

TAOS TROUGH UNIT AREA

COLFAX, MORA, TAOS COUNTIES, NEW MEXICO

T.21,22,23,24,25N., R.13,14,15E., N.M.P.M.

BEFORE EXAMINER STOGNER	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	3
CASE NO.	

INTRODUCTORY SECTION

Section 1	ENABLING ACT AND REGULATIONS.....	1
Section 2	UNIT AREA.....	2
Section 3	UNITIZED LAND AND UNITIZED SUBSTANCES.....	3
Section 4	UNIT OPERATOR.....	3
Section 5	RESIGNATION OR REMOVAL OF UNIT OPERATOR.....	4
Section 6	SUCCESSOR UNIT OPERATOR.....	5
Section 7	ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.....	5
Section 8	RIGHTS AND OBLIGATIONS OF UNIT OPERATOR.....	5
Section 9	DRILLING TO DISCOVERY.....	6
Section 10	PLAN OF FURTHER DEVELOPMENT AND OPERATION.....	7
Section 11	PARTICIPATION AFTER DISCOVERY.....	8
Section 12	ALLOCATION OF PRODUCTION.....	9
Section 13	DEVELOPMENT OR OPERATION OF NONPARTICIPATING LAND/FORMATIONS...	10
Section 14	ROYALTY SETTLEMENT.....	10
Section 15	RENTAL SETTLEMENT.....	11
Section 16	CONSERVATION.....	12
Section 17	DRAINAGE.....	12
Section 18	LEASES AND CONTRACTS CONFORMED AND EXTENDED.....	12
Section 19	COVENANTS RUN WITH LAND.....	14
Section 20	EFFECTIVE DATE AND TERM.....	14
Section 21	RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION.....	15
Section 22	APPEARANCES.....	15
Section 23	NOTICES.....	15
Section 24	NO WAIVER OF CERTAIN RIGHTS.....	15
Section 25	UNAVOIDABLE DELAY.....	16
Section 26	NONDISCRIMINATION.....	16
Section 27	LOSS OF TITLE.....	16
Section 28	NONJOINER AND SUBSEQUENT JOINER.....	16
Section 29	COUNTERPARTS.....	17
Section 30	SURRENDER.....	17
Section 31	TAXES.....	18
Section 32	NO PARTNERSHIP.....	18

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION OF THE

Unit Area TAOS TROUGH
County Of COLFAX, MORA, TAOS
State of NEW MEXICO
Number

This agreement, entered into as of the second day of December, 1985, 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 Oil Conservation Division of the New Mexico Energy and Minerals Department, 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 TAOS TROUGH 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 here-
of governing drilling and producing operations, not inconsistent with the
terms hereof or the laws of the State of New Mexico are hereby accepted and
made a part of this agreement.

2. UNIT AREA. The area specified on the map attached hereto marked
Exhibit A is hereby designated and recognized as constituting the unit area,
containing 108,502.17 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 or 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, herein-
after referred to as AO, and not less than four copies of the revised Exhibits
shall be filed with the AO, and one (1) copy with the New Mexico Oil Conserva-
tion 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, 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 AO 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 30 days
will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item
(b) hereof, Unit Operator shall file with the AO and the Division, evidence
of mailing of the notice of expansion or contraction and a copy of any objec-
tions thereto which have been filed with Unit Operator, together with an ap-
plication in triplicate, for approval of such expansion or contraction and
with appropriate joinders.

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

(e) All legal subdivisions of lands (i.e. 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are in or entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 12 months time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said Tenth anniversary. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and the Division and promptly notify all parties in interest. All lands reasonably proved productive of unitized substances in paying quantities by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said first 5-year period. However, when such diligent drilling operations cease, all nonparticipating lands not then entitled to be in a participating area shall be automatically eliminated effective as of the 91st day thereafter.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands. If conditions warrant extension of the 10-year period specified in this subsection, a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90 percent of the working interest in the current nonparticipating unitized lands and the owners of 60 percent of the basic royalty interest (exclusive of the basic royalty interests of the United States) in nonparticipating unitized lands with approval of the AO, provided such extension application is submitted not later than 60 days prior to the expiration of said 10-year period.

