

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
DUNES UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO



NO. _____

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

WITNESSETH:

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

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

WHEREAS the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Chapter 72, Laws of 1935, as amended by Chapter 193, Laws of 1937, Chapter 166, Laws of 1941 and Chapter 168, Laws of 1949) to approve this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the _____ Dunes 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

1 in the below-defined unit area, and agree severally among themselves as
2 follows:

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

14 2. UNIT AREA. The area specified on the map attached hereto marked
15 exhibit A is hereby designated and recognized as constituting the unit
16 area, containing 2575.89 acres, more or less.

17 Exhibit A shows, in addition to the boundary of the unit area, the
18 boundaries and identity of tracts and leases in said area to the extent known
19 to the Unit Operator. Exhibit B attached hereto is a schedule showing to
20 the extent known to the Unit Operator the acreage, percentage, and kind of
21 ownership of oil and gas interests in all land in the unit area. However,
22 nothing herein or in said schedule or map shall be construed as a representa-
23 tion by any party hereto as to the ownership of any interest other than such
24 interest or interests as are shown in said map or schedule as owned by such
25 party. Exhibits A and B shall be revised by the Unit Operator whenever
26 changes in the unit area render such revision necessary, or when requested by
27 the Oil and Gas Supervisor, hereinafter referred to as "Supervisor" and not
28 less than five copies of the revised exhibits shall be filed with the
29 Supervisor, and

1 one copy of the revised exhibits shall be filed with the New Mexico 1
2 Oil Conservation Commission, hereinafter referred to as State Commission. 2

3 The above-described unit area shall when practicable be expanded to 3
4 include therein any additional lands or shall be contracted to exclude lands 4
5 whenever such expansion or contraction is deemed to be necessary or advisable 5
6 to conform with the purposes of this agreement. Such expansion or contraction 6
7 shall be effected in the following manner: 7

8 (a) Unit Operator, on its own motion or on demand of the Director of 8
9 the Geological Survey, hereinafter referred to as "Director," after preliminary 9
10 concurrence by the Director, shall prepare a notice of proposed expansion 10
11 or contraction describing the contemplated changes in the boundaries of the 11
12 unit area, the reasons therefor, and the proposed effective date thereof, 12
13 preferably the first day of a month subsequent to the date of notice. 13
14 and State Commission

14 (b) Said notice shall be delivered to the Supervisor/ and copies thereof 14
15 mailed to the last known address of each working interest owner, lessee, and 15
16 lessor whose interests are affected, advising that 30 days will be allowed 16
17 for submission to the Unit Operator of any objections. 17

18 (c) Upon expiration of the 30-day period provided in the preceding 18
19 item (b) hereof, Unit Operator shall file with the Supervisor/ evidence of 19
20 mailing of the notice of expansion or contraction and a copy of any objections 20
21 thereto which have been filed with the Unit Operator, together with an appli- 21
22 cation in sufficient number, for approval of such expansion or contraction and 22
23 with appropriate joinders. 23

24 (d) After due consideration of all pertinent information, the expansion 24
25 or contraction shall, upon approval by the Supervisor, become effective as of 25
26 the date prescribed in the notice thereof. 26

27 (e) All legal subdivisions of lands (i.e., 40 acres by 27
28 Government survey or its nearest lot or tract equivalent; in instances of 28
29 irregular surveys unusually large lots or tracts shall be considered in 29
30 multiples of 40 acres or the nearest aliquot equivalent thereof), no parts 30
31 of which are entitled to be in a participating area on or before the fifth 31
32 anniversary of the effective date of the first initial participating area 32

