

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION

OF THE  
SALTYS UNIT AREA  
COUNTY OF GRANT  
STATE OF NEW MEXICO

BEFORE EXAMINER QUINTANA	
OIL CONSERVATION DIVISION	
<i>Marshall</i>	EXHIBIT NO. <u>1</u>
<i>R Young</i>	CASE NO. <u>8655</u>

No. \_\_\_\_\_

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

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

WHEREAS the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 19-10-45,46,47 N.M. Statutes 1978 Annotated) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interest of the State of New Mexico; and

WHEREAS, the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division", is authorized by an act of the Legislature (Chapter 70 and 71, New Mexico Statutes 1978 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Saltys Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

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

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

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

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

1 Township 25 South, Range 14 West, N.M.P.M. 1

2 Sec. 19: All 2  
3 Sec. 20: All 3  
4 Sec. 29: All 4  
5 Sec. 30: All 5  
6

7 Township 25 South, Range 15 West, N.M.P.M. 7

8 Sec. 13: All Sec. 25: All 8  
9 Sec. 14: All Sec. 26: All 9  
10 Sec. 15: All Sec. 27: All 10  
11 Sec. 16: All Sec. 28: All 11  
12 Sec. 17: All Sec. 29: All 12  
13 Sec. 18: All Sec. 30: All 13  
14 Sec. 19: All Sec. 31: All 14  
15 Sec. 20: All Sec. 32: All 15  
16 Sec. 21: All Sec. 33: All 16  
17 Sec. 22: All Sec. 34: All 17  
18 Sec. 23: All Sec. 35: All 18  
19 Sec. 24: All Sec. 36: All 19  
20

21 Township 26 South, Range 15 West, N.M.P.M. 21

22  
23 Sec. 2: All Sec. 6: All 23  
24 Sec. 3: All Sec. 7: All 24  
25 Sec. 4: All Sec. 8: All 25  
26 Sec. 5: All Sec. 9: All 26  
27 Sec. 10: All 27  
28

29 Township 26 South, Range 16 West, N.M.P.M. 29

30  
31 Sec. 1: All 31  
32  
33

34 Contains 23,822.78 acres, more or less 34  
35  
36  
37

38 Exhibit "A" shows, in addition to the boundary of the unit area, the 38  
39 boundaries and identity of tracts and leases in said area to the extent known 39  
40 to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the 40  
41 extent known to the Unit Operator, the acreage, percentage, and kind of ownership 41  
42 of oil and gas interests in all lands in the unit area. However, nothing herein 42  
43 or in Exhibits "A" and "B" shall be construed as a representation by any party 43  
44 hereto as to the ownership of any interest other than such interest or interests 44  
45 as are shown in the Exhibits as owned by such party. Exhibits "A" and "B" shall be 45  
46 revised by the Unit Operator whenever changes in the Unit area or in the ownership 46  
47 interests in the individual tracts render such revision necessary, or when 47  
48 requested by the Authorized Officer, hereinafter referred to as "AO", or when 48  
49 requested by the Commissioner of Public Lands of the State of New Mexico, herein- 49  
50 after referred to as "Land Commissioner", and not less than four copies of the 50  
51 revised Exhibits shall be filed with the proper Bureau of Land Management office 51  
52 and (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy 52  
53 with the New Mexico Oil Conservation Division of the Energy and Minerals Depart- 53  
54 ment, hereinafter referred to as "Division". 54  
55

56 The above-described unit area shall when practicable be expanded to include 56  
57 therein any additional lands or shall be contracted to exclude lands whenever 57  
58 such expansion or contraction is deemed to be necessary or advisable to conform 58  
59 with the purposes of this agreement. Such expansion or contraction shall be 59  
60 effected in the following manner: 60  
61

62 (a) Unit Operator, on its own motion (after preliminary concurrence by the 62  
63 AO), or on demand of the AO, or the Land Commissioner (after preliminary concu- 63  
64 rrence by the AO and the Land Commissioner) shall prepare a notice of proposed 64  
65 expansion or contraction describing the contemplated changes in the boundaries of 65  
66 the unit area, the reasons therefore, any plans for additional drilling, and the 66  
67 proposed effective date of the expansion or contraction, preferably the first day 67  
68 of a month subsequent to the date of notice. 68  
69

70 (b) Said notice shall be delivered to the proper Bureau of Land Management 70  
71 office, the Land Commissioner and the Division, and copies thereof mailed to the 71  
72 last known address of each working interest owner, lessee and lessor whose 72  
73 interests are affected, advising that 3 days will be allowed for submission to the 73  
74 Unit Operator of any objections. 74

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

8 (d) After due consideration of all pertinent information, the expansion or 8  
9 contraction shall, upon approval by the AO, the Land Commissioner and the 9  
10 Division, become effective as of the date prescribed in the notice thereof or such 10  
11 other appropriate date. 11  
12

13 (e) Notwithstanding any prior elimination under the "Drilling to Discovery" 13  
14 section, all legal subdivisions of lands (i.e., 40 acres by Government survey or 14  
15 its nearest lot or tract equivalent; in instances of irregular surveys, unusually 15  
16 large lots or tracts shall be considered in multiples of 40 acres or the nearest 16  
17 aliquot equivalent thereof), no parts of which are entitled to be in a partici- 17  
18 pating area on or before the fifth anniversary of the effective date of the first 18  
19 initial participating area established under this unit agreement, shall be 19  
20 eliminated automatically from this agreement, effective as of said fifth anni- 20  
21 versary, and such lands shall no longer be a part of the unit area and shall no 21  
22 longer be subject to this agreement, unless diligent drilling operations are in 22  
23 progress on unitized lands not entitled to participation on said fifth anniversary, 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' time 25  
26 elapsing between the completion of one such well and the commencement of the next 26  
27 such well. All legal subdivisions of lands not entitled to be in a participating 27  
28 area within 10 years after the effective date of the first initial participating 28  
29 area approved under this agreement shall be automatically eliminated from this 29  
30 agreement as of said tenth anniversary. The Unit Operator shall, within 90 days 30  
31 after the effective date of any elimination hereunder, describe the area so elimi- 31  
32 nated to the satisfaction of the AO and Land Commissioner and promptly notify all 32  
33 parties in interest. All lands reasonably proved productive of unitized substances 33  
34 in paying quantities by diligent drilling operations after the aforesaid 5-year 34  
35 period shall become participating in the same manner as during said first 5-year 35  
36 period. However, when such diligent drilling operations cease, all non-participat- 36  
37 ing lands not then entitled to be in a participating area shall be automatically 37  
38 eliminated effective as of the 91st day thereafter. 38  
39

