservation of natural resources.

7       Separate plans may be submitted for separate productive zones, subject  
8       to the approval of the Supervisor, the Commissioner and the State  
9       Commission.

10           Plans shall be modified or supplemented when necessary to  
11       meet changed conditions or to protect the interests of all parties to  
12       this agreement. Reasonable diligence shall be exercised in complying  
13       with the obligations of the approved plan of development. The supervisor  
14       and the Commissioner are authorized to grant a reasonable extension  
15       of the 6-month period herein prescribed for submission of an initial  
16       plan of development where such action is justified because of unusual  
17       conditions or circumstances. After completion hereunder of a well capable  
18       of producing any unitized substance in paying quantities, no further wells,  
19       except such as may be necessary to afford protection against operations  
20       not under this agreement and such as may be specifically approved by the  
21       Supervisor and the Commissioner, shall be drilled except in accordance  
22       with a plan of development approved as herein provided.

23       11.       PARTICIPATION AFTER DISCOVERY. Upon completion of a well  
24       capable of producing unitized substances in paying quantities or as  
25       soon thereafter as required by the Supervisor and the Commissioner,  
26       the Unit Operator shall submit for approval by the Supervisor, the  
27       Commissioner and the State Commission a schedule, based on subdivisions  
28       of the public-land survey or aliquot parts thereof, of all land then  
29       regarded as reasonably proved to be productive in paying quantities;  
30       all lands in said schedule on approval of the Supervisor, the Commissioner  
31       and the State Commission to constitute a participating area, effective  
32       as of the date of completion of such well or the effective date of  
33       this unit agreement, whichever is later. The acreages of both Federal  
34       and non-Federal lands shall be based upon appropriate computations  
35       from the courses and distances shown on the last approved public-land

1 survey as of the effective date of each initial participating area.  
2 Said schedule shall also set forth the percentage of unitized substances  
3 to be allocated as herein provided to each tract in the participating  
4 area so established, and shall govern the allocation of production  
5 commencing with the effective date of the participating area. A separate  
6 participating area shall be established for each separate pool or deposit  
7 of unitized substances or for any group thereof which is produced as  
8 a single pool or zone, and any two/or more participating areas so established  
9 may be combined into one, on approval of the Supervisor, the Commissioner  
10 and the State Commission. When production from two or more participating  
11 areas, so established, is subsequently found to be from a common pool  
12 or deposit said participating areas shall be combined into one effective  
13 as of such appropriate date as may be approved or prescribed by the  
14 Supervisor, the Commissioner and the State Commission. The participating  
15 area or areas so established shall be revised from time to time, subject  
16 to like approval, to include additional land then regarded as reasonably  
17 proved to be productive in paying quantities or necessary for unit  
18 operations, or to exclude land then regarded as reasonably proved not  
19 to be productive in paying quantities and the schedule of allocation  
20 percentages shall be revised accordingly. The effective date of any  
21 revision shall be the first of the month in which is obtained the knowledge  
22 or information on which such revision is predicated, provided, however,  
23 that a more appropriate effective date may be used if justified by  
24 the Unit Operator and approved by the Supervisor, the Commissioner  
25 and the State Commission. No land shall be excluded from a participating  
26 area on account of depletion of the unitized substances, except that  
27 any participating area established under the provisions of this unit  
28 agreement shall terminate automatically whenever all completions in  
29 the formation on which the participating area is based are abandoned.

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

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

15           Whenever it is determined, subject to the approval of the  
16 Supervisor as to wells on Federal land, the Commissioner as to wells  
17 on State lands, and the State Commission as to wells on patented lands,  
18 that a well drilled under this agreement is not capable of production  
19 in paying quantities and inclusion of the land on which it is situated  
20 in a participating area is unwarranted, production from such well shall,  
21 for the purposes of settlement among all parties other than working  
22 interest owners, be allocated to the land on which the well is located  
23 unless such land is already within the participating area established  
24 for the pool or deposit from which such production is obtained. Settlement  
25 for working interest benefits from such a well shall be made as provided  
26 in the unit operating agreement.