1 established under this unit agreement, shall be eliminated automatically 1
2 from this agreement, effective as of said fifth anniversary, and such 2
3 lands shall no longer be a part of the unit area and shall no longer 3
4 be subject to this agreement, unless diligent drilling operations are 4
5 in progress on unitized lands not entitled to participation on said 5
6 fifth anniversary, in which event all such lands shall remain subject 6
7 hereto for so long as such drilling operations are continued diligently, 7
8 with not more than 90 days' time elapsing between the completion of 8
9 one such well and the commencement of the next such well. All legal 9
10 subdivisions of lands not entitled to be in a participating area 10
11 within 10 years after the effective date of the first initial partici- 11
12 pating area approved under this agreement shall be automatically 12
13 eliminated from this agreement as of said tenth anniversary. All 13
14 lands proved productive by diligent drilling operations after the 14
15 aforesaid 5-year period shall become participating in the same 15
16 manner as during said 5-year period. However, when such diligent 16
17 drilling operations cease, all nonparticipating lands shall be auto- 17
18 matically eliminated effective as of the 91st day thereafter. The 18
19 unit operator shall within 90 days after the effective date of any 19
20 elimination hereunder, describe the area so eliminated to the satis- 20
21 faction of the Supervisor and promptly notify all parties in interest. 21
22 If conditions warrant extension of the 10-year period specified 22
23 in this subsection 2(e), a single extension of not to exceed 2 years 23
24 may be accomplished by consent of the owners of 90% of the working 24
25 interests in the current nonparticipating unitized lands and the 25
26 owners of 60% of the basic royalty interests (exclusive of the basic 26
27 royalty interests of the United States) in nonparticipating unitized 27
28 lands with approval of the Director, provided such extension appli- 28
29 cation is submitted to the Director not later than 60 days prior to the 29
30 expiration of said 10-year period. 30

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. American Quasar Petroleum Co. of New Mexico 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.

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

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established hereunder is in existence, but, in all instances of resignation or removal, until a successor unit operator is selected and approved as hereinafter

1 provided, the working interest owners shall be jointly responsible for 1
2 performance of the duties of unit operator, and shall not later than 30 days 2
3 before such resignation or removal becomes effective appoint a common agent 3
4 to represent them in any action to be taken hereunder. 4

5 The resignation of Unit Operator shall not release Unit Operator from 5
6 any liability for any default by it hereunder occurring prior to the effec- 6
7 tive date of its resignation. 7

8 The Unit Operator may, upon default or failure in the performance of 8
9 its duties or obligations hereunder, be subject to removal by the same per- 9
10 centage vote of the owners of working interests as herein provided for 10
11 the selection of a new Unit Operator. Such removal shall be effective 11
12 upon notice thereof to the Supervisor. 12

13 The resignation or removal of Unit Operator under this agreement 13
14 shall not terminate its right, title, or interest as the owner of a 14
15 working interest or other interest in unitized substances, but upon the 15
16 resignation or removal of Unit Operator becoming effective, such Unit 16
17 Operator shall deliver possession of all wells, equipment, materials, and 17
18 appurtenances used in conducting the unit operations to the new duly 18
19 qualified successor Unit Operator or to the common agent, if no such 19
20 new Unit Operator is elected, to be used for the purpose of conducting 20
21 unit operations hereunder. Nothing herein shall be construed as author- 21
22 izing removal of any material, equipment and appurtenances needed for the 22
23 preservation of any wells. 23

24 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his 24
25 or its resignation as Unit Operator or shall be removed as hereinabove 25
26 provided, or a change of Unit Operator is negotiated by working interest 26
27 owners, the owners of the working interests in the participating area or 27
28 areas according to their respective acreage interests in such participating 28
29 area or areas, or, until a participating area shall have been established, the 29
30 owners of the working interests according to their respective acreage 30
31 interests in all unitized land, shall by majority vote select a successor Unit 31
32 Operator: Provided, That, if a majority but less than 75 per cent of the 32
33 working interests qualified to vote are owned by one party to this agreement, 33
34 a concurring vote of one or more additional working interest owners shall be 34

required to select a new operator. Such selection shall not become effective until

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

(b) the selection shall have been approved by the Supervisor.

If no successor Unit Operator is selected and qualified as herein provided, the Director at his election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this unit agreement and the unit operating agreement, this unit agreement shall govern. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor, prior to approval of this unit agreement.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of

1 exercising any and all rights of the parties hereto which are necessary or 1
2 convenient for prospecting for, producing, storing, allocating, and dis- 2
3 tributing the unitized substances are hereby delegated to and shall be 3
4 exercised by the Unit Operator as herein provided. Acceptable evidence of 4
5 title to said rights shall be deposited with said Unit Operator and, 5
6 together with this agreement, shall constitute and define the rights, 6
7 privileges, and obligations of Unit Operator. Nothing herein, however, 7
8 shall be construed to transfer title to any land or to any lease or 8
9 operating agreement, it being understood that under this agreement the 9
10 Unit Operator, in its capacity as Unit Operator, shall exercise the rights 10
11 of possession and use vested in the parties hereto only for the purposes 11
12 herein specified. 12

