

1	UNIT AGREEMENT	1
2	FOR THE DEVELOPMENT AND OPERATION OF THE	2
3	RED HILLS UNIT AREA	3
4	LEA COUNTY, NEW MEXICO	4
5	NO. <u>14-08-0001-8496</u>	5
6	THIS AGREEMENT, entered into as of the <u>20th</u> day of <u>November</u> ,	6
7	1962, by and between the parties subscribing, ratifying, or consenting hereto,	7
8	and herein referred to as the "parties hereto",	8
9	WITNESSETH:	9
10	WHEREAS, the parties hereto are the owners of working, royalty, or	10
11	other oil and gas interests in the unit area subject to this agreement; and,	11
12	WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat.	12
13	437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and	13
14	their representatives to unite with each other, or jointly or separately with	14
15	others, in collectively adopting and operating a cooperative or unit plan of	15
16	development or operation of any oil or gas pool, field, or like area, or any	16
17	part thereof for the purpose of more properly conserving the natural resources	17
18	thereof whenever determined and certified by the Secretary of the Interior	18
19	to be necessary or advisable in the public interest; and,	19
20	WHEREAS, the Commissioner of Public Lands of the State of New	20
21	Mexico is authorized by an Act of the Legislature (Sec. 7-11-39 N.M. Statutes	21
22	1953 Annotated) to consent to or approve this agreement on behalf of the	22
23	State of New Mexico, insofar as it covers and includes lands and mineral	23
24	interests of the State of New Mexico; and,	24
25	WHEREAS, the Oil Conservation Commission of the State of New Mexico	25
26	is authorized by an Act of the Legislature (Chapter 72, Laws of 1935, as	26
27	amended by Chapter 193, Laws of 1937, Chapter 166, Laws of 1941, and Chapter	27
28	168, Laws of 1949) to approve this agreement and the conservation provisions	28
29	hereof; and,	29
30	WHEREAS, the parties hereto hold sufficient interests in the Red	30
31	Hills Unit Area covering the land hereinafter described to give reasonably	31
32	effective control of operations therein; and,	32

1 WHEREAS, it is the purpose of the parties hereto to conserve natural 1
2 resources, prevent waste, and secure other benefits obtainable through develop- 2
3 ment and operations of the area subject to this agreement under the terms, 3
4 conditions and limitations herein set forth; 4

5 NOW, THEREFORE, in consideration of the premises and the promises 5
6 herein contained, the parties hereto commit to this agreement their respective 6
7 interests in the below-defined unit area, and agree severally among themselves 7
8 as follows: 8

9 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 9
10 February 25, 1920, as amended, supra, and all valid pertinent regulations, 10
11 including operating and unit plan regulations, heretofore issued thereunder 11
12 or valid, pertinent, and reasonable regulations hereafter issued thereunder 12
13 are accepted and made a part of this agreement as to Federal lands, provided 13
14 such regulations are not inconsistent with the terms of this agreement; and 14
15 as to State of New Mexico and privately owned lands, the oil and gas operating 15
16 regulations in effect as of the effective date hereof governing drilling and 16
17 producing operations, not inconsistent with the terms hereof or the laws of 17
18 the State of New Mexico are hereby accepted and made a part of this agreement. 18

19 2. UNIT AREA. The following-described land is hereby designated 19
20 and recognized as constituting the unit area: 20

21	<u>T-25-S, R-32-E, N.M.P.M.</u>	<u>T-25-S, R-33-E, N.M.P.M.</u>	<u>T-26-S, R-33-E, N.M.P.M.</u>	21
22	Sec. 1: All	Sec. 3: All	Sec. 3: All	22
23	Sec. 2: All	Sec. 4: All	Sec. 4: All	23
24	Sec. 11: All	Sec. 5: All	Sec. 5: All	24
25	Sec. 12: All	Sec. 6: All	Sec. 6: All	25
26	Sec. 13: All	Sec. 7: All	Sec. 7: All	26
27	Sec. 14: All	Sec. 8: All	Sec. 8: All	27
28	Sec. 23: All	Sec. 9: All	Sec. 9: All	28
29	Sec. 24: All	Sec. 10: All	Sec. 16: All	29
30	Sec. 25: All	Sec. 15: All	Sec. 17: All	30
31	Sec. 26: All	Sec. 16: All		31
32	Sec. 35: All	Sec. 17: All		32
33	Sec. 36: All	Sec. 18: All		33
34		Sec. 19: All		34
35		Sec. 20: All		35
36		Sec. 21: All		36
37		Sec. 22: All		37
38		Sec. 27: All		38
39		Sec. 28: All		39
40		Sec. 29: All		40
41		Sec. 30: All		41
42		Sec. 31: All		42
43		Sec. 32: All		43
44		Sec. 33: All		44
45		Sec. 34: All		45

46 containing 28,796.48 acres, more or less. 46

Exhibit A attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit B attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits A and B shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner", and not less than six (6) copies of the revised exhibits shall be filed with the Supervisor, and one (1) copy thereof shall be filed with the Land Commissioner and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission".

