

UNIT AGREEMENT

BEFORE EXAMINER STATE FOR THE DEVELOPMENT AND OPERATION
OIL CONSERVATION DIVISION

Young EXHIBIT NO. 2
CASE NO. 7890

BISBEE HILLS UNIT AREA

Submitted by _____ COUNTY OF LUNA

Hearing Date _____ STATE OF NEW MEXICO

No. _____

THIS AGREEMENT, entered into as of the _____ day of _____, 1983, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto".

WITNESSETH:

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

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

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

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

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

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

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

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

1 (b) Said notice shall be delivered to the District Manager, the Land 1
2 Commissioner and the Division, and copies thereof mailed to the last known address of 2
3 each working interest owner, lessee, and lessor whose interests are affected, 3
4 advising that 30 days will be allowed for submission to the Unit Operator of any 4
5 objections. 5
6

7 (c) Upon expiration of the 30-day period provided in the preceding item (b) 7
8 hereof, Unit Operator shall file with the District Manager, the Land Commissioner and 8
9 the Division, evidence of mailing of the notice of expansion or contraction and a 9
10 copy of any objections thereto which have been filed with the Unit Operator, together 10
11 with an application in sufficient number, for approval of such expansion or 11
12 contraction and with appropriate joinders. 12
13

14 (d) After due consideration of all pertinent information, the expansion or 14
15 contraction shall, upon approval by the District Manager, the Land Commissioner and 15
16 Division, become effective as of the date prescribed in the notice thereof. 16
17

18 (e) Notwithstanding any prior elimination under the "Drilling to Discovery" 18
19 section, all legal subdivisions of land (i.e., 40 acres by Government survey or its 19
20 nearest lot or tract equivalent; in instances of irregular surveys, unusually large 20
21 lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot 21
22 equivalent thereof), no parts of which are entitled to be in a participating area on 22
23 or before the fifth anniversary of the effective date of the first initial partici- 23
24 pating area established under this unit agreement, shall be eliminated automatically 24
25 from this agreement, effective as of said fifth anniversary, and such lands shall no 25
26 longer be a part of the unit area and shall no longer be subject to this agreement, 26
27 unless diligent drilling operations are in progress on unitized lands not entitled to 27
28 participation on said fifth anniversary, in which event all such lands shall remain 28
29 subject hereto for so long as such drilling operations are continued diligently, with 29
30 not more than 90 days' time elapsing between the completion of one such well and the 30
31 commencement of the next such well. All legal subdivisions of lands not entitled to 31
32 be in a participating area within 10 years after the effective date of the first 32
33 initial participating area approved under this agreement shall be automatically 33
34 eliminated from this agreement as of said tenth anniversary. All lands proved produc- 34
35 tive by diligent drilling operations after the aforesaid five-year period shall 35
36 become participating in the same manner as during said five-year period. However, 36
37 when such diligent drilling operations cease, all non-participating lands shall be 37
38 automatically eliminated effective as of the 91st day thereafter. The unit operator 38
39 shall within 90 days after the effective date of any elimination hereunder, describe 39
40 the area so eliminated to the satisfaction of the District Manager and Land 40
41 Commissioner and promptly notify all parties in interest. 41
42

43 If conditions warrant extension of the 10-year period specified in this subsec- 43
44 tion 2(e), a single extension of not to exceed 2 years may be accomplished by consent 44
45 of the owners of 90% of the working interests in the current non-participating unit- 45
46 ized lands and the owners of 60% of the basic royalty interests (exclusive of the 46
47 basic royalty interests of the United States) in non-participating unitized lands 47
48 with approval of the District Manager and Land Commissioner, provided such extension 48
49 application is submitted to the District Manager and the Land Commissioner not later 49
50 than 60 days prior to the expiration of said 10-year period. 50
51

52 Any expansion of the unit area pursuant to this section which embraces lands 52
53 theretofore eliminated pursuant to this subsection 2(e) shall not be considered 53
54 automatic commitment or recommitment of such lands. 54
55

56 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agree- 56
57 ment shall constitute land referred to herein as "unitized land" or "land subject to 57
58 this agreement." All oil and gas in any and all formations of the unitized land are 58
59 unitized under the terms of this agreement and herein are called "unitized sub- 59
60 stances." 60
61

62 4. UNIT OPERATOR. Marshall R. Young Oil Co. is 62
63 hereby designated as Unit Operator and by signature hereto as Unit Operator agrees 63
64 and consents to accept the duties and obligations of Unit Operator for the discovery, 64
65 development, and production of unitized substances as herein provided. Whenever ref- 65
66 erence is made herein to the Unit Operator, such reference means the Unit Operator 66
67 acting in that capacity and not as an owner of interest in unitized substances, and 67
68 the term "working interest owner" when used herein shall include or refer to Unit 68
69 Operator as the owner of a working interest when such an interest is owned by it. 69

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

13
14 Unit Operator shall have the right to resign in like manner and subject to like 14
15 limitations as above provided at any time a participating area established hereunder 15
16 is in existence, but, in all instances of resignation or removal, until a successor 16
17 unit operator is selected and approved as hereinafter provided, the working interest 17
18 owners shall be jointly responsible for performance of the duties of unit operator, 18
19 and shall not later than 30 days before such resignation or removal becomes effective 19
20 appoint a common agent to represent them in any action to be taken hereunder. 20
21