13 9. DRILLING TO DISCOVERY. Within 6 months after the effective date 13
14 hereof, the Unit Operator shall begin to drill an adequate test well at a 14
15 location approved by the Supervisor, unless on such effective date a well is 15
16 being drilled conformably with the terms hereof, and thereafter continue 16
17 such drilling diligently until the Atoka formation has been tested 17
18 or until at a lesser depth unitized substances shall be discovered which can 18
19 be produced in paying quantities (to wit: quantities sufficient to repay the 19
20 costs of drilling, completing, and producing operations, with a reasonable 20
21 profit) or the Unit Operator shall at any time establish to the satisfaction 21
22 of the Supervisor that further drilling of said well would be unwarranted 22
23 or impracticable, provided, however, that Unit Operator shall not in any 23
24 event be required to drill said well to a depth in excess of 13,800 feet. 24
25 Until the discovery of a deposit of unitized substances capable of being 25
26 produced in paying quantities, the Unit Operator shall continue drilling one 26
27 well at a time, allowing not more than 6 months between the completion of one 27
28 well and the beginning of the next well, until a well capable of producing 28
29 unitized substances in paying quantities is completed to the satisfaction of 29
30 said Supervisor or until it is reasonably proved that the unitized land is 30
31 incapable of producing unitized substances in paying quantities in the 31
32 formations drilled hereunder. Nothing in this section shall be deemed to limit 32
33 the right of the Unit Operator to resign as provided in Section 5, hereof, 33

1 or as requiring Unit Operator to commence or continue any drilling during the
2 period pending such resignation becoming effective in order to comply with the
3 requirements of this section. The Supervisor may modify the drilling
4 requirements of this section by granting reasonably extensions of time when,
5 in his opinion, such action is warranted.

6 Upon failure to commence any well provided for in this section within
7 the time allowed, including any extension of time granted by the Supervisor,
8 this agreement will automatically terminate; upon failure to continue drilling
9 diligently any well commenced hereunder, the Supervisor may, after 15-days
10 notice to the Unit Operator, declare this unit agreement terminated.

11 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after
12 completion of a well capable of producing unitized substances in paying
13 quantities, the Unit Operator shall submit for the approval of the Supervisor
14 an acceptable plan of development and operation for the unitized land which,
15 when approved by the Supervisor, shall constitute the further drilling and
16 operating obligations of the Unit Operator under this agreement for the
17 period specified therein. Thereafter, from time to time before the expiration
18 of any existing plan, the Unit Operator shall submit for the approval of the
19 Supervisor a plan for an additional specified period for the development and
20 operation of the unitized land.

21 Any plan submitted pursuant to this section shall provide for the
22 exploration of the unitized area and for the diligent drilling necessary for
23 determination of the area or areas thereof capable of producing unitized
24 substances in paying quantities in each and every productive formation and
25 shall be as complete and adequate as the Supervisor may determine to be
26 necessary for timely development and proper conservation of the oil and
27 gas resources of the unitized area and shall:

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

30 (b) to the extent practicable specify the operating practices
31 regarded as necessary and advisable for proper conservation of
32 natural resources.

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

1 Plans shall be modified or supplemented when necessary to meet changed
2 conditions or to protect the interests of all parties to this agreement.
3 Reasonable diligence shall be exercised in complying with the obligations
4 of the approved plan of development. The Supervisor is authorized to grant
5 a reasonable extension of the 6-month period herein prescribed for submission
6 of an initial plan of development where such action is justified because of
7 unusual conditions or circumstances. After completion hereunder of a well
8 capable of producing any unitized substance in paying quantities, no further
9 wells, except such as may be necessary to afford protection against operation
10 not under this agreement and such as may be specifically approved by the
11 Supervisor, shall be drilled except in accordance with a plan of development
12 approved as herein provided.

13 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable
14 of producing unitized substances in paying quantities or as soon thereafter as
15 required by the Supervisor, the Unit Operator shall submit for approval by
16 the Supervisor a schedule, based on subdivisions of the public-land survey or
17 aliquot parts thereof, of all land then regarded as reasonably proved to be
18 productive in paying quantities; all lands in said schedule on approval of
19 the Supervisor to constitute a participating area, effective as of the date of
20 completion of such well or the effective date of this unit agreement, which-
21 ever is later. The acreages of both Federal and non-Federal lands shall be
22 based upon appropriate computations from the courses and distances shown on
23 the last approved public-land survey as of the effective date of each initial
24 participating area. Said schedule shall also set forth the percentage of
25 unitized substances to be allocated as herein provided to each tract in the
26 participating area so established, and shall govern the allocation of pro-
27 duction commencing with the effective date of the participating area. A
28 separate participating area shall be established for each separate pool or
29 deposit of unitized substances or for any group thereof which is produced as
30 a single pool or zone, and any two or more participating areas so estab-
31 lished may be combined into one, on approval of the Supervisor. When
32 production from two or more participating areas, so established, is
33 subsequently found to be from a common pool or deposit said participating
34 areas shall be combined into one effective as of such appropriate date as
35 may be approved or prescribed by the Supervisor. The participating area
36 or areas so established shall be revised from time to time, subject
37 to like approval, to include additional land then regarded as

