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GMH/dr

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

Expedite

GMH
IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE No. 4813

Order No. R-4394

APPLICATION OF INEXCO OIL COMPANY
FOR APPROVAL OF THE SITTING BULL
UNIT AGREEMENT, EDDY, COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on
Sept. 13, 1962, at Santa Fe, New Mexico, before Examiner
Daniel S. Nutter.

NOW, on this _____ day of September, 1962, the Commission,
a quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

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

(2) That the applicant, Inexco Oil Company,
seeks approval of the Sitting Bull Unit Agreement
covering 6,964.54 ~~6,665~~ acres, more or less, of ~~State~~ Federal lands
~~and Fee~~
described as follows:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 23 SOUTH RANGE 22 EAST, NMPM

Section 28: all
Section 29: all
Section 31: all
Section 32: all
Section 33: all

TOWNSHIP 24 SOUTH, RANGE 22 EAST, NMPM

Section 4: all
~~Section 9:~~
Section 5: all
Section 6: all
Section 7: all
Section 8: all
Section 9: all

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

IT IS THEREFORE ORDERED:

(1) That the Sitting Bull Unit Agreement is hereby approved.

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

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

(4) That this order shall become effective upon the approval of said unit agreement by the ~~Commissioner of Public Lands for the State of New Mexico and the~~ Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.

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

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

SITTING BULL
UNIT AGREEMENT

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Exhibit A: Map of Unit Area

Exhibit B: Schedule of Lands and Leases

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SITTING BULL UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 7th day of August
1972, by and between the parties subscribing, ratifying, or con-
senting 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. Secs. 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 Oil Conservation Commission of the State of
New Mexico is authorized by an Act of the Legislature (Article 3,
Chapter 65, Vol. 9, Part 2, 1953 Statutes) to approve this agree-
ment and the conservations provisions hereof; and

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

1 WHEREAS, it is the purposes of the parties hereto to conserve 1
2 natural resources, prevent waste, and secure other benefits obtain- 2
3 able through development and operation of the area subject to this 3
4 agreement under the terms, conditions and limitations herein set 4
5 forth; 5

6 NOW, THEREFORE, in consideration of the premises and the 6
7 promises herein contained, the parties hereto commit to this agree- 7
8 ment their respective interests in the below-defined unit area, and 8
9 agree severally among themselves as follows: 9

10 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 10
11 February 25, 1920, as amended, supra, and all valid pertinent regu- 11
12 lations, including operating and unit plan regulations, heretofore 12
13 issued thereunder or valid, pertinent, and reasonable regulations 13
14 hereafter issued thereunder are accepted and made a part of this 14
15 agreement as to Federal lands, provided such regulations are not 15
16 inconsistent with the terms of this agreement; and as to non-Federal 16
17 lands, the oil and gas operating regulations in effect as of the 17
18 effective date hereof governing drilling and producing operations, 18
19 not inconsistent with the terms hereof or the laws of the State in 19
20 which the non-Federal land is located, are hereby accepted and made 20
21 a part of this agreement. 21

22 2. UNIT AREA. The area specified on the map attached hereto 22
23 marked Exhibit A is hereby designated and recognized as constituting 23
24 the unit area, containing 6,964.54 acres, more or less. 24

25 Exhibit A shows, in addition to the boundary of the unit area, 25
26 the boundaries and identity of tracts and leases in said area to 26
27 the extent known to the Unit Operator. Exhibit B attached hereto 27
28 is a schedule showing to the extent known to the Unit Operator the 28
29 acreage, percentage, and kind of ownership of oil and gas interests 29
30 in all land in the unit area. However, nothing herein or in said 30

1 schedule or map shall be construed as a representation by any 1
2 party hereto as to the ownership of any interest other than such 2
3 interest or interests as are shown in said map or schedule as owned 3
4 by such party. Exhibits A and B shall be revised by the Unit 4
5 Operator whenever changes in the unit area render such revision 5
6 necessary, or when requested by the Oil and Gas Supervisor, herein- 6
7 after referred to as "Supervisor" and not less than five copies of 7
8 the revised Exhibits shall be filed with the Supervisor. 8

9 The above-described unit area shall when practicable be ex- 9
10 panded to include therein any additional lands or shall be con- 10
11 tracted to exclude lands whenever such expansion or contraction is 11
12 deemed to be necessary or advisable to conform with the purposes of 12
13 this agreement. Such expansion or contraction shall be effected in 13
14 the following manner: 14