27       12.       ALLOCATION OF PRODUCTION. All unitized substances produced  
28 from each participating area established under this agreement, except any  
29 part thereof used in conformity with good operating practices within the  
30 unitized area for drilling, operating, camp and other production or  
31 development purposes, for repressuring or recycling in accordance with  
32 a plan of development approved by the Supervisor, the Commissioner and  
33 the State Commission, or unavoidably lost, shall be deemed to be produced  
34 equally on an acreage basis from the several tracts of unitized land of  
34 the participating area established for such production and, for the

1 purpose of determining any benefits accruing under this agreement,  
2 each such tract of unitized land shall have allocated to it such percentage  
3 of said production as the number of acres of such tract included in  
4 said participating area bears to the total acres of unitized land in  
5 said participating area, except that allocation of production hereunder  
6 for purposes other than for settlement of the royalty, overriding royalty,  
7 or payment out of production obligations of the respective working  
8 interest owners, shall be on the basis prescribed in the unit operating  
9 agreement whether in conformity with the basis of allocation herein  
10 set forth or otherwise. It is hereby agreed that production of unitized  
11 substances from a participating area shall be allocated as provided  
12 herein regardless of whether any wells are drilled on any particular  
13 part or tract of said participating area. If any gas produced from  
14 one participating area is used for repressuring or recycling purposes  
15 in another participating area, the first gas withdrawn from such last-  
16 mentioned participating area for sale during the life of this agreement  
17 shall be considered to be the gas so transferred until an amount equal  
18 to that transferred shall be so produced for sale and such gas shall  
19 be allocated to the participating area from which initially produced  
20 as such area was last defined at the time of such final production.

21 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS.  
22 Any party hereto owning or controlling the working interest in any  
23 unitized land having thereon a regular well location may with the approval  
24 of the Supervisor, the Commissioner or the State Commission, at such  
25 party's sole risk, costs, and expense, drill a well to test any formation  
26 for which a participating area has not been established or to test  
27 any formation for which a participating area has been established if  
28 such location is not within said participating area, unless within  
29 90 days of receipt of notice from said party of his intention to drill  
30 the well the Unit Operator elects and commences to drill such a well  
31 in like manner as other wells are drilled by the Unit Operator under  
32 this agreement.

1           If any well drilled as aforesaid by a working interest owner  
2 results in production such that the land upon which it is situated  
3 may properly be included in a participating area, such participating  
4 area shall be established or enlarged as provided in this agreement  
5 and the well shall thereafter be operated by the Unit Operator in accordance  
6 with the terms of this agreement and the unit operating agreement.

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

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

29           If gas obtained from lands not subject to this agreement  
30 is introduced into any participating area hereunder, for use in repres-  
31 suring, stimulation of production, or increasing ultimate recovery, in



1 conformity with a plan of operations approved by the Supervisor and  
2 the Commissioner, a like amount of gas, after settlement as herein  
3 provided for any gas transferred from any other participating area  
4 and with appropriate deduction for loss from any cause, may be withdrawn  
5 from the formation into which the gas is introduced, royalty free as  
6 to dry gas, but not as to any products which may be extracted therefrom;  
7 provided that such withdrawal shall be at such time as may be provided  
8 in the approved plan of operations or as may otherwise be consented  
9 to by the Supervisor, the Commissioner and the State Commission as  
10 conforming to good petroleum engineering practice; and provided further,  
11 that such right of withdrawal shall terminate on the termination of  
12 this unit agreement.

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

23 Royalty due as to non-Federal lands under the respective  
24 leases shall be computed and paid on the basis of all unitized substances  
25 allocated to such lands hereunder.

26 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases  
27 committed hereto shall be paid by working interest owners responsible  
28 therefor under existing contracts, laws, and regulations, provided that  
29 nothing herein contained shall operate to relieve the lessees of any  
30 land from their respective lease obligations for the payment of any  
31 rental or minimum royalty due under their leases. Rental or minimum  
32 royalty for lands of the United States subject to this agreement shall  
33 be paid at the rate specified in the respective leases from the United

1 States unless such rental or minimum royalty is waived, suspended,  
2 or reduced by law or by approval of the Secretary or his duly authorized  
3 representative. Rentals on State of New Mexico lands subject to this  
4 agreement shall be paid at the rates specified in the respective leases,  
5 or may be reduced and suspended upon the order of the Commissioner  
6 pursuant to applicable laws and regulations.

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

17 16. CONSERVATION. Operations hereunder and production of unitized  
18 substances shall be conducted to provide for the most economical and  
19 efficient recovery of said substances without waste, as defined by  
20 or pursuant to State or Federal law or regulation.