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

4. UNIT OPERATOR. Leonard Minerals Company is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever

reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest only 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, the AO, and the Division, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO as to Federal lands and the Division as to private lands, 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 after 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 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 AO.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of 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 selected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

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85 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender 185
 86 his or its resignation as Unit Operator or shall be removed as hereinabove 186
 87 provided, or a change of Unit Operator is negotiated by the working interest 187
 88 owners, the owners of the working interests according to their respective 188
 89 acreage interests in all unitized land shall, pursuant to the Approval of 189
 90 the Parties requirements of the unit operating agreement, select a successor 190
 91 Unit Operator. Such selection shall not become effective until: 191

91a 191a
 92 (a) a Unit Operator so selected shall accept in writing the duties and 192
 93 responsibilities of Unit Operator, and 193
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95 (b) the selection shall have been approved by the AO. 195
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97 If no successor Unit Operator is selected and qualified as herein pro- 197
 98 vided, the AO at his election may declare this unit agreement terminated. 198
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100 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit 200
 101 Operator is not the sole owner of working interests, costs and expenses 201
 102 incurred by Unit Operator in conducting unit operations hereunder shall be 202
 103 paid and apportioned among and borne by the owners of working interests, all 203
 104 in accordance with the agreement or agreements entered into by and between 204
 105 the Unit Operator and the owners of working interests, whether one or more, 205
 106 separately or collectively. Any agreement or agreements entered into between 206
 107 the working interest owners and the Unit Operator as provided in this section, 207
 108 whether one or more, are herein referred to as the "unit operating agreement." 208
 109 Such unit operating agreement shall also provide the manner in which the working 209
 110 interest owners shall be entitled to receive their respective proportionate 210
 111 and allocated share of the benefits accruing hereto in conformity with their 211
 112 underlying operating agreements, leases, or other independent contracts, and 212
 113 such other rights and obligations as between Unit Operator and the working 213
 114 interest owners as may be agreed upon by Unit Operator and the working interest 214
 115 owners; however, no such unit operating agreement shall be deemed either to 215
 116 modify any of the terms and conditions of this unit agreement or to relieve 216
 117 the Unit Operator of any right or obligation established under this unit 217
 118 agreement, and in case of any inconsistency or conflict between this agree- 218
 119 ment and the unit operating agreement, this agreement shall govern. Two 219
 120 copies of any unit operating agreement executed pursuant to this section shall 220
 121 be filed with the AO and one (1) true copy with the Division, prior to ap- 221
 122a approval of this unit agreement. 221a
 122 222

123 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise 223
 124 specifically provided herein, the exclusive right, privilege, and duty of 224
 125 exercising any and all rights of the parties hereto which are necessary or 225
 126 convenient for prospecting for, producing, storing, allocating, and dis- 226
 127 tributing the unitized substances are hereby delegated to and shall be 227
 128 exercised by the Unit Operator as herein provided. Acceptable evidence of 228
 129 title to said rights shall be deposited with Unit Operator and, together with 229

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 12 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 the Division if on privately owned 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 SANDIA 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 Division if on privately owned 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 6,000 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 12 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 on Federal land, or the Division if on privately owned 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.

Notwithstanding anything in this unit agreement to the contrary, except Section 25, UNAVOIDABLE DELAY, three wells shall be drilled with not more than 12-months time elapsing between the completion of the first well and commencement of drilling operations for the second well and with not more than 12-months time elapsing between completion of the second well and commencement of drilling operations for the third well, regardless of whether a discovery has been made in any well drilled under this provision. All of the wells must be drilled in compliance with the above specified formation or depth requirements in order to meet the dictates of this section; and the additional wells will be located upon the completion of an adequate geophysical, geochemical, or geological exploration program to determine their optimum geologic position. Three wells will be located with the approval of the AO and the Division, and will be drilled with not more than 12-months time elapsing between the completion of the initial test well and the commencement of drilling operations for the next well. Nevertheless, in the event of the discovery of unitized substances in paying quantities by any well, this unit agreement

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shall not terminate for failure to complete the three well program, but the unit area shall be contracted automatically effective the first day of the month following the default, to eliminate by subdivisions (as defined in Section 2(e) hereof) all lands not then entitled to be in a participating area.