22 The resignation of Unit Operator shall not release Unit Operator from any 22
23 liability for any default by it hereunder occurring prior to the effective date of 23
24 its resignation. 24
25

26 The Unit Operator may, upon default or failure in the performance of its duties 26
27 or obligations hereunder, be subject to removal by the same percentage vote of the 27
28 owners of working interests as herein provided for the selection of a new Unit 28
29 Operator. Such removal shall be effective upon notice thereof to the District Manager 29
30 and the Land Commissioner. 30
31

32 The resignation or removal of Unit Operator under this agreement shall not ter- 32
33minate its right, title, or interest as the owner of a working interest or other 33
34 interest in unitized substances, but upon the resignation or removal of Unit Operator 34
35 becoming effective, such Unit Operator shall deliver possession of all wells, equip- 35
36ment, materials, and appurtenances used in conducting the unit operations to the new 36
37 duly qualified successor Unit Operator or to the common agent, if no such new Unit 37
38 Operator is elected, to be used for the purpose of conducting unit operations here- 38
39 under. Nothing herein shall be construed as authorizing removal of any material, 39
40 equipment and appurtenances needed for the preservation of any wells. 40
41

42 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or 42
43 its resignation as Unit Operator or shall be removed as hereinabove provided, or a 43
44 change of Unit Operator is negotiated by working interest owners, the owners of the 44
45 working interests in the participating area or areas according to their respective 45
46 acreage interests in such participating area or areas, or, until a participating area 46
47 shall have been established, the owners of the working interests according to their 47
48 respective acreage interests in all unitized land, shall by majority vote select a 48
49 successor Unit Operator: Provided, that, if a majority but less than 75 percent of 49
50 the working interests qualified to vote are owned by one party to this agreement, a 50
51 concurring vote of one or more additional working interest owners shall be required 51
52 to select a new operator. Such selection shall not become effective until: 52
53

54 (a) a Unit Operator so selected shall accept in writing the duties and respon- 54
55 sibilities of Unit Operator, and 55
56

57 (b) the selection shall have been approved by the District Manager and approved 57
58 by the Land Commissioner. 58
59

60 If no successor Unit Operator is selected and qualified as herein provided, the 60
61 District Manager and the Land Commissioner, at their election may declare this unit 61
62 agreement terminated. 62
63

64 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator 64
65 is not the sole owner of working interests, costs and expenses incurred by Unit 65
66 Operator in conducting unit operations hereunder shall be paid and apportioned among 66
67 and borne by the owners of working interests, all in accordance with the agreement or 67

1 agreements entered into by and between the Unit Operator and the owners of working 1
2 interests, whether one or more, separately or collectively. Any agreement or agree- 2
3 ments entered into between the working interest owners and the Unit Operator as 3
4 provided in this section, whether one or more, are herein referred to as the "unit 4
5 operating agreement." Such unit operating agreement shall also provide the manner in 5
6 which the working interest owners shall be entitled to receive their respective pro- 6
7 portionate and allocated share of the benefits accruing hereto in conformity with 7
8 their underlying operating agreements, leases, or other independent contracts, and 8
9 such other rights and obligations as between Unit Operator and the working interest 9
10 owners as may be agreed upon by Unit Operator and the working interest owners; how- 10
11 ever, no such unit operating agreement shall be deemed either to modify any of the 11
12 terms and conditions of this unit agreement or to relieve the Unit Operator of any 12
13 right or obligation established under this unit agreement, and in case of any incon- 13
14 sistency or conflict between this unit agreement and the unit operating agreement, 14
15 this unit agreement shall govern. Three true copies of any unit operating agreement 15
16 executed pursuant to this section should be filed with the District Manager and one 16
17 true copy with the Land Commissioner, and one true copy with the Division, prior to 17
18 approval of this unit agreement. 18
19

20 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically 20
21 provided herein, the exclusive right, privilege, and duty of exercising any and all 21
22 rights of the parties hereto which are necessary or convenient for prospecting for, 22
23 producing, storing, allocating, and distributing the unitized substances are hereby 23
24 delegated to and shall be exercised by the Unit Operator as herein provided. Accept- 24
25 able evidence of title to said rights shall be deposited with said Unit Operator and 25
26 together with this agreement, shall constitute and define the rights, privileges, and 26
27 obligations of Unit Operator. Nothing herein, however, shall be construed to transfer 27
28 title to any land or to any lease or operating agreement, it being understood that 28
29 under this agreement the Unit Operator, in its capacity as Unit Operator, shall 29
30 exercise the rights of possession and use vested in the parties hereto only for the 30
31 purposes herein specified. 31
32