40 Any expansion of the unit area pursuant to this section which embraces lands 40  
41 theretofore eliminated pursuant to this subsection 2(e) shall not be considered 41  
42 automatic commitment or recommitment of such lands. If conditions warrant 42  
43 extension of the 10-year period specified in this subsection, a single extension of 43  
44 not to exceed 2 years may be accomplished by consent of the owners of 90% of the 44  
45 working interests in the current non-participating unitized lands and the owners of 45  
46 60% of the basic royalty interests (exclusive of the basic royalty interests of the 46  
47 United States) in non-participating unitized lands with approval of the AO and the 47  
48 Land Commissioner provided such extension application is submitted not later than 48  
49 60 days prior to the expiration of said 10-year period. 49  
50

51 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land now or hereafter committed 51  
52 to this agreement shall constitute land referred to herein as "unitized land" or 52  
53 "land subject to this agreement." All oil and gas in any and all formations of the 53  
54 unitized land are unitized under the terms of this agreement and herein are called 54  
55 "unitized substances." 55  
56

57 4. UNIT OPERATOR. Marshall R. Young Oil Co. is 57  
58 hereby designated as Unit Operator and by signature hereto as Unit Operator agrees 58  
59 and consents to accept the duties and obligations of Unit Operator for the dis- 59  
60 covery, development, and production of unitized substances as herein provided. 60  
61 Whenever reference is made herein to the Unit Operator, such reference means the 61  
62 Unit Operator acting in that capacity and not as an owner of interest in unitized 62  
63 substances, and the term "working interest owner" when used herein shall include 63  
64 or refer to Unit Operator as the owner of a working interest only when such an 64  
65 interest is owned by it. 65

1 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right 1  
2 to resign at any time prior to the establishment of a participating area or areas 2  
3 hereunder, but such resignation shall not become effective so as to release Unit 3  
4 Operator from the duties and obligations of Unit Operator and terminate Unit 4  
5 Operator's rights as such for a period of 6 months after notice of intention to 5  
6 resign has been served by Unit Operator on all working interest owners and the AO 6  
7 and the Land Commissioner and the Division, and until all wells then drilled 7  
8 hereunder are placed in a satisfactory condition for suspension or abandonment, 8  
9 whichever is required by the AO as to Federal lands and the Division as to State 9  
10 and Fee lands, unless a new Unit Operator shall have been selected and approved and 10  
11 shall have taken over and assumed the duties and obligations of Unit Operator prior 11  
12 to the expiration of said period. 12  
13

14 Unit Operator shall have the right to resign in like manner and subject to 14  
15 like limitations as above provided at any time after a participating area estab- 15  
16 lished hereunder is in existence, but in all instances of resignation or removal, 16  
17 until a successor Unit Operator is selected and approved as hereinafter provided, 17  
18 the working interest owners shall be jointly responsible for performance of the 18  
19 duties of Unit Operator, and shall not later than 30 days before such resignation 19  
20 or removal becomes effective appoint a common agent to represent them in any action 20  
21 to be taken hereunder. 21  
22

23 The resignation of Unit Operator shall not release Unit Operator from any 23  
24 liability for any default by it hereunder occurring prior to the effective date 24  
25 of its resignation. 25  
26

27 The Unit Operator may, upon default or failure in the performance of its 27  
28 duties or obligations hereunder, be subject to removal by the same percentage vote 28  
29 of the owners of working interests as herein provided for the selection of a new 29  
30 Unit Operator. Such removal shall be effective upon notice thereof to the AO and 30  
31 the Land Commissioner. 31  
32

33 The resignation or removal of Unit Operator under this agreement shall not 33  
34 terminate its right, title, or interest as the owner of a working interest or other 34  
35 interest in unitized substances, but upon the resignation or removal of Unit 35  
36 Operator becoming effective, such Unit Operator shall deliver possession of all 36  
37 wells, equipment, materials, and appurtenances used in conducting the unit opera- 37  
38 tions to the new duly qualified successor Unit Operator or to the common agent, if 38  
39 no such new Unit Operator is selected, elected, to be used for the purpose of 39  
40 conducting unit operations hereunder. Nothing herein shall be construed as 40  
41 authorizing removal of any material, equipment, or appurtenances needed for the 41  
42 preservation of any wells. 42  
43

44 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his 44  
45 or its resignation as Unit Operator or shall be removed as hereinabove 45  
46 provided, or a change of Unit Operator is negotiated by the working interest 46  
47 owners, the owners of the working interests according to their respective acreage 47  
48 interests in all unitized land shall, pursuant to the Approval of the Parties 48  
49 requirements of the unit operating agreement, select a successor Unit Operator. 49  
50 Such selection shall not become effective until: 50  
51

52 (a) a Unit Operator so selected shall accept in writing the duties and 52  
53 responsibilities of Unit Operator, and 53  
54

55 (b) the selection shall have been approved by the AO and approved by the Land 55  
56 Commissioner. 56  
57

58 If no successor Unit Operator is selected and qualified as herein provided, 58  
59 the AO and the Land Commissioner, at their election may declare this unit agreement 59  
60 terminated. 60  
61

62 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator 62  
63 is not the sole owner of working interests, costs and expenses incurred by Unit 63  
64 Operator in conducting unit operations hereunder shall be paid and apportioned 64  
65 among and borne by the owners of working interests, all in accordance with the 65  
66 agreement or agreements entered into by and between the Unit Operator and the 66  
67 owners of working interests, whether one or more, separately or collectively. 67  
68 Any agreement or agreements entered into between the working interest owners and 68

1 the Unit Operator as provided in this section, whether one or more, are herein 1  
2 referred to as the "unit operating agreement." Such unit operating agreement shall 2  
3 also provide the manner in which the working interest owners shall be entitled to 3  
4 receive their respective proportionate and allocated share of the benefits accruing 4  
5 hereto in conformity with their underlying operating agreements, leases, or other 5  
6 independent contracts, and such other rights and obligations as between Unit Oper- 6  
7 ator and the working interest owners as may be agreed upon by Unit Operator and the 7  
8 working interest owners; however, no such unit operating agreement shall be deemed 8  
9 either to modify any of the terms and conditions of this unit agreement or to 9  
10 relieve the Unit Operator of any right or obligation established under this unit 10  
11 agreement, and in case of any inconsistency or conflict between this agreement 11  
12 and the unit operating agreement, this agreement shall govern. Two copies of any 12  
13 unit operating agreement executed pursuant to this section shall be filed in the 13  
14 proper Bureau of Land Management office and one true copy with the Land Commis- 14  
15 sioner, and one true copy with the Division prior to approval of this unit 15  
16 agreement. 16  
17