15 (a) Unit Operator, on its own motion or on demand of the 15
16 Director of the Geological Survey, hereinafter referred to as 16
17 "Director", after preliminary concurrence by the Director, shall 17
18 prepare a notice of proposed expansion or contraction describing 18
19 the contemplated changes in the boundaries of the unit area, the 19
20 reasons therefor, and the proposed effective date thereof, preferably 20
21 the first day of a month subsequent to the date of notice. 21

22 (b) Said notice shall be delivered to the Supervisor, and 22
23 copies thereof mailed to the last known address of each working 23
24 interest owner, lessee, and lessor whose interests are affected, 24
25 advising that 30 days will be allowed for submission to the Unit 25
26 Operator of any objections. 26

27 (c) Upon expiration of the 30-day period provided in the 27
28 preceding item (b) hereof, Unit Operator shall file with the Super- 28
29 visor evidence of mailing of the notice of expansion or contraction 29
30 and a copy of any objections thereto which have been filed with the 30

1 Unit Operator, together with an application in sufficient number, 1
2 for approval of such expansion or contraction and with appropriate 2
3 joinders. 3

4 (d) After due consideration of all pertinent information, 4
5 the expansion or contraction shall, upon approval by the Supervisor, 5
6 become effective as of the date prescribed in the notice thereof. 6

7 (e) All legal subdivisions of land (i.e., 40 acres by 7
8 Government survey or its nearest lot or tract equivalent; in in- 8
9 stances of irregular surveys unusually large lots or tracts shall 9
10 be considered in multiples of 40 acres or the nearest aliquot equiva-10
11 lent thereof), no parts of which are entitled to be in a partici- 11
12 pating area on or before the fifth anniversary of the effective 12
13 date of the first initial participating area established under this 13
14 unit agreement, shall be eliminated automatically from this agree- 14
15 ment, effective as of said fifth anniversary, and such lands shall 15
16 no longer be a part of the unit area and shall no longer be subject 16
17 to this agreement, unless diligent drilling operations are in pro- 17
18 gress on unitized lands not entitled to participating on said 18
19 fifth anniversary, in which event all such lands shall remain 19
20 subject hereto for so long as such drilling operations are continued 20
21 diligently, with not more than 90 days' time elapsing between the 21
22 completion of one such well and the commencement of the next such 22
23 well. All legal subdivisions of lands not entitled to be in a 23
24 participating area within 10 years after the effective date of the 24
25 first initial participating area approved under this agreement shall 25
26 be automatically eliminated from this agreement as of said tenth 26
27 anniversary. All lands proved productive by diligent drilling 27
28 operations after the aforesaid 5-year period shall become partici- 28
29 pating in the same manner as during said 5-year period. However, 29
30 when such diligent drilling operations cease, all nonparticipating 30

1 lands shall be automatically eliminated effective as of the 91st day 1
2 thereafter. The unit operator shall within 90 days after the effec- 2
3 tive date of any elimination hereunder, describe the area so elimi- 3
4 nated to the satisfaction of the Supervisor and promptly notify all 4
5 parties in interest. 5

6 If conditions warrant extension of the 10-year period specified 6
7 in this subsection 2(e), a single extension of not to exceed 2 years 7
8 may be accomplished by consent of the owners of 90% of the working 8
9 interests in the current nonparticipating unitized lands and the 9
10 owners of 60% of the basic royalty interests (exclusive of the basic 10
11 royalty interests of the United States) in nonparticipating unitized 11
12 lands with approval of the Director, provided such extension applica-12
13 tion is submitted to the Director not later than 60 days prior to 13
14 the expiration of said 10-year period. 14

15 Any expansion of the unit area pursuant to this section which 15
16 embraces lands theretofore eliminated pursuant to this subsection 2 16
17 (e) shall not be considered automatic commitment or recommitment of 17
18 such lands. 18

19 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed 19
20 to this agreement shall constitute land referred to herein as "uni- 20
21 tized land" or "land subject to this agreement". All oil and gas in 21
22 any and all formations of the unitized land are unitized under the 22
23 terms of this agreement and herein are called "unitized substances." 23