1 reasonably proved to be productive in paying quantities or necessary for unit 1
2 operations, or to exclude land then regarded as reasonably proved not to be 2
3 productive in paying quantities and the schedule of allocation percentages 3
4 shall be revised accordingly. The effective date of any revision shall be 4
5 the first of the month in which is obtained the knowledge or information on 5
6 which such revision is predicated, provided, however, that a more appropriate 6
7 effective date may be used if justified by the Unit Operator and approved by 7
8 the Supervisor. No land shall be excluded from a participating area on account 8
9 of depletion of the unitized substances, except that any participating area 9
10 established under the provisions of this unit agreement shall terminate 10
11 automatically whenever all completions in the formation on which the partici- 11
12 pating area is based are abandoned. 12

13 It is the intent of this section that a participating area shall 13
14 represent the area known or reasonably estimated to be productive in paying 14
15 quantities; but, regardless of any revision of the participating area, nothing 15
16 herein contained shall be construed as requiring any retroactive adjustment 16
17 for production obtained prior to the effective date of the revision of the 17
18 participating area. 18

19 In the absence of agreement at any time between the Unit Operator and the 19
20 Supervisor as to the proper definition or redefinition of a participating area, 20
21 or until a participating area has, or areas have, been established as provided 21
22 herein, the portion of all payments affected thereby shall be impounded in a 22
23 manner mutually acceptable to the owners of working interests and the Super- 23
24 visor. Royalties due the United States shall be determined by the Supervisor 24
25 and the amount thereof shall be deposited, as directed by the Supervisor, to 25
26 be held as unearned money until a participating area is finally approved and 26
27 then applied as earned or returned in accordance with a determination of the 27
28 sum due as Federal royalty on the basis of such approved participating area. 28

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

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

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

12 If any well drilled as aforesaid by a working interest owner obtains 12
13 production in quantities insufficient to justify the inclusion of the land 13
14 upon which such well is situated in a participating area, such well may be 14
15 operated and produced by the party drilling the same subject to the conserva- 15
16 tion requirements of this agreement. The royalties in amount or value of 16
17 production from any such well shall be paid as specified in the underlying 17
18 lease and agreements affected. 18

19 14. ROYALTY SETTLEMENT. The United States and any State and any royalty 19
20 owner who, is entitled to take in kind a share of the substances now unitized 20
21 hereunder shall hereafter be entitled to the right to take in kind its 21
22 share of the unitized substances, and Unit Operator, or the working interest 22
23 owner in case of the operation of a well by a working interest owner as herein 23
24 provided for in special cases, shall make deliveries of such royalty share 24
25 taken in kind in conformity with the applicable contracts, laws, and regula- 25
26 tions. Settlement for royalty interest not taken in kind shall be made by 26
27 working interest owners responsible therefor under existing contracts, laws 27
28 and regulations, or by the Unit Operator on or before the last day of each 28
29 month for unitized substances produced during the preceding calendar month; 29
30 provided, however, that nothing herein contained shall operate to relieve 30
31 the lessees of any land from their respective lease obligations for the 31
32 payment of any royalties due under their leases. 32

1 If gas obtained from lands not subject to this agreement is introduced 1
2 into any participating area hereunder, for use in repressuring, stimulation of 2
3 production, or increasing ultimate recovery, in conformity with a plan of 3
4 operations approved by the Supervisor, a like amount of gas, after settlement 4
5 as herein provided for any gas transferred from any other participating area 5
6 and with appropriate deduction for loss from any cause, may be withdrawn 6
7 from the formation into which the gas is introduced, royalty free as to dry 7
8 gas, but not as to any products which may be extracted therefrom; provided 8
9 that such withdrawal shall be at such time as may be provided in the approved 9
10 plan of operations or as may otherwise be consented to by the Supervisor as 10
11 conforming to good petroleum engineering practice; and provided further, that 11
12 such right of withdrawal shall terminate on the termination of this unit 12
13 agreement. 13