33 9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, 33
34 the Unit Operator shall begin to drill an adequate test well at a location approved 34
35 by the District Manager, if on Federal land, or by the Land Commissioner, if on State 35
36 land, and by the Division of on Fee land, unless on such effective date a well is 36
37 being drilled conformably with the terms hereof, and thereafter continue such 37
38 drilling diligently until the upper 25 feet of the Montoya Formation has 38
39 been tested or until at a lesser depth unitized substances shall be discovered which 39
40 can be produced in paying quantities (to-wit: quantities sufficient to repay the 40
41 costs of drilling, completing, and producing operations with a reasonable profit) or 41
42 the Unit Operator shall at any time establish to the satisfaction of the District 42
43 Manager if on Federal land, or the Land Commissioner if on State land, or the 43
44 Division if located on Fee land, that further drilling of said well would be 44
45 unwarranted or impracticable, provided, however, that Unit Operator shall not in any 45
46 event be required to drill said well to a depth in excess of 10,000 feet. 46
47 Until the discovery of a deposit of unitized substances capable of being produced in 47
48 paying quantities, the Unit Operator shall continue drilling one well at a time, 48
49 allowing not more than 6 months between the completion of one well and the beginning 49
50 of the next well, until a well capable of producing unitized substances in paying 50
51 quantities is completed to the satisfaction of said District Manager if it be on 51
52 Federal land or of the Land Commissioner if on State land, or the Division if on Fee 52
53 land, or until it is reasonably proved that the unitized land is incapable of 53
54 producing unitized substances in paying quantities in the formation drilled 54
55 hereunder. Nothing in this section shall be deemed to limit the right of the Unit 55
56 Operator to resign as provided in Section 5, hereof, or as requiring Unit Operator to 56
57 commence or continue any drilling during the period pending such resignation becoming 57
58 effective in order to comply with the requirements of this section. The District 58
59 Manager and Land Commissioner may modify the drilling requirements of this section by 59
60 granting reasonable extensions of time when, in their opinion, such action is 60
61 warranted. 61
62

63 Upon failure to commence any well provided for in this section within the time 63
64 allowed, prior to the establishment of a participating area, including any extension 64
65 of time granted by the District Manager and the Land Commissioner, this agreement 65
66 will automatically terminate. Upon failure to continue drilling diligently any well 66
67 commenced hereunder, the District Manager and the Land Commissioner may, after 15 67
68 days notice to the unit operator, declare this unit agreement terminated. 68

1 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after comple- 1
2 tion of a well capable of producing unitized substances in paying quantities, the 2
3 Unit Operator shall submit for the approval of the District Manager, the Land 3
4 Commissioner and Division, an acceptable plan of development and operation for the 4
5 unitized lands which, when approved by the District Manager, the Land Commissioner 5
6 and Division, shall constitute the further drilling and operating obligations of the 6
7 Unit Operator under this agreement for the period specified therein. Thereafter, from 7
8 time to time before the expiration of any existing plan, the Unit Operator shall 8
9 submit for the approval of the District Manager, the Land Commissioner and Division a 9
10 plan for an additional specified period for the development and operation of the 10
11 unitized land. 11
12

13 Any plan submitted pursuant to this section shall provide for the exploration of 13
14 the unitized area and for the diligent drilling necessary for determination of the 14
15 area or areas thereof capable of producing unitized substances in paying quantities 15
16 in each and every productive formation and shall be as complete and adequate as the 16
17 District Manager, the Land Commissioner and Division may determine to be necessary 17
18 for timely development and proper conservation of the oil and gas resources of the 18
19 unitized area and shall: 19
20

21 (a) specify the number and locations of any wells to be drilled and the 21
22 proposed order and time for such drilling; and 22
23

24 (b) to the extent practicable specify the operating practices regarded as 24
25 necessary and advisable for proper conservation of natural resources. 25
26

27 Separate plans may be submitted for separate productive zones, subject to the 27
28 approval of the District Manager, the Land Commissioner and Division. 28
29

30 Plans shall be modified or supplemented when necessary to meet changed condi- 30
31 tions or to protect the interests of all parties to this agreement. Reasonable 31
32 diligence shall be exercised in complying with the obligations of the approved plan 32
33 of development. The District Manager and the Land Commissioner are authorized to 33
34 grant a reasonable extension of the 6 month period herein prescribed for submission 34
35 of an initial plan of development where such action is justified because of unusual 35
36 conditions or circumstances. After completion hereunder of a well capable of 36
37 producing any unitized substance in paying quantities, no further wells, except such 37
38 as may be necessary to afford protection against operations not under this agreement 38
39 and such as may be specifically approved by the District Manager, the Land 39
40 Commissioner and Division, shall be drilled except in accordance with a plan of 40
41 development approved as herein provided. 41
42