18 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifi- 18  
19 cally provided herein, the exclusive right, privilege, and duty of exercising any 19  
20 and all rights of the parties hereto which are necessary or convenient for pros- 20  
21 pecting for, producing, storing, allocating, and distributing the unitized 21  
22 substances are hereby delegated to and shall be exercised by the Unit Operator as 22  
23 herein provided. Acceptable evidence of title to said rights shall be deposited 23  
24 with Unit Operator and, together with this agreement, shall constitute and define 24  
25 the rights, privileges, and obligations of Unit Operator. Nothing herein, however, 25  
26 shall be construed to transfer title to any land or to any lease or operating 26  
27 agreement, it being understood that under this agreement the Unit Operator, in its 27  
28 capacity as Unit Operator, shall exercise the rights of possession and use vested 28  
29 in the parties hereto only for the purposes herein specified. 29  
30

31 9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, the 31  
32 Unit Operator shall commence to drill an adequate test well at a location approved 32  
33 by the AO, if on Federal land, or by the Land Commissioner, if on State land, and 33  
34 by the Division if on Fee land, unless on such effective date a well is being 34  
35 drilled in conformity with the terms hereof, and thereafter continue such drilling 35  
36 diligently until the base of the El Paso Formation 36  
37 has been tested or until at a lesser depth unitized substances shall be discovered 37  
38 which can be produced in paying quantities (to-wit: quantities sufficient to repay 38  
39 the costs of drilling, completing, and producing operations, with a reasonable 39  
40 profit) or the Unit Operator shall at any time establish to the satisfaction of the 40  
41 AO if on Federal land, or the Land Commissioner if on State land, or the Division 41  
42 if located on Fee land, that further drilling of said well would be unwarranted or 42  
43 impracticable, provided, however, that Unit Operator shall not in any event be 43  
44 required to drill said well to a depth in excess of 10,000 feet. Until the 44  
45 discovery of unitized substances capable of being produced in paying quantities, 45  
46 the Unit Operator shall continue drilling one well at a time, allowing not more 46  
47 than 6 months between the completion of one well and the commencement of drilling 47  
48 operations for the next well, until a well capable of producing unitized substances 48  
49 in paying quantities is completed to the satisfaction of the AO if it be on Federal 49  
50 land or of the Land Commissioner if on State land, or the Division if on Fee land, 50  
51 or until it is reasonably proved that the unitized land is incapable of producing 51  
52 unitized substances in paying quantities in the formations drilled hereunder. 52  
53 Nothing in this section shall be deemed to limit the right of the Unit Operator to 53  
54 resign as provided in Section 5, hereof, or as requiring Unit Operator to commence 54  
55 or continue any drilling during the period pending such resignation becoming 55  
56 effective in order to comply with the requirements of this section. 56  
57

58 The AO and Land Commissioner may modify any of the drilling requirements of 58  
59 this section by granting reasonable extensions of time when, in their opinion, such 59  
60 action is warranted. 60  
61

62 Upon failure to commence any well as provided for in this section within the 62  
63 time allowed, prior to the establishment of a participating area, including any 63  
64 extension of time granted by the AO and the Land Commissioner, this agreement will 64  
65 automatically terminate. Upon failure to continue drilling diligently any well 65  
66 commenced hereunder, the AO and the Land Commissioner may, after 15 days notice to 66  
67 the Unit Operator, declare this unit agreement terminated. The parties to this 67  
68 agreement may not initiate a request to voluntarily terminate this agreement during 68  
69 the first 6 months of its term unless at least one obligation well has been drilled 69  
70 in accordance with the provisions of this section. 70

1 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after com- 1  
2 pletion of a well capable of producing unitized substances in paying quantities, 2  
3 the Unit Operator shall submit for the approval of the AO, the Land Commissioner 3  
4 and Division, an acceptable plan of development and operation for the unitized land 4  
5 which, when approved by the AO, the Land Commissioner and Division, shall 5  
6 constitute the further drilling and development obligations of the Unit Operator 6  
7 under this agreement for the period specified therein. Thereafter, from time to 7  
8 time before the expiration of any existing plan, the Unit Operator shall submit for 8  
9 the approval of the AO, the Land Commissioner and Division a plan for an additional 9  
10 specified period for the development and operation of the unitized land. 10  
11 Subsequent plans should normally be filed on a calendar year basis not later than 11  
12 March 1 each year. Any proposed modification or addition to the existing plan 12  
13 should be filed as a supplement to the plan. 13

14  
15 Any plan submitted pursuant to this section shall provide for the timely 15  
16 exploration of the unitized area, and for the diligent drilling necessary for 16  
17 determination of the area or areas capable of producing unitized substances in 17  
18 paying quantities in each and every productive formation. This plan shall be as 18  
19 complete and adequate as the AO, the Land Commissioner and Division may determine 19  
20 to be necessary for timely development and proper conservation of the oil and gas 20  
21 resources of the unitized area and shall: 21  
22

23 (a) specify the number and locations of any wells to be drilled and the 23  
24 proposed order and time for such drilling; and 24  
25

26 (b) Provide a summary of operations and production for the previous year. 26  
27

28 Plans shall be modified or supplemented when necessary to meet changed condi- 28  
29 tions or to protect the interests of all parties to this agreement. Reasonable 29  
30 diligence shall be exercised in complying with the obligations of the approved plan 30  
31 of development and operation. The AO and the Land Commissioner are authorized to 31  
32 grant a reasonable extension of the 6 month period herein prescribed for submission 32  
33 of an initial plan of development and on operation where such action is justified 33  
34 because of unusual conditions or circumstances. 34  
35

36 After completion of a well capable of producing unitized substances in paying 36  
37 quantities, no further wells, except such as may be necessary to afford protection 37  
38 against operations not under this agreement and such as may be specifically 38  
39 approved by the AO, the Land Commissioner and Division, shall be drilled except in 39  
40 accordance with an approved plan of development and operation. 40  
41