The AO may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in his 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 this agreement will automatically terminate. Upon failure to continue drilling diligently any well commenced hereunder, the AO 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 and the Division an acceptable plan of development and operation for the unitized land which when approved by the AO and the 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 and the 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 and the Division may determine to be necessary for timely development and proper conservation of the oil and gas resources in 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 is authorized to

44 grant a reasonable extension of the 6-month period herein prescribed for 344
 45 submission of an initial plan of development and operation where such action 345
 46 is justified because of unusual conditions or circumstances. 346
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48 After completion of a well capable of producing unitized substances in 348
 49 paying quantities, no further wells, except such as may be necessary to afford 349
 50 protection against operations not under this agreement and such as may be 350
 51 specifically approved by the AO and the Division, shall be drilled except in 351
 52 accordance with an approved plan of development and operation. 352
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54 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable 354
 55 of producing unitized substances in paying quantities, or as soon thereafter 355
 56 as required by the AO or the Division, the Unit Operator shall submit for ap- 356
 57 proval by the AO and the Division, a schedule, based on subdivisions of the 357
 58 public-land survey or aliquot parts thereof, of all land then regarded as 358
 59 reasonably proved to be productive of unitized substances in paying quantities. 359
 60 These lands shall constitute a participating area on approval of the AO and 360
 61 the Division, effective as of the date of completion of such well or the 361
 61a effective date of this unit agreement, whichever is later. The acreages of 361a
 62 both Federal and non-Federal lands shall be based upon appropriate computations 362
 63 from the courses and distances shown on the last approved public-land survey 363
 64 as of the effective date of each initial participating area. The schedule 364
 65 shall also set forth the percentage of unitized substances to be allocated, 365
 66 as provided in Section 12, to each committed tract in the participating 366
 67 area so established, and shall govern the allocation of production commencing 367
 68 with the effective date of the participating area. A different partici- 368
 69 pating area shall be established for each separate pool or deposit of unitized 369
 70 substances or for any group thereof which is produced as a single pool or zone, 370
 71 and any two or more participating areas so established may be combined into 371
 72 one, on approval of the AO and the Division. When production from two or 372
 73 or more participating areas is subsequently found to be from a common pool or de- 373
 74 posit, the participating areas shall be combined into one, effective as of 374
 75 such appropriate date as may be approved or prescribed by the AO and the Divi- 375
 76 sion. The participating area or areas so established shall be revised from 376
 77 time to time, subject to the approval of the AO and the Division, to include 377
 78 additional lands then regarded as reasonably proved to be productive of unit- 378
 79 ized substances in paying quantities or which are necessary for unit operations, 379
 80 or to exclude lands then regarded as reasonably proved not be productive of 380
 81 unitized substances in paying quantities, and the schedule of allocation 381
 82 percentages shall be revised accordingly. The effective date of any revision 382
 83 shall be the first of the month in which the knowledge or information is 383
 84 obtained on which such revision is predicated; provided, however, that a more 384
 85 appropriate effective date may be used if justified by Unit Operator and ap- 385
 86 proved by the AO and the Division. No land shall be excluded from a partici- 386
 87 pating area on account of depletion of its unitized substances, except that any 387
 88 participating area established under the provisions of this unit agreement 388
 89 shall terminate automatically whenever all completions in the formation on 389
 90 which the participating area is based are abandoned. 390
 91 391

92 It is the intent of this section that a participating area shall represent 392
 93 the area productive of unitized substances known or reasonably proved to be 393

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 and the 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. Royalties due the United States shall be determined by the AO, and the amount thereof shall be deposited, as directed by the AO, 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, as to wells drilled on Federal land, and of the Division as to wells drilled on privately owned land, 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 or the 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 owner, 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. 442
 If any gas produced from one participating area is used for repressuring 443
 or recycling purposes in another participating area the first gas withdrawn 444
 from the latter participating area for sale during the life of this agree- 445
 ment, shall be considered to be the gas so transferred, until an amount 446
 equal to that transferred shall be so produced for sale and such gas shall be 447
 allocated to the participating area from which initially produced as such area 448
 was defined at the time that such transferred gas was finally produced and sold. 449
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13. DEVELOPMENT OR OPERATION OF NONPARTICIPATING LAND OR FORMATIONS. 451

