

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6775
Order No. R-6246

APPLICATION OF HARVEY E. YATES COMPANY
FOR APPROVAL OF THE YOUNG DEEP UNIT
AGREEMENT, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on January 3, 1980,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 16th day of January, 1980, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

(1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.

(2) That the applicant, Harvey E. Yates Company, seeks
approval of the Young Deep Unit Agreement covering 2242.45
acres, more or less, of Federal lands described as follows:

LEA COUNTY, NEW MEXICO
TOWNSHIP 18 SOUTH, RANGE 32 EAST, NMPM
Section 3: All
Section 4: S/2
Sections 9 and 10: All

(3) That approval of the proposed unit agreement should
promote the prevention of waste and the protection of correlative
rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the Young Deep Unit Agreement is hereby approved.

-2-

Case No. 6775
Order No. R-6246

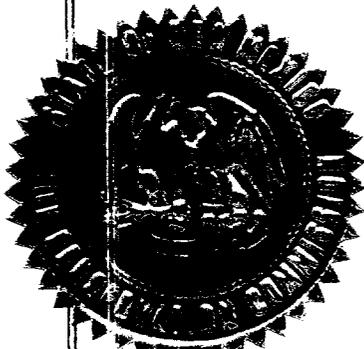
(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Division to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Division within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) That this order shall become effective upon the approval of said unit agreement by the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Division immediately in writing of such termination.

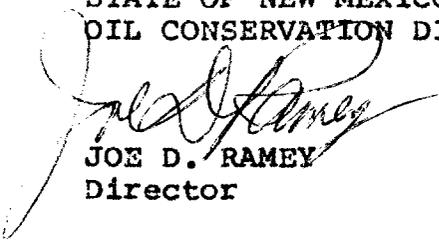
(5) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director

fd/

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505/623-6601

ROSWELL, NEW MEXICO 88201

December 3, 1979

Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Case 6775

Attention: Mr. Joe Ramey

RE: Application for
Approval of Unit
Sec. 3,4,9 & 10
T-18S, R-32E
Lea County, New Mexico

Gentlemen:

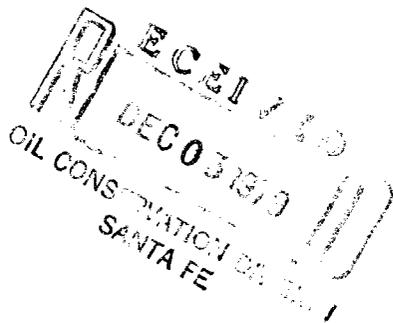
Enclosed for filing is an original and two copies of an Application for Approval of the proposed ~~North~~ Young Deep Unit. please set this matter for examiner hearing on January 3, 1980, and provide us with a Docket of the same. Thank you.

Sincerely,

Robert H. Strand
Attorney

RHS/lh
A-11

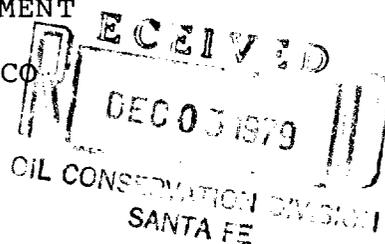
Enclosures



BEFORE THE OIL CONSERVATION DIVISION

ENERGY AND MINERALS DEPARTMENT

OF THE STATE OF NEW MEXICO



IN THE MATTER OF THE APPLICATION OF :
HARVEY E. YATES COMPANY :
FOR APPROVAL OF THE NORTH YOUNG :
DEEP UNIT AGREEMENT, LEA COUNTY, :
NEW MEXICO :

Case 6775

APPLICATION

COMES NOW HARVEY E. YATES COMPANY by its attorney and respectfully states:

1. Applicant seeks approval of the proposed unit agreement for development and operation of the ~~North~~ Young Deep Unit, Lea County, New Mexico. A copy of said proposed unit agreement is attached hereto as Exhibit A.

2. The proposed unit area covered by said unit agreement is as follows:

Township 18 South, Range 32 East, N.M.P.M.

Section 3: Lots 1, 2, 3, 4, S/2 N/2, S/2
Section 4: S/2
Section 9: All
Section 10: All

Containing 2242.45 acres more or less, from 5,000' below the surface to all depths, Lea County, New Mexico

3. All of the lands embraced within the proposed unit are lands of the United States.

4. Applicant is informed and believes, and upon such information and belief, states that the proposed unit area covers all or substantially all of the geological feature involved, and that in the event of a discovery of oil and gas thereon, that said unit agreement will permit the producing area to be developed or operated in the interest of conservation and the prevention of

waste of the unitized substances.

5. Applicant is designated as the unit operator in said unit agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the unit area for oil and gas subject to all applicable laws and regulations.

6. Said unit agreement provides for the drilling of an initial test well to a depth sufficient to penetrate the Mississippian formation, but applicant is not obligated to drill said well in any event to a depth in excess of 12,900 feet.

7. Applicant believes that in the event oil or gas is discovered in paying quantities on lands within the unit area, that the field or area can be developed more economically and efficiently under the terms of said unit agreement, to the end that maximum recovery will be obtained of unitized substances, and that said unit agreement will promote conservation and the prevention of waste as contemplated by the statutes of the State of New Mexico and the rules and regulations of the division.

8. Upon an order being entered by the division approving said unit agreement, and after approval of the same by the United States Department of the Interior - Geological Survey, an approved copy will be filed with the division.

WHEREFORE, applicant respectfully requests:

A. That this application be set for a hearing before an examiner and that notice of said hearing be given as required by law.

B. That upon such hearing, the division enter its

1 UNIT AGREEMENT

2 FOR THE DEVELOPMENT AND OPERATION

3 OF THE

4 NORTH YOUNG DEEP UNIT AREA

5 COUNTY OF LEA

6 STATE OF NEW MEXICO

7 NO. _____

8 THIS AGREEMENT, entered into as of the 30th day of November
9 19 79, by and between the parties subscribing, ratifying, or consenting
10 hereto, and herein referred to as the "parties hereto,"

11 WITNESSETH:

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

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

22 WHEREAS the parties hereto hold sufficient interests in the _____
23 North Young Deep Unit Area covering the land hereinafter described to
24 give reasonably effective control of operations therein; and

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

29 NOW, THEREFORE, in consideration of the premises and the promises here-
30 in contained, the parties hereto commit to this agreement their respective
31 interests in the below-defined unit area, and agree severally among them-
32 selves as follows:

order approving said unit agreement as being in the interest of conservation and the prevention of waste.

C. For such further relief as the division deems just and proper.

Dated this 30th day of November, 1979.