24 4. UNIT OPERATOR. Inexco Oil Company is hereby designated 24
25 as Unit Operator and by signature hereto as Unit Operator agrees 25
26 and consents to accept the duties and obligations of Unit Operator 26
27 for the discovery, development, and production of unitized sub- 27
28 stances as herein provided. Whenever reference is made herein to 28
29 to the Unit Operator, such reference means the Unit Operator acting 29
30 in that capacity and not as an owner of interest in unitized sub- 30

stances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

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

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

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

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

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

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

1 (a) a Unit Operator so selected shall accept in writing the 1
2 duties and responsibilities of Unit Operator, and 2
3 (b) the selection shall have been approved by the Supervisor. 3
4 If no successor Unit Operator is selected and qualified as 4
5 herein provided, the Director at his election may declare this unit 5
6 agreement terminated. 6
7 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the 7
8 Unit Operator is not the sole owner of working interests, costs and 8
9 expenses incurred by Unit Operator in conducting unit operations 9
10 hereunder shall be paid and apportioned among and borne by the owners 10
11 of working interests, all in accordance with the agreement or agree- 11
12 ments entered into by and between the Unit Operator and the owners of 12
13 working interests, whether one or more, separately or collectively. 13
14 Any Agreement or agreements entered into between the working interest 14
15 owners and the Unit Operator as provided in this section, whether one 15
16 or more, are herein referred to as the "unit operating agreement." 16
17 Such unit operating agreement shall also provide the manner in which 17
18 the working interest owners shall be entitled to receive their res- 18
19 pective proportionate and allocated share of the benefits accruing 19
20 hereto in conformity with their underlying operating agreements, 20
21 leases, or other independent contracts, and such other rights and 21
22 obligations as between Unit Operator and the working interest owners; 22
23 however, no such unit operating agreement shall be deemed either to 23
24 modify any of the terms and conditions of this unit agreement or to 24
25 relieve the Unit Operator of any right or obligation established 25
26 under this unit agreement, and in case of any inconsistency or con- 26
27 flict between this unit agreement, and the unit operating agreement, 27
28 this unit agreement shall govern. Three true copies of any unit 28
29 operating agreement executed pursuant to this section should be filed 29
30 with the Supervisor, prior to approval of this unit agreement. 30

1 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as other- 1
2 wise specifically provided herein, the exclusive right, privilege, 2
3 and duty of exercising any and all rights of the parties hereto which 3
4 are necessary or convenient for prospecting for, producing, storing, 4
5 allocating, and distributing the unitized substances are hereby dele- 5
6 gated to and shall be exercised by the Unit Operator as herein pro- 6
7 vided. Acceptable evidence of title to said rights shall be deposi- 7
8 ted with said Unit Operator and, together with this agreement, shall 8
9 constitute and define the rights, privileges, and obligations of Unit 9
10 Operator. Nothing herein, however, shall be construed to transfer 10
11 title to any land or to any lease or operating agreement, it being 11
12 understood that under this agreement the Unit Operator, in its capa- 12
13 city as Unit Operator, shall exercise the rights of possession and 13
14 use vested in the parties hereto only for the purposes herein speci- 14
15 fied. 15

16 9. DRILLING TO DISCOVERY. Within 6 months after the effective 16
17 date hereof, the Unit Operator shall begin to drill an adequate test 17
18 well at a location approved by the Supervisor, unless on such effec- 18
19 tive date a well is being drilled conformably with the terms hereof, 19
20 and thereafter continue such drilling diligently until the Pennsyl- 20
21 vanian formation has been tested or until at a lesser depth unitized 21
22 substances shall be discovered which can be produced in paying quanti- 22
23 ties (to wit: quantities sufficient to repay the costs of drilling, 23
24 completing, and producing operations, with a reasonable profit) or 24
25 the Unit Operator shall at any time establish to the satisfaction of 25
26 the Supervisor that further drilling of said well would be unwar- 26
27 ranted or impracticable, provided, however, that Unit Operator shall 27
28 not in any event be required to drill said well to a depth in excess 28
29 of 6,300 feet. Until the discovery of a deposit of unitized sub- 29
30 stances capable of being produced in paying quantities, the Unit 30
31 Operator shall continue drilling one well at a time, allowing not 31
32 more than 6 months between the completion of one well and the 32
33 beginning of the next well, until a well capable of producing 33

1 unitized substances in paying quantities is completed to the 1
2 satisfaction of said Supervisor or until it is reasonably proved 2
3 that the unitized land is incapable of producing unitized substances 3
4 in paying quantities in the formations drilled hereunder. Nothing 4
5 in this section shall be deemed to limit the right of the Unit 5
6 Operator to resign as provided in Section 5, hereof, or as requiring 6
7 Unit Operator to commence or continue any drilling during the period 7
8 pending such resignation becoming effective in order to comply with 8
9 the requirements of this section. The Supervisor may modify the 9
10 the drilling requirements of this section by granting reasonably 10
11 extensions of time when, in his opinion, such action is warranted. 11