21 17. DRAINAGE. The Unit Operator shall take such measures as  
22 the Supervisor and the Commissioner deem appropriate and adequate to  
23 prevent drainage of unitized substances from unitized land by wells  
24 on land not subject to this agreement.

25 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, con-  
26 ditions, and provisions of all leases, subleases, and other contracts  
27 relating to exploration, drilling, development, or operation for oil or  
28 gas on lands committed to this agreement are hereby expressly modified  
29 and amended to the extent necessary to make the same conform to the  
30 provisions hereof, but otherwise to remain in full force and effect; and  
31 the parties hereto hereby consent that the Secretary as to Federal leases

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

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

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

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

33 (d) Each lease, sublease or contract relating to the exploration,  
34 drilling, development or operation for oil or gas of lands  
35 other than those of the United States committed to this  
36 agreement, which, by its terms might expire prior to the

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

- 5 (e) Any Federal lease for a fixed term of twenty (20) years  
6 or any renewal thereof or any part of such lease which  
7 is made subject to this agreement shall continue in force  
8 beyond the term provided therein until the termination  
9 hereof. Any other Federal lease committed hereto shall  
10 continue in force beyond the term so provided therein or  
11 by law as to the land committed so long as such lease  
12 remains subject hereto, provided that production  
13 is had in paying quantities under this unit agreement  
14 prior to the expiration date of the term of such lease,  
15 or in the event actual drilling operations are commenced  
16 on unitized land, in accordance with the provisions of  
17 this agreement, prior to the end of the primary term of  
18 such lease and are being diligently prosecuted at that  
19 time, such lease shall be extended for two years and so  
20 long thereafter as oil or gas is produced in paying  
21 quantities in accordance with the provisions of the Mineral  
22 Leasing Act Revision of 1960.
- 23 (f) Each sublease or contract relating to the operation and  
24 development of unitized substances from lands of the United  
25 States committed to this agreement, which by its terms  
26 would expire prior to the time at which the underlying  
27 lease, as extended by the immediately preceding paragraph,  
28 will expire, is hereby extended beyond any such term so  
29 provided therein so that it shall be continued in full  
30 force and effect for and during the term of the underlying  
31 lease as such term is herein extended.

1 (g) The segregation of any Federal lease committed to this  
2 agreement is governed by the following provision in the  
3 fourth paragraph of Sec. 17(j) of the Mineral Leasing Act,  
4 as amended by the Act of September 2, 1960 (74 Stat. 781-784):  
5 "Any [Federal] lease heretofore or hereafter committed to  
6 any such [unit] plan embracing lands that are in part  
7 within and in part outside of the area covered by any  
8 such plan shall be segregated into separate leases as to  
9 the lands committed and the lands not committed as of the  
10 effective date of unitization: Provided, however, That  
11 any such lease as to the nonunitized portion shall continue  
12 in force and effect for the term thereof but for not  
13 less than two years from the date of such segregation and  
14 so long thereafter as oil or gas is produced in paying  
15 quantities."

16 (h) Any lease, other than a Federal lease, having only a  
17 portion of its lands committed hereto shall be segregated  
18 as to the portion committed and the portion not committed,  
19 and the provisions of such lease shall apply separately to  
20 such segregated portions commencing as of the effective  
21 date hereof. In the event any such lease provides for a  
22 lump-sum rental payment, such payment shall be prorated  
23 between the portions so segregated in proportion to the  
24 acreage of the respective tracts.

25 19. COVENANTS RUN WITH LAND. The covenants herein shall be con-  
26 strued to be covenants running with the land with respect to the interest  
27 of the parties hereto and their successors in interest until this agree-  
28 ment terminates, and any grant, transfer, or conveyance, of interest in

1 land or leases subject hereto shall be and hereby is conditioned upon  
2 the assumption of all privileges and obligations hereunder by the grantee,  
3 transferee, or other successor in interest. No assignment or transfer  
4 of any working interest, royalty, or other interest subject hereto  
5 shall be binding upon Unit Operator until the first day of the calendar  
6 month after Unit Operator is furnished with the original, photostatic,  
7 or certified copy of the instrument of transfer.