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

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

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

1 (c) Upon expiration of the 30-day period provided in the preceding 1
2 item (b) hereof, Unit Operator shall file with the Supervisor, the Land 2
3 Commissioner and the State Commission evidence of mailing of the notice of 3
4 expansion or contraction and a copy of any objections thereto which have been 4
5 filed with the Unit Operator, together with an application in sufficient 5
6 number, for approval of such expansion or contraction and with appropriate 6
7 joinders. 7

8 (d) After due consideration of all pertinent information, the 8
9 expansion or contraction shall, upon approval by the Director, the Land 9
10 Commissioner and the State Commission, become effective as of the date pre- 10
11 scribed in the notice thereof. 11

12 (e) All legal subdivisions of unitized lands (i.e., 40 acres by 12
13 Government survey or its nearest lot or tract equivalent in instances of 13
14 irregular surveys, however, unusually large lots or tracts shall be considered 14
15 in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the 15
16 purpose of elimination under this subsection), no parts of which are entitled 16
17 to be in a participating area within 5 years after the first day of the month 17
18 following the effective date of the first initial participating area es- 18
19 tablished under this unit agreement, shall be eliminated automatically from 19
20 this agreement, effective as of the first day thereafter, and such lands shall 20
21 no longer be a part of the unit area and shall no longer be subject to this 21
22 agreement, unless at the expiration of said 5-year period diligent drilling 22
23 operations are in progress on unitized lands not entitled to participation, 23
24 in which event all such lands shall remain subject hereto for so long as such 24
25 drilling operations are continued diligently, with not more than 90 days' 25
26 time elapsing between the completion of one such well and the commencement of 26
27 the next such well, except that the time allowed between such wells shall not 27
28 expire earlier than 30 days after the expiration of any period of time during 28
29 which drilling operations are prevented by a matter beyond the reasonable 29
30 control of unit operator as set forth in the section hereof entitled 30
31 "Unavoidable Delay"; provided that all legal subdivisions of lands not in a 31
32 participating area and not entitled to become participating under the ap- 32
33 plicable provisions of this agreement within 10 years after said first day 33
34 of the month following the effective date of said first initial participating 34
35 area shall be eliminated as above specified. Determination of creditable 35

"Unavoidable Delay" time shall be made by unit operator and subject to approval of the Director and the Land Commissioner. The unit operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and the Land Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this subsection 2 (e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty interests of the United States), on a total-nonparticipating-acreage basis, respectively, with approval of the Director, and the Land Commissioner provided such extension application is submitted to the Land Commissioner and the Director 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. The Pure Oil Company is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any 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

1 and terminate Unit Operator's rights as such for a period of 6 months after 1
2 notice of intention to resign has been served by Unit Operator on all working 2
3 interest owners and the Director, the Land Commissioner and State Commission 3
4 and until all wells then drilled hereunder are placed in a satisfactory 4
5 condition for suspension or abandonment whichever is required by the 5
6 Supervisor as to Federal lands and the State Commission as to State and 6
7 privately owned lands unless a new Unit Operator shall have been selected and 7
8 approved and shall have taken over and assumed the duties and obligations of 8
9 Unit Operator prior to the expiration of said period. 9

10 Unit Operator shall have the right to resign in like manner and 10
11 subject to like limitations, as above provided, at any time a participating 11
12 area established hereunder is in existence, but, in all instances of 12
13 resignation or removal, until a successor unit operator is selected and ap- 13
14 proved as hereinafter provided, the working interest owners shall be jointly 14
15 responsible for performance of the duties of unit operator, and shall not later 15
16 than 30 days before such resignation or removal becomes effective appoint a 16
17 common agent to represent them in any action to be taken hereunder. 17

18 The resignation of Unit Operator shall not release Unit Operator 18
19 from any liability for any default by it hereunder occurring prior to the 19
20 effective date of its resignation. 20

21 The Unit Operator may, upon default or failure in the performance 21
22 of its duties or obligations hereunder, be subject to removal by the same 22
23 percentage vote of the owners of working interests determined in like manner 23
24 as herein provided for the selection of a new Unit Operator. Such removal 24
25 shall be effective upon notice thereof to the Director and the Land Commission- 25
26 er. 26

27 The resignation or removal of Unit Operator under this agreement 27
28 shall not terminate its right, title, or interest as the owner of a working 28
29 interest or other interest in unitized substances, but upon the resignation 29
30 or removal of Unit Operator becoming effective, such Unit Operator shall 30
31 deliver possession of all equipment, materials, and appurtenances used in 31
32 conducting the unit operations and owned by the working interest owners to the 32
33 new duly qualified successor Unit Operator or to the owners thereof if no such 33
34 new Unit Operator is elected, to be used for the purpose of conducting unit 34

operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity

1 with their underlying operating agreements, leases, or other independent con- 1
2 tracts, and such other rights and obligations as between Unit Operator and 2
3 the working interest owners as may be agreed upon by Unit Operator and the 3
4 working interest owners; however, no such unit operating agreement shall be 4
5 deemed either to modify any of the terms and conditions of this unit agree- 5
6 ment or to relieve the Unit Operator of any right or obligation established 6
7 under this unit agreement, and in case of any inconsistency or conflict be- 7
8 tween the unit agreement and the unit operating agreement, this unit agreement 8
9 shall prevail. Three (3) true copies of any unit operating agreement exe- 9
10 cuted pursuant to this section should be filed with the Supervisor and one (1) 10
11 true copy with the Land Commissioner, prior to approval of this unit agreement 11
12 by the Director. 12

13 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise 13
14 specifically provided herein, the exclusive right, privilege, and duty of 14
15 exercising any and all rights of the parties hereto which are necessary or 15
16 convenient for prospecting for, producing, storing, allocating, and dis- 16
17 tributing the unitized substances are hereby delegated to and shall be 17
18 exercised by the Unit Operator as herein provided. Acceptable evidence of 18
19 title to said rights shall be deposited with said Unit Operator and, together 19
20 with this agreement, shall constitute and define the rights, privileges, and 20
21 obligations of Unit Operator. Nothing herein, however, shall be construed to 21
22 transfer title to any land or to any lease or operating agreement, it being 22
23 understood that under this agreement the Unit Operator, in its capacity as 23
24 Unit Operator, shall exercise the rights of possession and use vested in the 24
25 parties hereto only for the purposes herein specified. 25