12 Upon failure to commence any well provided for in this section 12
13 within the time allowed, including any extension of time granted by 13
14 the Supervisor, this agreement will automatically terminate; upon 14
15 failure to continue drilling diligently any well commenced here- 15
16 under, the Supervisor may, after 15-days notice to the Unit 16
17 Operator, declare this unit agreement terminated. 17

18 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 18
19 months after completion of a well capable of producing unitized 19
20 substances in paying quantities, the Unit Operator shall submit for 20
21 the approval of the Supervisor an acceptable plan of development and 21
22 operation for the unitized land which, when approved by the Super- 22
23 visor, shall constitute the further drilling and operating obliga- 23
24 tions of the Unit Operator under this agreement for the period 24
25 specified therein. Thereafter, from time to time before the expira- 25
26 tion of any existing plan, the Unit Operator shall submit for the 26
27 approval of the Supervisor a plan for an additional specified period 27
28 for the development and operation of the unitized land. 28

29 Any plan submitted pursuant to this section shall provide for 29
30 the exploration of the unitized area and for the diligent drilling 30

1 necessary for determination of the area or areas thereof capable 1
2 of producing unitized substances in paying quantities in each and 2
3 every productive formation and shall be as complete and adequate as 3
4 the Supervisor may determine to be necessary for timely development 4
5 and proper conservation of the oil and gas resources of the unitized 5
6 area and shall: 6

7 (a) specify the number and locations of any wells to be 7
8 drilled and the proposed order and time for such drilling; and 8

9 (b) to the extent practicable specify the operating practices 9
10 regarded as necessary and advisable for proper conservation of 10
11 natural resources. 11

12 Separate plans may be submitted for separate productive zones, 12
13 subject to the approval of the Supervisor. 13

14 Plans shall be modified or supplemented when necessary to meet 14
15 changed conditions or to protect the interests of all parties to 15
16 this agreement. Reasonable diligence shall be exercised in com- 16
17 plying with the obligations of the approved plan of development. 17
18 The Supervisor is authorized to grant a reasonable extension of the 18
19 6-month period herein prescribed for submission of an initial plan 19
20 of development where such action is justified because of unusual 20
21 conditions or circumstances. After completion hereunder of a well 21
22 capable of producing any unitized substance in paying quantities, 22
23 no further wells, except such as may be necessary to afford protec- 23
24 tion against operations not under this agreement and such as may be 24
25 specifically approved by the Supervisor, shall be drilled except in 25
26 accordance with a plan of development approved as herein provided. 26

27 11. PARTICIPATING AFTER DISCOVERY. Upon completion of a well 27
28 capable of producing unitized substances in paying quantities or 28
29 as soon thereafter as required by the Supervisor, the Unit Operator 29
30 shall submit for approval by the Supervisor a schedule, based on 30

subdivision of the public-land survey or aliquot parts thereof,
of all land then regarded as reasonably proved to be productive in
paying quantities; all lands in said schedule on approval of the
Supervisor to constitute a participating area, effective as of the
date of completion of such well or the effective date of this unit
agreement, whichever is later. The acreages of both Federal and
non-Federal lands shall be based upon appropriate computations from
the courses and distances shown on the last approved public-land
survey as of the effective date of each initial participating area.
Said schedule shall also set forth the percentage of unitized sub-
stances to be allocated as herein provided to each tract in the
participating area so established, and shall govern the allocation
of production commencing with the effective date of the participa-
ting area. A separate participating area shall be established for
each separate pool or deposit of unitized substances or for any
group thereof which is produced as a single pool or zone, and any
two or more participating areas so established may be combined into
one, on approval of the Supervisor. When production from two or
more participating areas, so established, is subsequently found to
be from a common pool or deposit said participating areas shall be
combined into one effective as of such appropriate date as may be
approved or prescribed by the Supervisor. The participating area
or areas so established shall be revised from time to time, subject
to like approval, to include additional land then regarded as
reasonably proved to be productive in paying quantities or necessary
for unit operations, or to exclude land then regarded as reasonably
proved not to be productive in paying quantities and the schedule
of allocation percentages shall be revised accordingly. The effec-
tive date of any revision shall be the first of the month in which
is obtained the knowledge or information on which such revision is

1 predicated, provided, however, that a more appropriate effective 1
2 date may be used if justified by the Unit Operator and approved by 2
3 the Supervisor. No land shall be excluded from a participating 3
4 area on account of depletion of the unitized substances, except that 4
5 any participating area established under the provisions of this 5
6 unit agreement shall terminate automatically whenever all comple- 6
7 tions in the formation on which the participating area is based are 7
8 abandoned. 8