8 20. EFFECTIVE DATE AND TERM. This agreement shall become effective  
9 upon approval by the Secretary or his duly authorized representative  
10 and shall terminate five (5) years from said effective date unless:

- 11 (a) such date of expiration is extended by the Director  
12 and the Commissioner, or
- 13 (b) it is reasonably determined prior to the expiration  
14 of the fixed term or any extension thereof that the  
15 unitized land is incapable of production of unitized  
16 substances in paying quantities in the formations tested  
17 hereunder and after notice of intention to terminate  
18 the agreement on such ground is given by the Unit Operator  
19 to all parties in interest at their last known addresses,  
20 the agreement is terminated with the approval of the  
21 Supervisor, or
- 22 (c) a valuable discovery of unitized substances has been  
23 made or accepted on unitized land during said initial  
24 term or any extension thereof, in which event the agreement  
25 shall remain in effect for such term and so long as  
26 unitized substances can be produced in quantities sufficient  
27 to pay for the cost of producing same from wells on  
28 unitized land within any participating area established  
29 hereunder and, should production cease, so long thereafter  
30 as diligent operations are in progress for the restoration  
31 of production or discovery of new production and so  
32 long thereafter as unitized substances so discovered  
33 can be produced as aforesaid, or
- 34 (d) it is terminated as heretofore provided in this agreement.

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

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

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

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

1 operations before the Department of the Interior or any other legally  
2 constituted authority; provided, however, that any other interested  
3 party shall also have the right at his own expense to be heard in any  
4 such proceeding.

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

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

20 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring  
21 the Unit Operator to commence or continue drilling or to operate on or  
22 produce unitized substances from any of the lands covered by this agree-  
23 ment shall be suspended while the Unit Operator, despite the exercise of  
24 due care and diligence, is prevented from complying with such obligations,  
25 in whole or in part, by strikes, acts of God, Federal, State, or municipal  
26 law or agencies, unavoidable accidents, uncontrollable delays in trans-  
27 portation, inability to obtain necessary materials in open market, or other  
28 matters beyond the reasonable control of the Unit Operator whether similar  
29 to matters herein enumerated or not. No unit obligation which is suspended  
30 under this section shall become due less than thirty (30) days after it



1 has been determined that the suspension is no longer applicable. Deter-  
2 mination of creditable "Unavoidable Delay" time shall be made by the unit  
3 operator subject to approval of the Supervisor and Commissioner.

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

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

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

24 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any  
25 substantial interest in a tract within the unit area fails or refuses  
26 to subscribe or consent to this agreement, the owner of the working  
27 interest in that tract may withdraw said tract from this agreement  
28 by written notice delivered to the Supervisor, the Commissioner and  
29 the Unit Operator prior to the approval of this agreement by the Supervisor  
30 and the Commissioner. Any oil or gas interests in lands within the  
31 unit area not committed hereto prior to submission of this agreement

1 for final approval may thereafter be committed hereto by the owner or  
2 owners thereof subscribing or consenting to this agreement, and, if  
3 the interest is a working interest, by the owner of such interest also  
4 subscribing to the unit operating agreement. After operations are  
5 commenced hereunder, the right of subsequent joinder, as provided in  
6 this section, by a working interest owner is subject to such requirements  
7 or approvals, if any, pertaining to such joinder, as may be provided  
8 for in the unit operating agreement. After final approval hereof,  
9 joinder by a non-working interest owner must be consented to in writing  
10 by the working interest owner committed hereto and responsible for  
11 the payment of any benefits that may accrue hereunder in behalf of  
12 such non-working interest. A non-working interest may not be committed  
13 to this unit agreement unless the corresponding working interest is  
14 committed hereto. Joinder to the unit agreement by a working-interest  
15 owner, at any time, must be accompanied by appropriate joinder to the  
16 unit operating agreement, if more than one committed working-interest  
17 owner is involved, in order for the interest to be regarded as committed  
18 to this unit agreement. Except as may otherwise herein be provided,  
19 subsequent joinders to this agreement shall be effective as of the  
20 first day of the month following the filing with the Supervisor and  
21 the Commissioner of duly executed counterparts of all or any papers  
22 necessary to establish effective commitment of any tract to this agreement  
23 unless objection to such joinder is duly made within 60 days by the  
24 Supervisor or the Commissioner.

