

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION

OF THE  
SALTYS UNIT AREA

COUNTY OF GRANT

STATE OF NEW MEXICO

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

BEFORE EXAMINER QUINTANA  
OIL CONSERVATION DIVISION

Marshall EXHIBIT NO. 1  
R Young CASE NO. 8655

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

WITNESSETH:

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

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

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

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

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

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

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

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

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

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

Sec. 19: All  
Sec. 20: All  
Sec. 29: All  
Sec. 30: All

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

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

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

Sec. 2: All	Sec. 6: All
Sec. 3: All	Sec. 7: All
Sec. 4: All	Sec. 8: All
Sec. 5: All	Sec. 9: All
	Sec. 10: All

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

Sec. 1: All

Contains 23,822.78 acres, more or less

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

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

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

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

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

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

13 (e) Notwithstanding any prior elimination under the "Drilling to Discovery" 13  
14 section, all legal subdivisions of lands (i.e., 40 acres by Government survey or 14  
15 its nearest lot or tract equivalent; in instances of irregular surveys, unusually 15  
16 large lots or tracts shall be considered in multiples of 40 acres or the nearest 16  
17 aliquot equivalent thereof), no parts of which are entitled to be in a partici- 17  
18 pating area on or before the fifth anniversary of the effective date of the first 18  
19 initial participating area established under this unit agreement, shall be 19  
20 eliminated automatically from this agreement, effective as of said fifth anni- 20  
21 versary, and such lands shall no longer be a part of the unit area and shall no 21  
22 longer be subject to this agreement, unless diligent drilling operations are in 22  
23 progress on unitized lands not entitled to participation on said fifth anniversary, 23  
24 in which event all such lands shall remain subject hereto for so long as such 24  
25 drilling operations are continued diligently, with not more than 90 days' time 25  
26 elapsing between the completion of one such well and the commencement of the next 26  
27 such well. All legal subdivisions of lands not entitled to be in a participating 27  
28 area within 10 years after the effective date of the first initial participating 28  
29 area approved under this agreement shall be automatically eliminated from this 29  
30 agreement as of said tenth anniversary. The Unit Operator shall, within 90 days 30  
31 after the effective date of any elimination hereunder, describe the area so elimi- 31  
32 nated to the satisfaction of the AO and Land Commissioner and promptly notify all 32  
33 parties in interest. All lands reasonably proved productive of unitized substances 33  
34 in paying quantities by diligent drilling operations after the aforesaid 5-year 34  
35 period shall become participating in the same manner as during said first 5-year 35  
36 period. However, when such diligent drilling operations cease, all non-participat- 36  
37 ing lands not then entitled to be in a participating area shall be automatically 37  
38 eliminated effective as of the 91st day thereafter. 38  
39

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Land Commissioner or the Division, the Unit Operator shall submit for approval by the AO, the Land Commissioner and Division, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, the Land Commissioner and Division, 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. The schedule shall also set forth the percentage of unitized substances to be allocated, as provided in Section 12 to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A different 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 AO, the Land Commissioner and the Division. When production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO, the Land Commissioner and Division. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, the Land Commissioner and Division to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably proved not to be productive of unitized substances in paying

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

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

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

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production or development purposes, for repressuring or recycling in accordance with a plan of development and operations which has been approved by the AO, Land Commissioner and Division, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production. For the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of the participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from the latter participating area for sale during the life of this agreement, shall be considered to be the gas so transferred, until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was defined at the time of such transferred gas was finally produced and sold.

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



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

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

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

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

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

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

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

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



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

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, notwithstanding 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 AO and Land Commissioner deems appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO, as to Federal leases and the Land Commissioner, as to State leases.

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 operation 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, as to Federal leases and the Land Commissioner, as to State leases, shall and each 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 performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of this unit area.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper Bureau of Land Management office, the Land Commissioner, the Division and the Unit Operator prior to the approval of this agreement by the AO and Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless 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, in order for the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO, the Land Commissioner and the Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

29. 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 UNIT OPERATOR AND WORKING INTEREST OWNER 4  
5 5

6 ATTEST: 6

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

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

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

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

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

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

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

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

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