

UNIT AGREEMENT
NORTH MESCALERO UNIT
LEA COUNTY, NEW MEXICO

TABLE OF CONTENTS

<u>Article Number</u>	<u>Title</u>	<u>Page</u>
None	Preliminary Recitals	1
1	Enabling Act and Regulations	2
2	Unit Area	2
3	Unitized Land and Unitized Substances	6
4	Unit Operator	6
5	Resignation or Removal of Unit Operator	6
6	Successor Unit Operator	8
7	Accounting Provisions and Unit Operating Agreement	8
8	Rights and Obligations of Unit Operator	9
9	Drilling to Discovery	10
10	Plan of Further Development and Operation	11
11	Participation After Discovery	13
12	Allocation of Production	16
13	Development or Operation of Non-Participating Land or Formations	17
14	Royalty Settlement	18
15	Rental Settlement	19
16	Conservation	20
17	Drainage	20
18	Leases and Contracts Conformed and Extended	20
19	Covenants Run with Land	24
20	Effective Date and Term	25
21	Rate of Prospecting	26
22	Conflict of Supervision	27
23	Appearances	27
24	Notices	28
25	No Waiver of Certain Rights	28

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 8
CASE NO. 7565
Submitted by Delta
Hearing Date 5/12/82

<u>Article Number</u>	<u>Title</u>	<u>Page</u>
26	Unavoidable Delay	28
27	Nondiscrimination	29
28	Loss of Title	29
29	Non-Joinder and Subsequent Joinder	30
30	Counterparts	31
31	No Partnership	31

EXHIBITS

EXHIBIT "A": Plat

EXHIBIT "B": Schedule of Lands and Leases

1	UNIT AGREEMENT	1
2	FOR THE DEVELOPMENT AND OPERATION	2
3	OF THE	3
4	NORTH MESCALERO UNIT	4
5	COUNTY OF LEA	5
6	STATE OF NEW MEXICO	6
7	No. _____	7
8	THIS AGREEMENT entered into as of the ____ day of	8
9	_____, 1982, by and between the parties subscribing,	9
10	ratifying or consenting hereto, and herein referred to as	10
11	the "parties hereto".	11
12	<u>WITNESSETH:</u>	12
13	WHEREAS, the parties hereto are the owners of working,	13
14	royalty or other oil and gas interests in the Unit Area sub-	14
15	ject to this agreement; and	15
16	WHEREAS, the Mineral Leasing Act of February 25, 1920,	16
17	41 Stat. 437, as amended, 30 U.S.C. Secs. 181 et seq.,	17
18	authorizes federal lessees and their representatives to	18
19	unite with each other or jointly or separately with others,	19
20	in collectively adopting and operating a cooperative or unit	20
21	plan of development or operation of any oil or gas pool,	21
22	field, or like area, or any part thereof for the purpose of	22
23	more properly conserving the natural resources thereof when-	23
24	ever determined and certified by the Secretary of the	24
25	Interior to be necessary or advisable in the public	25
26	interest; and	26
27	WHEREAS, the Commissioner of Public Lands of the State	27
28	of New Mexico is authorized by an Act of the Legislature	28
29	(Sec. 7-11-39 N.M. Statutes 1953 Annotated) to consent to or	29
30	approve this agreement on behalf of the State of New Mexico,	30
31	insofar as it covers and includes lands and mineral	31
32	interests of the State of New Mexico; and	32
33	WHEREAS, the Oil Conservation Division of the State of	33

1 New Mexico is authorized by an Act of the Legislature 1
2 (Article 3, Chapter 65, Vol. 9, Part 2, 1953 Statutes) to 2
3 approve this agreement and the conservation provisions 3
4 hereof; and 4

5 WHEREAS, the parties hereto hold sufficient interests in 5
6 the North Mescalero Unit Area covering the land hereinafter 6
7 described to give reasonably effective control of operations 7
8 therein; and 8

9 WHEREAS, it is the purpose of the parties hereto to con- 9
10 serve natural resources, prevent waste, and secure other 10
11 benefits obtainable through development and operation of the 11
12 area subject to this agreement under the terms, conditions 12
13 and limitations herein set forth; 13

14 NOW, THEREFORE, in consideration of the premises and the 14
15 promises herein contained, the parties hereto commit to this 15
16 agreement their respective interests in the below-defined 16
17 Unit Area, and agree severally among themselves as follows: 17

18 1. ENABLING ACT AND REGULATIONS. The Mineral Lease 18
19 Act of February 25, 1920, as amended, supra, and all valid 19
20 pertinent regulations, including operating and unit plan 20
21 regulations, heretofore issued thereunder or valid, per- 21
22 tinent and reasonable regulations hereafter issued 22
23 thereunder are accepted and made a part of this agreement as 23
24 to federal lands, provided such regulations are not incon- 24
25 sistent with the terms of this agreement; and as to non- 25
26 federal lands, the oil and gas operating regulations in 26
27 effect as of the effective date hereof governing drilling 27
28 and producing operations, not inconsistent with the terms 28
29 hereof or the laws of the State of which the non-federal 29
30 land is located, are hereby accepted and made a part of this 30
31 agreement. 31

32 2. UNIT AREA. The area specified on the map attached 32
33 hereto marked Exhibit "A" is hereby designated and 33

1 recognized as constituting the Unit Area, containing 1
2 959.77 acres, more or less. 2

3 Exhibit "A" shows, in addition to the boundary of the 3
4 Unit Area, the boundaries and identity of tracts and leases 4
5 in said area to the extent known to the Unit Operator. 5
6 Exhibit "B" attached hereto is a schedule showing, to the 6
7 extent known to the Unit Operator, the acreage, percentage, 7
8 and kind of ownership of oil and gas interests in all land 8
9 in the Unit Area. However, nothing herein or in said sche- 9
10 dule or map shall be construed as a representation by any 10
11 party hereto as to the ownership of any interest other than 11
12 such interest or interests as are shown in said map or sche- 12
13 dule as owned by such party. Exhibits "A" and "B" shall be 13
14 revised by the Unit Operator whenever changes in the Unit 14
15 Area render such revision necessary, or when requested by 15
16 the Oil and Gas Supervisor, hereinafter referred to as 16
17 "Supervisor", or when requested by the Commissioner of 17
18 Public Lands of the State of New Mexico, hereinafter 18
19 referred to as "Commissioner", and not less than five copies 19
20 of the revised exhibits shall be filed with the Supervisor, 20
21 and two copies thereof shall be filed with the Commissioner, 21
22 and one copy with the New Mexico Oil Conservation Division, 22
23 hereinafter referred to as "Division". 23

24 The above described Unit Area shall when practicable be 24
25 expanded to include therein any additional lands or shall be 25
26 contracted to exclude lands whenever such expansion or 26
27 contraction is deemed to be necessary or advisable to con- 27
28 form with the purposes of this agreement. Such expansion or 28
29 contraction shall be effected in the following manner. 29

30 (a) Unit Operator, on its own motion or on demand of 30
31 the Director of the Geological Survey, hereinafter referred 31
32 to as "Director", or on demand of the Commissioner, after 32
33 preliminary concurrence by the Director and the 33

1 Commissioner, shall prepare a notice of proposed expansion 1
2 or contraction describing the contemplated changes in the 2
3 boundaries of the Unit Area, the reasons therefor, and the 3
4 proposed effective date therefor, preferably the first day 4
5 of a month subsequent to the date of notice. 5

6 (b) Said notice shall be delivered to the Supervisor, 6
7 the Commissioner and the Division and copies thereof mailed 7
8 to the last known address of each working interest owner, 8
9 lessee, and lessor whose interests are affected, advising 9
10 that thirty (30) days will be allowed for submission to the 10
11 Unit Operator of any objections. 11

12 (c) Upon expiration of the thirty (30) day period pro- 12
13 vided in the preceding item (b) hereof, Unit Operator shall 13
14 file with the Supervisor, the Commissioner and the Division 14
15 evidence of mailing of the notice of expansion or contrac- 15
16 tion and a copy of any objections thereto which have been 16
17 filed with the Unit Operator, together with an application 17
18 in sufficient number, for approval of such expansion or 18
19 contraction and with appropriate joinders. 19