25 29. COUNTERPARTS. This agreement may be executed in any number  
26 of counterparts no one of which needs to be executed by all parties  
27 or may be ratified or consented to by separate instrument in writing  
28 specifically referring hereto and shall be binding upon all those parties  
29 who have executed such a counterpart, ratification, or consent hereto  
30 with the same force and effect as if all such parties had signed the  
31 same document and regardless of whether or not it is executed by all  
32 other parties owning or claiming an interest in the lands within the  
33 above-described unit area.

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

8                If as a result of any such surrender the working interest rights  
9        as to such lands become vested in any party other than the fee owner of  
10       the unitized substances, said party may forfeit such rights and further  
11       benefits from operation hereunder as to said land to the party next in  
12       the chain of title who shall be and become the owner of such working  
13       interest.

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

- 17               (1) Accept those working interest rights subject to this  
18               agreement and the unit operating agreement; or  
19               (2) Lease the portion of such land as is included in a  
20               participating area established hereunder subject to this  
21               agreement and the unit operating agreement.  
22               (3) Provide for the independent operation of any part of such  
23               land that are not then included within a participating  
24               area established hereunder.

25               If the fee owner of the unitized substances does not accept  
26       the working interest rights subject to this agreement and the unit  
27       operating agreement or lease such lands as above provided within six (6)  
28       months after the surrendered or forfeited working interest rights become  
29       vested in the fee owner, the benefits and obligations of operations  
30       accruing to such lands under this agreement and the unit operating  
31       agreement shall be shared by the remaining owners of unitized working  
32       interests in accordance with their respective working interest ownerships,

1 and such owners of working interests shall compensate the fee owner  
2 of unitized substances in such lands by paying sums equal to the rentals,  
3 minimum royalties, and royalties applicable to such lands under the  
4 lease in effect when the lands were unitized.

5 An appropriate accounting and settlement shall be made for  
6 all benefits accruing to or payments and expenditures made or incurred  
7 on behalf of such surrendered or forfeited working interest subsequent  
8 to the date of surrender or forfeiture, and payment of any monies found  
9 to be owing by such an accounting shall be made as between the parties  
10 within thirty (30) days. In the event no unit operating agreement  
11 is in existence and a mutually acceptable agreement between the proper  
12 parties thereto cannot be consummated, the Supervisor and Commissioner  
13 may prescribe such reasonable and equitable agreement as he deems warranted  
14 under the circumstances.

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

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

1 32. NO PARTNERSHIP. It is expressly agreed that the relation  
2 of the parties hereto is that of independent contractor; and nothing  
3 in this agreement contained, expressed or implied, nor any operations  
4 conducted hereunder, shall create or be deemed to have created a partner-  
5 ship or association between the parties hereto or any of them.

6 33. SURFACE MANAGEMENT STIPULATION. Nothing in this agreement  
7 shall modify any special Federal-lease stipulations relating to surface  
8 management, attached to and made a part of Oil and Gas Leases covering  
9 lands within the Unit Area.

10 34. RECLAMATION LANDS. Nothing in this agreement shall modify  
11 the special, Federal-lease stipulations applicable to lands under the  
12 jurisdiction of the Bureau of Reclamation.

13 IN WITNESS WHEREOF, the parties hereto have caused this  
14 agreement to be executed as of the date first above written and have  
15 set opposite their respective names the date of execution.

16 UNIT OPERATOR

17 Amoco Production Company

18 By: *[Signature]*  
19 Attorney-in-Fact



20 WORKING INTEREST OWNERS

21  
22 Marathon Oil Company  
23 P. O. Box 552  
24 Midland, Texas 79701

25 Southland Royalty Company  
26 1405 Wilco Building  
27 Midland, Texas 79701

Inexco Oil Company  
1801 Americana Building  
Houston, Texas 77002

Perry R. Bass  
P. O. Box 171  
Midland, Texas 79701

1 STATE OF TEXAS §

2 COUNTY OF HARRIS §

3 The foregoing instrument was acknowledged before me this 6<sup>th</sup>  
4 day of March, 1977, by C. N. MENNINGER,  
5 as Attorney-in-Fact on behalf of AMOCO PRODUCTION COMPANY.

6 My Commission Expires:

7 6-1-75

8 Irene Haldas  
9 Notary Public in and for  
Harris County, Texas

IRENE HALDAS  
Notary Public in and for Harris County, Texas