42 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of pro- 42  
43 ducing unitized substances in paying quantities, or as soon thereafter as required 43  
44 by the AO, the Land Commissioner or the Division, the Unit Operator shall submit for 44  
45 approval by the AO, the Land Commissioner and Division, a schedule, based on subdivi- 45  
46 sions of the public-land survey or aliquot parts thereof, of all land then 46  
47 regarded as reasonably proved to be productive of unitized substances in paying 47  
48 quantities. These lands shall constitute a participating area on approval of the 48  
49 AO, the Land Commissioner and Division, effective as of the date of completion of 49  
50 such well or the effective date of this unit agreement, whichever is later. The 50  
51 acreages of both Federal and non-Federal lands shall be based upon appropriate compu- 51  
52 tations from the courses and distances shown on the last approved public-land survey 52  
53 as of the effective date of each initial participating area. The schedule shall also 53  
54 set forth the percentage of unitized substances to be allocated, as provided in 54  
55 Section 12 to each committed tract in the participating area so established, and 55  
56 shall govern the allocation of production commencing with the effective date of the 56  
57 participating area. A different participating area shall be established for each 57  
58 separate pool or deposit of unitized substances or for any group thereof which is 58  
59 produced as a single pool or zone, and any two or more participating areas so 59  
60 established may be combined into one, on approval of the AO, the Land Commissioner 60  
61 and the Division. When production from two or more participating areas is 61  
62 subsequently found to be from a common pool or deposit, the participating areas 62  
63 shall be combined into one, effective as of such appropriate date as may be approved 63  
64 or prescribed by the AO, the Land Commissioner and Division. The participating area 64  
65 or areas so established shall be revised from time to time, subject to the approval 65  
66 of the AO, the Land Commissioner and Division to include additional lands then 66  
67 regarded as reasonably proved to be productive of unitized substances in paying 67  
68 quantities or which are necessary for unit operations, or to exclude lands then 68  
69 regarded as reasonably proved not to be productive of unitized substances in paying 69

1 quantities, and the schedule of allocation percentages shall be revised accordingly. 1  
2 The effective date of any revision shall be the first of the month in which the 2  
3 knowledge or information is obtained on which such revision is predicated; provided, 3  
4 however, that a more appropriate effective date may be used if justified by the Unit 4  
5 Operator and approved by the AO, the Land Commissioner and Division. No land shall 5  
6 be excluded from a participating area on account of depletion of its unitized 6  
7 substances, except that any participating area established under the provisions of 7  
8 this unit agreement shall terminate automatically whenever all completions in the 8  
9 formation on which the participating area is based are abandoned. 9

10  
11 It is the intent of this section that a participating area shall represent the 11  
12 area productive of unitized substances known or reasonably proved to be productive 12  
13 in paying quantities or which are necessary for unit operations; but, regardless of 13  
14 any revision of the participating area, nothing herein contained shall be construed 14  
15 as requiring any retroactive adjustment for production obtained prior to the 15  
16 effective date of the revision of the participating area. 16

17  
18 In the absence of agreement at any time between the Unit Operator and the AO, 18  
19 the Land Commissioner and Division, as to the proper definition or redefinition of a 19  
20 participating area, or until a participating area has, or areas have, been 20  
21 established, the portion of all payments affected thereby shall, except royalty due 21  
22 the United States, be impounded in a manner mutually acceptable to the owners of 22  
23 committed working interests and the AO and the Land Commissioner. Royalties due the 23  
24 United States and the State of New Mexico shall be determined by the AO for Federal 24  
25 lands and the Land Commissioner for the State lands and the amount thereof shall be 25  
26 deposited, as directed by the AO and the Land Commissioner until a participating 26  
27 area is finally approved and then adjusted in accordance with a determination of the 27  
28 sum due as Federal royalty on the basis of such approved participating area. 28  
29

30  
31 Whenever it is determined, subject to the approval of the AO, the Land 30  
32 Commissioner and Division, that a well drilled under this agreement is not capable 31  
33 of production of unitized substances in paying quantities and inclusion in a 32  
34 participating area of the land on which it is situated in a participating area is 33  
35 unwarranted, production from such well shall, for the purposes of settlement among 34  
36 all parties other than working interest owners, be allocated to the land on which 35  
37 the well is located, unless such land is already within the participating area 36  
38 established for the pool or deposit from which such production is obtained. 37  
39 Settlement for working interest benefits from such a nonpaying unit well shall be 38  
40 made as provided in the unit operating agreement. 39

40  
41 12. ALLOCATION OF PRODUCTION. All unitized substances produced from each parti- 41  
42 cipating area established under this agreement, except any part thereof used in 42  
43 conformity with good operating practices within the unitized area for drilling, 43  
44 operating, and other production or development purposes, for repressuring or re- 44  
45 cycling in accordance with a plan of development and operations which has been 45  
46 approved by the AO, Land Commissioner and Division, or unavoidably lost, shall be 46  
47 deemed to be produced equally on an acreage basis from the several tracts of unit- 47  
48 ized land of the participating area established for such production. For the 48  
49 purpose of determining any benefits accruing under this agreement, each such tract 49  
50 of unitized land shall have allocated to it such percentage of said production as 50  
51 the number of acres of such tract included in said participating area bears to the 51  
52 total acres of unitized land in said participating area, except that allocation of 52  
53 production hereunder for purposes other than for settlement of the royalty, over- 53  
54 riding royalty, or payment out of production obligations of the respective working 54  
55 interest owners, shall be on the basis prescribed in the unit operating agreement 55  
56 whether in conformity with the basis of allocation herein set forth or otherwise. It 56  
57 is hereby agreed that production of unitized substances from a participating area 57  
58 shall be allocated as provided herein regardless of whether any wells are drilled on 58  
59 any particular part or tract of the participating area. If any gas produced from one 59  
60 participating area is used for repressuring or recycling puposes in another partici- 60  
61 pating area, the first gas withdrawn from the latter participating area for sale 61  
62 during the life of this agreement, shall be considered to be the gas so transferred, 62  
63 until an amount equal to that transferred shall be so produced for sale and such gas 63  
64 shall be allocated to the participating area from which initially produced as such 64  
65 area was defined at the time of such transferred gas was finally produced and sold. 65  
66

67  
68 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party 67  
69 hereto owning or controlling the working interest in any unitized land having there- 68  
70 on a regular well location may with the approval of the AO and the Land Commis- 69  
70 sioner, and the Division at such party's sole risk, costs, and expense, drill a well 70

1 to test any formation provided the well is outside any participating area 1  
2 established for that formation, unless within 90 days of receipt of notice from 2  
3 said party of his intention to drill the well, the Unit Operator elects and 3  
4 commences to drill the well in a like manner as other wells are drilled by the Unit 4  
5 Operator under this agreement. 5  
6

7 If any well drilled under this section by a working interest owner results in 7  
8 production of unitized substances in paying quantities such that the land upon 8  
9 which it is situated may properly be included in a participating area, such parti- 9  
10 cipating area shall be established or enlarged as provided in this agreement and 10  
11 the well shall thereafter be operated by the Unit Operator in accordance with the 11  
12 terms of this agreement and the unit operating agreement. 12  
13