20 (d) After due consideration of all pertinent 20
21 information, the expansion or contraction shall, upon appro- 21
22 val by the Supervisor, the Commissioner and the Division, 22
23 become effective as of the date prescribed in the notice 23
24 thereof. 24

25 (e) All legal subdivisions of land (i.e., 40 acres by 25
26 Government survey or its nearest lot or tract equivalent; in 26
27 instances of irregular surveys, unusually large lots or 27
28 tracts shall be considered in multiples of 40 acres or the 28
29 nearest aliquot equivalent thereof), no parts of which are 29
30 entitled to be in a participating area on or before the 30
31 fifth anniversary of the effective date of the first initial 31
32 participating area established under this Unit Agreement, 32
33 shall be eliminated automatically from this agreement, 33

1 effective as of said fifth anniversary, and such lands shall 1
2 no longer be a part of the Unit Area and shall no longer be 2
3 subject to this agreement, unless diligent drilling opera- 3
4 tions are in progress on unitized lands not entitled to par- 4
5 ticipation on said fifth anniversary, in which event all 5
6 such lands shall remain subject hereto so long as such 6
7 drilling operations are continued diligently with not more 7
8 than ninety (90) days' time elapsing between the completion 8
9 of one such well and the commencement of the next such well. 9
10 All legal subdivisions of lands not entitled to be in a par- 10
11 ticipating area within ten (10) years after the effective 11
12 date of the first initial participating area approved under 12
13 this agreement shall be automatically eliminated from this 13
14 agreement as of said tenth anniversary. All lands proved 14
15 productive by diligent drilling operations after the 15
16 aforesaid five (5) year period shall become participating in 16
17 the same manner as during said five (5) year period. 17
18 However, when such diligent drilling operations cease, all 18
19 non-participating lands shall be automatically eliminated 19
20 effective as of the 91st day thereafter. The Unit Operator 20
21 shall, within ninety (90) days after the effective date of 21
22 any elimination hereunder, describe the area so eliminated 22
23 to the satisfaction of the Supervisor and the Commissioner, 23
24 and promptly notify all parties in interest. 24
25 If conditions warrant extension of the ten (10) year 25
26 period specified in this subsection 2(e), a single extension 26
27 of not to exceed two (2) years may be accomplished by con- 27
28 sent of the owners of ninety percent (90%) of the working 28
29 interests in the current non-participating unitized lands 29
30 and the owners of sixty percent (60%) of the basic royalty 30
31 interests (exclusive of the basic royalty interests of the 31
32 United States) in non-participating unitized lands with 32
33 approval of the Director and Commissioner, provided such 33

1 extension application is submitted to the Director and 1
2 Commissioner not later than sixty (60) days prior to the 2
3 expiration of said ten (10) year period. 3

4 Any expansion of the Unit Area pursuant to this section 4
5 which embraces land theretofore eliminated pursuant to this 5
6 subsection 2(e) shall not be considered automatic commitment 6
7 or recommitment of such lands. 7

8 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land 8
9 committed to this agreement shall constitute land referred 9
10 to herein as "unitized land" or "land subject to this 10
11 agreement". All oil and gas in any and all formations of 11
12 the unitized land are unitized under the terms of this 12
13 agreement and herein are called "unitized substances". 13

14 4. UNIT OPERATOR. Delta Drilling Company is hereby 14
15 designated as Unit Operator and by signature hereto as Unit 15
16 Operator agree and consent to accept the duties and obliga- 16
17 tions of Unit Operator for the discovery, development, and 17
18 production of unitized substances as herein provided. 18
19 Whenever reference is made herein to the Unit Operator, such 19
20 reference means the Unit Operator acting in that capacity 20
21 and not as an owner of interest in unitized substances, and 21
22 the term "working interest owner" when used herein shall 22
23 include or refer to Unit Operator as the owner of a working 23
24 interest when such an interest is owned by it. 24

25 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit 25
26 Operator shall have the right to resign at any time prior to 26
27 the establishment of a participating area or areas 27
28 hereunder, but such resignation shall not become effective 28
29 so as to release Unit Operator from the duties and obliga- 29
30 tions of Unit Operator and terminate Unit Operator's rights 30
31 as such for a period of six (6) months after notice of 31
32 intention to resign has been served by Unit Operator on all 32
33 working interest owners and the Supervisor, the Commissioner 33

1 and the Division, and until all wells then drilled hereunder 1
2 are placed in a satisfactory condition for suspension or 2
3 abandonment, whichever is required by the Supervisor as to 3
4 federal lands and by the Commissioner as to state and priva- 4
5 tely owned lands, unless a new Unit Operator shall have been 5
6 selected and approved and shall have taken over and assumed 6
7 the duties and obligations of Unit Operator prior to the 7
8 expiration of said period. 8

9 Unit Operator shall have the right to resign in like 9
10 manner and subject to like limitations as above provided at 10
11 any time a participating area established hereunder is in 11
12 existence, but, in all instances of resignation or removal, 12
13 until a successor Unit Operator is selected and approved as 13
14 hereinafter provided, the working interest owners shall be 14
15 jointly responsible for performance of the duties of the 15
16 Unit Operator, and shall, not later than thirty (30) days 16
17 before such resignation or removal becomes effective, 17
18 appoint a common agent to represent them in any action to be 18
19 taken hereunder. 19

20 The resignation of Unit Operator shall not release Unit 20
21 Operator from any liability for any default by it hereunder 21
22 occurring prior to the effective date of its resignation. 22

23 The Unit Operator may, upon default or failure in the 23
24 performance of its duties or obligations hereunder, be sub- 24
25 ject to removal by the same percentage vote of the owners of 25
26 working interests as herein provided for the selection of a 26
27 new Unit Operator. Such removal shall be effective upon 27
28 notice thereof to the Supervisor and the Commissioner. 28

29 The resignation or removal of Unit Operator under this 29
30 agreement shall not terminate its rights, title or interest 30
31 as the owner of a working interest or other interest in uni- 31
32 tized substances, but upon the resignation or removal of 32
33 Unit Operator becoming effective, such Unit Operator shall 33

1 deliver possession of all wells, equipment, materials and 1
2 appurtenances used in conducting the unit operations to the 2
3 new duly qualified successor Unit Operator or to the common 3
4 agent, if no such new Unit Operator is elected, to be used 4
5 for the purpose of conducting unit operations hereunder. 5
6 Nothing herein shall be construed as authorizing removal of 6
7 any material, equipment and appurtenances needed for the 7
8 preservation of any wells. 8

9 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit 9
10 Operator shall tender his or its resignation as Unit 10
11 Operator or shall be removed as hereinabove provided, or a 11
12 change of Unit Operator is negotiated by working interest 12
13 owners, the owners of the working interests in the par- 13
14 ticipating area or areas according to their respective 14
15 acreage interests in such participating area or areas, or, 15
16 until a participating area shall have been established, the 16
17 owners of the working interests according to their respec- 17
18 tive acreage interests in all unitized land, shall by 18
19 majority vote select a successor Unit Operator: Provided, 19
20 that, if a majority but less than seventy-five percent (75%) 20
21 of the working interests qualified to vote are owned by one 21
22 party to this agreement, a concurring vote of one or more 22
23 additional working interest owners shall be required to 23
24 select a new Operator. Such selection shall not become 24
25 effective until 25

26 (a) a Unit Operator so selected shall accept in writing 26
27 the duties and responsibilities of Unit Operator, and 27

28 (b) the selection shall have been approved by the 28
29 Supervisor and the Commissioner. 29

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

33 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. 33

1 If the Unit Operator is not the sole owner of working 1
2 interest, costs and expenses incurred by Unit Operator in 2
3 conducting unit operations hereunder shall be paid and 3
4 apportioned among and borne by the owners of working 4
5 interests, all in accordance with the agreement or agreements 5
6 entered into by and between the Unit Operator and the owners 6
7 of working interest, whether one or more, separately or 7
8 collectively. Any agreement or agreements entered into bet- 8
9 ween the working interest owners and the Unit Operator as 9
10 provided in this section, whether one or more, are herein 10
11 referred to as the "unit operating agreement". Such unit 11
12 operating agreement shall also provide the manner in which 12
13 the working interest owners shall be entitled to receive 13
14 their respective proportionate and allocated share of the 14
15 benefits accruing hereto in conformity with their underlying 15
16 operating agreements, leases, or other independent 16
17 contracts, and such other rights and obligations as between 17
18 Unit Operator and the working interest owners as may be 18
19 agreed upon by Unit Operator and the working interest 19
20 owners; however, no such unit operating agreement shall be 20
21 deemed either to modify any of the terms and conditions of 21
22 this unit agreement or to relieve the Unit Operator of any 22
23 right or obligation established under this unit agreement, 23
24 and in case of any inconsistency or conflict between this 24
25 unit agreement and the unit operating agreement, this unit 25
26 agreement shall govern. Three true copies of any unit 26
27 operating agreement executed pursuant to this section should 27
28 be filed with the Supervisor and one true copy with the 28
29 Commissioner and one true copy with the Division, prior to 29
30 approval of this unit agreement. 30

