

Case 7890

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
BISBEE HILLS UNIT AREA
COUNTY OF LUNA
STATE OF NEW MEXICO
No. _____

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

WITNESSETH:

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

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

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

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

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

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

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

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

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

Township 25 South, Range 11 West, N.M.P.M.

Sec. 19: All
Sec. 29: All
Sec. 30: All
Sec. 31: All
Sec. 32: All
Sec. 33: All
Sec. 34: All

Township 25 South, Range 12 West, N.M.P.M.

Sec. 25: All
Sec. 36: All

Township 26 South, Range 10 West, N.M.P.M.

Sec. 17: All	Sec. 21: All
Sec. 18: All	Sec. 28: All
Sec. 19: All	Sec. 29: All
Sec. 20: All	Sec. 30: All

Township 26 South, Range 11 West, N.M.P.M.

Sec. 1: All	Sec. 12: All
Sec. 2: All	Sec. 13: All
Sec. 3: All	Sec. 14: All
Sec. 4: All	Sec. 15: All
Sec. 5: All	Sec. 16: All
Sec. 6: All	Sec. 17: All
Sec. 7: All	Sec. 18: All
Sec. 8: All	Sec. 22: All
Sec. 9: All	Sec. 23: All
Sec. 10: All	Sec. 24: All
Sec. 11: All	Sec. 25: All

Containing 24,712.71 acres, more or less

Exhibit "A" attached hereto is a map showing the unit area and 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 land in the unit area. However, nothing herein or in said schedule or map 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 said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Deputy Minerals Manager for Oil and Gas, hereinafter referred to as "Manager", 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 five copies of the revised Exhibits shall be filed with the Manager and one (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 or on demand of the Director of the Bureau of Land Management, hereinafter referred to as "Director", or on demand of the Land Commissioner, after preliminary concurrence by the Director 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 therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Manager, 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 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 Manager, the Land Commissioner and the Division, evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, 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 Manager, the Land Commissioner and Division, become effective as of the date prescribed in the notice thereof.

(e) Notwithstanding any prior elimination under the "Drilling to Discovery" section, all legal subdivisions of land (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 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 90 days' 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. All lands proved productive by diligent drilling operations after the aforesaid five-year period shall become participating in the same manner as during said five-year period. However, when such diligent drilling operations cease, all non-participating lands shall be automatically eliminated effective as of the 91st day thereafter. 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 Manager and Land Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this subsection 2(e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the working interests in the current non-participating unitized lands and the owners of 60% of the basic royalty interests (exclusive of the basic royalty interests of the United States) in non-participating unitized lands with approval of the Director and Land Commissioner, provided such extension application is submitted to the Director and the Land Commissioner not later than 60 days prior to the expiration of said 10-year period.

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.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land 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. Marshall R. Young Oil Co. 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 when such an interest is owned by it.

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

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

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

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

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

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

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

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

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

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

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

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

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

62 Upon failure to commence any well provided for in this section within the time 62
63 allowed, prior to the establishment of a participating area, including any extension 63
64 of time granted by the Manager and the Land Commissioner, this agreement will auto- 64
65 matically terminate. Upon failure to continue drilling diligently any well commenced 65
66 hereunder, the Manager and the Land Commissioner may, after 15 days notice to the 66
67 unit operator, declare this unit agreement terminated. 67

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 Manager, the Land Commissioner and Division, an acceptable plan of development and operation for the unitized lands which, when approved by the Manager, the Land Commissioner and Division, shall constitute the further drilling and operating 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 Manager, the Land Commissioner and Division a plan for an additional specified period for the development and operation of the unitized land.

Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Manager, 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) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources.

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

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. The Manager 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 where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance 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 Manager, the Land Commissioner and Division, shall be drilled except in accordance with a plan of development approved as herein provided.