HARVEY E. YATES COMPANY

By: 
Robert H. Strand

P. O. Box 1933
Roswell, New Mexico 88201

Attorney for Applicant

1 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 1
2 February 25, 1920, as amended, supra, and all valid pertinent regulations, 2
3 including operating and unit plan regulations, heretofore issued thereunder 3
4 or valid, pertinent, and reasonable regulations hereafter issued thereunder 4
5 are accepted and made a part of this agreement as to Federal lands, pro- 5
6 vided such regulations are not inconsistent with the terms of this agreement; 6
7 and as to non-Federal lands, the oil and gas operating regulations in effect 7
8 as of the effective date hereof governing drilling and producing operations, 8
9 not inconsistent with the terms hereof or the laws of the State in which the 9
10 non-Federal land is located, are hereby accepted and made a part of this 10
11 agreement. 11

12 2. UNIT AREA. The area specified on the map attached hereto marked 12
13 exhibit A is hereby designated and recognized as constituting the unit 13
14 area, containing 2,242.45 acres, more or less. 14

15 Exhibit A shows, in addition to the boundary of the unit area, the 15
16 boundaries and identity of tracts and leases in said area to the extent 16
17 known to the Unit Operator. Exhibit B attached hereto is a schedule show- 17
18 ing to the extent known to the Unit Operator the acreage, percentage, and 18
19 kind of ownership of oil and gas interests in all land in the unit area. 19
20 However, nothing herein or in said schedule or map shall be construed as a 20
21 representation by any party hereto as to the ownership of any interest 21
22 other than such interest or interests as are shown in said map or schedule 22
23 as owned by such party. Exhibits A and B shall be revised by the Unit 23
24 Operator whenever changes in the unit area render such revision necessary, 24
25 or when requested by the Oil and Gas Supervisor, hereinafter referred to as 25
26 "Supervisor" and not less than five copies of the revised exhibits shall be 26
27 filed with the Supervisor. 27

28 The above-described unit area shall when practicable be expanded to 28
29 include therein any additional lands or shall be contracted to exclude 29
30 lands whenever such expansion or contraction is deemed to be necessary or 30
31 advisable to conform with the purposes of this agreement. Such expansion 31
32 or contraction shall be effected in the following manner: 32

1 (a) Unit Operator, on its own motion or on demand of the Director of 1
2 the Geological Survey, hereinafter referred to as "Director," after pre- 2
3 liminary concurrence by the Director, shall prepare a notice of proposed 3
4 expansion or contraction describing the contemplated changes in the 4
5 boundaries of the unit area, the reasons therefor, and the proposed effec- 5
6 tive date thereof, preferably the first day of a month subsequent to the 6
7 date of notice. 7

8 (b) Said notice shall be delivered to the Supervisor, and copies there- 8
9 of mailed to the last known address of each working interest owner, lessee, 9
10 and lessor whose interests are affected, advising that 30 days will be 10
11 allowed for submission to the Unit Operator of any objections. 11

12 (c) Upon expiration of the 30-day period provided in the preceding 12
13 item (b) hereof, Unit Operator shall file with the Supervisor evidence of 13
14 mailing of the notice of expansion or contraction and a copy of any objec- 14
15 tions thereto which have been filed with the Unit Operator, together with 15
16 an application in sufficient number, for approval of such expansion or con- 16
17 traction and with appropriate joinders. 17

18 (d) After due consideration of all pertinent information, the expan- 18
19 sion or contraction shall, upon approval by the Supervisor, become effec- 19
20 tive as of the date prescribed in the notice thereof. 20

21 (e) All legal subdivisions of lands (i.e., 40 acres by Government 21
22 survey or its nearest lot or tract equivalent; in instances of irregular 22
23 surveys unusually large lots or tracts shall be considered in multiples of 23
24 40 acres or the nearest aliquot equivalent thereof), no parts of which are 24
25 entitled to be in a participating area on or before the fifth anniversary 25
26 of the effective date of the first initial participating area established 26
27 under this unit agreement, shall be eliminated automatically from this 27
28 agreement, effective as of said fifth anniversary, and such lands shall no 28
29 longer be a part of the unit area and shall no longer be subject to this 29
30 agreement, unless diligent drilling operations are in progress on unitized 30
31 lands not entitled to participation on said fifth anniversary, in which 31
32 event all such lands shall remain subject hereto for so long as such 32

1 drilling operations are continued diligently, with not more than 90 days' 1
2 time elapsing between the completion of one such well and the commencement 2
3 of the next such well. All legal subdivisions of lands not entitled to be 3
4 in a participating area within 10 years after the effective date of the 4
5 first initial participating area approved under this agreement shall be 5
6 automatically eliminated from this agreement as of said tenth anniversary. 6
7 All lands proved productive by diligent drilling operations after the afore- 7
8 said 5-year period shall become participating in the same manner as during 8
9 said 5-year period. However, when such diligent drilling operations cease, 9
10 all nonparticipating lands shall be automatically eliminated effective as 1
11 of the 91st day thereafter. The unit operator shall within 90 days after 1
12 the effective date of any elimination hereunder, describe the area so elimi- 1
13 nated to the satisfaction of the Supervisor and promptly notify all parties 1
14 in interest. 1

15 If conditions warrant extension of the 10-year period specified 1
16 in this subsection 2(e), a single extension of not to exceed 2 years may 1
17 be accomplished by consent of the owners of 90% of the working interests in 1
18 the current nonparticipating unitized lands and the owners of 60% of the 1
19 basic royalty interests (exclusive of the basic royalty interests of the 1
20 United States) in nonparticipating unitized lands with approval of the 2
21 Director, provided such extension application is submitted to the Director 2
22 not later than 60 days prior to the expiration of said 10-year period. 2

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

26
27 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All oil and gas in
28 the hereinabove specified lands committed to this agreement, as to all depths
29 and formations below 5,000 feet subsurface are unitized and designated as
30 unitized substances under the terms of this agreement and said lands shall
31 constitute lands referred to herein as unitized subject to this agreement.

32 4. UNIT OPERATOR Harvey E. Yates Company is hereby
designated as Unit Operator and by signature hereto as Unit Operator agrees

1 and consents to accept the duties and obligations of Unit Operator for the 1
2 discovery, development, and production of unitized substances as herein 2
3 provided. Whenever reference is made herein to the Unit Operator, such 3
4 reference means the Unit Operator acting in that capacity and not as an own- 4
5 er of interest in unitized substances, and the term "working interest owner" 5
6 when used herein shall include or refer to Unit Operator as the owner of a 6
7 working interest when such an interest is owned by it. 7

8 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have 8
9 the right to resign at any time prior to the establishment of a participat- 9
10 ing area or areas hereunder, but such resignation shall not become effective 10
11 so as to release Unit Operator from the duties and obligations of Unit 11
12 Operator and terminate Unit Operator's rights as such for a period of 6 12
13 months after notice of intention to resign has been served by Unit Operator 13
14 on all working interest owners and the Supervisor, and until all wells then 14
15 drilled hereunder are placed in a satisfactory condition for suspension or 15
16 abandonment whichever is required by the Supervisor, unless a new Unit 16
17 Operator shall have been selected and approved and shall have taken over and 17
18 assumed the duties and obligations of Unit Operator prior to the expiration 18
19 of said period. 19