9 It is the intent of this section that a participating area 9
10 shall represent the area known or reasonably estimated to be pro- 10
11 ductive in paying quantities; but, regardless of any revision of 11
12 the participating area, nothing herein contained shall be construed 12
13 as requiring any retroactive adjustment for production obtained 13
14 prior to the effective date of the revision of the participating 14
15 area. 15

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

28 Whenever it is determined, subject to the approval of the 28
29 Supervisor, that a well drilled under this agreement is not capable 29
30 of production in paying quantities and inclusion of the land on 30

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

9 12. ALLOCATION OF PRODUCTION. All unitized substances pro- 9
10 duced from each participating area established under this agree- 10
11 ment, except any part thereof used in conformity with good operating 11
12 practices within the unitized area for drilling, operating, camp and 12
13 other production or development purposes, for repressuring or re- 13
14 cycling in accordance with a plan of development approved by the 14
15 Supervisor, or unavoidably lost, shall be deemed to be produced 15
16 equally on an acreage basis from the several tracts of unitized land 16
17 of the participating area established for such production and, for 17
18 the purpose of determining any benefits accruing under this agreement 18
19 each such tract of unitized land shall have allocated to it such 19
20 percentage of said production as the number of acres of such tract 20
21 included in said participating area bears to the total acres of 21
22 unitized land in said participating area, except that allocation of 22
23 production hereunder for purposes other than for settlement of the 23
24 royalty, overriding royalty or payment out of production obligations 24
25 of the respective working interest owners, shall be on the basis 25
26 prescribed in the unit operating agreement whether in conformity 26
27 with the basis of allocation herein set forth or otherwise. It is 27
28 hereby agreed that production of unitized substances from a partici- 28
29 pating area shall be allocated as provided herein regardless of 29
30 whether any wells are drilled on any particular part or tract of said 30
31 participating area. If any gas produced from one participating area 31
32 is used for repressuring or recycling purposes in another partici- 32

1 pating area, the first gas withdrawn from such last-mentioned 1
2 participating area for sale during the life of this agreement shall 2
3 be considered to be the gas so transferred until an amount equal to 3
4 that transferred shall be so produced for sale and such gas shall be 4
5 allocated to the participating area from which initially produced as 5
6 such area was last defined at the time of such final production. 6

7 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR 7
8 FORMATIONS. Any party hereto owning or controlling the working 8
9 interest in any unitized land having thereon a regular well loca- 9
10 tion may with the approval of the Supervisor, at such party's sole 10
11 risk, costs, and expense, drill a well to test any formation for 11
12 which a participating area has not been established or to test any 12
13 formation for which a participating area has been established if 13
14 such location is not within said participating area, unless within 14
15 90 days of receipt of notice from said party of his intention to 15
16 drill the well the Unit Operator elects and commences to drill such 16
17 a well in like manner as other wells are drilled by the Unit 17
18 Operator under this agreement. 18

19 If any well drilled as aforesaid by a working interest owner 19
20 results in production such that the land upon which it is situated 20
21 may properly be included in a participating area, such participating 21
22 area shall be established or enlarged as provided in this agreement 22
23 and the well shall thereafter be operated by the Unit Operator in 23
24 accordance 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 owner 26
27 obtains production in quantities insufficient to justify the inclu- 27
28 sion of the land upon which such well is situated in a participating 28
29 area, such well may be operated and produced by the party drilling 29
30 the same subject to the conservation requirements of this agreement. 30

1 The royalties in amount or value of production from any such well 1
2 shall be paid as specified in the underlying lease and agreements 2
3 affected. 3

4 14. ROYALTY SETTLEMENT. The United States and any State and 4
5 any royalty owner who, is entitled to take in kind a share of the 5
6 substances now unitized hereunder shall hereafter be entitled to the 6
7 right to take in kind its share of the unitized substances, and Unit 7
8 Operator, or the working interest owner in case of the operation of 8
9 a well by a working interest owner as herein provided for in special 9
10 cases, shall make deliveries of such royalty share taken in kind 10
11 in conformity with the applicable contracts, laws and regulations. 11
12 Settlement for royalty interest not taken in kind shall be made by 12
13 working interest owners responsible therefor under existing con- 13
14 tracts, laws and regulations, or by the Unit Operator on or before 14
15 the last day of each month for unitized substances produced during 15
16 the preceding calendar month; provided, however, that nothing 16
17 herein contained shall operate to relieve the lessees of any land 17
18 from 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 is 20
21 introduced into any participating area hereunder, for use in repres- 21
22 suring, stimulation of production, or increasing ultimate recovery, 22
23 in conformity with a plan of operations approved by the Supervisor, 23
24 a like amount of gas, after settlement as herein provided for any 24
25 gas transferred from any other participating area and with appro- 25
26 priate deduction for loss from any cause, may be withdrawn from the 26
27 formation into which the gas is introduced, royalty free as to dry 27
28 gas, but not as to any products which may be extracted therefrom; 28
29 provided that such withdrawal shall be at such time as may be pro- 29
30 vided in the approved plan of operations or as may otherwise be 30