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 Manager, the Land Commissioner or the Division, the Unit Operator shall submit for approval by the Manager, 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 in paying quantities; all lands in said schedule on approval of the Manager, the Land Commissioner and Division, to constitute a participating area, effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. Said schedule shall also set forth the percentage of unitized substances to be allocated as herein provided to each tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A separate participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the Manager, the Land Commissioner and the Division. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one effective as of such appropriate date as may be approved or prescribed by the Manager, the Land Commissioner and Division. The participating area or areas so established shall be revised from time to time, subject to like approval, to include additional land then regarded as reasonably proved to be productive in paying quantities or necessary for unit operations, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information 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 Manager, the Land Commissioner and Division. No land shall be excluded from a participating area on account of depletion of the 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 known or reasonably estimated to be productive in paying quantities; 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 Manager, 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 as provided herein, the portion of all payments affected thereby shall be impounded in a manner mutually acceptable to the owners of working interests and the Manager and the Land Commissioner. Royalties due the United States and the State of New Mexico shall be determined by the Manager for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the Manager and the Land Commissioner to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Manager, the Land Commissioner and Division, that a well drilled under this agreement is not capable of production in paying quantities and inclusion 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 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, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Manager, Land Commissioner and Division, or unavoidable loss, 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 and, 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 said 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 such last-mentioned 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 last defined at the time of such final production.

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 Manager and the Land Commissioner, and the Division as to privately owned lands, at such party's sole risk, costs, and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating

1 area has been established if such location is not within said participating area, 1
2 unless within 90 days of receipt of notice from said party of his intention to drill 2
3 the well the Unit Operator elects and commences to drill such a well in like manner 3
4 as other wells are drilled by the Unit Operator under this agreement. 4
5

6 If any well drilled as aforesaid by a working interest owner results in pro- 6
7 duction such that the land upon which it is situated may properly be included in a 7
8 participating area, such participating area shall be established or enlarged as 8
9 provided in this agreement and the well shall thereafter be operated by the Unit 9
10 Operator in accordance with the terms of this agreement and the unit operating 10
11 agreement. 11
12

13 If any well drilled as aforesaid by a working interest owner obtains production 13
14 in quantities insufficient to justify the inclusion of the land upon which such well 14
15 is situated in a participating area, such well may be operated and produced by the 15
16 party drilling the same subject to the conservation requirements of this agreement. 16
17 The royalties in amount or value of production from any such well shall be paid as 17
18 specified in the underlying lease and agreements affected. 18
19

20 14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner 20
21 who is entitled to take in kind a share of the substances now unitized hereunder 21
22 shall hereafter be entitled to the right to take in kind its share of the unitized 22
23 substances, and Unit Operator, or the working interest owner in case of the operation 23
24 of a well by a working interest owner as herein provided for in special cases, shall 24
25 make deliveries of such royalty share taken in kind in conformity with the applicable 25
26 contracts, laws, and regulations. Settlement for royalty interest not taken in kind 26
27 shall be made by working interest owners responsible therefor under existing con- 27
28 tracts, laws and regulations, or by the Unit Operator, on or before the last day of 28
29 each month for unitized substances produced during the preceding calendar month; 29
30 provided, however, that nothing herein contained shall operate to relieve the lessees 30
31 of any land from their respective lease obligations for the payment of any royalties 31
32 due under their leases. 32
33

34 If gas obtained from lands not subject to this agreement is introduced into any 34
35 participating area hereunder, for use in repressuring, stimulation of production, or 35
36 increasing ultimate recovery, in conformity with a plan of operations approved by the 36
37 Manager and the Land Commissioner and the Division, a like amount of gas, after 37
38 settlement as herein provided for any gas transferred from any other participating 38
39 area and with appropriate deduction for loss from any cause, may be withdrawn from the 39
40 formation into which the gas is introduced, royalty free as to dry gas, but not as to 40
41 any products which may be extracted therefrom; provided that such withdrawal shall be 41
42 at such time as may be provided in the approved plan of operations or as may other- 42
43 wise be consented to by the Manager and the Land Commissioner and the Division as 43
44 conforming to good petroleum engineering practice; and provided further, that such 44
45 right of withdrawal shall terminate on the termination of this unit agreement. 45
46