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

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

31 The Unit Operator may, upon default or failure in the performance 31
32 of its duties or obligations hereunder, be subject to removal by the same 32

1 percentage vote of the owners of working interests as herein provided for 1
2 the selection of a new Unit Operator. Such removal shall be effective 2
3 upon notice thereof to the Supervisor. 3

4 The resignation or removal of Unit Operator under this agreement 4
5 shall not terminate its right, title, or interest as the owner of a working 5
6 interest or other interest in unitized substances, but upon the resignation 6
7 or removal of Unit Operator becoming effective, such Unit Operator shall 7
8 deliver possession of all wells, equipment, materials, and appurtenances 8
9 used in conducting the unit operations to the new duly qualified successor 9
10 Unit Operator or to the common agent, if no such new Unit Operator is 10
11 elected, to be used for the purpose of conducting unit operations hereunder. 11
12 Nothing herein shall be construed as authorizing removal of any material, 12
13 equipment and appurtenances needed for the preservation of any wells. 13

14 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender 14
15 his or its resignation as Unit Operator or shall be removed as hereinabove 15
16 provided, or a change of Unit Operator is negotiated by working interest 16
17 owners, the owners of the working interests in the participating area or 17
18 areas according to their respective acreage interests in such participating 18
19 area or areas, or, until a participating area shall have been established, 19
20 the owners of the working interests according to their respective acreage 20
21 interests in all unitized land, shall by majority vote select a successor 21
22 Unit Operator: Provided, That, if a majority but less than 75 percent of 22
23 the working interests qualified to vote are owned by one party to this agree- 23
24 ment, a concurring vote of one or more additional working interest owners 24
25 shall be required to select a new operator. Such selection shall not become 25
26 effective until 26

27 (a) a Unit Operator so selected shall accept in writing the duties 27
28 and responsibilities of Unit Operator, and 28

29 (b) the selection shall have been approved by the Supervisor. 29

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

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

24 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise 24
25 specifically provided herein, the exclusive right, privilege, and duty of 25
26 exercising any and all rights of the parties hereto which are necessary or 26
27 convenient for prospecting for, producing, storing, allocating, and dis- 27
28 tributing the unitized substances are hereby delegated to and shall be 28
29 exercised by the Unit Operator as herein provided. Acceptable evidence of 29
30 title to said rights shall be deposited with said Unit Operator and, 30
31 together with this agreement, shall constitute and define the rights, privi- 31
32 leges, and obligations of Unit Operator. Nothing herein, however, shall be 32

1 construed to transfer title to any land or to any lease or operating agree-
2 ment, it being understood that under this agreement the Unit Operator, in
3 its capacity as Unit Operator, shall exercise the rights of possession and
4 use vested in the parties hereto only for the purposes herein specified.

5 9. DRILLING TO DISCOVERY. Within 6 months after the effective date
6 hereof, the Unit Operator shall begin to drill an adequate test well at a
7 location approved by the Supervisor, unless on such effective date a well is
8 being drilled conformably with the terms hereof, and thereafter continue
9 such drilling diligently until the Mississippian formation has been penetrated
10 and all beds of Pennsylvanian age tested or until at a lesser depth unitized
11 substances shall be discovered which can be produced in paying quantities
12 (to-wit: quantities sufficient to repay the costs of drilling, completing,
13 and producing operations, with a reasonable profit) or the Unit Operator
14 shall at any time establish to the satisfaction of the Supervisor that
15 further drilling of said well would be unwarranted or impracticable, provided,
16 however, that Unit Operator shall not in any event be required to drill said
17 well to a depth in excess of 12,900 feet. Until the discovery of a deposit
18 of unitized substances capable of being produced in paying quantities, the
19 Unit Operator shall continue drilling one well at a time, allowing not more
20 than 6 months between the completion of one well and the beginning of the
21 next well, until a well capable of producing unitized substances in paying
22 quantities is completed to the satisfaction of the Supervisor or until it is
23 reasonably proved that the unitized land is incapable of producing unitized
24 substances in paying quantities in the formations drilled hereunder. Nothing
25 in this section shall be deemed to limit the right of the Unit Operator to
26 resign as provided in Section 5, hereof, or as requiring Unit Operator to
27 commence or continue any drilling during the period pending such resignation
28 becoming effective in order to comply with the requirements of this section.
29 The Supervisor may modify the drilling requirements of this section by
30 granting reasonable extensions of time when, in his opinion, such action
31 is warranted.

1 Upon failure to commence any well provided for in this section 1
2 within the time allowed, including any extension of time granted by the 2
3 Supervisor, this agreement will automatically terminate; upon failure to 3
4 continue drilling diligently any well commenced hereunder, the Supervisor 4
5 may, after 15-days notice to the Unit Operator, declare this unit agreement 5
6 terminated. 6

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

17 Any plan submitted pursuant to this section shall provide for the 17
18 exploration of the unitized area and for the diligent drilling necessary for 18
19 determination of the area or areas thereof capable of producing unitized 19
20 substances in paying quantities in each and every productive formation and 20
21 shall be as complete and adequate as the Supervisor may determine to be 21
22 necessary for timely development and proper conservation of the oil and gas 22
23 resources of the unitized area and shall: 23

24 (a) specify the number and locations of any wells to be 24
25 drilled and the proposed order and time for such drilling; 25
26 and 26

27 (b) to the extent practicable specify the operating 27
28 practices regarded as necessary and advisable for proper 28
29 conservation of natural resources. 29

30 Separate plans may be submitted for separate productive zones, subject to 30
31 the approval of the Supervisor. 31

32 Plans shall be modified or supplemented when necessary to meet 32
33 changed conditions or to protect the interests of all parties to this 33

1 agreement. Reasonable diligence shall be exercised in complying with the 1
2 obligations of the approved plan of development. The Supervisor is auth- 2
3 orized to grant a reasonable extension of the 6-month period herein prescrib- 3
4 ed for submission of an initial plan of development where such action is 4
5 justified because of unusual conditions or circumstances. After completion 5
6 hereunder of a well capable of producing any unitized substance in paying 6
7 quantities, no further wells, except such as may be necessary to afford pro- 7
8 tection against operations not under this agreement and such as may be 8
9 specifically approved by the Supervisor, shall be drilled except in accord- 9
10 ance with a plan of development approved as herein provided. 10