consented to by the Supervisor as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwith-

standing any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or until some portion of such land is included within a participating area.

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

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

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

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full perfor-

1 mance of all obligations for development and operation with 1
2 respect to each and every separately owned tract subject to 2
3 this agreement, regardless of whether there is any development 3
4 of any particular tract of the unit area. 4
5 (b) Drilling and producing operations performed hereunder upon 5
6 any tract of unitized lands will be accepted and deemed to be 6
7 performed upon and for the benefit of each and every tract of 7
8 unitized land, and no lease shall be deemed to expire by reason 8
9 of failure to drill or produce wells situated on the land 9
10 therein embraced. 10
11 (c) Suspension of drilling or producing operations on all 11
12 unitized lands pursuant to direction or consent of the Secre- 12
13 tary or his duly authorized representative shall be deemed to 13
14 constitute such suspension pursuant to such direction or con- 14
15 sent as to each and every tract of unitized land. A suspension 15
16 of drilling or producing operations limited to specified lands 16
17 shall be applicable only to such lands. 17
18 (d) Each lease, sublease or contract relating to the explora- 18
19 tion, drilling, development or operation for oil or gas of 19
20 lands other than those of the United States committed to this 20
21 agreement, which, by its terms might expire prior to the termi- 21
22 nation of this agreement, is hereby extended beyond any such 22
23 terms so provided therein so that it shall be continued in 23
24 full force and effect for and during the term of this agree- 24
25 ment. 25
26 (e) Any Federal lease for a fixed term of twenty (20) years 26
27 or any renewal thereof or any part of such lease which is made 27
28 subject to this agreement shall continue in force beyond the 28
29 term provided therein until the termination hereof. Any other 29
30 Federal lease committed hereto shall continue in force beyond 30

1 the term so provided therein or by law as to the land com- 1
2 mitted so long as such lease remains subject hereto, provided 2
3 that production is had in paying quantities under this unit 3
4 agreement prior to the expiration date of the term of such 4
5 lease, or in the event actual drilling operations are com- 5
6 menced on unitized land, in accordance with the provisions 6
7 of this agreement, prior to the end of the primary term of such 7
8 lease and are being diligently prosecuted at that time, such 8
9 lease shall be extended for two years and so long thereafter 9
10 as oil or gas is produced in paying quantities in accordance 10
11 with the provisions of the Mineral Leasing Act Revision of 1960. 11
12 (f) Each sublease or contract relating to the operation and 12
13 development of unitized substances from lands of the United 13
14 States committed to this agreement, which by its terms would 14
15 expire prior to the time at which the underlying lease, as 15
16 extended by the immediately preceding paragraph, will expire, 16
17 is hereby extended beyond any such term so provided therein 17
18 so that it shall be continued in full force and effect for 18
19 and during the term of the underlying lease as such term is 19
20 herein extended. 20
21 (g) The segregation of any Federal lease committed to this 21
22 ment is governed by the following provision in the fourth para- 22
23 graph of Sec. 17(j) of the Mineral Leasing Act, as amended by 23
24 Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) 24
25 lease heretofore or hereafter committed to any such (unit) 25
26 plan embracing lands that are in part within and in part out- 26
27 side of the area covered by any such plan shall be segregated 27
28 into separate leases as to the lands committed and the lands 28
29 not committed as of the effective date of unitization: 29
30 Provided, however, That any such lease as to the nonunitized 30

1 portion shall continue in force and effect for the term 1
2 thereof but for not less than two years from the date of such 2
3 segregation and so long thereafter as oil or gas is produced 3
4 in paying quantities." 4

5 (h) Any lease, other than a Federal lease, having only a 5
6 portion of its lands committed hereto shall be segregated as 6
7 to the portion committed and the portion not committed, and 7
8 the provisions of such lease shall apply separately to such 8
9 segregated portions commencing as of the effective date hereof. 9
10 In the event any such lease provides for a lump-sum rental 10
11 payment, such payment shall be prorated between the portions 11
12 so segregated in proportion to the acreage of the respective 12
13 tracts. 13