43 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of 43
44 producing unitized substances in paying quantities or as soon thereafter as required 44
45 by the District Manager, the Land Commissioner or the Division, the Unit Operator 45
46 shall submit for approval by the District Manager, the Land Commissioner and 46
47 Division, a schedule, based on subdivisions of the public-land survey or aliquot 47
48 parts thereof, of all land then regarded as reasonably proved to be productive in 48
49 paying quantities; all lands in said schedule on approval of the District Manager, 49
50 the Land Commissioner and Division, to constitute a participating area, effective as 50
51 of the date of completion of such well or the effective date of this unit agreement, 51
52 whichever is later. The acreages of both Federal and non-Federal lands shall be based 52
53 upon appropriate computations from the courses and distances shown on the last 53
54 approved public-land survey as of the effective date of each initial participating 54
55 area. Said schedule shall also set forth the percentage of unitized substances to be 55
56 allocated as herein provided to each tract in the participating area so established, 56
57 and shall govern the allocation of production commencing with the effective date of 57
58 the participating area. A separate participating area shall be established for each 58
59 separate pool or deposit of unitized substances or for any group thereof which is 59
60 produced as a single pool or zone, and any two or more participating areas so estab- 60
61 lished may be combined into one, on approval of the District Manager, the Land 61
62 Commissioner and the Division. When production from two or more participating areas, 62
63 so established, is subsequently found to be from a common pool or deposit said 63
64 participating areas shall be combined into one effective as of such appropriate date 64
65 as may be approved or prescribed by the District Manager, the Land Commissioner and 65
66 Division. The participating area or areas so established shall be revised from time 66
67 to time, subject to like approval, to include additional land then regarded as reason- 67
68 ably proved to be productive in paying quantities or necessary for unit operations, 68
69 or to exclude land then regarded as reasonably proved not to be productive in paying 69
70 quantities and the schedule of allocation percentages shall be revised accordingly. 70
71 The effective date of any revision shall be the first of the month in which is 71

1 obtained the knowledge or information on which such revision is predicated, provided, 1
2 however, that a more appropriate effective date may be used if justified by the Unit 2
3 Operator and approved by the District Manager, the Land Commissioner and Division. 3
4 No land shall be excluded from a participating area on account of depletion of the 4
5 unitized substances, except that any participating area established under the provi- 5
6 sions of this unit agreement shall terminate automatically whenever all completions 6
7 in the formation on which the participating area is based are abandoned. 7
8

9 It is the intent of this section that a participating area shall represent the 9
10 area known or reasonably estimated to be productive in paying quantities; but, 10
11 regardless of any revision of the participating area, nothing herein contained shall 11
12 be construed as requiring any retroactive adjustment for production obtained prior to 12
13 the effective date of the revision of the participating area. 13
14

15 In the absence of agreement at any time between the Unit Operator and the 15
16 District Manager, the Land Commissioner and Division, as to the proper definition or 16
17 redefinition of a participating area, or until a participating area has, or areas 17
18 have, been established as provided herein, the portion of all payments affected 18
19 thereby shall be impounded in a manner mutually acceptable to the owners of working 19
20 interests and the District Manager and the Land Commissioner. Royalties due the 20
21 United States and the State of New Mexico shall be determined by the District Manager 21
22 for Federal lands and the Land Commissioner for the State lands and the amount there- 22
23 of shall be deposited, as directed by the District Manager and the Land Commissioner 23
24 to be held as unearned money until a participating area is finally approved and then 24
25 applied as earned or returned in accordance with a determination of the sum due as 25
26 Federal and State royalty on the basis of such approved participating area. 26
27

28 Whenever it is determined, subject to the approval of the District Manager, the 28
29 Land Commissioner and Division, that a well drilled under this agreement is not 29
30 capable of production in paying quantities and inclusion of the land on which it is 30
31 situated in a participating area is unwarranted, production from such well shall, for 31
32 the purposes of settlement among all parties other than working interest owners, be 32
33 allocated to the land on which the well is located unless such land is already within 33
34 the participating area established for the pool or deposit from which such production 34
35 is obtained. Settlement for working interest benefits from such a well shall be made 35
36 as provided in the unit operating agreement. 36
37

38 12. ALLOCATION OF PRODUCTION. All unitized substances produced from each 38
39 participating area established under this agreement, except any part thereof used in 39
40 conformity with good operating practices within the unitized area for drilling, 40
41 operating, camp and other production or development purposes, for repressuring or 41
42 recycling in accordance with a plan of development approved by the District Manager, 42
43 Land Commissioner and Division, or unavoidable loss, shall be deemed to be produced 43
44 equally on an acreage basis from the several tracts of unitized land of the partici- 44
45 pating area established for such production and, for the purpose of determining any 45
46 benefits accruing under this agreement, each such tract of unitized land shall have 46
47 allocated to it such percentage of said production as the number of acres of such 47
48 tract included in said participating area bears to the total acres of unitized land 48
49 in said participating area, except that allocation of production hereunder for 49
50 purposes other than for settlement of the royalty, overriding royalty, or payment out 50
51 of production obligations of the respective working interest owners, shall be on the 51
52 basis prescribed in the unit operating agreement whether in conformity with the basis 52
53 of allocation herein set forth or otherwise. It is hereby agreed that production of 53
54 unitized substances from a participating area shall be allocated as provided herein 54
55 regardless of whether any wells are drilled on any particular part or tract of said 55
56 participating area. If any gas produced from one participating area is used for 56
57 repressuring or recycling purposes in another participating area, the first gas 57
58 withdrawn from such last-mentioned participating area for sale during the life of 58
59 this agreement shall be considered to be the gas so transferred until an amount equal 59
60 to that transferred shall be so produced for sale and such gas shall be allocated to 60
61 the participating area from which initially produced as such area was last defined at 61
62 the time of such final production. 62
63