26 9. DRILLING TO DISCOVERY. Within 6 months after the effective date 26
27 hereof, the Unit Operator shall begin to drill an adequate test well at a 27
28 location approved by the Supervisor if on Federal land or by the Land Com- 28
29 missioner if on State land, or by the State Commission if on privately owned 29
30 land, unless on such effective date a well is being drilled conformably with 30
31 the terms hereof, and thereafter continue such drilling diligently until the 31
32 Devonian formation has been tested or until at a lesser depth unitized sub- 32
33 stances shall be discovered which can be produced in paying quantities (to-wit: 33
34 quantities sufficient to repay the costs of drilling and producing operations, 34

1 with a reasonable profit) or the Unit Operator shall at any time establish to 1
2 the satisfaction of the Supervisor if on Federal land, or the Land Commissioner 2
3 if on State land, or of the State Commission if on privately owned land, that 3
4 further drilling of said well would be unwarranted or impracticable; provided, 4
5 however, that Unit Operator shall not in any event be required to drill said 5
6 well to a depth in excess of 18,000 feet. Until the discovery of a deposit of 6
7 unitized substances capable of being produced in paying quantities, the Unit 7
8 Operator shall continue drilling diligently one well at a time, allowing not 8
9 more than 6 months between the completion of one well and the beginning of the 9
10 next well, until a well capable of producing unitized substances in paying 10
11 quantities is completed to the satisfaction of said Supervisor if it be on 11
12 Federal land or of the Land Commissioner if on State land or the State 12
13 Commission if on privately owned land or until it is reasonably proved that 13
14 the unitized land is incapable of producing unitized substances in paying 14
15 quantities in the formations drilled hereunder. Nothing in this section shall 15
16 be deemed to limit the right of the Unit Operator to resign as provided in 16
17 Section 5 hereof, or as requiring Unit Operator to commence or continue any 17
18 drilling during the period pending such resignation becoming effective in order 18
19 to comply with the requirements of this section. The Director and Land Com- 19
20 missioner may modify the drilling requirements of this section by granting 20
21 reasonable extensions of time when, in their opinion, such action is warranted. 21

22 Upon failure to comply with the drilling provisions of this section, 22
23 the Director and Land Commissioner may, after reasonable notice to the Unit 23
24 Operator, and each working interest owner, lessee, and lessor at their last 24
25 known addresses, declare this unit agreement terminated. 25

26 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months 26
27 after completion of a well capable of producing unitized substances in paying 27
28 quantities, the Unit Operator shall submit for the approval of the Supervisor 28
29 and the Land Commissioner an acceptable plan of development and operation for 29
30 the unitized land which, when approved by the Supervisor and the Land Com- 30
31 missioner, shall constitute the further drilling and operating obligations of 31
32 the Unit Operator under this agreement for the period specified therein. 32
33 Thereafter, from time to time before the expiration of any existing plan, the 33
34 Unit Operator shall submit for the approval of the Supervisor and the Land 34

Commissioner a plan for an additional specified period for the development and operation of the unitized land.

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

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

(b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor and the Land Commissioner.

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

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the Supervisor or the Land Commissioner, the Unit Operator shall submit for approval by the Director and the Land Commissioner a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule

on approval of the Director and the Land Commissioner to constitute a participating area, effective as of the date of completion of such well or the effective date of the unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of the initial participating area. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director and the Land Commissioner. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director and the Land Commissioner. No land shall be excluded from a participating area on account of depletion of the unitized substances.

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

In the absence of agreement at any time between the Unit Operator and the Director and the Land Commissioner as to the proper definition or redifi-

1 nition of a participating area, or until a participating area has, or areas 1
2 have, been established as provided herein, the portion of all payments affected 2
3 thereby may be impounded in a manner mutually acceptable to the owners of 3
4 working interests, except royalties due the United States and the State of New 4
5 Mexico, which shall be determined by the Supervisor for Federal lands and the 5
6 Land Commissioner for State lands and the State Commission as to privately 6
7 owned lands and the amount thereof deposited, as directed by the Supervisor 7
8 and the Land Commissioner respectively, to be held as unearned money until a 8
9 participating area is finally approved and then applied as earned or returned 9
10 in accordance with a determination of the sum due as Federal and State royalty 10
11 on the basis of such approved participating area. 11

12 Whenever it is determined, subject to the approval of the Supervisor, 12
13 as to wells drilled on Federal land and of the Land Commissioner as to wells 13
14 drilled on State land and the State Commission as to wells on privately owned 14
15 lands, that a well drilled under this agreement is not capable of production 15
16 in paying quantities and inclusion of the land on which it is situated in a 16
17 participating area is unwarranted, production from such well shall, for the 17
18 purposes of settlement among all parties other than working interest owners, 18
19 be allocated to the land on which the well is located so long as such land is 19
20 not within a participating area established for the pool or deposit from which 20
21 such production is obtained. Settlement for working interest benefits from 21
22 such a well shall be made as provided in the unit operating agreement. 22

23 12. ALLOCATION OF PRODUCTION. All unitized substances produced from 23
24 each participating area established under this agreement, except any part 24
25 thereof used in conformity with good operating practices within the unitized 25
26 area for drilling, operating, camp and other production or development purposes, 26
27 for repressuring or recycling in accordance with a plan of development approved 27
28 by the Supervisor, and Land Commissioner and the State Commission, or un- 28
29 avoidably lost, shall be deemed to be produced equally on an acreage basis from 29
30 the several tracts of unitized land of the participating area established for 30
31 such production and, for the purpose of determining any benefits accruing under 31
32 this agreement, each such tract of unitized land shall have allocated to it 32
33 such percentage of said production as the number of acres of such tract 33
34 included in said participating area bears to the total acres of unitized land 34
35 in said participating area, except that allocation of production hereunder for 35