14 19. COVENANTS RUN WITH LAND. The covenants herein shall be 14
15 construed to be covenants running with the land with respect to the 15
16 interest of the parties hereto and their successors in interest 16
17 until this agreement terminates, and any grant, transfer or con- 17
18 veyance, of interest in land or leases subject hereto shall be and 18
19 hereby is conditioned upon the assumption of all privileges and 19
20 obligations hereunder by the grantee, transferee, or other succes- 20
21 sor in interest. No assignment or transfer of any working interest, 21
22 royalty, or other interest subject hereto shall be binding upon 22
23 Unit Operator until the first day of the calendar month after Unit 23
24 Operator is furnished with the original, photostatic, or certified 24
25 copy of the instrument of transfer. 25

26 20. EFFECTIVE DATE AND TERM. This agreement shall become 26
27 effective upon approval by the Secretary or his duly authorized 27
28 representative and shall terminate five (5) years from said effec- 28
29 tive date unless 29

30 (a) such date of expiration is extended by the Director, or 30

1 (b) it is reasonably determined prior to the expiration of 1
2 the fixed term of any extension thereof that the unitized land 2
3 is incapable of production of unitized substances in paying 3
4 quantities in the formations tested hereunder and after notice 4
5 of intention to terminate the agreement on such ground is given 5
6 by the Unit Operator to all parties in interest at their last 6
7 known addresses, the agreement is terminated with the approval 7
8 of the Supervisor, or 8

9 (c) a valuable discovery of unitized substances has been made 9
10 accepted on unitized land during said initial term of any ex- 10
11 tension thereof, in which event the agreement shall remain in 11
12 effect for such term and so long as unitized substances can be 12
13 produced in quantities sufficient to pay for the cost of pro- 13
14 ducing same from wells on unitized land within any participa- 14
15 ting area established hereunder and, should production cease, 15
16 so long thereafter as diligent operations are in progress for 16
17 the restoration of production or discovery of new production 17
18 and so long thereafter as unitized substances so discovered can 18
19 be produced as aforesaid, or 19

20 (d) it is terminated as heretofore provided in this agreement. 20
21 This agreement may be terminated at any time by not less than 75 21
22 per centum, on an acreage basis, of the working interest owners 22
23 signatory hereto, with the approval of the Supervisor; notice of any 23
24 such approval to be given by the Unit Operator to all parties hereto. 24

25 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The 25
26 Director is hereby vested with authority to alter or modify from 26
27 time to time in his discretion the quantity and rate of production 27
28 under this agreement when such quantity and rate is not fixed 28
29 pursuant to Federal or State law or does not conform to any state- 29
30 wide voluntary conservation or allocation program, which is esta- 30

1 blished, recognized, and generally adhered to by the majority of 1
2 operators in such State, such authority being hereby limited to 2
3 alteration or modification in the public interest, the purpose 3
4 thereof and the public interest to be served thereby to be stated 4
5 in the order of alteration or modification. Without regard to the 5
6 foregoing, the Director is also hereby vested with authority to 6
7 alter or modify from time to time in his discretion the rate of 7
8 prospecting and development and the quantity and rate of production 8
9 under this agreement when such alteration or modification is in the 9
10 interest of attaining the conservation objectives stated in this 10
11 agreement and is not in violation of any applicable Federal or 11
12 State law. 12

13 Powers in this section vested in the Director shall only be 13
14 exercised after notice to Unit Operator and opportunity for hearing 14
15 to be held not less than 15 days from notice. 15

16 22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor 16
17 the working interest owners nor any of them shall be subject to 17
18 any forfeiture, termination or expiration of any rights hereunder 18
19 of under any lease or contracts subject hereto, or to any penalty 19
20 or liability on account of delay or failure in whole or in part 20
21 to comply with any applicable provision thereof to the extent that 21
22 the Unit Operator, working interest owners or any of them are hin- 22
23 dered, delayed or prevented from complying therewith by reason of 23
24 failure of the Unit Operator to obtain in the exercise of due 24
25 diligence, the concurrence of proper representatives of the United 25
26 States and proper representatives of the State of New Mexcio in 26
27 and about any matters or things concerning which it is required here-27
28 in that such concurrence be obtained. The parties hereto, including 28
29 the Commission, agree that all power and authority vested in the 29
30 Commission in and by any provisions of this agreement are vested 30