14 If any well drilled under this section by a working interest owner that 14  
15 obtains production in quantities insufficient to justify the inclusion of the land 15  
16 upon which such well is situated in a participating area, such well may be operated 16  
17 and produced by the party drilling the same, subject to the conservation 17  
18 requirements of this agreement. The royalties in amount or value of production from 18  
19 any such well shall be paid as specified in the underlying lease and agreements 19  
20 affected. 20  
21

22 14. ROYALTY SETTLEMENT. The United States and any State and any royalty 22  
23 owner who is entitled to take in kind a share of the substances now unitized 23  
24 hereunder shall hereafter be entitled to the right to take in kind its share of 24  
25 the unitized substances, and Unit Operator, or the working interest owner in case 25  
26 of the operation of a well by a working interest owner as herein provided for in 26  
27 special cases, shall make deliveries of such royalty share taken in kind in con- 27  
28 formity with the applicable contracts, laws, and regulations. Settlement for 28  
29 royalty interest not taken in kind shall be made by working interest owners 29  
30 responsible therefor under existing contracts, laws and regulations, or by the Unit 30  
31 Operator on or before the last day of each month for unitized substances produced 31  
32 during the preceding calendar month; provided, however, that nothing in this 32  
33 section shall operate to relieve the lessees of any land from their respective 33  
34 lease obligations for the payment of any royalties due under their leases. 34  
35

36 If gas obtained from lands not subject to this agreement is introduced into any 36  
37 participating area hereunder, for use in repressuring, stimulation of production, or 37  
38 increasing ultimate recovery, in conformity with a plan of development and operation 38  
39 approved by the AO and the Land Commissioner and the Division, a like amount of gas, 39  
40 after settlement as herein provided for any gas transferred from any other partici- 40  
41 pating area and with appropriate deduction for loss from any cause, may be withdrawn 41  
42 from the formation into which the gas is introduced, royalty free as to dry gas, but 42  
43 not as to any products which may be extracted therefrom; provided that such with- 43  
44 drawal shall be at such time as may be provided in the approved plan of development 44  
45 and operation or as may otherwise be consented to by the AO and the Land Commis- 45  
46 sioner and the Division as conforming to good petroleum engineering practice; and 46  
47 provided further, that such right of withdrawal shall terminate on the termination 47  
48 of this unit agreement. 48  
49

50 Royalty due the United States shall be computed as provided in 30 CFR Part 221 50  
51 and paid in value or delivered in kind as to all unitized substances on the basis of 51  
52 the amounts thereof allocated to unitized Federal land as provided in Section 12 at 52  
53 the rates specified in the respective Federal leases, or at such other rate or rates 53  
54 as may be authorized by law or regulation and approved by the AO; provided, that for 54  
55 leases on which the royalty rate depends on the daily average production per well, 55  
56 said average production shall be determined in accordance with the operating 56  
57 regulations as though each participating area were a single consolidated lease. 57  
58

59 Royalty due on account of State lands shall be computed and paid on the basis 59  
60 of all unitized substances allocated to such lands. 60  
61

62 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed 62  
63 hereto shall be paid by appropriate working interest owners under existing 63  
64 contracts, laws, and regulations, provided that nothing herein contained shall 64  
65 operate to relieve the lessees of any land from their respective lease obligations 65  
66 for the payment of any rental or minimum royalty due under their leases. Rental or 66  
67 minimum royalty for lands of the United States subject to this agreement shall be 67  
68 paid at the rate specified in the respective leases from the United States unless 68  
69 such rental or minimum royalty is waived, suspended, or reduced by law or by 69  
70 approval of the Secretary or his duly authorized representative. 70

1 Rentals on State of New Mexico lands subject to this agreement shall be paid at 1  
2 the rate specified in the respective leases. 2  
3

4 With respect to any lease on non-Federal land containing provisions which would 4  
5 terminate such lease unless drilling operations are commenced upon the land covered 5  
6 thereby within the time therein specified or rentals are paid for the privilege of 6  
7 deferring such drilling operations, the rentals required thereby shall, 7  
8 notwithstanding any other provision of this agreement, be deemed to accrue and 8  
9 become payable during the term thereof as extended by this agreement and until the 9  
10 required drilling operations are commenced upon the land covered thereby, or until 10  
11 some portion of such land is included within a participating area. 11  
12

13 16. CONSERVATION. Operations hereunder and production of unitized substances 13  
14 shall be conducted to provide for the most economical and efficient recovery of said 14  
15 substances without waste, as defined by or pursuant to State or Federal law or 15  
16 regulation. 16  
17

18 17. DRAINAGE. The Unit Operator shall take such measures as the AO and Land 18  
19 Commissioner deems appropriate and adequate to prevent drainage of unitized 19  
20 substances from unitized land by wells on land not subject to this agreement, which 20  
21 shall include the drilling of protective wells and which may include the payment of 21  
22 a fair and reasonable compensatory royalty, as determined by the AO, as to Federal 22  
23 leases and the Land Commissioner, as to State leases. 23  
24

25 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and 25  
26 provisions of all leases, subleases, and other contracts relating to exploration, 26  
27 drilling, development, or operation for oil or gas on lands committed to this 27  
28 agreement are hereby expressly modified and amended to the extent necessary to make 28  
29 the same conform to the provisions hereof, but otherwise to remain in full force and 29  
30 effect; and the parties hereto hereby consent that the Secretary, as to Federal 30  
31 leases and the Land Commissioner, as to State leases, shall and each by his approval 31  
32 hereof, or by the approval hereof by his duly authorized representative, does hereby 32  
33 establish, alter, change, or revoke the drilling, producing, rental minimum 33  
34 royalty, and royalty requirements of Federal leases committed hereto and the 34  
35 regulations in respect thereto to conform said requirements to the provisions of 35  
36 this agreement, and, without limiting the generality of the foregoing, all leases, 36  
37 subleases, and contracts are particularly modified in accordance with the 37  
38 following: 38  
39

40 (a) The development and operation of lands subject to this agreement under 40  
41 the terms hereof shall be deemed full performance of all obligations for develop- 41  
42 ment and operation with respect to each and every separately owned tract subject 42  
43 to this agreement, regardless of whether there is any development of any particular 43  
44 tract of this unit area. 44  
45

46 (b) Drilling and producing operations performed hereunder upon any tract of 46  
47 unitized lands will be accepted and deemed to be performed upon and for the benefit 47  
48 of each and every tract of unitized land, and no lease shall be deemed to expire by 48  
49 reason of failure to drill or produce wells situated on the land therein embraced. 49  
50