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

15 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. 15
16 Any party hereto owning or controlling the working interest in any unitized 16
17 land having thereon a regular well location may with the approval of the 17
18 Supervisor as to Federal land, the Land Commissioner as to State land, and the 18
19 State Commission as to privately owned land, and subject to the provisions 19
20 of the Unit Operating Agreement, at such party's sole risk, costs, and expense 20
21 drill a well at such location on such land to test any formation for which a 21
22 participating area has not been established or to test any formation for which 22
23 a participating area has been established if such location is not within said 23
24 participating area, or drill any well not mutually agreed to by all interested 24
25 parties, unless within 90 days of receipt of notice from said party of his 25
26 intention to drill the well the Unit Operator elects and commences to drill 26
27 such a well in like manner as other wells are drilled by the Unit Operator 27
28 under this agreement. 28

29 If any well drilled as aforesaid by a working interest owner results 29
30 in production such that the land upon which it is situated may properly be 30
31 included in a participating area, such participating area shall be established 31
32 or enlarged as provided in this agreement and the well shall thereafter be 32
33 operated by the Unit Operator in accordance with the terms of this agreement 33
34 and the unit operating agreement. 34

1 If any well drilled as aforesaid by a working interest owner obtains 1
2 production in quantities insufficient to justify the inclusion in a partici- 2
3 pating area of the land upon which such well is situated, such well may be 3
4 operated and produced by the party drilling the same subject to the conserva- 4
5 tion requirements of this agreement. The royalties in amount or value of 5
6 production from any such well shall be paid as specified in the underlying 6
7 lease and agreements affected. 7

8 14. ROYALTY SETTLEMENT. The United States and any State and all 8
9 royalty owners who, under existing contract, are entitled to take in kind a 9
10 share of the substances now unitized hereunder produced from any tract, shall 10
11 hereafter be entitled to the right to take in kind their share of the unitized 11
12 substances allocated to such tract, and Unit Operator, or in case of the 12
13 operation of a well by a working interest owner as herein in special cases 13
14 provided for, such working interest owner, shall make deliveries of such 14
15 royalty share taken in kind in conformity with the applicable contracts, laws, 15
16 and regulations. Settlement for royalty interest not taken in kind shall be 16
17 made by working interest owners responsible therefor under existing contracts, 17
18 laws and regulations on or before the last day of each month for unitized 18
19 substances produced during the preceding calendar month; provided, however, 19
20 that nothing herein contained shall operate to relieve the lessees of any land 20
21 from their respective lease obligations for the payment of any royalties due 21
22 under their leases. 22

23 If gas obtained from lands not subject to this agreement is intro- 23
24 duced into any participating area hereunder, for use in repressuring, stimu- 24
25 lation of production, or increasing ultimate recovery, which shall be in 25
26 conformity with a plan first approved by the Supervisor, the Land Commissioner, 26
27 and the State Commission, a like amount of gas, after settlement as herein 27
28 provided for any gas transferred from any other participating area and with 28
29 due allowance for loss or depletion from any cause, may be withdrawn from the 29
30 formation into which the gas was introduced, royalty free as to dry gas, but 30
31 not as to the products extracted therefrom; provided that such withdrawal shall 31
32 be at such time as may be provided in the plan of operations or as may other- 32
33 wise be consented to by the Supervisor, the Land Commissioner and the State 33
34 Commission as conforming to good petroleum engineering practice; and provided 34

1 further, that such right of withdrawal shall terminate on the termination of 1
2 this unit agreement. 2

3 Royalty due the United States shall be computed as provided in the 3
4 operating regulations and paid in value or delivered in kind as to all unitized 4
5 substances on the basis of the amounts thereof allocated to unitized Federal 5
6 land as provided herein at the rates specified in the respective Federal 6
7 leases, or at such lower rate or rates as may be authorized by law or regula- 7
8 tion; provided, that for leases on which the royalty rate depends on the daily 8
9 average production per well, said average production shall be determined in 9
10 accordance with the operating regulations as though each participating area 10
11 were a single consolidated lease. 11

12 Royalty due on account of State and privately owned lands shall be 12
13 computed and paid on the basis of all unitized substances allocated to such 13
14 lands. 14

15 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases 15
16 committed hereto shall be paid by working interest owners responsible therefor 16
17 under existing contracts, laws, and regulations, provided that nothing herein 17
18 contained shall operate to relieve the lessees of any land from their re- 18
19 spective lease obligations for the payment of any rental or minimum royalty 19
20 in lieu thereof due under their leases. Rental or minimum royalty for lands 20
21 of the United States subject to this agreement shall be paid at the rate 21
22 specified in the respective leases from the United States unless such rental 22
23 or minimum royalty is waived, suspended, or reduced by law or by approval of 23
24 the Secretary or his duly authorized representative. 24

25 Rentals on State of New Mexico lands subject to this agreement shall 25
26 be paid at the rates specified in the respective leases. 26

27 With respect to any lease on non-Federal land containing provisions 27
28 which would terminate such lease unless drilling operations were within the 28
29 time therein specified commenced upon the land covered thereby or rental paid 29
30 for the privilege of deferring such drilling operations, the rentals required 30
31 thereby shall, notwithstanding any other provision of this agreement, be deemed 31
32 to accrue and become payable during the term thereof as extended by this agree- 32
33 ment and until the required drilling operations are commenced upon the land 33
34 covered thereby or some portion of such land is included within a participating 34
35 area. 35

1 16. CONSERVATION. Operations hereunder and production of unitized 1
2 substances shall be conducted to provide for the most economical and efficient 2
3 recovery of said substances without waste, as defined by or pursuant to State 3
4 or Federal law or regulation. 4

5 17. DRAINAGE. The Unit Operator shall take appropriate and adequate 5
6 measures to prevent drainage of unitized substances from unitized land by wells 6
7 on land not subject to this agreement, or, with the consent of the Director 7
8 and the Land Commissioner, pursuant to applicable regulations pay a fair and 8
9 reasonable compensatory royalty. 9