11 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable 11
12 of producing unitized substances in paying quantities or as soon thereafter 12
13 as required by the Supervisor, the Unit Operator shall submit for approval 13
14 by the Supervisor a schedule, based on subdivisions of the public-land 14
15 survey or aliquot parts thereof, of all land then regarded as reasonably 15
16 proved to be productive in paying quantities; all lands in said schedule on 16
17 approval of the Supervisor to constitute a participating area, effective as 17
18 of the date of completion of such well or the effective date of this unit 18
19 agreement, whichever is later. The acreages of both Federal and non-Federal 19
20 lands shall be based upon appropriate computations from the courses and 20
21 distances shown on the last approved public-land survey as of the effective 21
22 date of each initial participating area. Said schedule shall also set forth 22
23 the percentage of unitized substances to be allocated as herein provided to 23
24 each tract in the participating area so established, and shall govern the 24
25 allocation of production commencing with the effective date of the partici- 25
26 pating area. A separate participating area shall be established for each 26
27 separate pool or deposit of unitized substances or for any group thereof 27
28 which is produced as a single pool or zone, and any two or more participat- 28
29 ing areas so established may be combined into one, on approval of the 29
30 Supervisor. When production from two or more participating areas, so estab- 30
31 lished, is subsequently found to be from a common pool or deposit said 31
32 participating areas shall be combined into one effective as of such 32
33 appropriate date as may be approved or prescribed by the Supervisor. The 33

1 participating area or areas so established shall be revised from time to 1
2 time, subject to like approval, to include additional land then regarded as 2
3 reasonably proved to be productive in paying quantities or necessary for 3
4 unit operations, or to exclude land then regarded as reasonably proved not 4
5 to be productive in paying quantities and the schedule of allocation percent- 5
6 ages shall be revised accordingly. The effective date of any revision shall 6
7 be the first of the month in which is obtained the knowledge or information 7
8 on which such revision is predicated, provided, however, that a more appro- 8
9 priate effective date may be used if justified by the Unit Operator and 9
10 approved by the Supervisor. No land shall be excluded from a participating 10
11 area on account of depletion of the unitized substances, except that any 11
12 participating area established under the provisions of this unit agreement 12
13 shall terminate automatically whenever all completions in the formation on 13
14 which the participating area is based are abandoned. 14

15 It is the intent of this section that a participating area shall 15
16 represent the area known or reasonably estimated to be productive in paying 16
17 quantities; but, regardless of any revision of the participating area, 17
18 nothing herein contained shall be construed as requiring any retroactive ad- 18
19 justment for production obtained prior to the effective date of the revision 19
20 of the participating area. 20

21 In the absence of agreement at any time between the Unit Operator 21
22 and the Supervisor as to the proper definition or redefinition of a partici- 22
23 pating area, or until a participating area has, or areas have, been estab- 23
24 lished as provided herein, the portion of all payments affected thereby 24
25 shall be impounded in a manner mutually acceptable to the owners of working 25
26 interests and the Supervisor. Royalties due the United States shall be 26
27 determined by the Supervisor and the amount thereof shall be deposited, as 27
28 directed by the Supervisor, to be held as unearned money until a participat- 28
29 ing area is finally approved and then applied as earned or returned in 29
30 accordance with a determination of the sum due as Federal royalty on the 30
31 basis of such approved participating area. 31

32 Whenever it is determined, subject to the approval of the Supervisor, 32
33 that a well drilled under this agreement is not capable of production in 33

1 paying quantities and inclusion of the land on which it is situated in a 1
2 participating area is unwarranted, production from such well shall, for the 2
3 purposes of settlement among all parties other than working interest owners, 3
4 be allocated to the land on which the well is located unless such land is 4
5 already within the participating area established for the pool or deposit 5
6 from which such production is obtained. Settlement for working interest 6
7 benefits from such a well shall be made as provided in the unit operating 7
8 agreement. 8

9 Determination as to whether a well completed within the Unit Area 9
10 prior to the effective date of this agreement is capable of producing 10
11 unitized substances in paying quantities shall be deferred until an initial 11
12 participating area is established as a result of the completion of a well 12
13 for production in paying quantities in accordance with Section 9 hereof. 13

14 12. ALLOCATION OF PRODUCTION. All unitized substances produced from 14
15 each participating area established under this agreement, except any part 15
16 thereof used in conformity with good operating practices within the unitized 16
17 area for drilling, operating, camp and other production or development pur- 17
18 poses, for repressuring or recycling in accordance with a plan of develop- 18
19 ment approved by the Supervisor, or unavoidably lost, shall be deemed to be 19
20 produced equally on an acreage basis from the several tracts of unitized 20
21 land of the participating area established for such production and, for the 21
22 purpose of determining any benefits accruing under this agreement, each such 22
23 tract of unitized land shall have allocated to it such percentage of said 23
24 production as the number of acres of such tract included in said participat- 24
25 ing area bears to the total acres of unitized land in said participating 25
26 area, except that allocation of production hereunder for purposes other than 26
27 for settlement of the royalty, overriding royalty, or payment out of pro- 27
28 duction obligations of the respective working interest owners, shall be on the 28
29 basis prescribed in the unit operating agreement whether in conformity with 29
30 the basis of allocation herein set forth or otherwise. It is hereby agreed 30
31 that production of unitized substances from a participating area shall be 31
32 allocated as provided herein regardless of whether any wells are drilled on 32
33 any particular part or tract of said participating area. If any gas 33
34 produced from one participating area is used for repressuring or recycling 34
35 purposes in another participating area, the first gas withdrawn from such 35
36 last-mentioned participating area for sale during the life of this agreement 36
37 shall be considered to be the gas so transferred until an amount equal to 37

1 that transferred shall be so produced for sale and such gas shall be allo- 1
2 cated to the participating area from which initially produced as such area 2
3 was last defined at the time of such final production. 3

4 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. 4

5 Any party hereto owning or controlling the working interest in any unitized 5
6 land having thereon a regular well location may with the approval of the 6
7 Supervisor, at such party's sole risk, costs, and expense, drill a well to 7
8 test any formation for which a participating area has not been established 8
9 or to test any formation for which a participating area has been established 9
10 if such location is not within said participating area, unless within 90 days 10
11 of receipt of notice from said party of his intention to drill the well the 11
12 Unit Operator elects and commences to drill such a well in like manner as 12
13 other wells are drilled by the Unit Operator under this agreement. 13

14 If any well drilled as aforesaid by a working interest owner 14
15 results in production such that the land upon which it is situated may proper- 15
16 ly be included in a participating area, such participating area shall be 16
17 established or enlarged as provided in this agreement and the well shall 17
18 thereafter be operated by the Unit Operator in accordance with the terms of 18
19 this agreement and the unit operating agreement. 19

20 If any well drilled as aforesaid by a working interest owner obtains 20
21 production in quantities insufficient to justify the inclusion of the land 21
22 upon which such well is situated in a participating area, such well may be 22
23 operated and produced by the party drilling the same subject to the conser- 23
24 vation requirements of this agreement. The royalties in amount or value of 24
25 production from any such well shall be paid as specified in the underlying 25
26 lease and agreements affected. 26

27 14. ROYALTY SETTLEMENT. The United States and any State and any 27
28 royalty owner who, is entitled to take in kind a share of the substances 28
29 now unitized hereunder shall hereafter be entitled to the right to take in 29
30 kind its share of the unitized substances, and Unit Operator, or the working 30
31 interest owner in case of the operation of a well by a working interest 31
32 owner as herein provided for in special cases, shall make deliveries of such 32