Any party hereto owning or controlling the working interest in any unitized 452
 land having thereon a regular well location may with the approval of the AO 453
 as to Federal land, and the Division as to privately owned land, at such party's 453a
 sole risk, costs, and expense, drill a well to test any formation provided 454
 the well is outside any participating area established for that formation, 455
 unless within 90 days of receipt of notice from said party of his intention 456
 to drill the well, the Unit Operator elects and commences to drill the well 457
 in a like manner as other wells are drilled by the Unit Operator under 458
 this agreement. 459
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If any well drilled under this section by a working interest owner results 461
 in production of unitized substances in paying quantities such that the land 462
 upon which it is situated may properly be included in a participating area, 463
 such participating area shall be established or enlarged as provided in this 464
 agreement and the well shall thereafter be operated by the Unit Operator in 465
 accordance with the terms of this agreement and the unit operating agreement. 466
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If any well drilled under this section by a working interest owner that 468
 obtains production in quantities insufficient to justify the inclusion of 469
 the land upon which such well is situated in a participating area, such well 470
 may be operated and produced by the party drilling the same, subject to the 471
 conservation requirements of this agreement. The royalties in amount or 472
 value of production from any such well shall be paid as specified in the 473
 underlying lease and agreements affected. 474
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14. ROYALTY SETTLEMENT. The United States and any royalty owner 476
 who is entitled to take in kind a share of the substances now unitized 477
 hereunder shall be hereafter be entitled to the right to take in kind its 478
 share of the unitized substances, and Unit Operator, or the working interest 479
 owner in case of the operation of a well by a working interest owner as herein 480
 provided for in special cases, shall make deliveries of such royalty share 481
 taken in kind in conformity with the applicable contracts, laws, and reg- 482
 ulations. Settlement for royalty interest not taken in kind shall be made by 483
 working interest owners responsible therefor under existing contracts, laws 484
 and regulations, or by the Unit Operator on or before the last day of each 485
 month for unitized substances produced during the preceding calendar month; 486
 provided, however, that nothing in this section shall operate to relieve 487

the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of development and operation approved by the AO and the Division, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of development and operation or as may otherwise be consented to by the AO and the Division 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 30 CFR Part 221 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 in Section 12 at the rates specified in the respective Federal leases, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; 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.

Royalty due on account of privately owned lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by appropriate working interest owners under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the leases of any land from their respective lessees 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, 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.

535
536 16. CONSERVATION. Operations hereunder and production of unitized 535
537 substances shall be conducted to provide for the most economical and 536
538 efficient recovery of said substances without waste, as defined by or 537
539 pursuant to State or Federal law or regulation. 538
540 539

541 17. DRAINAGE. The Unit Operator shall take such measures as the AO 541
542 deems appropriate and adequate to prevent drainage of unitized substances 542
543 from unitized land by wells on land not subject to this agreement, which 543
544 shall include the drilling of protective wells and which may include the pay- 544
545 ment of a fair and reasonable compensatory royalty as determined by the AO. 545
546 546

547 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, 547
548 and provisions of all leases, subleases, and other contracts relating to 548
549 exploration, drilling, development or operation for oil or gas on lands 549
550 committed to this agreement are hereby expressly modified and amended to the 550
551 extent necessary to make the same conform to the provisions hereof, but 551
552 otherwise to remain in full force and effect; and the parties hereto hereby 552
553 consent that the Secretary as to Federal leases shall and by his approval 553
554 hereof, or by the approval hereof by his duly authorized representative, does 554
555 hereby establish, alter, change, or revoke the drilling, producing, rental 555
556 minimum royalty, and royalty requirements of Federal leases committed hereto 556
557 and the regulations in respect thereto to conform said requirements to the pro- 557
558 visions of this agreement, and, without limiting the generality of the foregoing, 558
559 all leases, subleases, and contracts are particularly modified in accordance 559
560 with the following: 560
560a 560a

561 (a) The development and operation of lands subject to this agreement 561
562 under the terms hereof shall be deemed full performance of all obligations 562
563 for development and operation with respect to each and every separately owned 563
564 tract subject to this agreement, regardless of whether there is any development 564
565 of any particular tract of this unit area. 565
566 566

567 (b) Drilling and producing operations performed hereunder upon any 567
568 tract of unitized lands will be accepted and deemed to be performed upon 568
569 and for the benefit of each and every tract of unitized land, and no 569
570 lease shall be deemed to expire by reason of failure to drill or produce 570
571 wells situated on the land therein embraced. 571
572 572