64 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any 64
65 party hereto owning or controlling the working interest in any unitized land having 65
66 thereon a regular well location may with the approval of the District Manager and the 66
67 Land Commissioner, and the Division as to privately owned lands, at such party's sole 67
68 risk, costs, and expense, drill a well to test any formation for which a participat- 68
69 ing area has not been established or to test any formation for which a participating 69

1 area has been established if such location is not within said participating area, 1
2 unless within 90 days of receipt of notice from said party of his intention to drill 2
3 the well the Unit Operator elects and commences to drill such a well in like manner 3
4 as other wells are drilled by the Unit Operator under this agreement. 4
5
6 If any well drilled as aforesaid by a working interest owner results in pro- 6
7 duction such that the land upon which it is situated may properly be included in a 7
8 participating area, such participating area shall be established or enlarged as 8
9 provided in this agreement and the well shall thereafter be operated by the Unit 9
10 Operator in accordance with the terms of this agreement and the unit operating 10
11 agreement. 11
12
13 If any well drilled as aforesaid by a working interest owner obtains production 13
14 in quantities insufficient to justify the inclusion of the land upon which such well 14
15 is situated in a participating area, such well may be operated and produced by the 15
16 party drilling the same subject to the conservation requirements of this agreement. 16
17 The royalties in amount or value of production from any such well shall be paid as 17
18 specified in the underlying lease and agreements affected. 18
19
20 14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner 20
21 who is entitled to take in kind a share of the substances now unitized hereunder 21
22 shall hereafter be entitled to the right to take in kind its share of the unitized 22
23 substances, and Unit Operator, or the working interest owner in case of the operation 23
24 of a well by a working interest owner as herein provided for in special cases, shall 24
25 make deliveries of such royalty share taken in kind in conformity with the applicable 25
26 contracts, laws, and regulations. Settlement for royalty interest not taken in kind 26
27 shall be made by working interest owners responsible therefor under existing con- 27
28 tracts, laws and regulations, or by the Unit Operator, on or before the last day of 28
29 each month for unitized substances produced during the preceding calendar month; 29
30 provided, however, that nothing herein contained shall operate to relieve the lessees 30
31 of any land from their respective lease obligations for the payment of any royalties 31
32 due under their leases. 32
33
34 If gas obtained from lands not subject to this agreement is introduced into any 34
35 participating area hereunder, for use in repressuring, stimulation of production, or 35
36 increasing ultimate recovery, in conformity with a plan of operations approved by the 36
37 District Manager and the Land Commissioner and the Division, a like amount of gas, 37
38 after settlement as herein provided for any gas transferred from any other participat- 38
39 ing area and with appropriate deduction for loss from any cause, may be withdrawn from 39
40 the formation into which the gas is introduced, royalty free as to dry gas, but not as 40
41 to any products which may be extracted therefrom; provided that such withdrawal shall 41
42 be at such time as may be provided in the approved plan of operations or as may 42
43 otherwise be consented to by the District Manager and the Land Commissioner and the 43
44 Division as conforming to good petroleum engineering practice; and provided further, 44
45 that such right of withdrawal shall terminate on the termination of this unit 45
46 agreement. 46
47
48 Royalty due the United States shall be computed as provided in the operating 48
49 regulations and paid in value or delivered in kind as to all unitized substances on 49
50 the basis of the amounts thereof allocated to unitized Federal land as provided 50
51 herein at the rates specified in the respective Federal leases, or at such lower rate 51
52 or rates as may be authorized by law or regulations; provided, that for leases on 52
53 which the royalty rate depends on the daily average production per well, said average 53
54 production shall be determined in accordance with the operating regulations as though 54
55 each participating area were a single consolidated lease. 55
56
57 Royalty due on account of State lands shall be computed and paid on the basis of 57
58 all unitized substances allocated to such lands. 58
59
60 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed 60
61 hereto shall be paid by working interest owners responsible therefor under existing 61
62 contracts, laws, and regulations, provided that nothing herein contained shall 62
63 operate to relieve the lessees of any land from their respective lease obligations 63
64 for the payment of any rental or minimum royalty due under their leases. Rental or 64
65 minimum royalty for lands of the United States subject to this agreement shall be 65
66 paid at the rate specified in the respective leases from the United States unless 66
67 such rental or minimum royalty is waived, suspended, or reduced by law or by approval 67
68 of the Secretary or his duly authorized representative. 68

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

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

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

18 17. DRAINAGE. The Unit Operator shall take such measures as the District 18
19 Manager and Land Commissioner deems appropriate and adequate to prevent drainage of 19
20 unitized substances from unitized land by wells on land not subject to this 20
21 agreement. 21
22 22

23 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and 23
24 provisions of all leases, subleases, and other contracts relating to exploration, 24
25 drilling, development, or operation for oil or gas on lands committed to this agree- 25
26 ment are hereby expressly modified and amended to the extent necessary to make the 26
27 same conform to the provisions hereof, but otherwise to remain in full force and 27
28 effect; and the parties hereto hereby consent that the Secretary, as to Federal 28
29 leases and the Land Commissioner, as to State leases, shall and each by his approval 29
30 hereof, or by the approval hereof by his duly authorized representative, does hereby 30
31 establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, 31
32 and royalty requirements of Federal leases committed hereto and the regulations in 32
33 respect thereto to conform said requirements to the provisions of this agreement, 33
34 and, without limiting the generality of the foregoing, all leases, subleases, and 34
35 contracts are particularly modified in accordance with the following: 35
36 36