31 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as 31
32 otherwise specifically provided herein, the exclusive right, 32
33 privilege, and duty of exercising any and all rights of the 33

1 parties hereto which are necessary or convenient for 1
2 prospecting, for producing, storing, allocating, and distri- 2
3 buting the unitized substances are hereby delegated to and 3
4 shall be exercised by the Unit Operator as herein provided. 4
5 Acceptable evidence of title to said rights shall be depo- 5
6 sited with said Unit Operator and, together with this 6
7 agreement, shall constitute and define the rights, 7
8 privileges, and obligations of Unit Operator. Nothing 8
9 herein, however, shall be construed to transfer title to 9
10 any land or to any lease or operating agreement, it being 10
11 understood that under this agreement the Unit Operator, in 11
12 its capacity as Unit Operator, shall exercise the rights of 12
13 possession and use vested in the parties hereto only for the 13
14 purposes herein specified. 14

15 9. DRILLING TO DISCOVERY. Within six (6) months after 15
16 the effective date hereof, the Unit Operator shall begin to 16
17 drill an adequate test well at a location approved by the 17
18 Supervisor if on federal land, or by the Commissioner if on 18
19 state land, or by the Division if on fee land, unless on 19
20 such effective date a well is being drilled conformably with 20
21 the terms hereof, and thereafter continue such drilling 21
22 diligently until the Mississippian formation has been 22
23 tested or until at a lesser depth unitized substances shall 23
24 be discovered which can be produced in paying quantities 24
25 (to-wit: quantities sufficient to repay the costs of 25
26 drilling, completing, and producing operations, with a 26
27 reasonable profit) or the Unit Operator shall at any time 27
28 establish to the satisfaction of the Supervisor if located 28
29 on federal lands, or the Commissioner if located on state 29
30 lands, or the Division if located on fee lands, that further 30
31 drilling of said well would be unwarranted or impracticable, 31
32 provided, however, that Unit Operator shall not in any event 32
33 be required to drill said well to a depth in excess of 33

1 18,000 feet. Until the discovery of a deposit of unitized 1
2 substances capable of being producing in paying quantities, 2
3 the Unit Operator shall continue drilling one well at a 3
4 time, allowing not more than six (6) months between the 4
5 completion of one well and the beginning of the next well, 5
6 until a well capable of producing unitized substances in 6
7 paying quantities is completed to the satisfaction of said 7
8 Supervisor if on federal land, or the Commissioner if on 8
9 state land, or the Division if on fee land, or until it is 9
10 reasonably provided that the unitized land is incapable of 10
11 producing unitized substances in paying quantities in the 11
12 formations drilled hereunder. Nothing in this section shall 12
13 be deemed to limit the right of the Unit Operator to resign 13
14 as provided in Section 5 hereof, or as requiring Unit 14
15 Operator to commence or continue any drilling during the 15
16 period pending such resignation becoming effective in order 16
17 to comply with the requirements of this section. The 17
18 Supervisor and Commissioner may modify the drilling require- 18
19 ments of this section by granting reasonable extensions of 19
20 time when, in their opinion, such action is warranted. Upon 20
21 failure to commence any well provided for in this section 21
22 with the time allowed, including any extension of time 22
23 granted by the Supervisor and Commissioner, this agreement 23
24 will automatically terminate; upon failure to continue 24
25 drilling diligently any well commenced hereunder, the 25
26 Supervisor and Commissioner may, after fifteen (15) days' 26
27 notice to the Unit Operator, declare this unit agreement 27
28 terminated. 28

29 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 29
30 six (6) months after completion of a well capable of pro- 30
31 ducing unitized substances in paying quantities, the Unit 31
32 Operator shall submit for the approval of the Supervisor and 32
33 the Commissioner an acceptable plan of development and 33

1 operation for the unitized land which, when approved by the 1
2 Supervisor and the Commissioner, shall constitute the 2
3 further drilling and operation obligations of the Unit 3
4 Operator under this agreement for the period specified 4
5 therein. Thereafter, from time to time before the expira- 5
6 tion of any existing plan, the Unit Operator shall submit 6
7 for the approval of the Supervisor and the Commissioner a 7
8 plan for an additional specified period for the development 8
9 and operation of the unitized land. 9

10 Any plan submitted pursuant to this section shall pro- 10
11 vide for the exploration of the unitized area and for the 11
12 diligent drilling necessary for determination of the area or 12
13 areas thereof capable of producing unitized substances in 13
14 paying quantities in each and every productive formation and 14
15 shall be as complete and adequate as the Supervisor, the 15
16 Commissioner and Division may determine to be necessary for 16
17 timely development and proper conservation of the oil and 17
18 gas resources of the unitized area and shall: 18

19 (a) specify the number and locations of any 19
20 wells to be drilled and the proposed order 20
21 and time for such drilling; and 21

22 (b) to the extent practicable, specify the 22
23 operating practices regarded as necessary and 23
24 advisable for proper conservation of natural 24
25 resources. 25

26 Separate plans may be submitted for separate productive 26
27 zones, subject to the approval of the Supervisor, the 27
28 Commissioner and the Division. 28

29 Plans shall be modified or supplemented when necessary 29
30 to meet changed conditions or to protect the interests of 30
31 all parties to this agreement. Reasonable diligence shall 31
32 be exercised in complying with the obligations of the 32
33 approved plan of development. The Supervisor and 33

1 Commissioner are authorized to grant a reasonable extension 1
2 of the six (6) month period herein prescribed for submission 2
3 of an initial plan of development where such action is 3
4 justified because of unusual conditions or circumstances. 4
5 After completion hereunder of a well capable of producing 5
6 any unitized substances in paying quantities, no further 6
7 wells, except such as may be necessary to afford protection 7
8 against operations not under this agreement and such as may 8
9 be specifically approved by the Supervisor and the 9
10 Commissioner, shall be drilled except in accordance with a 10
11 plan of development approved as herein provided. 11

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

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

29 It is the intent of this section that a participating 29
30 area shall represent the area known or reasonably estimated 30
31 to be productive in paying quantities, but, regardless of 31
32 any revision of the participating area, nothing herein con- 32
33 tained shall be construed as requiring any retroactive 33

1 adjustment for production obtained prior to the effective 1
2 date of the revision of the participating area. 2

3 In the absence of agreement at any time between the Unit 3
4 Operator and the Supervisor and Commissioner as to the 4
5 proper definition or redefinition of a participating area, 5
6 or until a participating area has, or areas have, been 6
7 established as provided herein, the portion of all payments 7
8 affected thereby shall be impounded in a manner mutually 8
9 acceptable to the owners of working interests and the 9
10 Supervisor and Commissioner. Royalties due the United 10
11 States and the State of New Mexico, which shall be deter- 11
12 mined by the Supervisor for federal land and the 12
13 Commissioner for state land and the amount thereof shall be 13
14 deposited, as directed by the Supervisor and Commissioner 14
15 respectively, to be held as unearned money until a par- 15
16 ticipating area is finally approved and then applied as 16
17 earned or returned in accordance with a determination of the 17
18 sum due as federal and state royalty on the basis of such 18
19 approved participating area. 19

20 Whenever it is determined, subject to the approval of 20
21 the Supervisor as to wells drilled on federal land and of 21
22 the Commissioner as to wells drilled on State land, that a 22
23 well drilled under this agreement is not capable of produc- 23
24 tion in paying quantities and inclusion of the land on which 24
25 it is situated in a participating area is unwarranted, pro- 25
26 duction from such well shall, for the purposes of settlement 26
27 among all parties other than working interest owners, be 27
28 allocated to the land on which the well is located unless 28
29 such land is already within the participating area 29
30 established for the pool or deposit from which such produc- 30
31 tion is obtained. Settlement for working interest benefits 31
32 from such a well shall be made as provided in the unit 32
33 operating agreement. 33