1 royalty share taken in kind in conformity with the applicable contracts, 1
2 laws, and regulations. Settlement for royalty interest not taken in kind 2
3 shall be made by working interest owners responsible therefor under existing 3
4 contracts, laws and regulations, or by the Unit Operator on or before the 4
5 last day of each month for unitized substances produced during the preceding 5
6 calendar month; provided, however, that nothing herein contained shall oper- 6
7 ate to relieve the lessees of any land from their respective lease obliga- 7
8 tions for the payment of any royalties due under their leases. 8

9 If gas obtained from lands not subject to this agreement is intro- 9
10 duced into any participating area hereunder, for use in repressuring, 10
11 stimulation of production, or increasing ultimate recovery, in conformity 11
12 with a plan of operations approved by the Supervisor, a like amount of gas, 12
13 after settlement as herein provided for any gas transferred from any other 13
14 participating area and with appropriate deduction for loss from any cause, 14
15 may be withdrawn from the formation into which the gas is introduced, 15
16 royalty free as to dry gas, but not as to any products which may be extracted 16
17 therefrom; provided that such withdrawal shall be at such time as may be 17
18 provided in the approved plan of operations or as may otherwise be consented 18
19 to by the Supervisor as conforming to good petroleum engineering practice; 19
20 and provided further, that such right of withdrawal shall terminate on the 20
21 termination of this unit agreement. 21

22 Royalty due the United States shall be computed as provided in the 22
23 operating regulations and paid in value or delivered in kind as to all 23
24 unitized substances on the basis of the amounts thereof allocated to unitiz- 24
25 ed Federal land as provided herein at the rates specified in the respective 25
26 Federal leases, or at such lower rate or rates as may be authorized by law 26
27 or regulation; provided, that for leases on which the royalty rate depends 27
28 on the daily average production per well, said average production shall be 28
29 determined in accordance with the operating regulations as though each 29
30 participating area were a single consolidated lease. 30

31 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases 31
32 committed hereto shall be paid by working interest owners responsible 32
33 therefor under existing contracts, laws, and regulations, provided that 33

1 nothing herein contained shall operate to relieve the lessees of any land 1
2 from their respective lease obligations for the payment of any rental or 2
3 minimum royalty due under their leases. Rental or minimum royalty for lands 3
4 of the United States subject to this agreement shall be paid at the rate 4
5 specified in the respective leases from the United States unless such rental 5
6 or minimum royalty is waived, suspended, or reduced by law or by approval of 6
7 the Secretary or his duly authorized representative. 7

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

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

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

24 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, condi- 24
25 tions, and provisions of all leases, subleases, and other contracts relating 25
26 to exploration, drilling, development, or operation for oil or gas on lands 26
27 committed to this agreement are hereby expressly modified and amended to the 27
28 extent necessary to make the same conform to the provisions hereof, but 28
29 otherwise to remain in full force and effect; and the parties hereto hereby 29
30 consent that the Secretary shall and by his approval hereof, or by the 30
31 approval hereof by his duly authorized representative, does hereby establish, 31
32 alter, change, or revoke the drilling, producing, rental, minimum royalty, 32
33 and royalty requirements of Federal leases committed hereto and the regula- 33
34 tions in respect thereto to conform said requirements to the provisions of 34

1 this agreement, and, without limiting the generality of the foregoing, all 1
2 leases, subleases, and contracts are particularly modified in accordance 2
3 with the following: 3

4 (a) The development and operation of lands subject to this agreement 4
5 under the terms hereof shall be deemed full performance of all obli- 5
6 gations for development and operation with respect to each and every 6
7 separately owned tract subject to this agreement, regardless of 7
8 whether there is any development of any particular tract of the 8
9 unit area. 9

10 (b) Drilling and producing operations performed hereunder upon 10
11 any tract of unitized lands will be accepted and deemed to be 11
12 performed upon and for the benefit of each and every tract of 12
13 unitized land, and no lease shall be deemed to expire by reason 13
14 of failure to drill or produce wells situated on the land there- 14
15 in embraced. 15

16 (c) Suspension of drilling or producing operations on all unitized 16
17 lands pursuant to direction or consent of the Secretary or his duly 17
18 authorized representative shall be deemed to constitute such 18
19 suspension pursuant to such direction or consent as to each and 19
20 every tract of unitized land. A suspension of drilling or pro- 20
21 ducing operations limited to specified lands shall be applicable 21
22 only to such lands. 22

23 (d) Each lease, sublease or contract relating to the exploration, 23
24 drilling, development or operation for oil or gas of lands other 24
25 than those of the United States committed to this agreement, which, 25
26 by its terms might expire prior to the termination of this agree- 26
27 ment, is hereby extended beyond any such terms so provided therein 27
28 so that it shall be continued in full force and effect for and 28
29 during the term of this agreement. 29

30 (e) Any Federal lease for a fixed term of twenty (20) years or 30
31 any renewal thereof or any part of such lease which is made sub- 31
32 ject to this agreement shall continue in force beyond the term 32

1 provided therein until the termination hereof. Any other Federal 1
2 lease committed hereto shall continue in force beyond the term so 2
3 provided therein or by law as to the land committed so long as 3
4 such lease remains subject hereto, provided that production is 4
5 had in paying quantities under this unit agreement prior to the 5
6 expiration date of the term of such lease, or in the event actual 6
7 drilling operations are commenced on unitized land, in accordance 7
8 with the provisions of this agreement, prior to the end of the 8
9 primary term of such lease and are being diligently prosecuted 9
10 at that time, such lease shall be extended for two years and so 10
11 long thereafter as oil or gas is produced in paying quantities in 11
12 accordance with the provisions of the Mineral Leasing Act Revision 12
13 of 1960. 13

14 (f) Each sublease or contract relating to the operation and 14
15 development of unitized substances from lands of the United States 15
16 committed to this agreement, which by its terms would expire prior 16
17 to the time at which the underlying lease, as extended by the 17
18 immediately preceding paragraph, will expire, is hereby extended 18
19 beyond any such term so provided therein so that it shall be 19
20 continued in full force and effect for and during the term of the 20
21 underlying lease as such term is herein extended. 21

22 (g) The segregation of any Federal lease committed to this agree- 22
23 ment is governed by the following provision in the fourth paragraph 23
24 of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act 24
25 of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease 25
26 heretofore or hereafter committed to any such (unit) plan embrac- 26
27 ing lands that are in part within and in part outside of the area 27
28 covered by any such plan shall be segregated into separate leases 28
29 as to the lands committed and the lands not committed as of the 29
30 effective date of unitization: Provided, however, That any such 30
31 lease as to the nonunitized portion shall continue in force and 31
32 effect for the term thereof but for not less than two years from 32
33 the date of such segregation and so long thereafter as oil or 33
34 gas is produced in paying quantities." 34