37 (a) The development and operation of lands subject to this agreement under the 37
38 terms hereof shall be deemed full performance of all obligations for development and 38
39 operation with respect to each and every separately owned tract subject to this 39
40 agreement, regardless of whether there is any development of any particular tract of 40
41 the unit area. 41
42 42

43 (b) Drilling and producing operations performed hereunder upon any tract of 43
44 unitized lands will be accepted and deemed to be performed upon and for the benefit 44
45 of each and every tract of unitized land, and no lease shall be deemed to expire by 45
46 reason of failure to drill or produce wells situated on the land therein embraced. 46
47 47

48 (c) Suspension of drilling or producing operations on all unitized lands 48
49 pursuant to direction or consent of the Secretary and the Land Commissioner, or his 49
50 duly authorized representative, shall be deemed to constitute such suspension 50
51 pursuant to such direction or consent as to each and every tract of unitized land. A 51
52 suspension of drilling or producing operations limited to specified lands shall be 52
53 applicable only to such lands. 53
54 54

55 (d) Each lease, sublease or contract relating to the exploration, drilling, 55
56 development or operation for oil or gas of lands other than those of the United 56
57 States and State of New Mexico committed to this agreement, which, by its terms might 57
58 expire prior to the termination of this agreement, is hereby extended beyond any such 58
59 terms so provided therein so that it shall be continued in full force and effect for 59
60 and during the term of this agreement. 60
61 61

62 (e) Any Federal lease for a fixed term of twenty (20) years or any renewal 62
63 thereof or any part of such lease which is made subject to this agreement shall 63
64 continue in force beyond the term provided therein until the termination hereof. Any 64
65 other Federal lease committed hereto shall continue in force beyond the term so 65
66 provided therein or by law as to the land committed so long as such lease remains 66
67 subject hereto, provided that production is had in paying quantities under this unit 67
68 agreement prior to the expiration date of the term of such lease, or in the event 68
69 actual drilling operations are commenced on unitized land, in accordance with the 69
70 provisions of this agreement, prior to the end of the primary term of such lease and 70

1 are being diligently prosecuted at that time, such lease shall be extended for two 1
2 years and so long thereafter as oil or gas is produced in paying quantities in 2
3 accordance with the provisions of the Mineral Leasing Act Revision of 1960. 3
4

5 (f) Each sublease or contract relating to the operation and development of 5
6 unitized substances from lands of the United States committed to this agreement, 6
7 which by its terms would expire prior to the time at which the underlying lease, as 7
8 extended by the immediately preceding paragraph, will expire, is hereby extended 8
9 beyond any such term so provided therein so that it shall be continued in full force 9
10 and effect for and during the term of the underlying lease as such term is herein 10
11 extended. 11
12

13 (g) The segregation of any Federal lease committed to this agreement is 13
14 governed by the following provision in the fourth paragraph of Sec. 17(j) of the 14
15 Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784): 15
16 "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan 16
17 embracing lands that are in part within and in part outside of the area covered by 17
18 any such plan shall be segregated into separate leases as to the lands committed and 18
19 the lands not committed as of the effective date of unitization: Provided, however, 19
20 that any such lease as to the non-unitized portion shall continue in force and effect 20
21 for the term thereof but for not less than two years from the date of such segrega- 21
22 tion and so long thereafter as oil or gas is produced in paying quantities." 22
23

24 (h) In the event the Initial Test Well is commenced prior to the expiration 24
25 date of the shortest term State Lease within the Unit Area, any lease embracing lands 25
26 of the State of New Mexico which is made the subject to this agreement, shall 26
27 continue in force beyond the term provided therein as to the lands committed hereto 27
28 until the termination hereof. 28
29

30 (i) Any lease embracing lands of the State of New Mexico having only a portion 30
31 of its lands committed hereto, shall be segregated as to the portion committed and 31
32 the portion not committed, and the terms of such lease shall apply separately to such 32
33 segregated portions commencing as the effective date hereof; contrary any lease 33
34 embracing lands of the State of New Mexico having only a portion of its lands 34
35 committed hereto shall continue in full force and effect beyond the term provided 35
36 therein as to all lands embraced in such lease, if oil or gas is discovered and is 36
37 capable of being produced in paying quantities from some part of the lands embraced 37
38 in such lease at the expiration of the secondary term of such lease; or if, at the 38
39 expiration of the secondary term, the lessee or the Unit Operator is then engaged in 39
40 bona fide drilling or reworking operations on some part of the lands embraced in such 40
41 lease, the same as to all lands embraced therein, shall remain in full force and 41
42 effect so long as such operations are being diligently prosecuted, and if they result 42
43 in the production of oil or gas; said lease shall continue in full force and effect 43
44 as to all the lands embraced therein, so long thereafter as oil or gas in paying 44
45 quantities is being produced from any portion of said lands. 45
46