1 12. ALLOCATION OF PRODUCTION. All unitized substances 1
2 produced from each participating area established under this 2
3 agreement, except any part thereof used in conformity with 3
4 good operating practices within the unitized area for 4
5 drilling, operating, camp and other production or develop- 5
6 ment purposes, for repressuring or recycling in accordance 6
7 with a plan of development approved by the Supervisor and 7
8 Commissioner, or unavoidably lost, shall be deemed to be 8
9 produced equally on an acreage basis from the several tracts 9
10 of unitized land of the participating area established for 10
11 such production and, for the purpose of determining any bene- 11
12 fits accruing under this agreement, each such tract of uni- 12
13 tized land shall have allocated to it such percentage of 13
14 said production as the number of acres of such tract included 14
15 in said participating area bears to the total acres of uni- 15
16 tized land in said participating area, except that alloca- 16
17 tion of production hereunder, for purposes other than for 17
18 settlement of the royalty, overriding royalty, or payment 18
19 out of production obligations of the respective working 19
20 interest owners, shall be on the basis prescribed in the 20
21 unit operating agreement whether in conformity with the 21
22 basis of allocation herein set forth or otherwise. It is 22
23 hereby agreed that production of unitized substances from a 23
24 participating area shall be allocated as provided herein 24
25 regardless of whether any wells are drilled on any par- 25
26 ticular part or tract of said participating area. If any gas 26
27 produced from one participating area is used for 27
28 repressuring or recycling purposes in another participating 28
29 area, the first gas withdrawn from such last-mentioned par- 29
30 ticipating area for sale during the life of this agreement 30
31 shall be considered to be the gas so transferred until an 31
32 amount equal to that transferred shall be so produced from 32
33 sale and such gas shall be allocated to the participating 33

1 area from which initially produced as such area was last 1
2 defined at the time of such final production. 2

3 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND 3
4 OR FORMATIONS. Any party hereto owning or controlling the 4
5 working interest in any unitized land having thereon a regu- 5
6 lar well location may with the approval of the Supervisor as 6
7 to federal land, the Commissioner as to state land, and the 7
8 Division as to privately owned land, at such party's sole 8
9 risk cost and expense, drill a well to test any formation 9
10 for which a participating area has not been established or 10
11 to test any formation for which a participating area has 11
12 been established if such location is not within said par- 12
13 ticipating area, unless within ninety (90) days of receipt 13
14 of notice from said party of his intention to drill the well 14
15 the Unit Operator elects and commences to drill such a well 15
16 in like manner as other wells are drilled by the Unit 16
17 Operator under this agreement. 17

18 If any well drilled as aforesaid by a working interest 18
19 owner results in production such that the land upon which it 19
20 is situated may properly be included in a participating 20
21 area, such participating area shall be established or 21
22 enlarged as provided in this agreement and the well shall 22
23 thereafter be operated by the Unit Operator in accordance 23
24 with the terms of this agreement and the unit operating 24
25 agreement. 25

26 If any well drilled as aforesaid by a working interest 26
27 owner obtains production in quantities insufficient to 27
28 justify the inclusion of the land upon which such well is 28
29 situated in a participating area, such well may be operated 29
30 and produced by the party drilling the same subject to the 30
31 conservation requirements of this agreement. The royalties 31
32 in amount or value of production from any such well shall be 32
33 paid as specified in the underlying lease and agreements 33

1 affected. 1

2 14. ROYALTY SETTLEMENT. The United States and any 2

3 State and any royalty owner who is entitled to take in kind 3

4 a share of the substances now unitized hereunder shall 4

5 hereafter be entitled to the right to take in kind its share 5

6 of the unitized substances, and the Unit Operator, or the 6

7 working interest owner in case of the operation of a well by 7

8 a working interest owner as herein provided for in special 8

9 cases, shall make deliveries of such royalty share taken in 9

10 kind in conformity with the applicable contracts, laws and 10

11 regulations. Settlement for royalty interest not taken in 11

12 kind shall be made by working interest owners responsible 12

13 therefor under existing contracts, laws and regulations, or 13

14 by the Unit Operator, on or before the last day of each 14

15 month for unitized substances produced during the preceding 15

16 calendar month; provided, however, that nothing herein con- 16

17 tained shall operate to relieve the lessees of any land from 17

18 their respective lease obligations for the payment of any 18

19 royalties due under their leases. 19

20 If gas obtained from lands not subject to this agreement 20

21 is introduced into any participating area hereunder, for use 21

22 in repressuring, stimulation or production, or increasing 22

23 ultimate recovery, in conformity with a plan of operations 23

24 approved by the Supervisor, the Commissioner, and Division, 24

25 a like amount of gas, after settlement as herein provided 25

26 for any gas transferred from any other participating area 26

27 and with appropriate deduction for loss from any case, may 27

28 be withdrawn from the formation in which the gas is 28

29 introduced, royalty free as to dry gas, but not as to any 29

30 products which may be extracted therefrom; provided that 30

31 such withdrawal shall be at such time as may be provided in 31

32 the approved plan of operations or as may otherwise be con- 32

33 sented to by the Supervisor, the Commissioner and Division 33

1 as conforming to good petroleum engineering practice; and 1
2 provided further, that such right of withdrawal shall ter- 2
3minate on the termination of this unit agreement. 3

4 Royalty due the United States shall be computed as pro- 4
5vided in the operating regulations and paid in value or 5
6delivered in kind as to all unitized substances on the basis 6
7of the amounts thereof allocated to unitized federal land as 7
8provided herein at the rate specified in the respective 8
9federal leases, or at such lower rate or rates as may be 9
10authorized by law or regulation; provided, that for leases 10
11on which the royalty rate depends on the daily average pro- 11
12duction per well, said average production shall be deter- 12
13mined in accordance with the operating regulations. 13

14 Royalty due on account of state lands shall be computed 14
15and paid on the basis of all unitized substances allocated 15
16to such lands. 16

17 15. RENTAL SETTLEMENT. Rental or minimum royalties due 17
18on leases committed hereto shall be paid by working interest 18
19owners responsible therefor under existing contracts, laws 19
20and regulations, provided that nothing herein contained 20
21shall operate to relieve the lessees of any land from their 21
22respective lease obligations for the payment of any rental 22
23or minimum royalty due under their leases. Rental or mini- 23
24mum royalty for lands of the United States subject to this 24
25agreement shall be paid at the rate specified in the respec- 25
26tive leases from the United States unless such rental or 26
27minimum royalty is waived, suspended or reduced by law or by 27
28approval of the Secretary or his duly authorized 28
29representative. 29

30 Rentals on State of New Mexico lands subject to this 30
31agreement shall be paid at the rates specified in the 31
32respective leases. 32

33 With respect to any lease on non-federal land containing 33

1 provisions which would terminate such lease unless drilling 1
2 operations are commenced upon the land covered thereby 2
3 within the time therein specified or rentals are paid for 3
4 the privilege of deferring such drilling operations, the 4
5 rentals required thereby shall, notwithstanding any other 5
6 provisions of this agreement, be deemed to accrue and become 6
7 payable during the term thereof as extended by this 7
8 agreement and until the required drilling operations are 8
9 commenced upon the land covered thereby or until some por- 9
10 tion of such land is included within a participating area. 10
11 16. CONSERVATION. Operations hereunder and production 11
12 of unitized substances shall be conducted to provide for the 12
13 most economical and efficient recovery of said substances 13
14 without waste, as defined by or pursuant to state or federal 14
15 laws or regulations. 15
16 17. DRAINAGE. The Unit Operator shall take such 16
17 measures as the Supervisor and Commissioner deem appropriate 17
18 and adequate to prevent drainage of unitized substances from 18
19 unitized land by wells on land not subject to this 19
20 agreement. 20
21 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The 21
22 terms, conditions and provisions of all leases, subleases 22
23 and other contracts relating to exploration, drilling, deve- 23
24 lopment or operations for oil or gas on lands committed to 24
25 this agreement are hereby expressly modified and amended to 25
26 the extent necessary to make the same conform to the provi- 26
27 sions hereof, but otherwise to remain in full force and 27
28 effect; and the parties hereto hereby consent that the 28
29 Secretary as to federal leases and the Commissioner as to 29
30 state leases shall, and each by his approval hereof, or by 30
31 the approval hereof by their duly authorized 31
32 representatives, do hereby establish, alter, change or 32
33 revoke the drilling, producing, rental, minimum royalty and 33