573 (c) Suspension of drilling or producing operations on all unitized lands 573
574 pursuant to direction or consent of the AO shall be deemed to constitute such 574
575 suspension pursuant to such direction or consent as to each and every tract of 575
576 unitized land. A suspension of drilling or producing operations limited to 576
577 specified lands shall be applicable only to such lands. 577
578 578

579 (d) Each lease, sublease, or contract relating to the exploration, 579
580 drilling, development, or operation for oil or gas of lands other than those 580
581 of the United States committed to this agreement which by its terms might 581
582 expire prior to the termination of this agreement, is hereby extended beyond 582
583 any such term so provided therein so that it shall be continued in full 583
584 force and effect for and during the term of this agreement. 584

585
586 (e) Any Federal lease committed hereto shall continue in force beyond 586
587 the term so provided therein or by law as to the land committed so long as 587
588 such lease remains subject hereto, provided that production of unitized 588
589 substances in paying quantities is established in paying quantities under 589
590 this agreement prior to the expiration date of the term of such lease, 590
591 or in the event actual drilling operations are commenced on unitized land, 591
592 in accordance with provisions of this agreement, prior to the end of the 592
593 primary term of such lease and are being diligently prosecuted at that time, 593
594 such lease shall be extended for 2 years, and so long thereafter as oil 594
595 or gas is produced in paying quantities in accordance with the provisions 595
596 of the Mineral Leasing Act, as amended. 596
597

598 (f) Each sublease or contract relating to the operation and development 598
599 of unitized substances from lands of the United States committed to this 599
600 agreement, which by its terms would expire prior to the time at which the 600
601 underlying lease, as extended by the immediately preceding paragraph, will 601
602 expire is hereby extended beyond any such term so provided therein so that 602
603 it shall be continued in full force and effect for and during the term of 603
604 the underlying lease as such term is herein extended. 604
605

606 (g) The segregation of any Federal lease committed to this agreement 606
607 is governed by the following provision in the fourth paragraph of sec. 17 (j) 607
608 of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 608
609 Stat. 781-784) (30 U.S.C. 226(j))): 609
610

611 "Any [Federal] lease heretofore or hereafter committed to any such 611
612 [unit] plan embracing lands that are in part within and in part outside of the 612
613 area covered by any such plan shall be segregated into separate leases as to 613
614 the lands committed and the lands not committed as of the effective date of 614
615 unitization: Provided, however, that any such lease as to the nonunitized 615
616 portion shall continue in force and effect for the term thereof but for not 616
617 less than two years from the date of such segregation and so long thereafter 617
618 as oil or gas is produced in paying quantities." 618
619

620 (h) Any lease, other than a Federal lease, having only a portion 620
621 of its lands committed hereto shall be segregated as to the portion com- 621
622 mitted and the portion not committed, and the provisions of such lease shall 622
623 apply separately to such segregated portions commencing as of the effective 623
624 date hereof. In the event any such lease provides for a lump-sum rental 624
625 payment, such payment shall be prorated between the portions so segregated in 625
626 proportion to the acreage of the respective tracts. 626
627

630 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed 630
631 to be covenants running with the land with respect to the interests of the 631
632 parties hereto and their successors in interest until this agreement termin- 632
633 ates, and any grant, transfer or conveyance of interest in land or leases 633
634 subject hereto shall be and hereby is conditioned upon the assumption of all 634
635 privileges and obligations hereunder by the grantee, transferee, or other suc- 635
636 cessor in interest. No assignment or transfer of any working interest, 636
637 royalty, or other interest subject hereto shall be binding upon Unit Operator 637
638 until the first day of the calender month after Unit Operator is furnished 638
639 with the original, photostatic, or certified copy of the instrument of transfer. 639
640

641 20. EFFECTIVE DATE AND TERM. This agreement shall become effective 641
642 upon approval by the AO and shall automatically terminate 10 years from 642
643 said effective date unless: 643
644

645 (a) upon application by the Unit Operator such date of expiration is 645
646 extended by the AO, or 646
647