14 Royalty due the United States shall be computed as provided in the 14
15 operating regulations and paid in value or delivered in kind as to all 15
16 unitized substances on the basis of the amounts thereof allocated to unitized 16
17 Federal land as provided herein at the rates specified in the respective 17
18 Federal leases, or at such lower rate or rates as may be authorized by law or 18
19 regulation; provided, that for leases on which the royalty rate depends on the 19
20 daily average production per well, said average production shall be determined 20
21 in accordance with the operating regulations as though each participating area 21
22 were a single consolidated lease. 22

23 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases 23
24 committed hereto shall be paid by working interest owners responsible therefor 24
25 under existing contracts, laws, and regulations, provided that nothing herein 25
26 contained shall operate to relieve the lessees of any land from their 26
27 respective lease obligations for the payment of any rental or minimum royalty 27
28 due under their leases. Rental or minimum royalty for lands of the 28
29 United States subject to this agreement shall be paid at the rate specified 29
30 in the respective leases from the United States unless such rental or 30
31 minimum royalty is waived, suspended, or reduced by law or by approval of 31
32 the Secretary or his duly authorized representative. 32

1 With respect to any lease on non-Federal land containing provisions which 1
2 would terminate such lease unless drilling operations are commenced upon the 2
3 land covered thereby within the time therein specified or rentals are paid 3
4 for the privilege of deferring such drilling operations, the rentals required 4
5 thereby shall, notwithstanding any other provision of this agreement, be 5
6 deemed to accrue and become payable during the term thereof as extended by 6
7 this agreement and until the required drilling operations are commenced upon 7
8 the land covered thereby or until some portion of such land is included within 8
9 a participating area. 9

10 16. CONSERVATION. Operations hereunder and production of unitized 10
11 substances shall be conducted to provide for the most economical and efficient 11
12 recovery of said substances without waste, as defined by or pursuant to State 12
13 or Federal law or regulation. 13

14 17. DRAINAGE. The Unit Operator shall take such measures as the Super- 14
15 visor deems appropriate and adequate to prevent drainage of unitized substances 15
16 from unitized land by wells on land not subject to this agreement. 16

17 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, 17
18 and provisions of all leases, subleases, and other contracts relating to 18
19 exploration, drilling, development, or operation for oil or gas on lands 19
20 committed to this agreement are hereby expressly modified and amended to the 20
21 extent necessary to make the same conform to the provisions hereof, but other- 21
22 wise to remain in full force and effect; and the parties hereto hereby consent 22
23 that the Secretary shall and by his approval hereof, or by the approval hereof 23
24 by his duly authorized representative, does hereby establish, alter, change, 24
25 or revoke the drilling, producing, rental, minimum royalty, and royalty 25
26 requirements of Federal leases committed hereto and the regulations in respect 26
27 thereto to conform said requirements to the provisions of this agreement, and, 27
28 without limiting the generality of the foregoing, all leases, subleases, and 28
29 contracts are particularly modified in accordance with the following: 29

30 (a) The development and operation of lands subject to this agreement 30
31 under the terms hereof shall be deemed full performance of all obligations 31

1 for development and operation with respect to each and every 1
2 separately owned tract subject to this agreement, regardless of 2
3 whether there is any development of any particular tract of the 3
4 unit area. 4

5 (b) Drilling and producing operations performed hereunder upon 5
6 any tract of unitized lands will be accepted and deemed to be 6
7 performed upon and for the benefit of each and every tract of 7
8 unitized land, and no lease shall be deemed to expire by reason of 8
9 failure to drill or produce wells situated on the land therein 9
10 embraced. 10

11 (c) Suspension of drilling or producing operations on all unitized 11
12 lands pursuant to direction or consent of the Secretary or his duly 12
13 authorized representative shall be deemed to constitute such suspension 13
14 pursuant to such direction or consent as to each and every tract of 14
15 unitized land. A suspension of drilling or producing operations limited to 15
16 specified lands shall be applicable only to such lands. 16

17 (d) Each lease, sublease or contract relating to the exploration, 17
18 drilling, development or operation for oil or gas of lands other than 18
19 those of the United States committed to this agreement, which, by its 19
20 terms might expire prior to the termination of this agreement, is hereby 20
21 extended beyond any such terms so provided therein so that it shall be 21
22 continued in full force and effect for and during the term of this 22
23 agreement. 23