1 royalty requirements of federal and state leases committed 1
2 hereto and the regulations in respect thereto to conform 2
3 said requirements to the provisions of this agreement, and, 3
4 without limiting the generality of the foregoing, all 4
5 leases, subleases, and contracts are particularly modified 5
6 in accordance with the following: 6

7 (a) The development and operation of land subject to 7
8 this agreement under the terms hereof shall be deemed 8
9 full performance of all obligations for development and 9
10 operation with respect to each and every separately 10
11 owned tract subject to this agreement, regardless of 11
12 whether there is any development of any particular tract 12
13 of the Unit Area. 13

14 (b) Drilling and producing operations performed 14
15 hereunder upon any tract of unitized land will be 15
16 accepted and deemed to be performed upon and for the 16
17 benefit of each and every tract of unitized land, and no 17
18 lease shall be deemed to expire by reason of failure to 18
19 drill or produce wells situated on the land therein 19
20 embraced. 20

21 (c) Suspension of drilling or producing operations on 21
22 all unitized lands pursuant to direction or consent of 22
23 the Secretary and Commissioner or their duly authorized 23
24 representatives shall be deemed to constitute such 24
25 suspension pursuant to such direction or consent as to 25
26 each and every tract of unitized land. A suspension of 26
27 drilling or production operations limited to specified 27
28 lands shall be applicable only to such lands. 28

29 (d) Each lease, sublease or contract relating to the 29
30 exploration, drilling, development or operation for oil 30
31 or gas of lands other than those of the United States or 31
32 State of New Mexico committed to this agreement, which, 32
33 by its terms might expire prior to the termination of 33

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

5 (e) Any federal lease for a fixed term of twenty (20) 5
6 years or any renewal thereof or any part of such lease 6
7 which is made subject to this agreement shall continue 7
8 in force beyond the term provided therein until the ter- 8
9 mination hereof. Any other federal lease committed 9
10 hereto shall continue in force beyond the term so pro- 10
11 vided therein or by law as to the land committed so long 11
12 as such lease remains subject hereto, provided that pro- 12
13 duction is had in paying quantities under this unit 13
14 agreement prior to the expiration date of the term of 14
15 such lease, and are being diligently prosecuted at that 15
16 time, such lease shall be extended for two years and so 16
17 long thereafter as oil or gas is produced in paying 17
18 quantities in accordance with the provisions of the 18
19 Mineral Leasing Act Revision of 1960. 19

20 (f) Each sublease or contract relating to the operation 20
21 and development of unitized substances from lands of the 21
22 United States committed to this agreement, which by its 22
23 terms would expire prior to the time at which the 23
24 underlying lease, as extended by the immediately pre- 24
25 ceding paragraph, will expire, is hereby extended beyond 25
26 any such term so provided therein so that it shall be 26
27 continued in full force and effect for and during the 27
28 term of the underlying lease as such term is herein 28
29 extended. 29

30 (g) Any lease embracing lands of the State of New 30
31 Mexico which is made subject to this agreement shall 31
32 continue in force beyond the terms provided therein as 32
33 to the lands committed hereto until the termination 33

1 hereof, subject to the provisions of subsection (e) of 1
2 Section 2 and subsection (i) of this Section 18. 2
3 (h) The segregation of any federal lease committed to 3
4 this agreement is governed by the following provisions 4
5 in the fourth paragraph of Section 17(j) of the Mineral 5
6 Leasing Act, as amended by the Act of September 2, 1960 6
7 (74 Stat. 781-784); "Any (Federal) lease heretofore or 7
8 hereafter committed to any such (unit) plan embracing 8
9 lands that are in part within and in part outside of the 9
10 area covered by any such plan shall be segregated into 10
11 separate leases as to the lands committed and the lands 11
12 not committed as of the effective date of unitization: 12
13 Provided, however, that any such lease as to the nonuni- 13
14 tized portion shall continue in force and effect for the 14
15 term thereof but for not less than two years from the 15
16 date of such segregation and so long thereafter as oil 16
17 or gas is produced in paying quantities." 17
18 (i) Any lease embracing lands of the State of New 18
19 Mexico having only a portion of its lands committed 19
20 hereto, shall be segregated as to the portion committed 20
21 and the portion not committed, and the provisions of 21
22 such lease shall apply separately to such segregated 22
23 portions commencing as of the effective date hereof; 23
24 provided, however, notwithstanding any of the provisions 24
25 of this agreement to the contrary, any lease embracing 25
26 lands of the State of New Mexico having only a portion 26
27 of its lands committed hereto shall continue in full 27
28 force and effect beyond the term provided therein as to 28
29 all lands embraced in such lease, if oil or gas is 29
30 discovered and is capable of being produced in paying 30
31 quantities from some part of the lands embraced in such 31
32 lease at the expiration of the secondary term of such 32
33 lease; or if, at the expiration of the secondary term, 33

1 the lessee or Unit Operator is then engaged in bona fide 1
2 drilling or reworking operations on some part of the 2
3 lands embraced in such lease, the same, as to all lands 3
4 embraced therein, shall remain in full force and effect 4
5 so long as such operations are being diligently 5
6 prosecuted, and if they result in the production of oil 6
7 or gas, said lease shall continue in full force and 7
8 effect as to all of the lands embraced therein, so long 8
9 thereafter as oil or gas in paying quantities is being 9
10 produced from any portion of said lands. 10

11 (j) Any lease, other than a federal lease, having only 11
12 a portion of its lands committed hereto shall be 12
13 segregated as to the portion committed and the portion 13
14 not committed, and the provisions of such lease shall 14
15 apply separately to such segregated portions commencing 15
16 as of the effective date hereof. In the event any such 16
17 leases provide for a lump sum rental payment, such 17
18 payment shall be prorated between the portions so segre- 18
19 gated in proportion to the acreage of the respective 19
20 tracts. 20

21 19. COVENANTS RUN WITH LAND. The covenants herein 21
22 shall be construed to be covenants running with the land 22
23 with respect to the interest of the parties hereto and their 23
24 successors in interest until this agreement terminates, and 24
25 any grant, transfer, or conveyance of interest in land or 25
26 leases subject hereto shall be and hereby is conditioned 26
27 upon the assumption of all privileges and obligations 27
28 hereunder by the grantee, transferee or other successor in 28
29 interest. No assignment or transfer of any working 29
30 interest, royalty, or other interest subject hereto shall be 30
31 binding upon Unit Operator until the first day of the calen- 31
32 dar month after Unit Operator is furnished with the 32
33 original, photostatic, or certified copy of the instrument 33

1 of transfer. 1

2 20. EFFECTIVE DATE AND TERM. This agreement shall 2

3 become effective upon approval by the Secretary and 3

4 Commissioner, or their duly authorized representatives and 4

5 shall terminate five (5) years from said effective date 5

6 unless: 6

7 (a) such date of expiration is extended by the Director 7

8 and Commissioner, or 8

9 (b) it is reasonably determined prior to the expiration 9

10 of the fixed term or any extension thereof that the 10

11 unitized land is incapable of production of unitized 11

12 substances in paying quantities in the formations tested 12

13 hereunder and after notice of intention to terminate the 13

14 agreement on such ground is given by the Unit Operator 14

15 to all parties in interest at their last known 15

16 addresses, the agreement is terminated with the approval 16

17 of the Supervisor and the Commissioner, or 17

18 (c) a valuable discovery of unitized substances has 18

19 been made or accepted on unitized land during said ini- 19

20 tial term or any extension thereof, in which event the 20

21 agreement shall remain in effect for such term and so 21

22 long as unitized substances can be produced in quan- 22

23 tities sufficient to pay for the cost of producing same 23

24 from wells on unitized land within any participating 24

25 area established hereunder and, should production cease, 25

26 so long thereafter as diligent operations are in 26

27 progress for the restoration of production or disco- 27

28 very of new production and so long thereafter as uni- 28

29 tized substances so discovered can be produced as 29

30 aforesaid, or 30

31 (d) it is terminated as heretofore provided in this 31

32 agreement. 32

33 This agreement may be terminated at any time by not less 33

1 than seventy-five percentum (75%), on an acreage basis, of 1
2 the working interest owners signatory hereto, with the 2
3 approval of the Supervisor and Commissioner; notice of any 3
4 such approval to be given by the Unit Operator to all par- 4
5 ties hereto. 5