1 (h) Any lease, other than a Federal lease, having only a portion 1
2 of its lands committed hereto shall be segregated as to the portion 2
3 committed and the portion not committed, and the provisions of such 3
4 lease shall apply separately to such segregated portions commencing 4
5 as of the effective date hereof. In the event any such lease pro- 5
6 vides for a lump-sum rental payment, such payment shall be prorated 6
7 between the portions so segregated in proportion to the acreage of 7
8 the respective tracts. 8

9 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed 9
10 to be covenants running with the land with respect to the interest of the 10
11 parties hereto and their successors in interest until this agreement termi- 11
12 nates, and any grant, transfer, or conveyance, of interest in land or 12
13 leases subject hereto shall be and hereby is conditioned upon the assumption 13
14 of all privileges and obligations hereunder by the grantee, transferee, or 14
15 other successor in interest. No assignment or transfer of any working 15
16 interest, royalty, or other interest subject hereto shall be binding upon 16
17 Unit Operator until the first day of the calendar month after Unit Operator 17
18 is furnished with the original, photostatic, or certified copy of the instru- 18
19 ment of transfer. 19

20 20. EFFECTIVE DATE AND TERM. This agreement shall become effective 20
21 upon approval by the Secretary or his duly authorized representative and 21
22 shall terminate five (5) years from said effective date unless 22

23 (a) such date of expiration is extended by the Director, or 23

24 (b) it is reasonably determined prior to the expiration of fixed 24
25 term or any extension thereof that the unitized land is incapable 25
26 of production of unitized substances in paying quantities in the 26
27 formations tested hereunder and after notice of intention to 27
28 terminate the agreement on such ground is given by the Unit 28
29 Operator to all parties in interest at their last known addresses, 29
30 the agreement is terminated with the approval of the Supervisor, or 30

31 (c) a valuable discovery of unitized substances has been made 31
32 or accepted on unitized land during said initial term or any exten- 32
33 sion thereof, in which event the agreement shall remain in effect 33

1 for such term and so long as unitized substances can be produced 1
2 in quantities sufficient to pay for the cost of producing same 2
3 from wells on unitized land within any participating area estab- 3
4 lished hereunder and, should production cease, so long thereafter 4
5 as diligent operations are in progress for the restoration of 5
6 production or discovery of new production and so long thereafter 6
7 as unitized substances so discovered can be produced as aforesaid, 7
8 or 8

9 (d) it is terminated as heretofore provided in this agree- 9
10 ment. 10

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

15 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is 1
16 hereby vested with authority to alter or modify from time to time in his 1
17 discretion the quantity and rate of production under this agreement when 1
18 such quantity and rate is not fixed pursuant to Federal or State law or does 1
19 not conform to any state-wide voluntary conservation or allocation program, 1
20 which is established, recognized, and generally adhered to by the majority 1
21 of operators in such State, such authority being hereby limited to altera- 1
22 tion or modification in the public interest, the purpose thereof and the 1
23 public interest to be served thereby to be stated in the order of alteration 1
24 or modification. Without regard to the foregoing, the Director is also 1
25 hereby vested with authority to alter or modify from time to time in his 1
26 discretion the rate of prospecting and development and the quantity and rate 1
27 of production under this agreement when such alteration or modification is 1
28 in the interest of attaining the conservation objectives stated in this 1
29 agreement and is not in violation of any applicable Federal or State law. 1

30 Powers in this section vested in the Director shall only be exercised 1
31 after notice to Unit Operator and opportunity for hearing to be held not less 1
32 than 15 days from notice. 1

1. 22. APPEARANCES. Unit Operator shall, after notice to other parties
2 affected, have the right to appear for and on behalf of any and all
3 interests affected hereby before the Department of the Interior and to appeal
4 from orders issued under the regulations of said Department or to apply for
5 relief from any of said regulations or in any proceedings relative to opera-
6 tions before the Department of the Interior or any other legally constituted
7 authority; provided, however, that any other interested party shall also
8 have the right at his own expense to be heard in any such proceeding.

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

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

24 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring
25 the Unit Operator to commence or continue drilling or to operate on or pro-
26 duce unitized substances from any of the lands covered by this agreement
27 shall be suspended while the Unit Operator, despite the exercise of due care
28 and diligence, is prevented from complying with such obligations, in whole
29 or in part, by strikes, acts of God, Federal, State, or municipal law or
30 agencies, unavoidable accidents, uncontrollable delays in transportation,
31 inability to obtain necessary materials in open market, or other matters
32 beyond the reasonable control of the Unit Operator whether similar to matters

1 herein enumerated or not. No unit obligation which is suspended under this
2 section shall become due less than thirty (30) days after it has been
3 determined that the suspension is no longer applicable. Determination of
4 creditable "Unavoidable Delay" time shall be made by the unit operator sub-
5 ject to approval of the Supervisor.

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

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

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

25 28. NON-NOINDER AND SUBSEQUENT JOINDER. If the owner of any substan-
26 tial interest in a tract within the unit area fails or refuses to subscribe
27 or consent to this agreement, the owner of the working interest in that
28 tract may withdraw said tract from this agreement by written notice delivered
29 to the Supervisor and the Unit Operator prior to the approval of this agree-
30 ment by the Supervisor. Any oil or gas interests in lands within the unit
31 area not committed hereto prior to submission of this agreement for final
32 approval may thereafter be committed hereto by the owner or owners thereof

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

22 29. COUNTERPARTS. This agreement may be executed in any number of 22
23 counterparts no one of which needs to be executed by all parties or may be 23
24 ratified or consented to by separate instrument in writing specifically 24
25 referring hereto and shall be binding upon all those parties who have exe- 25
26 cuted such a counterpart, ratification, or consent hereto with the same 26
27 force and effect as if all such parties had signed the same document and 27
28 regardless of whether or not it is executed by all other parties owning or 28
29 claiming an interest in the lands within the above-described unit area. 29

30 30. SURRENDER. Nothing in this agreement shall prohibit the exercise 30
31 by any working interest owner of the right to surrender vested in such 31
32 party by any lease, sublease, or operating agreement as to all or any part 32

1 of the lands covered thereby, provided that each party who will or might ac- 1
2 quire such working interest by such surrender or by forfeiture as hereafter 2
3 set forth, is bound by the terms of this agreement. 3

4 If as a result of any such surrender the working interest rights as to 4
5 such lands become vested in any party other than the fee owner of the 5
6 unitized substances, said party may forfeit such rights and further benefits 6
7 from operation hereunder as to said land to the party next in the chain of 7
8 title who shall be and become the owner of such working interest. 8

9 If as the result of any such surrender or forfeiture working interest 9
10 rights become vested in the fee owner of the unitized substances, such 1
11 owner may: 1

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

14 (2) Lease the portion of such land as is included in a participating 1
15 area established hereunder subject to this agreement and the unit 1
16 operating agreement. 1

17 (3) Provide for the independent operation of any part of such land 1
18 that are not then included within a participating area established 1
19 hereunder. 1