648 (b) it is reasonably determined prior to the expiration of the fixed 648
649 term or any extension thereof that the unitized land is incapable of production 649
650 of unitized substances in paying quantities in the formations tested hereunder, 650
651 and after notice of intention to terminate this agreement on such ground is 651
652 given by the Unit Operator to all parties in interest at their last known 652
653 addresses, this agreement is terminated with the approval of the AO, or 653
654

655 (c) a valuable discovery of unitized substances in paying quantities 655
656 has been made or accepted on unitized land during said initial term or any 656
657 extension thereof, in which event this agreement shall remain in effect for 657
658 such term and so long hereafter as unitized substances can be produced in 658
659 quantities sufficient to pay for the cost of producing same from wells on 659
660 unitized land within any participating area established hereunder. Should 660
661 production cease and diligent drilling operations to restore production or 661
662 new production are not in progress or re-working within 60 days and production 662
663 is not restored or should new production not be obtained in paying quantities 663
664 on committed lands within this unit area, this agreement will automatically 664
665 terminate effective the last day of the month in which the last unitized 665
666 production occurred, or 666
667

668 (d) it is voluntarily terminated as provided in this agreement. 668
669 Except as noted herein, this agreement may be terminated at any time prior 669
670 to the discovery of unitized substances which can be produced in paying 670
671 quantities by not less than 75 per centum, on an acreage basis, of the working 671
672 interest owners signatory hereto, with the approval of the AO. The Unit 672
673 Operator shall give notice of any such approval to all parties hereto. Volun- 673
674 tary termination may not occur during the first 12 months of this agreement 674
675 unless at least one obligation well shall have been drilled in conformance 675
676 accordance with Section 9. 676
677

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any Statewide voluntary conservation or allocation program which is established, recognized, and generally adhered to by the majority of operators in such State. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof, must be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; provided, further, that no such alteration or modification shall be effective as to any privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

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

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior, and the New Mexico Oil Conservation Division and to appeal from orders issued under the regulations of said Department, or the Conservation Division, or to apply for relief from any of said regulations, or in any proceedings relative to operations before the Department or Conservation Division, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at its own expense to be heard in any such proceeding.

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

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.

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720 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring 720
 721 the Unit Operator to commence or continue drilling, or to operate on, or 721
 722 produce unitized substances from any of the lands covered by this agreement, 722
 723 shall be suspended while the Unit Operator, despite the exercise of due care 723
 724 and diligence, is prevented from complying with such obligations, in whole 724
 725 or in part, by strikes, acts of God, Federal, State, or municipal law or 725
 726 agencies, unavoidable accidents, uncontrollable delays in transportation, 726
 727 inability to obtain necessary materials or equipment in the open market, or 727
 728 other matters beyond the reasonable control of the Unit Operator, whether 728
 729 similar to matters herein enumerated or not. 729
 730

731 26. NONDISCRIMINATION. In connection with the performance of work under 731
 732 this agreement, the Unit Operator agrees to comply with all the provisions 732
 733 of section 202 (1) to (7) inclusive, of Executive Order 11246 (30 FR 12319), 733
 734 as amended, which are hereby incorporated by reference in this agreement. 734
 735

736 27. LOSS OF TITLE. In the event title to any tract of unitized land 736
 737 shall fail and the true owner cannot be induced to join in this unit agreement, 737
 738 such tract shall be automatically regarded as not committed hereto, and there 738
 739 shall be such readjustment of future costs and benefits as may be required 739
 740 on account of the loss of such title. In the event of a dispute as to title 740
 741 to any royalty, working interest, or other interests subject thereto, payment 741
 742 or delivery on account thereof may be withheld without liability for interest 742
 743 until the dispute is finally settled; provided, that, as to Federal leases, 743
 744 no payments of funds due the United States shall be withheld, but such 744
 745 funds shall be deposited as directed by the AO, to be held as unearned money 745
 746 pending final settlement of the title dispute, and then applied as earned 746
 747 or returned in accordance with such final settlement. 747
 748

749 Unit Operator as such is relieved from any responsibility for any defect 749
 750 or failure of any title hereunder. 750
 751