51 (c) Suspension of drilling or producing operations on all unitized lands 51  
52 pursuant to direction or consent of the AO and the Land Commissioner, or his duly 52  
53 authorized representative, shall be deemed to constitute such suspension pursuant to 53  
54 such direction or consent as to each and every tract of unitized land. A suspension 54  
55 of drilling or producing operations limited to specified lands shall be applicable 55  
56 only to such lands. 56  
57

58 (d) Each lease, sublease or contract relating to the exploration, drilling, 58  
59 development, or operation for oil or gas of lands other than those of the United 59  
60 States and State of New Mexico committed to this agreement which, by its terms might 60  
61 expire prior to the termination of this agreement, is hereby extended beyond any 61  
62 such terms so provided therein so that it shall be continued in full force and 62  
63 effect for and during the term of this agreement. 63  
64

65 (e) Any Federal lease committed hereto shall continue in force beyond the term 65  
66 so provided therein or by law as to the land committed so long as such lease re- 66  
67 mains subject hereto, provided that production of unitized substances in paying 67

1 quantities is established in paying quantities under this unit agreement prior to 1  
2 the expiration date of the term of such lease, or in the event actual drilling 2  
3 operations are commenced on unitized land, in accordance with provisions of this 3  
4 agreement, prior to the end of the primary term of such lease and are being 4  
5 diligently prosecuted at that time, such lease shall be extended for two years, and 5  
6 so long thereafter as oil or gas is produced in paying quantities in accordance with 6  
7 the provisions of the Mineral Leasing Act, as amended. 7  
8

9 (f) Each sublease or contract relating to the operation and development of 9  
10 unitized substances from lands of the United States committed to this agreement, 10  
11 which by its terms would expire prior to the time at which the underlying lease, as 11  
12 extended by the immediately preceding paragraph, will expire, is hereby extended 12  
13 beyond any such term so provided therein so that it shall be continued in full 13  
14 force and effect for and during the term of the underlying lease as such term is 14  
15 herein extended. 15  
16

17 (g) The segregation of any Federal lease committed to this agreement is 17  
18 governed by the following provision in the fourth paragraph of Sec. 17(j) of the 18  
19 Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784) 19  
20 (30 U.S.C. 226 (j)): "Any (Federal) lease heretofore or hereafter committed to any 20  
21 such (unit) plan embracing lands that are in part within and in part outside of the 21  
22 area covered by any such plan shall be segregated into separate leases as to the 22  
23 lands committed and the lands not committed as of the effective date of unitization: 23  
24 Provided, however, that any such lease as to the non-unitized portion shall continue 24  
25 in force and effect for the term thereof but for not less than two years from the 25  
26 date of such segregation and so long thereafter as oil or gas is produced in paying 26  
27 quantities." 27  
28

29 (h) In the event the Initial Test Well is commenced prior to the expiration 29  
30 date of the shortest term State Lease within the Unit Area, any lease embracing lands 30  
31 of the State of New Mexico which is made the subject to this agreement, shall 31  
32 continue in force beyond the term provided therein as to the lands committed hereto 32  
33 until the termination hereof. 33  
34

35 (i) Any lease embracing lands of the State of New Mexico having only a portion 35  
36 of its lands committed hereto, shall be segregated as to the portion committed and 36  
37 the portion not committed, and the terms of such lease shall apply separately to such 37  
38 segregated portions commencing as the effective date hereof; contrary any lease 38  
39 embracing lands of the State of New Mexico having only a portion of its lands 39  
40 committed hereto shall continue in full force and effect beyond the term provided 40  
41 therein as to all lands embraced in such lease, if oil or gas is discovered and is 41  
42 capable of being produced in paying quantities from some part of the lands embraced 42  
43 in such lease at the expiration of the secondary term of such lease; or if, at the 43  
44 expiration of the secondary term, the lessee or the Unit Operator is then engaged in 44  
45 bona fide drilling or reworking operations on some part of the lands embraced in such 45  
46 lease, the same as to all lands embraced therein, shall remain in full force and 46  
47 effect so long as such operations are being diligently prosecuted, and if they result 47  
48 in the production of oil or gas; said lease shall continue in full force and effect 48  
49 as to all the lands embraced therein, so long thereafter as oil or gas in paying 49  
50 quantities is being produced from any portion of said lands. 50  
51

52 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be 52  
53 covenants running with the land with respect to the interests of the parties hereto 53  
54 and their successors in interest until this agreement terminates, and any grant, 54  
55 transfer or conveyance of interest in land or leases subject hereto shall be and 55  
56 hereby is conditioned upon the assumption of all privileges and obligations here- 56  
57 under by the grantee, transferee, or other successor in interest. No assignment or 57  
58 transfer of any working interest, royalty, or other interest subject hereto shall be 58  
59 binding upon Unit Operator until the first day of the calendar month after Unit 59  
60 Operator is furnished with the original, photostatic, or certified copy of the 60  
61 instrument of transfer. 61  
62

63 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval 63  
64 by the AO and the Land Commissioner or their duly authorized representative and shall 64  
65 automatically terminate five (5) years from said effective date unless: 65  
66

67 (a) Upon application by the Unit Operator such date of expiration is extended 67  
68 by the AO and the Land Commissioner, or 68

1 (b) it is reasonably determined prior to the expiration of the fixed term or 1  
2 any extension thereof that the unitized land is incapable of production of unitized 2  
3 substances in paying quantities in the formations tested hereunder, and after 3  
4 notice of intention to terminate this agreement on such ground is given by the Unit 4  
5 Operator to all parties in interest at their last known addresses, this agreement 5  
6 is terminated with approval of the AO and the Land Commissioner, or 6  
7

8 (c) a valuable discovery of unitized substances in paying quantities has been 8  
9 made or accepted on unitized land during said initial term or any extension thereof, 9  
10 in which event this agreement shall remain in effect for such term and so long 1  
11 thereafter as unitized substances can be produced as to Federal lands and are being 1  
12 produced as to State lands in quantities sufficient to pay for the cost of producing 1  
13 same from wells on unitized land within any participating area established here- 1  
14 under. Should production cease and diligent drilling operations to restore produc- 1  
15 tion or new production are not in progress or reworking within 60 days and produc- 1  
16 tion is not restored or should new production not be obtained in paying quantities 1  
17 on committed lands within this unit area, this agreement will automatically termi- 1  
18 nate effective the last day of the month in which the last unitized production 1  
19 occurred, or 1  
20