20 If the fee owner of the unitized substances does not accept the working 2
21 interest rights subject to this agreement and the unit operating agreement 2
22 or lease such lands as above provided within six (6) months after the 2
23 surrendered or forfeited working interest rights become vested in the fee 2
24 owner, the benefits and obligations of operations accruing to such lands 2
25 under this agreement and the unit operating agreement shall be shared by the 25
26 remaining owners of unitized working interests in accordance with their 26
27 respective working interest ownerships, and such owners of working interests 27
28 shall compensate the fee owner of unitized substances in such lands by pay- 28
29 ing sums equal to the rentals, minimum royalties, and royalties applicable 29
30 to such lands under the lease in effect when the lands were unitized. 30

31 An appropriate accounting and settlement shall be made for all benefits 31
32 accruing to or payments and expenditures made or incurred on behalf of such 32

1 surrendered or forfeited working interest subsequent to the date of surrender i
2 or forfeiture, and payment of any moneys found to be owing by such a. 2
3 accounting shall be made as between the parties within thirty (30) days. In 3
4 the event no unit operating agreement is in existence and a mutually accept- 4
5 able agreement between the proper parties thereto cannot be consummated, the 5
6 Supervisor may prescribe such reasonable and equitable agreement as he deems 6
7 warranted under the circumstances. 7

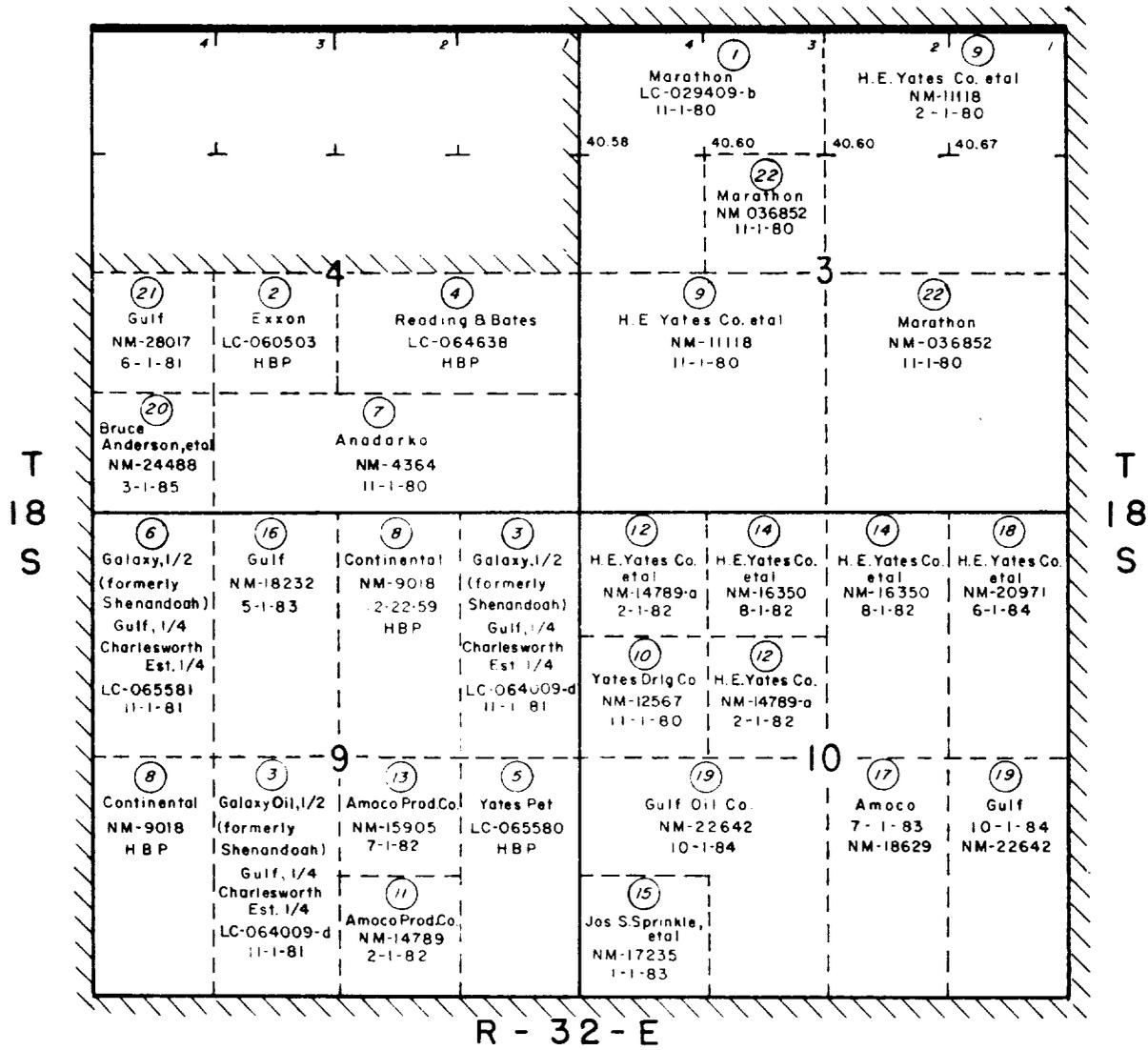
8 The exercise of any right vested in a working interest owner to reassign 8
9 such working interest to the party from whom obtained shall be subject to 9
10 the same conditions as set forth in this section in regard to the exercise 10
11 of a right to surrender. 11

12 31. TAXES. The working interest owners shall render and pay for their 12
13 account and the account of the royalty owners all valid taxes on or measured 13
14 by the unitized substances in and under or that may be produced, gathered 14
15 and sold from the land subject to this contract after the effective date of 15
16 this agreement, or upon the proceeds or net proceeds derived therefrom. The 16
17 working interest owners on each tract shall and may charge the proper pro- 17
18 portion of said taxes to the royalty owners having interests in said tract. 18
19 and may currently retain and deduct sufficient of the unitized substances or 19
20 derivative products, or net proceeds thereof from the allocated share of 20
21 each royalty owner to secure reimbursement for the taxes so paid. No such 21
22 taxes shall be charged to the United States or the State of _____ 22
23 NEW MEXICO or to any lessor who has a contract with his lessee which 23
24 requires the lessee to pay such taxes. 24

25 32. NO PARTNERSHIP. It is expressly agreed that the relation of the 25
26 parties hereto is that of independent contractors and nothing in this agree- 26
27 ment contained, expressed or implied, nor any operations conducted hereunder, 27
28 shall create or be deemed to have created a partnership or association 28
29 between the parties hereto or any of them. 29

30 33. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this 30
31 agreement shall modify or change either the special Federal Lease stipulations 31
32 relating to surface management or such special Federal Lease stipulations 32
33 relating to surface and environmental protection, attached to and made a 33
34 part of, Oil and Gas Leases covering lands within the Unit Area. 34

R - 32 - E



- //// Unit Outline
- ① Tract Number
- Federal Lands
2,242.45 ac., 100% of Unit Area

Scale: 1" = 2000'

EXHIBIT "A"

NORTH YOUNG DEEP UNIT AREA
LEA COUNTY, NEW MEXICO

EXHIBIT "B" - NORTH YOUNG DEEP UNIT AREA, LEA COUNTY, NEW MEXICO
 TOWNSHIP 18 SOUTH, RANGE 32 EAST, N.M.P.M.