47 Royalty due the United States shall be computed as provided in the operating 47
48 regulations and paid in value or delivered in kind as to all unitized substances on 48
49 the basis of the amounts thereof allocated to unitized Federal land as provided 49
50 herein at the rates specified in the respective Federal leases, or at such lower rate 50
51 or rates as may be authorized by law or regulations; provided, that for leases on 51
52 which the royalty rate depends on the daily average production per well, said average 52
53 production shall be determined in accordance with the operating regulations as though 53
54 each participating area were a single consolidated lease. 54
55

56 Royalty due on account of State lands shall be computed and paid on the basis of 56
57 all unitized substances allocated to such lands. 57
58

59 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed 59
60 hereto shall be paid by working interest owners responsible therefor under existing 60
61 contracts, laws, and regulations, provided that nothing herein contained shall 61
62 operate to relieve the lessees of any land from their respective lease obligations 62
63 for the payment of any rental or minimum royalty due under their leases. Rental or 63
64 minimum royalty for lands of the United States subject to this agreement shall be 64
65 paid at the rate specified in the respective leases from the United States unless 65
66 such rental or minimum royalty is waived, suspended, or reduced by law or by approval 66
67 of the Secretary or his duly authorized representative. 67

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 Manager 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.

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 the 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 Secretary 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 for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other 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 is had 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 the 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 Revision of 1960.

(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): "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 interest 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 Secretary and the Land Commissioner or their duly authorized representative and shall terminate five (5) years from said effective date unless:

(a) such date of expiration is extended by the Director and the Land Commissioner, or

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

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

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

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

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director 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 is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director 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 land of the State of New Mexico, as to the rate of prospecting and developing in the absence of the specific written approval thereof by the Commissioner and also to any lands of the State of New Mexico or 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 Director 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 Commissioner of Public Lands and Division, and to appeal from orders issued under the regulations of said Department or Land Commissioner and Division or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior or the Land Commissioner and Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his 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 deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained 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 wherein said 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.

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

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

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

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

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

1 29. COUNTERPARTS. This agreement may be executed in any number of counterparts 1
2 no one of which needs to be executed by all parties or may be ratified or consented 2
3 to by separate instrument in writing specifically referring hereto and shall be 3
4 binding upon all those parties who have executed such a counterpart, ratification, or 4
5 consent hereto with the same force and effect as if all such parties had signed the 5
6 same document and regardless of whether or not it is executed by all other parties 6
7 owning or claiming an interest in the lands within the above-described unit area. 7
8
9 30. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agree- 9
10 ment shall modify or change either the special Federal lease stipulations relating to 10
11 surface management or such special Federal lease stipulations relating to surface and 11
12 environmental protection, attached to and made a part of, Oil and Gas Leases covering 12
13 lands within the Unit Area. 13
14
15 31. DEPARTMENT OF ENERGY STIPULATIONS. Nothing in this agreement shall modify 15
16 the special Federal-lease stipulations applicable to lands under the jurisdiction of 16
17 the Department of Energy. 17

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: MARSHALL R. YOUNG OIL CO. 6
7 7
8 8
9 9
10 By _____ 10
11 Assistant Secretary 11
12 12
13 13
14 Address: 750 W. Fifth Street Date of Execution: 14
15 Fort Worth, TX 76102 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 _____, 1983, before me appeared 23
24 _____, to me personally known, who, being by me duly 24
25 sworn, did say that he is the _____ of _____ 25
26 Marshall R. Young Oil Co. and that the seal affixed to said 26
27 instrument is the corporate seal of said corporation, and that said instrument 27
28 was signed and sealed in behalf of said corporation by authority of its board of 28
29 directors, and said _____ 29
30 acknowledged said instrument to be the free act and deed of said corporation. 30
31 31
32 My Commission Expires: 32
33 33
34 _____ 34
35 _____ Notary Public 35