10 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, con- 10
11 ditions, and provisions of all leases, subleases, and other contracts relating 11
12 to exploration, drilling, development, or operations for oil or gas of lands 12
13 committed to this agreement are hereby expressly modified and amended to the 13
14 extent necessary to make the same conform to the provisions hereof, but other- 14
15 wise to remain in full force and effect; and the parties hereto hereby consent 15
16 that the Secretary as to Federal leases and the Land Commissioner as to State 16
17 leases shall and each by his approval hereof, or by the approval hereof by his 17
18 duly authorized representative, does hereby establish, alter, change, or revoke 18
19 the drilling, producing, rental, minimum royalty, and royalty requirements of 19
20 Federal and State leases committed hereto and the regulations in respect 20
21 thereto to conform said requirements to the provisions of this agreement, and, 21
22 without limiting the generality of the foregoing, all leases, subleases, and 22
23 contracts are particularly modified in accordance with the following: 23

24 (a) The development and operation of lands subject to this agreement 24
25 under the terms hereof shall be deemed full performance of all obligations for 25
26 development and operation with respect to each and every part or separately 26
27 owned tract subject to this agreement, regardless of whether there is any 27
28 development of any particular part or tract of the unit area, notwithstanding 28
29 anything to the contrary in any lease, operating agreement or other contract 29
30 by and between the parties hereto, or their respective predecessors in interest, 30
31 or any of them. 31

32 (b) Drilling and producing operations performed hereunder upon any 32
33 tract of unitized lands will be accepted and deemed to be performed upon and 33
34 for the benefit of each and every tract of unitized land, and no lease shall 34

be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

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

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production is had in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with the provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time such lease shall be extended for two years and 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.

1 (g) Any lease embracing lands of the State of New Mexico which is 1
2 made subject to this agreement, shall continue in force beyond the term pro- 2
3 vided therein as to the lands committed hereto until the termination hereof. 3

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

15 (i) Any lease embracing lands of the State of New Mexico having 15
16 only a portion of its lands committed hereto, shall be segregated as to the 16
17 portion committed and the portion not committed, and the terms of such lease 17
18 shall apply separately to such segregated portions commencing as of the 18
19 effective date hereof; provided, however, notwithstanding any of the provisions 19
20 of this agreement to the contrary any lease embracing lands of the State of 20
21 New Mexico having only a portion of its lands committed hereto shall continue 21
22 in full force and effect beyond the term provided therein as to all lands 22
23 embraced in such lease, if oil or gas is discovered and is capable of being 23
24 produced in paying quantities from some part of the lands embraced in such 24
25 lease at the expiration of the secondary term of such lease; or if, at the 25
26 expiration of the secondary term, the Lessee or the Unit Operator is then en- 26
27 gaged in bona fide drilling or reworking operations on some part of the lands 27
28 embraced in such lease, the same, as to all lands embraced therein, shall 28
29 remain in full force and effect so long as such operations are being diligently 29
30 prosecuted, and if they result in the production of oil or gas, said lease 30
31 shall continue in full force and effect as to all of the lands embraced 31
32 therein, so long thereafter as oil or gas in paying quantities is being produced 32
33 from any portion of said lands. 33

1 19. COVENANTS RUN WITH LAND. The covenants herein shall be con- 1
2 strued to be covenants running with the land with respect to the interest of 2
3 the parties hereto and their successors in interest until this agreement 3
4 terminates, and any grant, transfer or conveyance, of interest in land or 4
5 leases subject hereto shall be and hereby is conditioned upon the assumption 5
6 of all privileges and obligations hereunder by the grantee, transferee, or 6
7 other successor in interest. No assignment or transfer of any working interest, 7
8 royalty, or other interest subject hereto shall be binding upon Unit Operator 8
9 until the first day of the calendar month after Unit Operator is furnished with 9
10 the original, photostatic, or certified copy of the instrument of transfer. 10

11 20. EFFECTIVE DATE AND TERM. This agreement shall become effective 11
12 upon approval by the Director and the Land Commissioner or their duly authori- 12
13 zed representatives as of the date of approval by the Director and shall 13
14 terminate five (5) years from said effective date unless: 14

15 (a) Such date of expiration is extended by the Director and the Land 15
16 Commissioner, or 16

17 (b) it is reasonably determined prior to the expiration of the 17
18 fixed term or any extension thereof that the unitized land is incapable of 18
19 production of unitized substances in paying quantities in the formations 19
20 tested hereunder and after notice of intention to terminate the agreement on 20
21 such ground is given by the Unit Operator to all parties in interest at their 21
22 last known addresses, the agreement is terminated with the approval of the 22
23 Director and Land Commissioner, or 23

24 (c) a valuable discovery of unitized substances has been made or 24
25 accepted on unitized land during said initial term or any extension thereof, 25
26 in which event the agreement shall remain in effect for such term and so long 26
27 as unitized substances can be produced in quantities sufficient to pay for the 27
28 cost of producing same from wells on unitized land within any participating 28
29 area established hereunder and, should production cease, so long thereafter 29
30 as diligent operations are in progress for the restoration of production or 30
31 discovery of new production and so long thereafter as the unitized substances 31
32 so discovered can be produced as aforesaid, or 32

33 (d) it is terminated as heretofore provided in this agreement. 33

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

5 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director 5
6 is hereby vested with authority to alter or modify from time to time in his 6
7 discretion the quantity and rate of production under this agreement when such 7
8 quantity and rate is not fixed pursuant to Federal or State law or does not 8
9 conform to any state-wide voluntary conservation or allocation program, which 9
10 is established, recognized, and generally adhered to by the majority of 10
11 operators in such State, such authority being hereby limited to alteration or 11
12 modification in the public interest, the purpose thereof and the public 12
13 interest to be served thereby to be stated in the order of alteration or modi- 13
14 fication. Without regard to the foregoing, the Director is also hereby vested 14
15 with authority to alter or modify from time to time in his discretion the rate 15
16 of prospecting and development and the quantity and rate of production under 16
17 this agreement when such alteration or modification is in the interest of 17
18 attaining the conservation objectives stated in this agreement and is not in 18
19 violation of any applicable Federal or State law. 19