1 in the Commission and shall be exercised by it pursuant to the 1
2 provisions of the laws of the State of New Mexico and subject 2
3 in any case to appeal or judicial review as may now or hereafter 3
4 be provided by the laws of the State of New Mexico. 4

5 23. APPEARANCES. Unit Operator shall, after notice to 5
6 other parties affected, have the right to appear for and on 6
7 behalf of any and all interests affected hereby before the 7
8 Department of the Interior and to appeal from orders issued 8
9 under the regulations of said Department or to apply for relief 9
10 from any of said regulations or in any proceedings relative to 10
11 operations before the Department of the Interior or any other 11
12 legally constituted authority; provided, however, that any other 12
13 interested party shall also have the right at his own expense 13
14 to be heard in any such proceeding. 14

15 24. NOTICES. All notices, demands or statements required 15
16 hereunder to be given or rendered to the parties hereto shall 16
17 be deemed fully given if given in writing and personally 17
18 delivered to the party or sent by postpaid registered or 18
19 certified mail, addressed to such party or parties at their 19
20 respective addresses set forth in connection with the signa- 20
21 tures hereto or to the ratification or consent hereof or to such 21
22 address or any such party may have burnished in writing 22
23 to party sending the notice, demand or state- 23
24 ment. 24

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

1 by any such party of any right beyond his or its authority to waive. 1

2 26. UNAVOIDABLE DELAY. All obligations under this agreement 2
3 requiring the Unit Operator to commence or continue drilling or to 3
4 operate on or produce unitized substances from any of the lands 4
5 covered by this agreement shall be suspended while the Unit 5
6 Operator, despite the exercise of due care and diligence, is pre- 6
7 vented from complying with such obligations, in whole or in part, 7
8 by strikes, acts of God, Federal, State, or municipal law or agen- 8
9 cies, unavoidable accidents, uncontrollable delays in transportation, 9
10 inability to obtain necessary materials in open market, or other 10
11 matters beyond the reasonable control of the Unit Operator whether 11
12 similar to matters herein enumerated or not. No unit obligation 12
13 which is suspended under this section shall become due less than 13
14 thirty (30) days after it has been determined that the suspension 14
15 is no longer applicable. Determination of creditable "Unavoidable 15
16 Delay" time shall be made by the unit operator subject to approval 16
17 of the Supervisor. 17

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

23 28. LOSS OF TITLE. In the event title to any tract of 23
24 unitized land shall fail and the true owner cannot be induced to 24
25 join in this unit agreement, such tract shall be automatically re- 25
26 garded as not committed hereto and there shall be such readjustment 26
27 of future costs and benefits as may be required on account of the 27
28 loss of such title. In the event of a dispute as to title as to 28
29 any royalty, working interest, or other interests subject thereto, 29
30 payment or delivery on account thereof may be withheld without 30

1 liability for interest until the dispute is finally settled; pro- 1
2 vided, that, as to Federal land or leases, no payments of funds due 2
3 the United States should be withheld, but such funds shall be 3
4 deposited as directed by the Supervisor to be held as unearned 4
5 money pending final settlement of the title dispute, and then 5
6 applied as earned or returned in accordance with such final settle- 6
7 ment. 7

8 Unit Operator as such is relieved from any responsibility for 8
9 any defect or failure of any title hereunder. 9

10 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any 10
11 substantial interest in a tract within the unit area fails or refuses 11
12 to subscribe or consent to this agreement, the owner of the working 12
13 interest in that tract may withdraw said tract from this agreement 13
14 by written notice delivered to the Supervisor and the Unit 14
15 Operator prior to the approval of this agreement by the Supervisor. 15
16 Any oil or gas interests in lands within the unit area not committed 16
17 hereto prior to submission of this agreement for final approval 17
18 may thereafter be committed hereto by the owner or owners thereof 18
19 subscribing or consenting to this agreement, and, if the interest 19
20 is a working interest, by the owner of such interest also sub- 20
21 scribing to the unit operating agreement. After operations are 21
22 commenced hereunder, the right of subsequent joinder, as provided 22
23 in this section, by a working interest owner is subject to such 23
24 requirements or approvals, if any, pertaining to such joinder, as 24
25 may be provided for in the unit operating agreement. After final 25
26 approval hereof, joinder by a non-working interest owner must be 26
27 consented to in writing by the working interest owner committed 27
28 hereto and responsible for the payment of any benefits that may 28
29 accrue hereunder in behalf of such non-working interest. A non- 29
30 working interest may not be committed to this unit agreement unless 30

the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Supervisor.

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

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

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

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

INEXCO OIL COMPANY

Date

President

Address