21 (d) it is voluntarily terminated as provided in this agreement. Except as noted 2  
22 herein this agreement may be terminated at any time prior to the discovery of 2  
23 unitized substances which can be produced in paying quantities by not less than 75 2  
24 per centum, on an acreage basis, of the working interest owners signatory hereto, 2  
25 with the approval of the AO and the Land Commissioner. The Unit Operator shall give 2  
26 notice of any such approval to all parties hereto. Voluntary termination may not 2  
27 occur during the first six (6) months of this agreement unless at least one 2  
28 obligation well shall have been drilled in conformance accordance with Section 9. 2  
29

30 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested 3  
31 with authority to alter or modify from time to time, in his discretion, the 3  
32 quantity and rate of production under this agreement when such quantity and rate 3  
33 are not fixed pursuant to Federal or State law, or do not conform to any State-wide 3  
34 voluntary conservation or allocation program which is established, recognized, and 3  
35 generally adhered to by the majority of operators in such State. The above 3  
36 authority is hereby limited to alteration or modifications which are in the public 3  
37 interest. The public interest to be served and the purpose thereof, must be stated 3  
38 in the order of alteration or modification. Without regard to the foregoing, the AO 3  
39 is also hereby vested with authority to alter or modify from time to time, in his 3  
40 discretion, the rate of prospecting and development and the quantity and rate of 4  
41 production under this agreement when such alteration or modification is in the 4  
42 interest of attaining the conservation objectives stated in this agreement and is 4  
43 not in violation of any applicable Federal or State law; provided, further, that no 4  
44 such alteration or modification shall be effective as to any land of the State of 4  
45 New Mexico, as to the rate of prospecting and developing in the absence of the 4  
46 specific written approval thereof by the Commissioner and also to any lands of the 4  
47 State of New Mexico or privately owned lands subject to this agreement as to the 4  
48 quantity and rate of production in the absence of specific written approval thereof 4  
49 by the Division. 4  
50

51 Powers in the section vested in the AO shall only be exercised after notice to 5  
52 Unit Operator and opportunity for hearing to be held not less than 15 days from 5  
53 notice. 5  
54

55 22. APPEARANCES. Unit Operators shall, after notice to other parties affected, 5  
56 have the right to appear for and on behalf of any and all interests affected hereby 5  
57 before the Department of the Interior and the Commissioner of Public Lands and 5  
58 Division, and to appeal from orders issued under the regulations of said Department 5  
59 or Land Commissioner and Division or to apply for relief from any of said 5  
60 regulations, or in any proceedings relative to operations before the Department or 6  
61 the Land Commissioner and Division or any other legally constituted authority; 6  
62 provided, however, that any other interested party shall also have the right at its 6  
63 own expense to be heard in any such proceeding. 6  
64

65 23. NOTICES. All notices, demands, or statements required hereunder to be 6  
66 given or rendered to the parties hereto shall be in writing and shall be personally 6  
67 delivered to the party or parties, or sent by postpaid registered or certified 6  
68 mail, to the last known address of the party or parties. 6

1 24. NO WAIVER OF CERTAIN RIGHTS. Nothing contained in this agreement shall be 1  
2 construed as a waiver by any party hereto of the right to assert any legal or 2  
3 constitutional right or defense as to the validity or invalidity of any law of the 3  
4 State where the unitized lands are located, or of the United States, or regulations 4  
5 issued thereunder in any way affecting such party, or as a waiver by any such party 5  
6 of any right beyond his or its authority to waive. 6  
7

8 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit 8  
9 Operator to commence or continue drilling, or to operate on, or produce unitized 9  
10 substances from any of the lands covered by this agreement, shall be suspended while 1  
11 the Unit Operator, despite the exercise of due care and diligence, is prevented from 1  
12 complying with such obligations, in whole or in part, by strikes, acts of God, 1  
13 Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable 1  
14 delays in transportation, inability to obtain necessary materials or equipment in 1  
15 open market, or other matters beyond the reasonable control of the Unit Operator 1  
16 whether similar to matters herein enumerated or not. 1  
17

18 26. NONDISCRIMINATION. In connection with the performance of work under this 1  
19 agreement, the Unit Operator agrees to comply with all the provisions of Section 202 1  
20 (1) to (7) inclusive of Executive Order 11246 (30 F. R. 12319), as amended, which 2  
21 are hereby incorporated by reference in this agreement. 2  
22

23 27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail 2  
24 and the true owner cannot be induced to join in this unit agreement, such tract shall 2  
25 be automatically regarded as not committed hereto, and there shall be such readjust- 2  
26 ment of future costs and benefits as may be required on account of the loss of such 2  
27 title. In the event of a dispute as to title to any royalty, working interest, or 2  
28 other interests subject thereto, payment or delivery on account thereof may be with- 2  
29 held without liability for interest until the dispute is finally settled; provided, 2  
30 that, as to Federal and State lands or leases, no payments of funds due the United 3  
31 States or the State of New Mexico should be withheld, but such funds shall be 3  
32 deposited as directed by the AO and such funds of the State of New Mexico shall be 3  
33 deposited as directed by the Land Commissioner, to be held as unearned money pending 3  
34 final settlement of the title dispute, and then applied as earned or returned in 3  
35 accordance with such final settlement. 3  
36

37 Unit Operator as such is relieved from any responsibility for any defect or failure 3  
38 of any title hereunder. 3  
39

40 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial inter- 4  
41 est in a tract within the unit area fails or refuses to subscribe or consent to this 4  
42 agreement, the owner of the working interest in that tract may withdraw the tract 4  
43 from this agreement by written notice delivered to the proper Bureau of Land 4  
44 Management office, the Land Commissioner, the Division and the Unit Operator prior to 4  
45 the approval of this agreement by the AO and Commissioner. Any oil or gas interests 4  
46 in lands within the unit area not committed hereto prior to final approval may 4  
47 thereafter be committed hereto by the owner or owners thereof subscribing or 4  
48 consenting to this agreement, and, if the interest is a working interest, by the 4  
49 owner of such interest also subscribing to the unit operating agreement. After 4  
50 operations are commenced hereunder, the right of subsequent joinder, as provided in 5  
51 this section, by a working interest owner is subject to such requirements or 5  
52 approval(s), if any, pertaining to such joinder, as may be provided for in the unit 5  
53 operating agreement. After final approval hereof, joinder by a non-working interest 5  
54 owner must be consented to in writing by the working interest owner committed hereto 5  
55 and responsible for the payment of any benefits that may accrue hereunder in behalf 5  
56 of such non-working interest. A non-working interest may not be committed to this 5  
57 unit agreement unless the corresponding working interest is committed hereto. Joinder 5  
58 to the unit agreement by a working interest owner, at any time, must be accompanied 5  
59 by appropriate joinder to the unit operating agreement, in order for the interest to 5  
60 be regarded as committed to this agreement. Except as may otherwise herein be 6  
61 provided, subsequent joinders to this agreement shall be effective as of the date of 6  
62 the filing with the AO, the Land Commissioner and the Division of duly executed 6  
63 counterparts of all or any papers necessary to establish effective commitment of any 6  
64 interest and/or tract to this agreement. 6  
65