47 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be 47
48 covenants running with the land with respect to the interest of the parties hereto 48
49 and their successors in interest until this agreement terminates, and any grant, 49
50 transfer, or conveyance, of interest in land or leases subject hereto shall be and 50
51 hereby is conditioned upon the assumption of all privileges and obligations hereunder 51
52 by the grantee, transferee, or other successor in interest. No assignment or transfer 52
53 of any working interest, royalty, or other interest subject hereto shall be binding 53
54 upon Unit Operator until the first day of the calendar month after Unit Operator is 54
55 furnished with the original, photostatic, or certified copy of the instrument of 55
56 transfer. 56
57

58 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon 58
59 approval by the Secretary and the Land Commissioner or their duly authorized repre- 59
60 sentative and shall terminate five (5) years from said effective date unless: 60
61

62 (a) such date of expiration is extended by the District Manager and the Land 62
63 Commissioner, or 63
64

65 (b) it is reasonably determined prior to the expiration of the fixed term or 65
66 any extension thereof that the unitized land is incapable of production of unitized 66
67 substances in paying quantities in the formations tested hereunder and after notice 67

1 of intention to terminate the agreement on such ground is given by the Unit Operator 1
2 to all parties in interest at their last known addresses, the agreement is terminated 2
3 with approval of the District Manager and the Land Commissioner, or 3
4 4

5 (c) a valuable discovery of unitized substances has been made or accepted on 5
6 unitized land during said initial term or any extension thereof, in which event the 6
7 agreement shall remain in effect for such term and so long as unitized substances can 7
8 be produced as to Federal lands and are being produced as to State lands in 8
9 quantities sufficient to pay for the cost of producing same from wells on unitized 9
10 land within any participating area established hereunder and, should production 10
11 cease, so long thereafter as diligent operations are in progress for the restoration 11
12 of production or discovery of new production and so long thereafter as unitized 12
13 substances so discovered are produced as aforesaid, or 13
14 14

15 (d) it is terminated as heretofore provided in this agreement. This agreement 15
16 may be terminated at any time by not less than 75 per centum, on an acreage basis, of 16
17 the working interest owners signatory hereto, with the approval of the District 17
18 Manager and the Land Commissioner; notice of any such approval to be given by the 18
19 Unit Operator to all parties hereto. 19
20 20

21 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The District Manager is 21
22 hereby vested with authority to alter or modify from time to time in his discretion 22
23 the quantity and rate of production under this agreement when such quantity and rate 23
24 is not fixed pursuant to Federal or State law or does not conform to any state-wide 24
25 voluntary conservation or allocation program which is established, recognized, and 25
26 generally adhered to by the majority of operators in such State, such authority being 26
27 hereby limited to alteration or modification in the public interest, the purpose 27
28 thereof and the public interest to be served thereby to be stated in the order of 28
29 alteration or modification. Without regard to the foregoing, the District Manager is 29
30 also hereby vested with authority to alter or modify from time to time in his 30
31 discretion the rate of prospecting and development and the quantity and rate of 31
32 production under this agreement when such alteration or modification is in the 32
33 interest of attaining the conservation objectives stated in this agreement and is not 33
34 in violation of any applicable Federal or State law; provided, further, that no such 34
35 alteration or modification shall be effective as to any land of the State of New 35
36 Mexico, as to the rate of prospecting and developing in the absence of the specific 36
37 written approval thereof by the Commissioner and also to any lands of the State of 37
38 New Mexico or privately owned lands subject to this agreement as to the quantity and 38
39 rate of production in the absence of specific written approval thereof by the 39
40 Division. 40
41 41

42 Powers in this section vested in the District Manager shall only be exercised 42
43 after notice to Unit Operator and opportunity for hearing to be held not less than 15 43
44 days from notice. 44
45 45

46 22. APPEARANCES. Unit Operator shall, after notice to other parties affected, 46
47 have the right to appear for and on behalf of any and all interests affected hereby 47
48 before the Department of the Interior and the Commissioner of Public Lands and 48
49 Division, and to appeal from orders issued under the regulations of said Department 49
50 or Land Commissioner and Division or to apply for relief from any of said regulations 50
51 or in any proceedings relative to operations before the Department of the Interior or 51
52 the Land Commissioner and Division or any other legally constituted authority; 52
53 provided, however, that any other interested party shall also have the right at his 53
54 own expense to be heard in any such proceeding. 54
55 55

56 23. NOTICES. All notices, demands or statements required hereunder to be given 56
57 or rendered to the parties hereto shall be deemed fully given if given in writing and 57
58 personally delivered to the party or sent by postpaid registered or certified mail, 58
59 addressed to such party or parties at their respective addresses set forth in connec- 59
60 tion with the signatures hereto or to the ratification or consent hereof or to such 60
61 other address as any such party may have furnished in writing to party sending the 61
62 notice, demand or statement. 62
63 63

64 24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall be 64
65 construed as a waiver by any party hereto of the right to assert any legal or consti- 65
66 tutional right or defense as to the validity or invalidity of any law of the State 66
67 wherein said unitized lands are located, or of the United States, or regulations 67
68 issued thereunder in any way affecting such party, or as a waiver by any such party 68
69 of any right beyond his or its authority to waive. 69