6 21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. 6
7 The Director is hereby vested with authority to alter or 7
8 modify from time to time in his discretion the quantity and 8
9 rate of production under this agreement when such quantity 9
10 and rate is not fixed pursuant to federal or state law or 10
11 does not conform to any statewide voluntary conservation or 11
12 allocation program, which is established, recognized and 12
13 generally adhered to by the majority of operators in such 13
14 state, such authority being hereby limited to alteration or 14
15 modification in the public interest, the purpose thereof and 15
16 the public interest to be served thereby to be stated in the 16
17 order of alteration or modification. Without regard to the 17
18 foregoing, the Director is also hereby vested with authority 18
19 to alter or modify from time to time in his discretion the 19
20 rate of prospecting and development and the quantity and 20
21 rate of production under this agreement when such alteration 21
22 or modification is in the interest of attaining the conser- 22
23 vation objectives stated in this agreement and is not in 23
24 violation of any applicable federal or state law; provided, 24
25 further that no such alteration or modification shall be 25
26 effective as to any land of the State of New Mexico, as to 26
27 the rate of prospecting and developing in the absence of the 27
28 specific written approval thereof by the Commissioner and as 28
29 to any lands of the State of New Mexico or privately owned 29
30 lands subject to this agreement as to the quantity and rate 30
31 of production in the absence of specific written approval 31
32 thereof by the Commission. 32

33 Powers in this section vested in the Director shall only 33

1 be exercised after notice to Unit Operator and opportunity 1
2 for hearing to be held not less than fifteen (15) days from 2
3 notice. 3

4 22. CONFLICT OF SUPERVISION. Neither the Unit Operator 4
5 nor the working interest owners nor any of them shall be 5
6 subject to any forfeiture, termination or expiration of any 6
7 rights hereunder or under any leases or contracts subject 7
8 hereto, or to any penalty or liability on account of delay 8
9 or failure in whole or in part to comply with any applicable 9
10 provisions thereof to the extent that the Unit Operator, 10
11 working interest owners or any of them are hindered, delayed 11
12 or prevented from complying therewith by reason of failure 12
13 of the Unit Operator to obtain in the exercise of due 13
14 diligence, the concurrence of proper representatives of the 14
15 United States and proper representatives of the State of New 15
16 Mexico in and about any matter or things concerning which it 16
17 is required herein that such concurrence be obtained. The 17
18 parties hereto, including the Division, agree that all 18
19 powers and authority vested in the Division in and by any 19
20 provisions of this agreement are vested in the Division and 20
21 shall be exercised by it pursuant to the provisions of the 21
22 laws of the State of New Mexico and subject in any case to 22
23 appeal or judicial review as may now or hereafter be pro- 23
24 vided by the laws of the State of New Mexico. 24

25 23. APPEARANCES. Unit Operator shall, after notice to 25
26 other parties affected, have the right to appear for and on 26
27 behalf of any and all interests affected hereby before the 27
28 Department of the Interior, the Commissioner of Public Lands 28
29 of the State of New Mexico and the New Mexico Oil 29
30 Conservation Division and to appeal from orders issued 30
31 under the regulations of said Department, the Commissioner 31
32 or Division or to apply for relief from any of said regula- 32
33 tions or in any proceedings relative to operations before 33

1 the Department of the Interior, the Commissioner or 1
2 Division, or any other legally constituted authority; 2
3 provided, however, that any other interested party shall 3
4 also have the right at his own expense to be heard in any 4
5 such proceeding. 5

6 24. NOTICES. All notices, demands or statements 6
7 required hereunder to be given or rendered to the parties 7
8 hereto shall be deemed fully given if given in writing and 8
9 personally delivered to the party or sent by postpaid 9
10 registered or certified mail, addressed to such party or 10
11 parties at their respective addresses set forth in connec- 11
12 tion with the signatures hereto or to the ratification or 12
13 consent hereof or to such other address as any such party 13
14 may have furnished in writing to party sending the notice, 14
15 demand or statement. 15

16 25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this 16
17 agreement contained shall be construed as a waiver by any 17
18 party hereto of the right to assert any legal or constitu- 18
19 tional right or defense as to the validity or invalidity of 19
20 any law of the state wherein said unitized lands are 20
21 located, or of the United States, or regulations issued 21
22 thereunder in any way affecting such party, or as a waiver 22
23 by any such party of any right beyond his or its authority 23
24 to waive. 24

25 26. UNAVOIDABLE DELAY. All obligations under this 25
26 agreement requiring the Unit Operator to commence or con- 26
27 tinue drilling or to operate on or produce unitized substan- 27
28 ces from any of the lands covered by this agreement shall be 28
29 suspended while the Unit Operator, despite the exercise of 29
30 due care and diligence, is prevented from complying with 30
31 such obligations, in whole or in part, by strikes, acts of 31
32 God, federal, state or municipal law or agencies, una- 32
33 voidable accidents, uncontrollable delays in transportation, 33

1 inability to obtain necessary materials in open market, or 1
2 other matters beyond the reasonable control of the Unit 2
3 Operator whether similar to matters herein enumerated or 3
4 not. No unit obligation which is suspended under this sec- 4
5 tion shall become due less than thirty (30) days after it 5
6 has been determined that the suspension is no longer 6
7 applicable. Determination of creditable "Unavoidable Delay" 7
8 time shall be made by the Unit Operator subject to approval 8
9 of the Supervisor and Commissioner. 9

10 27. NONDISCRIMINATION. In connection with the perfor- 10
11 mance of work under this agreement, the Operator agrees 11
12 to comply with all of the provisions of Section 202 (1) to 12
13 (7) inclusive of Executive Order 11246 (30 F.R. 12319), 13
14 which are hereby incorporated by reference in this 14
15 agreement. 15

16 28. LOSS OF TITLE. In the event title to any tract of 16
17 unitized land shall fail and the true owner cannot be 17
18 induced to join in this unit agreement, such tract shall be 18
19 automatically regarded as not committed hereto and there 19
20 shall be such readjustment of future costs and benefits as 20
21 may be required on account of the loss of such title. In 21
22 the event of a dispute as to title to any royalty, working 22
23 interest or other interests subject thereto, payment or deli- 23
24 very on account thereof may be withheld without liability 24
25 for interest until the dispute is finally settled; provided, 25
26 that, as to federal and state land or leases, no payments of 26
27 funds due the United States of State of New Mexico should be 27
28 withheld, but such funds of the United States shall be depo- 28
29 sited as directed by the Supervisor and such funds of the 29
30 State of New Mexico shall be deposited as directed by the 30
31 Commissioner to be held as unearned money pending final 31
32 settlement of the title dispute, and then applied as earned 32
33 or returned in accordance with such final settlement. 33

1 Unit Operator as such is relieved from any responsibility 1
2 for any defect or failure of any title hereunder. 2
3 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner 3
4 of any substantial interest in a tract within the Unit Area 4
5 fails or refuses to subscribe or consent to this agreement, 5
6 the owner of the working interest in that tract may withdraw 6
7 said tract from this agreement by written notice delivered 7
8 to the Supervisor and the Commissioner and the Unit Operator 8
9 prior to the approval of this agreement by the Supervisor and 9
10 Commissioner. Any oil or gas interests in lands within the 10
11 Unit Area not committed hereto prior to submission of this 11
12 agreement for final approval may thereafter be committed 12
13 hereto by the owner or owners thereof subscribing or con- 13
14 senting to this agreement, and, if the interest is a working 14
15 interest, by the owner of such interest also subscribing to 15
16 the unit operating agreement. After operations are com- 16
17 menced hereunder, the right of subsequent joinder, as pro- 17
18 vided in this section, by a working interest owner is 18
19 subject to such requirements or approvals, if any, pertaining 19
20 to such joinder, as may be provided for in the unit 20
21 operating agreement. After final approval hereof, joinder 21
22 by a non-working interest owner must be consented to in 22
23 writing by the working interest owner committed hereto and 23
24 responsible for the payment of any benefits that may accrue 24
25 hereunder in behalf of such non-working interest. A non- 25
26 working interest may not be committed to this unit agreement 26
27 unless the corresponding working interest is committed 27
28 hereto. Joinder to the unit agreement by a working interest 28
29 owner, at any time, must be accompanied by appropriate 29
30 joinder to the unit operating agreement, if more than one 30
31 committed working interest owner is involved, in order for 31
32 the interest to be regarded as committed to this unit 32
33 agreement. Except as may otherwise herein be provided, sub- 33