20 Powers in this section vested in the Director shall only be exercised 20
21 after notice to Unit Operator and opportunity for hearing to be held not less 21
22 than 15 days from notice. 22

23 22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the 23
24 working interest owners, nor any of them, shall be subject to any forfeiture, 24
25 termination or expiration of any right hereunder or under any leases or con- 25
26 tracts subject hereto, or to any penalty or liability on account of delay or 26
27 failure in whole or in part to comply with any applicable provisions thereof 27
28 to the extent that the said Unit Operator or the working interest owners, or 28
29 any of them, are hindered, delayed or prevented from complying therewith by 29
30 reason of failure of the Unit Operator to obtain, in the exercise of due dili- 30
31 gence, the concurrence of proper representatives of the United States and 31
32 proper representatives of the State of New Mexico in and about any matters or 32
33 things concerning which it is required herein that such concurrence be ob- 33
34 tained. The parties hereto, including the State Commission, agree that all 34

1 powers and authority vested in the State Commission in and by any provisions 1
2 of this agreement are vested in the State Commission and shall be exercised by 2
3 it pursuant to the provisions of the laws of the State of New Mexico and sub- 3
4 ject in any case to appeal or judicial review as may now or hereafter be 4
5 provided by the laws of the State of New Mexico. 5

6 23. APPEARANCES. Unit Operator shall, after notice to other parties 6
7 affected, have the right to appear for and on behalf of any and all interests 7
8 affected hereby before the Department of the Interior, the Commissioner of 8
9 Public Lands of the State of New Mexico and the New Mexico Oil Conservation 9
10 Commission and to appeal from orders issued under the regulations of said 10
11 Department, the State Commission or Land Commissioner or to apply for relief 11
12 from any of said regulations or in any proceedings relative to operations be- 12
13 fore the Department of the Interior, the Land Commissioner, or State Com- 13
14 mission or any other legally constituted authority; provided, however, that 14
15 any other interested party shall also have the right at his own expense to 15
16 be heard in any such proceeding. 16

17 24. NOTICES. All notices, demands or statements required hereunder 17
18 to be given or rendered to the parties hereto shall be deemed fully given if 18
19 given in writing and personally delivered to the party or sent by postpaid 19
20 registered or certified mail, addressed to such party or parties at their re- 20
21 spective addresses set forth in connection with the signatures hereto or to 21
22 the ratification or consent hereof or to such other address as any such party 22
23 may have furnished in writing to party sending the notice, demand or statement. 23

24 25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement con- 24
25 tained shall be construed as a waiver by any party hereto of the right to 25
26 assert any legal or constitutional right or defense as to the validity or 26
27 invalidity of any law of the State wherein said unitized lands are located, or 27
28 of the United States, or regulations issued thereunder in any way affecting 28
29 such party, or as a waiver by any such party of any right beyond his or its 29
30 authority to waive. 30

31 26. UNAVOIDABLE DELAY. All obligations under this agreement re- 31
32 quiring the Unit Operator to commence or continue drilling or to operate on or 32
33 produce unitized substances from any of the lands covered by this agreement 33
34 shall be suspended while, but only so long as, the Unit Operator despite the 34

1 exercise of due care and diligence is prevented from complying with such 1
2 obligations, in whole or in part, by strikes, acts of God, Federal, State, or 2
3 municipal law or agencies, unavoidable accidents, uncontrollable delays in 3
4 transportation, inability to obtain necessary materials in open market, or 4
5 other matters beyond the reasonable control of the Unit Operator whether 5
6 similar to matters herein enumerated or not. 6

7 27. NONDISCRIMINATION. In connection with the performance of work 7
8 under this agreement, the operator agrees to comply with all of the provisions 8
9 of section 301(1) to (7), inclusive, of Executive Order 10925 (26 F.R. 1977), 9
10 which are hereby incorporated by reference in this agreement. 10

11 28. LOSS OF TITLE. In the event title to any tract of unitized 11
12 land shall fail and the true owner cannot be induced to join in this unit 12
13 agreement, such tract shall be automatically regarded as not committed hereto 13
14 and there shall be such readjustment of future costs and benefits as may be 14
15 required on account of the loss of such title. In the event of a dispute as 15
16 to title as to any royalty, working interest, or other interests subject 16
17 thereto, payment or delivery on account thereof may be withheld without lia- 17
18 bility for interest until the dispute is finally settled; provided, that, as 18
19 to Federal and State land or leases, no payments of funds due the United States 19
20 or the State of New Mexico should be withheld, but such funds of the United 20
21 States shall be deposited as directed by the Supervisor and such funds of the 21
22 State of New Mexico shall be deposited as directed by the Land Commissioner to 22
23 be held as unearned money pending final settlement of the title dispute, and 23
24 then applied as earned or returned in accordance with such final settlement. 24

25 Unit Operator as such is relieved from any responsibility for any 25
26 defect or failure of any title hereunder. 26

27 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any sub- 27
28 stantial interest in a tract within the unit area fails or refuses to sub- 28
29 scribe or consent to this agreement, the owner of the working interest in that 29
30 tract may withdraw said tract from this agreement by written notice to the 30
31 Director, the Land Commissioner, and the Unit Operator prior to the approval of 31
32 this agreement by the Director. Any oil or gas interests in lands within the 32
33 unit area not committed hereto prior to submission of this agreement for final 33
34 approval may thereafter be committed hereto by the owner or owners thereof 34