1 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit 1
2 Operator to commence or continue drilling or to operate on or produce unitized sub- 2
3 stances from any of the lands covered by this agreement shall be suspended while the 3
4 Unit Operator, despite the exercise of due care and diligence, is prevented from 4
5 complying with such obligations, in whole or in part, by strikes, acts of God, 5
6 Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable 6
7 delays in transportation, inability to obtain necessary materials in open market, or 7
8 other matters beyond the reasonable control of the Unit Operator whether similar to 8
9 matters herein enumerated or not. No unit obligation which is suspended under this 9
10 section shall become due less than thirty (30) days after it has been determined that 10
11 the suspension is no longer applicable. Determination of creditable "Unavoidable 11
12 Delay" time shall be made by the unit operator subject to approval of the District 12
13 Manager and the Land Commissioner. 13
14

15 26. NONDISCRIMINATION. In connection with the performance of work under this 15
16 agreement, the Operator agrees to comply with all the provisions of Section 202 (1) 16
17 to (7) inclusive of Executive Order 11246 (30 F. R. 12319), as amended, which are 17
18 hereby incorporated by reference in this agreement. 18
19

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

34 Unit Operator as such is relieved from any responsibility for any defect or 34
35 failure of any title hereunder. 35
36

37 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial 37
38 interest in a tract within the unit area fails or refuses to subscribe or consent to 38
39 this agreement, the owner of the working interest in that tract may withdraw said 39
40 tract from this agreement by written notice delivered to the District Manager, the 40
41 Land Commissioner, the Division and the Unit Operator prior to the approval of this 41
42 agreement by the District Manager and Commissioner. Any oil or gas interests in 42
43 lands within the unit area not committed hereto prior to submission of this agreement 43
44 for final approval may thereafter be committed hereto by the owner or owners thereof 44
45 subscribing or consenting to this agreement, and, if the interest is a working 45
46 interest, by the owner of such interest also subscribing to the unit operating agree- 46
47 ment. After operations are commenced hereunder, the right of subsequent joinder, as 47
48 provided in this section, by a working interest owner is subject to such requirements 48
49 or approvals, if any, pertaining to such joinder, as may be provided for in the unit 49
50 operating agreement. After final approval hereof, joinder by a non-working interest 50
51 owner must be consented to in writing by the working interest owner committed hereto 51
52 and responsible for the payment of any benefits that may accrue hereunder in behalf 52
53 of such non-working interest. A non-working interest may not be committed to this 53
54 unit agreement unless the corresponding working interest is committed hereto. Joinder 54
55 to the unit agreement by a working interest owner, at any time, must be accompanied 55
56 by appropriate joinder to the unit operating agreement, if more than one committed 56
57 working interest owner is involved, in order for the interest to be regarded as 57
58 committed to this unit agreement. Except as may otherwise herein be provided, 58
59 subsequent joinders to this agreement shall be effective as of the first day of the 59
60 month following the filing with the District Manager, the Land Commissioner and the 60
61 Division of duly executed counterparts of all or any papers necessary to establish 61
62 effective commitment of any tract to this agreement unless objection to such joinder 62
63 is duly made within 60 days by the District Manager, the Land Commissioner or 63
64 Division; provided, however, that as to State lands all subsequent joinders must be 64
65 approved by the Commissioner. 65

1 29. COUNTERPARTS. This agreement may be executed in any number of counterparts 1
2 no one of which needs to be executed by all parties or may be ratified or consented 2
3 to by separate instrument in writing specifically referring hereto and shall be 3
4 binding upon all those parties who have executed such a counterpart, ratification, or 4
5 consent hereto with the same force and effect as if all such parties had signed the 5
6 same document and regardless of whether or not it is executed by all other parties 6
7 owning or claiming an interest in the lands within the above-described unit area. 7
8
9 30. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agree- 9
10 ment shall modify or change either the special Federal lease stipulations relating to 10
11 surface management or such special Federal lease stipulations relating to surface and 11
12 environmental protection, attached to and made a part of, Oil and Gas Leases covering 12
13 lands within the Unit Area. 13

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

4 UNIT OPERATOR AND WORKING INTEREST OWNER 4
5

6 ATTEST: MARSHALL R. YOUNG OIL CO. 6
7

8
9
10 By _____ 10
11 Assistant Secretary 11

12
13
14 Address: 750 W. Fifth Street Date of Execution: 14
15 Fort Worth, TX 76102 15
16 _____ 16
17

18
19 STATE OF _____) 19
20) ss. 20
21 COUNTY OF _____) 21
22

23 On this _____ day of _____, 1983, before me appeared 23
24 _____, to me personally known, who, being by me duly 24
25 sworn, did say that he is the _____ of 25
26 Marshall R. Young Oil Co. _____ and that the seal affixed to said 26
27 instrument is the corporate seal of said corporation, and that said instrument 27
28 was signed and sealed in behalf of said corporation by authority of its board of 28
29 directors, and said _____ 29
30 acknowledged said instrument to be the free act and deed of said corporation. 30
31

32 My Commission Expires: 32
33
34 _____ 34
35

Notary Public 35