1 sequent joinders to this agreement shall be effective as of 1
2 the first day of the month following the filing with the 2
3 Supervisor and the Commissioner of duly executed counter- 3
4 parts of all or any papers necessary to establish effective 4
5 commitment of any tract to this agreement unless objection 5
6 to such joinder is duly made within sixty (60) days by the 6
7 Supervisor, provided, however, that as to state lands all 7
8 subsequent joinders must be approved by the Commissioner. 8

9 30. COUNTERPARTS. This agreement may be executed in 9
10 any number of counterparts, no one of which needs to be exe- 10
11 cuted by all parties or may be ratified or consented to by 11
12 separate instrument in writing specifically referring hereto 12
13 and shall be binding upon all those parties who have exe- 13
14 cuted such a counterpart, ratification, or consent hereto 14
15 with the same force and effect as if all such parties had 15
16 signed the same document and regardless of whether or not it 16
17 is executed by all other parties owning or claiming an 17
18 interest in the lands within the above described Unit Area. 18

19 31. NO PARTNERSHIP. It is expressly agreed that the 19
20 relation of the parties hereto is that of independent 20
21 contractors and nothing in this agreement contained, 21
22 expressed or implied, nor any operations conducted 22
23 hereunder, shall create or be deemed to have created a part- 23
24 nership or association between the parties hereto or any of 24
25 them. 25

26 IN WITNESS WHEREOF, the parties hereto have caused this 26
27 agreement to be executed and have set opposite their respec- 27
28 tive names the date of execution. 28

UNIT OPERATOR AND WORKING INTEREST OWNER

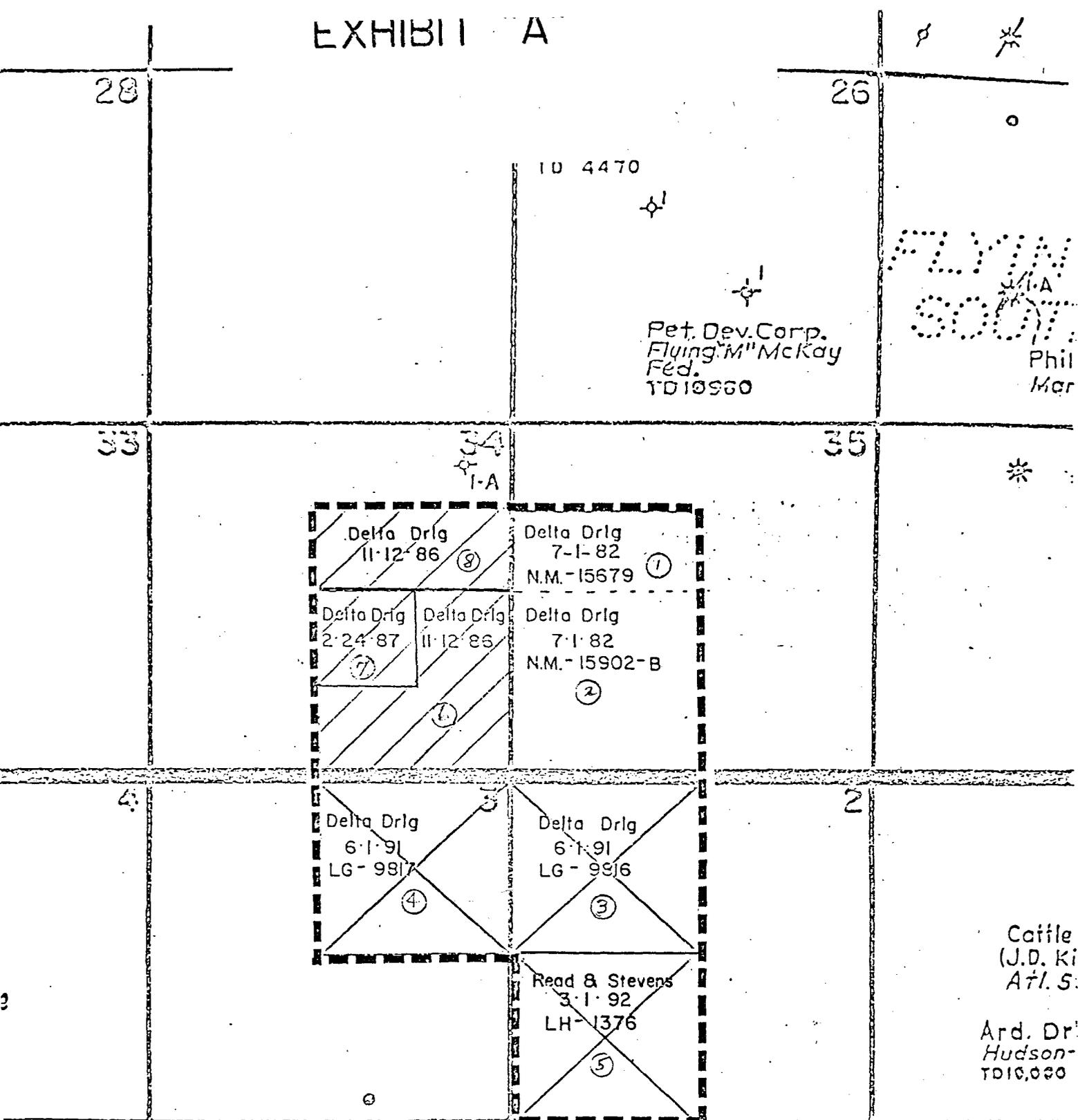
DELTA DRILLING COMPANY

Date: _____

By: _____

OTHER WORKING INTEREST OWNERS

EXHIBIT A



TWP - 9, 10, SOUTH
RNG - 32 EAST

LEA COUNTY, NEW MEXICO

-  - FEE LAND
-  - STATE LAND
-  - FEDERAL LAND
-  - TRACT NUMBER
-  - NORTH MESCALERO UNIT OUTLINE - 959.77 acres

EXHIBIT "B" TO UNIT AGREEMENT

Tract No.	Description of Land	No. of Acres	Lease Serial No. or State Lease No. and Expiration Date	Basic Royalty		Owner of Record/Lessee of Record		Overriding Royalty		Working Interest	
				Owner	%	Owner	%	Owner	%	Owner	%
1	S½NW¼ Section 35 T9S, R32E	80	NM 15679 7-1-82	USA	12.5%	Petroleum Development Corporation	100%	Albert Z. Mellon, Jr. et ux Juanita Mellon, Robert L. Pegram, Mrs. Robert L. Pegram Dalton Kincheloe et ux Gladys Kincheloe Texas Crude, Inc.	4.00% 4.25% 4.25%	Petroleum Development Corporation	100%
2	SW¼ Section 35 T9S, R32E	160	NM 15902 7-1-82	USA	12.5%	Petroleum Development Corporation	100%	Cynthia E. Perkins et vir Marshall R. Perkins Dalton Kincheloe et ux Gladys Kincheloe Robert W. Becker et ux Marion D. Becker Texas Crude, Inc.	4.00% 2.125% 2.125% 4.250%	Petroleum Development Corporation	100%
3	Lots 3 (39.85), 4 (39.91), S½NW¼ Section 2, T10S, R32E	159.76	LG-9816 6-1-91	State of New Mexico	12.5%	Delta Drilling Company	100%			Delta Drilling Company	100%
4	Lots 1, (39.97), 2 (40.04), S½NE¼ Section 3, T10S, R32E	160	LH-9817 6-1-91	State of New Mexico	12.5%	Delta Drilling Company	100%			Delta Drilling Company	100%
5	SW¼ Section 2, T10S, R32E	160	LH-1376 3-1-92	State of New Mexico	12.5%	Read & Stevens, Inc.	100%			Read & Stevens, Inc.	100%
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee	Ronald W. Broadrick, Linda Jo Broadrick, and Ingrid Broadrick	1/10 of 3/16	Centerfire Resources Inc.	100%			Centerfire Resources, Inc.	100%