1 subscribing or consenting to this agreement, and, if the interest is a working 1
2 interest, by the owner of such interest also subscribing to the unit operating 2
3 agreement. After operations are commenced hereunder, the subsequent joinder, 3
4 as provided in this section, by a working interest owner is subject to such 4
5 requirements or approvals, if any, pertaining to such joinder, as may be pro- 5
6 vided for in the unit operating agreement. After final approval hereof joinder 6
7 by a non-working interest owner must be consented to in writing by the working 7
8 interest owner committed hereto and responsible for the payment of any benefits 8
9 that may accrue hereunder in behalf of such non-working interest. Joinder by 9
10 any owner of a non-working interest, at any time, must be accompanied by ap- 10
11 propriate joinder by the owner of the corresponding working interest in order 11
12 for the interest to be regarded as committed hereto. Joinder to the unit 12
13 agreement by a working-interest owner, at any time must be accompanied by ap- 13
14 propriate joinder to the unit operating agreement, if more than one committed 14
15 working-interest owner is involved, in order for the interest to be regarded 15
16 as committed to this unit agreement. Except as may otherwise herein be pro- 16
17 vided subsequent joinders to this agreement shall be effective as of the first 17
18 day of the month following the filing with the Supervisor, the Land Commission- 18
19 er and the State Commission of duly executed counterparts of all or any papers 19
20 necessary to establish effective commitment of any tract to this agreement 20
21 unless objection to such joinder is duly made within 60 days by the Director, 21
22 Land Commissioner, or State Commission. 22

23 30. COUNTERPARTS. This agreement may be executed in any number of 23
24 counterparts no one of which needs to be executed by all parties or may be 24
25 ratified or consented to by separate instrument in writing specifically refer- 25
26 ring hereto and shall be binding upon all those parties who have executed such 26
27 a counterpart, ratification, or consent hereto with the same force and effect 27
28 as if all such parties had signed the same document and regardless of whether 28
29 or not it is executed by all other parties owning or claiming an interest in 29
30 the lands within the above-described unit area. 30

31 31. SURRENDER. Nothing in this agreement shall prohibit the exer- 31
32 cise by any working interest owner of the right to surrender vested in such 32
33 party in any lease, sub-lease, or operating agreement as to all or any part of 33
34 the lands covered thereby, provided that each party who will or might acquire 34

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 then included within a participating area.

If the fee owner of the unitized substances does not execute this agreement and the unit operating agreement as a working interest owner or again lease such lands as above provided with respect to each existing participating area, within six (6) months after any such surrender or forfeiture, such fee owner shall be deemed to have waived the right to execute the unit operating

1 agreement or lease such lands as to each such participating area, and to have 1
2 agreed, in consideration for the compensation hereinafter provided, that 2
3 operations hereunder as to any such participating area or areas shall not be 3
4 affected by such surrender. 4

5 For any period the working interest in any lands are not expressly 5
6 committed to the unit operating agreement as the result of any such surrender 6
7 or forfeiture, the benefits and obligations of operations accruing to such 7
8 lands under this agreement and the unit operating agreement shall be shared 8
9 by the remaining owners of unitized working interests in accordance with their 9
10 respective participating working interest ownerships in any such participating 10
11 area or areas, and such owners of working interests shall compensate the fee 11
12 owner of unitized substances in such lands by paying sums equal to the rentals, 12
13 minimum royalties, and royalties applicable to such lands under the lease in 13
14 effect when the lands were unitized, as to such participating area or areas. 14

15 Upon commitment of a working interest to this agreement and the unit 15
16 operating agreement as provided in this section, an appropriate accounting 16
17 and settlement shall be made, to reflect the retroactive effect of the com- 17
18 mitment, for all benefits accruing to or payments and expenditures made or 18
19 incurred on behalf of such surrendered working interest during the period 19
20 between the date of surrender and the date of recommitment, and payment of any 20
21 moneys found to be owing by such an accounting shall be made as between the 21
22 parties then signatory to the unit operating agreement and this agreement 22
23 within thirty (30) days after the recommitment. The right to become a party 23
24 to this agreement and the unit operating agreement as a working interest owner 24
25 by reason of a surrender or forfeiture as provided in this section shall not 25
26 be defeated by the nonexistence of a unit operating agreement and in the event 26
27 no unit operating agreement is in existence and a mutually acceptable agreement 27
28 between the proper parties thereto cannot be consummated, the Supervisor may 28
29 prescribe such reasonable and equitable agreement as he deems warranted under 29
30 the circumstances. 30

31 Nothing in this section shall be deemed to limit the right of joinder 31
32 or subsequent joinder to this agreement as provided elsewhere in this agreement 32
33 The exercise of any right vested in a working interest owner to reassign such 33
34 working interest to the party from whom obtained shall be subject to the same 34

conditions as set forth in this section in regard to the exercise of a right to surrender.

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

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

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

UNIT OPERATOR AND WORKING INTEREST OWNER

Date: November 20, 1962

THE PURE OIL COMPANY

By *E. C. Hancock*
Division Manager,
Southern Producing Division

Address: First City National Bank Bldg.
Houston 2, Texas

APPROVED	
TRADE	<i>B. B. Adams</i>
FORM	
DESCRIPTION	<i>13</i>
<i>m. B. m.</i>	

WORKING INTEREST OWNERS

Date: January 7, 1963

ATTEST:

Jay Nelson
Asst Secretary

CONTINENTAL OIL COMPANY

By John L. Hill
~~Regional Manager~~

Agent & Attorney-in-Fact

Address: 1710 Fair Building

Fort Worth 2, Texas

TEXACO INC.