752 28. NONJOINER AND SUBSEQUENT JOINER. If the owners of any substantial 752
 753 interest in a tract within the unit area fails or refuses to subscribe or 753
 754 consent to this agreement, the owner of the working interest in that tract 754
 755 may withdraw the tract from this agreement by written notice delivered to 755
 756 the AO and the Division and the Unit Operator prior to the approval of this 756
 757 agreement by the AO. Any oil or gas interests in lands within the unit 757
 758 area not committed hereto prior to final approval may thereafter be commit- 758
 759 ted hereto by the owner or owners thereof subscribing or consenting to this 759
 760 agreement, and, if the interest is a working interest, by the owner of 760
 761 such interest also subscribing to the unit operating agreement. After oper- 761
 762 ations are commenced hereunder, the right of subsequent joinder, as provided 762
 763 in this section, by a working interest owner is subject to such requirements 763
 764 or approval(s), if any, pertaining to such joinder, as may be provided for in 764
 765 the unit operating agreement. After final approval hereof, joinder by a non- 765
 766 working interest owner must be consented to in writing by the working in- 766
 767 terest owner committed hereto and responsible for the payment of any bene- 767
 768 fits that may accrue hereunder in behalf of such nonworking interest. 768
 769 A nonworking interest may not be committed to this unit agreement unless 769

770 the corresponding working interest is committed hereto. Joinder to the 770
 771 unit agreement by a working interest owner, at any time, must be accompanied 771
 772 by appropriate joinder to the unit operating agreement, in order for the in- 772
 773 terest to be regarded as committed to this agreement. Except as may otherwise 773
 774 herein be provided, subsequent joinders to this agreement shall be effective as 774
 775 of the date of the filing with the AO and the Division of duly executed 775
 776 counterparts of all or any papers necessary to establish effective commitment 776
 777 of any interest and/or tract to this agreement. 777
 778 778

779 29. COUNTERPARTS. This agreement may be executed in any number of 779
 780 counterparts, no one of which needs to be executed by all parties, or may 780
 781 be ratified or consented to by separate instrument in writing specifically 781
 782 referring hereto and shall be binding upon all those parties who have executed 782
 783 such a counterpart, ratification, or consent hereto with the same force and 783
 784 effect as if all such parties had signed the same document, and regardless 784
 785 of whether or not it is executed by all other parties owning or claiming an 785
 786 interest in the lands within the above-described unit area. 786
 787 787

788 30. SURRENDER. Nothing in this agreement shall prohibit the exercise 788
 789 by any working interest owner of the right to surrender vested in such party 789
 790 by any lease, sublease, or operating agreement as to all or any part of the 790
 791 lands covered thereby, provided that each party who will or might acquire 791
 792 such working interest by such surrender or by forfeiture as hereafter set 792
 793 forth, is bound by the terms of this agreement. 793
 794 794

795 If as a result of any such surrender, the working interest rights as 795
 796 to such lands become vested in any party other than the fee owner of the 796
 797 unitized substances, said party may forfeit such right and forfeit benefits 797
 798 from operations hereunder as to said land to the party next in the chain of 798
 799 title who shall be and become the owner of such working interest. 799
 800 800

801 If as the result of any such surrender or forfeiture working interest 801
 802 rights become vested in the fee owner of the unitized substances, such 802
 803 owner may: 803
 804 804

805 (a) accept those working interest rights subject to this agreement and 805
 806 the unit operating agreement; or 806
 807 807

808 (b) lease the portion of such land as is included in a participating 808
 809 area established hereunder subject to this agreement and the unit operating 809
 810 agreement; or 810
 811 811

812 (c) provide for the independent operation of any part of such land that 812
 813 is not then included within a participating area established hereunder. 813
 814 814

815 If the fee owner of the unitized substances does not accept the working 815
 816 interest rights subject to this agreement and the unit operating agreement 816
 817 or lease such lands as above provided within 6 months after the surrendered 817
 818 or forfeited, working interest rights become vested in the fee owner; the 818
 819 benefits and obligations of operations accruing to such lands under this 819

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 interests 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 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 new 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 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.

32. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing contained in this agreement, 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.

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DATE OF SIGNATURE

LEONARD MINERALS COMPANY
UNIT OPERATOR

Obie P. Leonard Jr.
Managing Partner

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____
day of _____, _____, Obie P. Leonard Jr. as Managing Partner
of Leonard Minerals Company, on behalf of this Company.

WITNESS my hand.

Notary Public

My commission expires:

TAOS TROUGH
Unit Agreement

Colfax, Mora, and Taos Counties,
New Mexico