66 29. COUNTERPARTS. This agreement may be executed in any number of counter- 6  
67 parts, no one of which needs to be executed by all parties, or may be ratified or 6  
68 consented to by separate instrument in writing specifically referring hereto and 6

1 shall be binding upon all those parties who have executed such a counterpart, 1  
2 ratification, or consent hereto with the same force and effect as if all such parties 2  
3 had signed the same document and regardless of whether or not it is executed by all 3  
4 other parties owning or claiming an interest in the lands within the above-described 4  
5 unit area. 5  
6

7 30. SURRENDER. Nothing in this agreement shall prohibit the exercise by any 7  
8 working interest owner of the right to surrender vested in such party by any lease, 8  
9 sublease, or operating agreement as to all or any part of the lands covered thereby, 9  
10 provided that each party who will or might acquire such working interest by such 10  
11 surrender or by forfeiture as hereafter set forth, is bound by the terms of this 11  
12 agreement. 12  
13

14 If as a result of any such surrender, the working interest rights as to such 14  
15 lands become vested in any party other than the fee owner of the unitized substances, 15  
16 said party may forfeit such rights and further benefits from operation hereunder as 16  
17 to said land to the party next in the chain of title who shall be and become the 17  
18 owner of such working interest. 18  
19

20 If as the result of any such surrender or forfeiture working interest rights 20  
21 become vested in the fee owner of the unitized substances, such owner may: 21  
22

23 (a) Accept those working interest rights subject to this agreement and the unit 23  
24 operating agreement; or 24  
25

26 (b) Lease the portion of such land as is included in a participating area 26  
27 established hereunder subject to this agreement and the unit operating agreement; or 27  
28

29 (c) Provide for the independent operation of any part of such land that is not 29  
30 then included within a participating area established hereunder. 30  
31

32 If the fee owner of the unitized substances does not accept the working interest 32  
33 rights subject to this agreement and the unit operating agreement or lease such lands 33  
34 as above provided within 6 months after the surrendered or forfeited, working 34  
35 interest rights become vested in the fee owner, the benefits and obligations of 35  
36 operations accruing to such lands under this agreement and the unit operating agree- 36  
37 ment shall be shared by the remaining owners of unitized working interests in 37  
38 accordance with their respective working interest ownerships, and such owners of 38  
39 working interests shall compensate the fee owner of unitized substances in such lands 39  
40 by paying sums equal to the rentals, minimum royalties, and royalties applicable to 40  
41 such lands under the lease in effect when the lands were unitized. 41  
42

43 An appropriate accounting and settlement shall be made for all benefits accruing 43  
44 to or payments and expenditures made or incurred on behalf of such surrendered or 44  
45 forfeited working interest subsequent to the date of surrender or forfeiture, and 45  
46 payment of any moneys found to be owing by such an accounting shall be made as 46  
47 between the parties within thirty (30) days. 47  
48

49 The exercise of any right vested in a working interest owner to reassign such 49  
50 working interest to the party from whom obtained shall be subject to the same 50  
51 conditions as set forth in this section in regard to the exercise of a right to 51  
52 surrender. 52  
53

54 31. TAXES. The working interest owners shall render and pay for their account 54  
55 and the account of the royalty owners all valid taxes on or measured by the unitized 55  
56 substances in and under or that may be produced, gathered and sold from the land 56  
57 covered by this agreement after its effective date, or upon the proceeds derived 57  
58 therefrom. The working interest owners on each tract shall and may charge the proper 58  
59 proportion of said taxes to royalty owners having interests in said tract, and may 59  
60 currently retain and deduct a sufficient amount of the unitized substances or 60  
61 derivative products, or net proceeds thereof, from the allocated share of each 61  
62 royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be 62  
63 charged to the United States or the State of New Mexico or to any lessor who has a 63  
64 contract with his lessee which requires the lessee to pay such taxes. 64

1 32. NO PARTNERSHIP. It is expressly agreed that the relation of the parties 1  
2 hereto is that of independent contractors and nothing contained in this agreement, 2  
3 expressed or implied, nor any operations conducted hereunder, shall create or be 3  
4 deemed to have created a partnership or association between the parties hereto or any 4  
5 of them. 5  
6

7 33. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agree- 7  
8 ment shall modify or change either the special Federal lease stipulations relating to 8  
9 surface management or such special Federal lease stipulations relating to surface and 9  
10 environmental protection, attached to and made a part of, Oil and Gas Leases covering 10  
11 lands within the Unit Area. 11  
12

13 34. DEPARTMENT OF ENERGY STIPULATION. Nothing in this agreement shall modify 13  
14 the special, Federal-lease stipulations applicable to lands under the jurisdiction 14  
15 of the Department of Energy. 15

1 IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed 1  
2 and have set opposite their respective name the dates of execution. 2  
3 3

4 UNIT OPERATOR AND WORKING INTEREST OWNER 4  
5 5

6 ATTEST: 6

MARSHALL R. YOUNG OIL CO. 6  
7 7  
8 8  
9 9

10 \_\_\_\_\_ 10  
11 Assistant Secretary 11  
12 12

By \_\_\_\_\_ 10

13 13  
14 Address: 750 W. Fifth Street 14  
15 Fort Worth, TX 76102 15  
16 16  
17 17  
18 18

Date of Execution: 14  
15 15  
16 16  
17 17  
18 18

19 STATE OF \_\_\_\_\_ ) 19  
20 ) ss. 20  
21 COUNTY OF \_\_\_\_\_ ) 21  
22 22

23 On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me appeared 23  
24 \_\_\_\_\_, to me personally known, who, being by me duly 24  
25 sworn, did say that he is the \_\_\_\_\_ of \_\_\_\_\_ 25  
26 Marshall R. Young Oil Co. \_\_\_\_\_ and that the seal affixed to said 26  
27 instrument is the corporate seal of said corporation, and that said instrument 27  
28 was signed and sealed in behalf of said corporation by authority of its board of 28  
29 directors, and said \_\_\_\_\_ 29  
30 acknowledged said instrument to be the free act and deed of said corporation. 30  
31 31

32 My Commission Expires: 32  
33 33  
34 34  
35 35

\_\_\_\_\_  
Notary Public 34  
35 35