By J. Markley
Agent & Attorney-in-Fact

Address: P. O. Box 3109

Midland, Texas

PAN AMERICAN PETROLEUM CORPORATION

By Sammy
~~Agent & Attorney-in-Fact~~

Address: P. O. Box 1410

Oil & Gas Building

Fort Worth, Texas

RICHARDSON OILS, INC

By J. P. Luman
Vice President

Address: 1211 Ft. Worth Ntl. Bk. Bldg.

Fort Worth, Texas

DELBASIN CORPORATION

By Donald H. Luman
President

Address: 1211 Ft. Worth Ntl. Bk. Bldg.

Fort Worth, Texas

TENNECO OIL COMPANY

By _____

Address: _____

HUMBLE OIL & REFINING COMPANY

By _____

Address: _____

Date: Nov 30 1962

PROVED AS TO

ms BEH

m JSP

Date: December 13, 1962

ATTEST:

J. H. Smith
Assistant Secretary

Date: November 26, 1962

ATTEST:

Marguerite Wight
Secretary

Date: November 26, 1962

ATTEST:

J. P. Luman
Secretary

Date: _____

ATTEST:

Secretary

Date: _____

ATTEST:

Secretary

APPROVED

TIDEWATER OIL COMPANY

Date: December 26, 1962

By *J.B. Miller*
Vice-President

ATTEST: *A. J. Zimmerman*
Asst. Secretary

Address: P.O. Box 1404
Houston 1, Texas

Date: November 26, 1962

Perry R. Bass
Perry R. Bass
Address: 1211 Ft. Worth Ntl. Bk. Bldg.
Fort Worth, Texas

Date: _____

Boyd Laughlin
Address: _____

Date: _____

George T. Abell
Address: _____

Date: _____

R. C. Hart
Address: _____

Date: _____

M. A. Dragoo
Address: _____

Date: _____

Saul A. Yager
Address: _____

Date: _____

Barbara Ann Witten
Address: _____

Date: _____

Maurice Hirsch

Address: _____

Date: _____

Address: _____

Date: _____

Address: _____

Date: _____

Address: _____

Date: _____

Address: _____

[illegible]

The foregoing instrument was acknowledged before me this 20th day of November, 1962, by C. W. Hancock, Division Manager of the Southern Producing Division of THE PURE OIL COMPANY, a Corporation, on behalf of said Corporation.

My Commission Expires:
June 1, 1963

Jo Ann Brewer JO ANN BREWER
Notary Public

STATE OF TEXAS)
)
COUNTY OF TARRANT) ss

The foregoing instrument was acknowledged before me this 4th day of January, 1963, by , Agent & Attorney-in-Fact of CONTINENTAL OIL COMPANY, a Corporation, on behalf of said Corporation.

My Commission Expires:
6-1-63

Barbara Lee Nelson
Notary Public

STATE OF TEXAS)
)
COUNTY OF MIDLAND) ss

The foregoing instrument was acknowledged before me this 30th day of November, 1962, by J. F. Rogers, Agent & Attorney-in-Fact of TEXACO INC., a Corporation, on behalf of said Corporation.

My Commission Expires:
June 1, 1963

Betty L. Davis 34771
Notary Public

STATE OF TEXAS)
)
COUNTY OF TARRANT) ss

The foregoing instrument was acknowledged before me this 3rd day of December, 1962, by D. B. MASON, JR., ~~Agent &~~ Attorney-in-Fact of PAN AMERICAN PETROLEUM CORPORATION, a Corporation, on behalf of said Corporation.

My Commission Expires:
June 1, 1963

Velma B. Craft VELMA B. CRAFT
Notary Public

STATE OF TEXAS)
) ss
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me this 26 day of November, 1962, by W. P. Duncan, Jr., Vice President of RICHARDSON OILS, INC., a Corporation, on behalf of said Corporation.

My Commission Expires:
June 1, 1963

Joan Barnhart
Notary Public

STATE OF TEXAS)
) ss
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me this 26 day of November, 1962, by Howard W. Jennings, President of DELBASIN CORPORATION, a Corporation, on behalf of said Corporation.

My Commission Expires:
June 1, 1963

Joan Barnhart
Notary Public

STATE OF _____)
) ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____, _____ of TENNECO OIL COMPANY, a Corporation, on behalf of said Corporation.

My Commission Expires:

Notary Public

STATE OF _____)
) ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by _____, _____ of HUMBLE OIL & REFINING COMPANY, a Corporation, on behalf of said Corporation.

My Commission Expires:

Notary Public

STATE OF TEXAS)
COUNTY OF HARRIS) ss

The foregoing instrument was acknowledged before me this 26th day of December, 1962, by E. B. MILLER, JR., Vice-President of TIDEWATER OIL COMPANY, a Corporation, on behalf of said Corporation.

Mally Pittman
Notary Public

My Commission Expires:
June 1, 1963

STATE OF TEXAS)
COUNTY OF TARRANT) ss

The foregoing instrument was acknowledged before me this 26 day of November, 1962, by PERRY R. BASS.

Joan Barnhart
Notary Public

My Commission Expires:
June 1, 1963

STATE OF TEXAS)
COUNTY OF MIDLAND) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by BOYD LAUGHLIN.

My Commission Expires: _____
Notary Public

STATE OF TEXAS)
COUNTY OF MIDLAND) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by GEORGE T. ABELL.

My Commission Expires: _____
Notary Public

STATE OF TEXAS)
) ss
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by R. C. HART.

My Commission Expires: _____

Notary Public

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by M. A. DRAGOO.

My Commission Expires: _____

Notary Public

STATE OF OKLAHOMA)
) ss
COUNTY OF TULSA)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by SAUL A. YAGER.

My Commission Expires: _____

Notary Public

STATE OF _____)
) ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by BARBARA ANN WITTEN.

My Commission Expires: _____

Notary Public

STATE OF TEXAS)
) ss
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before me this _____ day of _____, 1962, by MAURICE HIRSCH.

My Commission Expires: _____

Notary Public