(WORKING INTEREST OWNERSHIP BELOW 5000 FEET EXCEPT AS OTHERWISE NOTED)

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNER-SHIP (%)	LESSEE OF RECORD	OVERRIDING ROYALTY & PERCENTAGE	WORKING INTEREST OWNERSHIP
1	Sec. 3: Lots 3, 4, SW/4 NW/4	121.18	LC-029409-b 11-1-80	12.5 U.S.A.	Marathon Oil Company	5.0	Marathon Oil Company
2	Sec. 4: NE/4 SW/4	40.00	LC-060503 HBP	12.5 U.S.A.	Reading & Bates	5.0	Exxon Company, U.S.A.
3	Sec. 9: E/2 NE/4 & E/2 SW/4	160.00	LC-064009-d 11-1-81	12.5 U.S.A.	*Galaxy Oil Company Gulf Oil Corporation Charlesworth Estate	*1-A (1)	Galaxy Oil Company 50% Gulf Oil Corporation 25% Charlesworth Estate 25%
4	Sec. 4: N/2 SE/4	80.00	LC-064638 HBP	12.5 U.S.A.	Reading & Bates	2.5	Reading & Bates
5	Sec. 9: E/2 SE/4	80.00	LC-065580 HBP	12.5 U.S.A.	Yates Petroleum Corporation	2.0	Yates Petroleum Corporation
6	Sec. 9: W/2 NW/4	80.00	LC-065581 11-1-81	12.5 U.S.A.	*Galaxy Oil Company Gulf Oil Corporation Charlesworth Estate	*2-A (2)	Galaxy Oil Company 50% Gulf Oil Corporation 25% Charlesworth Estate 25%
7	Sec. 4: S/2 SE/4, SE/4 SW/4	120.00	NM-4364 11-1-80	12.5 U.S.A.	Anadarko Production Company	1.0	Anadarko Production Company
8	Sec. 9: W/2 NE/4 & W/2 SW/4	160.00	NM-9018 HBP	12.5 U.S.A.	Continental Oil Company	3.0	Continental Oil Company

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER & EXPIRATION DATE OF LEASE	BASIC ROYALTY		LESSEE OF RECORD	OVERRIDING ROYALTY & PERCENTAGE	WORKING INTEREST OWNERSHIP
				OWNER-SHIP (%)	ROYALTY			
9	Sec. 3: Lots 1, 2, S/2 NE/4 & SW/4	321.27	NM-11118 2-1-80	12.5 U.S.A.		Harvey E. Yates Company Coronado Exploration Corp. 85.0289% 14.9711%	6.0	Harvey E. Yates Company Coronado Exploration Corp. 85.0289% 14.9711%
10	Sec. 10: SW/4 NW/4	40.00	NM-12567 11-1-80	12.5 U.S.A.		Yates Drilling Company	5.0	Yates Drilling Company
11	Sec. 9: SW/4 SE/4	40.00	NM-14789 2-1-82	12.5 U.S.A.		Amoco Production Company	4.0	Amoco Production Company
12	Sec. 10: NW/4 NW/4 & SE/4 NW/4	80.00	NM-14789-A 2-1-82	12.5 U.S.A.		Harvey E. Yates Company Coronado Exploration Corp. 85.0289% 14.9711%	14.25	Harvey E. Yates Company Coronado Exploration Corp. 85.0289% 14.9711%
13	Sec. 9: NW/4 SE/4	40.00	NM-15905 7-1-82	12.5 U.S.A.		Amoco Production Company	5.0 (3)	Amoco Production Company
14	Sec. 10: W/2 NE/4 & NE/4 NW/4	120.00	NM-16350 8-1-82	12.5 U.S.A.		Harvey E. Yates Company Coronado Exploration Corp. 85.0289% 14.9711%	7.25	Harvey E. Yates Company Coronado Exploration Corp. 85.0289% 14.9711%
15	Sec. 10: SW/4 SW/4	40.00	NM-17235 1-1-83	12.5 U.S.A.		Joseph S. Sprinkle F. L. Shogrin James L. Hardin 25% 31.25% 37.50%	0.5	Joseph S. Sprinkle F. L. Shogrin James L. Hardin 25% 31.25% 37.50%
16	Sec. 9: E/2 NW/4	80.00	NM-18232 5-1-83	12.5 U.S.A.		Gulf Oil Corporation	5.0	Gulf Oil Corporation

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER & EXPIRATION DATE OF LEASE	BASIC		LESSEE OF RECORD	OVERRIDING ROYALTY & PERCENTAGE	WORKING INTEREST OWNERSHIP
				ROYALTY OWNER-SHIP (%)	ROYALTY PERCENTAGE			
17	Sec. 10: W/2 SE/4	80.00	NM-18629 7-1-83	12.5 U.S.A.	2.5	Amoco Production Company	2.5	Amoco Production Company
18	Sec. 10: E/2 NE/4	80.00	NM-20971 6-1-84	12.5 U.S.A.	6.0 (4)	Harvey E. Yates Company Coronado Exploration Corp.	85.0289% 14.9711%	Harvey E. Yates Company Coronado Exploration Corp. 14.9711%
19	Sec. 10: N/2 SW/4, SE/4 SW/4, 200.00 E/2 SE/4	200.00	NM-22642 10-1-84	12.5 U.S.A.	5.0	Gulf Oil Corporation	5.0	Gulf Oil Corporation
20	Sec. 4: SW/4 SW/4	40.00	NM-24488 3-1-85	12.5 U.S.A.	-0-	Bruce Anderson Richard L. Peterson	50% 50%	Bruce Anderson 50% Richard L. Peterson 50%
21	Sec. 4: NW/4 SW/4	40.00	NM-28017 6-1-81	12.5 U.S.A.	-0-	Gulf Oil Corporation	-0-	Gulf Oil Corporation
22	Sec. 3: SE/4 NW/4 & SE/4	200.00	NM-036852 11-1-80	12.5 U.S.A.	3.0	Marathon Oil Company	3.0	Marathon Oil Company

22 Federal Tracts 2242.45 acres being 100% of unit area

- (1) Production Payment of \$10,000.00 out of 1/16 of 8/8
- *1-A Formerly Owned by Shenandoah
- (2) Production Payment of \$2,000.00 out of 1/16 of 8/8
- *2-A Formerly Owned by Shenandoah
- (3) Production Payment of \$225.00 per acre out of 1 1/4% of 8/8
- (4) Production Payment of \$200.00 out of 1.25% of 8/8