Tract No.	Description of Land	No. of Acres	Lease Serial No. or State Lease No. and Expiration Date	Basic Royalty		Owner of Record/Lessee of Record		Overriding Royalty		Working Interest	
				Owner	\$	Owner	\$	Owner	\$	Owner	\$
6	S $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 34, T9S, R32E	120	Fee	Unleased Mineral Interest		Charles B. Read	1/40			Charles B. Read	1/40
6	S $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 34, T9S, R32E	120	Fee	Richard L. Moore, Michael H. Moore, and Steven S. Moore	1/20 of						
6	S $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 34, T9S, R32E	120	Fee	H. W. Puckett et ux Mary R. Puckett	1/200 of 3/16	Russell B. Ward	100%			Russell B. Ward	100%
6	S $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 34 T9S, R32E	120	Fee	R. P. Fisher et ux Zella Fisher	1/200 of 3/16	Russell B. Ward	100%			Russell B. Ward	100%
6	S $\frac{1}{2}$ SE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 34 T9S, R32E	120	Fee	Charles B. Morgan, same as C. B. Morgan, a single man	1/200 of 3/16	Russell B. Ward	100%			Russell B. Ward	100%

Tract No.	Description of Land	No. of Acres	Lease Serial No. or State Lease No. and Expiration Date	Basic Royalty		Owner of Record/Lessee of Record		Overriding Royalty		Working Interest	
				Owner	%	Owner	%	Owner	%	Owner	%
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee 1/200 of 3/16	J. F. Read et ux Theima M. Read	100%	Russell B. Ward	100%	Russell B. Ward	100%	Russell B. Ward	100%
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee 1/200 of 3/16	A. W. Wood et ux Margaret P. Wood	100%	Russell B. Ward	100%	Russell B. Ward	100%	Russell B. Ward	100%
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee 1/200 of 3/16	F. H. McGuigan et ux Fern G. McGuigan	100%	Russell B. Ward	100%	Russell B. Ward	100%	Russell B. Ward	100%
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee 1/200 of 3/16	Warren D. Barton, same as W. D. Barton, of et ux Mary A. Barton	100%	Russell B. Ward	100%	Russell B. Ward	100%	Russell B. Ward	100%
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee 1/200 of 3/16	J. B. Chase et ux Nancy C. Chase	100%	Russell B. Ward	100%	Russell B. Ward	100%	Russell B. Ward	100%
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee 1/200 of 3/16	Margaret L. Davis, a widow	100%	Russell B. Ward	100%	Russell B. Ward	100%	Russell B. Ward	100%

Tract No.	Description of Land	No. of Acres	State Lease No. and Expiration Date	Basic Royalty		Owner of Record/Lessee of Record		Overriding Royalty		Working Interest	
				Owner	%	Owner	%	Owner	%	Owner	%
6	S½SE¼, NE¼SE¼ Section 34, T9S, R32E	120	Fee	Unleased Mineral Interest		W. T. Leisk	1/200	W. T. Leisk		W. T. Leisk	1/200
6	S½SE¼, NE¼SE¼ Section 34, T9S, R32E	120	Fee	OREXCO	3/10 of 3/16	Delta Drilling Company	100%	Delta Drilling Company		Delta Drilling Company	100%
6	S½SE¼, NE¼SE¼ Section 34, T9S, R32E	120	Fee	Robert P. Turpin, Trustee of Minnie Moore Turpin Trust	1/20 of 1/5	Russell B. Ward	100%	Russell B. Ward		Russell B. Ward	100%
6	S½SE¼, NE¼SE¼ Section 34, T9S, R32E	120	Fee	Thomas P. Barton 1/5 of the Estate of Clark N. Barton	13/200 of 3/16	Russell B. Ward	100%	Russell B. Ward		Russell B. Ward	100%
6	S½SE¼, NE¼SE¼ Section 34, T9S, R32E	120	Fee	T. K. Barton as his separate property	13/200 of 3/16	Russell B. Ward	100%	Russell B. Ward		Russell B. Ward	100%
6	S½SE¼, NE¼SE¼ Section 34, T9S, R32E	120	Fee	Billy B. Clifton et ux Faye Clifton	1/200 of 3/16	Russell B. Ward	100%	Russell B. Ward		Russell B. Ward	100%
6	S½SE¼, NE¼SE¼ Section 34, T9S, R32E	120	Fee	F. J. Danglede	1/8 of 1/4	Russell B. Ward	100%	Russell B. Ward		Russell B. Ward	100%

Tract No.	Description of Land	No. of Acres	Lease Serial No. or State Lease No. and Expiration Date	Basic Royalty		Owner of Record/Lessee of Record		Overriding Royalty		Working Interest	
				Owner	\$	Owner	\$	Owner	\$	Owner	\$
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee	E. H. Muhlbach	1/200 of						
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee	Arlean Parker	1/200 of						
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee	Susie Shelton	1/200 of						
6	S½SE¼, NE½SE¼ Section 34, T9S, R32E	120	Fee	Unleased Mineral Interest		Yeager & Armstrong	3/20			Yeager & Armstrong	3/20
7	NW¼SE¼ Section 24, T9S, R32E	40	Fee	Unleased Mineral Interest		Ronald J. Byers	1/2			Ronald J. Byers	1/2
7	NW¼SE¼ Section 24, T9S, R32E	40	Fee	James M. Nixon	1/4 of 1/4	Russell B. Ward	100%			Russell B. Ward	100%

Tract No.	Description of Land	No. of Acres	Lease Serial No. or State Lease No. and Expiration Date	Basic Royalty		Owner of Record/Lessee of Record		Overriding Royalty		Working Interest	
				Owner	\$	Owner	\$	Owner	\$	Owner	\$
7	NW $\frac{1}{4}$ SE $\frac{1}{4}$ Section 24 T9S, R32E	40	Fee	Harvey A. Heller, Jr. 1/4 of and Frank Keating Co-Trustees of the Heller Company Revocable Trust	100%	Russell B. Ward	100%	Russell B. Ward	100%	Russell B. Ward	100%
8	S $\frac{1}{2}$ NE $\frac{1}{4}$ Section 34	80	Fee	Unleased Mineral Interest	5/16	Yeager & Armstrong		Yeager & Armstrong		Yeager & Armstrong	3/20
8	S $\frac{1}{2}$ NE $\frac{1}{4}$ Section 34 T9S, R32E	80	Fee	J. Clyde Tomlinson	100%	Russell B. Ward	100%	Russell B. Ward	100%	Russell B. Ward	100%
8	S $\frac{1}{2}$ NE $\frac{1}{4}$ Section 34 T9S, R32E	80	Fee	Clark Sample Estate	100%	Russell B. Ward	100%	Russell B. Ward	100%	Russell B. Ward	100%
8	S $\frac{1}{2}$ NE $\frac{1}{4}$ Section 34 T9S, R32E	80	Fee	Roy G. Barton, Jr.							
8	S $\frac{1}{2}$ NE $\frac{1}{4}$ Section 34 T9S, R32E	80	Fee	Opal Barton							

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					Owner	\$	Owner	\$	Owner	\$	Owner	\$
1	S4NE4 Section 34 T9S, R32E	80		Moore Brothers	1/32 of							
1	S4NE4 Section 34 T9S, R32E	80		Unleased Mineral Interest			Lario Oil and Gas				Lario Oil and Gas	7/128
1	S4NE4 Section 34 T9S, R32E	80		Adam K. Grafe & Association	73/4000 of 1/4		Russell B. Ward				Russell B. Ward	100%
1	S4NE4 Section 34 T9S, R32E	80		Unleased Mineral Interest			Richard Englander				Richard Englander	21/4000
1	S4NE4 Section 34 T9S, R32E	80		Roger B. Owings	1/16 of 1/4		Russell B. Ward				Russell B. Ward	100%