24 (e) Any Federal lease for a fixed term of twenty (20) years or any 24
25 renewal thereof or any part of such lease which is made subject to this 25
26 agreement shall continue in force beyond the term provided therein until 26
27 the termination hereof. Any other Federal lease committed hereto shall 27
28 continue in force beyond the term so provided therein or by law as to 28
29 the land committed so long as such lease remains subject hereto, 29
30 provided that production is had in paying quantities under this unit 30
31 agreement prior to the expiration date of the term of such lease, or in 31
32 the event actual drilling operations are commenced on unitized land, in 32
33 accordance with the provisions of this agreement, prior to the end of 33
34 the primary term of such lease and are being diligently prosecuted at 34
35 that time, such lease shall be extended for two years and so long 35

1 thereafter as oil or gas is produced in paying quantities in accordance 1
2 with the provisions of the Mineral Leasing Act Revision of 1960. 2

3 (f) Each sublease or contract relating to the operation and 3
4 development of unitized substances from lands of the United States 4
5 committed to this agreement, which by its terms would expire prior to 5
6 the time at which the underlying lease, as extended by the immediately 6
7 preceding paragraph, will expire, is hereby extended beyond any such 7
8 term so provided therein so that it shall be continued in full force 8
9 and effect for and during the term of the underlying lease as such 9
10 term is herein extended. 10

11 (g) The segregation of any Federal lease committed to this agreement 11
12 is governed by the following provision in the fourth paragraph of 12
13 Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of 13
14 September 2, 1960 (74 Stat. 781-784): "Any [Federal] lease heretofore 14
15 or hereafter committed to any such [unit] plan embracing lands that 15
16 are in part within and in part outside of the area covered by any such 16
17 plan shall be segregated into separate leases as to the lands committed 17
18 and the lands not committed as of the effective date of unitization: 18
19 Provided, however, That any such lease as to the nonunitized portion 19
20 shall continue in force and effect for the term thereof but for not less 20
21 than two years from the date of such segregation and so long thereafter 21
22 as oil or gas is produced in paying quantities." 22

23 (h) Any lease, other than a Federal lease, having only a portion of 23
24 its lands committed hereto shall be segregated as to the portion committed 24
25 and the portion not committed, and the provisions of such lease shall 25
26 apply separately to such segregated portions commencing as of the effective 26
27 date hereof. In the event any such lease provides for a lump-sum rental 27
28 payment, such payment shall be prorated between the portions so segregated 28
29 in proportion to the acreage of the respective tracts. 29

30 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed 30
31 to be covenants running with the land with respect to the interest of the parties 31
32 hereto and their successors in interest until this agreement terminates, and any 32
33 grant, transfer, or conveyance, of interest in land or leases subject hereto 33
34 shall be and hereby is conditioned upon the assumption of all privileges and 34

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 or his duly authorized representative and shall terminate five (5) years from said effective date unless

(a) such date of expiration is extended by the Director, 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 the approval of the Supervisor, 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 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 Supervisor; 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

1 hereby vested with authority to alter or modify from time to time in his 1
2 discretion the quantity and rate of production under this agreement when such 2
3 quantity and rate is not fixed pursuant to Federal or State law or does not 3
4 conform to any state-wide voluntary conservation or allocation program, which 4
5 is established, recognized, and generally adhered to by the majority of 5
6 operators in such State, such authority being hereby limited to alteration or 6
7 modification in the public interest, the purpose thereof and the public interest 7
8 to be served thereby to be stated in the order of alteration or modification. 8

9 Without regard to the foregoing, the Director is also hereby vested with 9
10 authority to alter or modify from time to time in his discretion the rate of 10
11 prospecting and development and the quantity and rate of production under this 11
12 agreement when such alteration or modification is in the interest of attaining 12
13 the conservation objectives stated in this agreement and is not in violation of 13
14 any applicable Federal or State law. 14

15 Powers in this section vested in the Director shall only be exercised 15
16 after notice to Unit Operator and opportunity for hearing to be held not less 16
17 than 15 days from notice. 17

18 22. APPEARANCES. Unit Operator shall, after notice to other parties 18
19 affected, have the right to appear for and on behalf of any and all interests 19
20 affected hereby before the Department of the Interior and to appeal from orders 20
21 issued under the regulations of said Department or to apply for relief from 21
22 any of said regulations or in any proceedings relative to operations before 22
23 the Department of the Interior or any other legally constituted authority; 23
24 provided, however, that any other interested party shall also have the right 24
25 at his own expense to be heard in any such proceeding. 25

26 23. NOTICES. All notices, demands or statements required hereunder to 26
27 be given or rendered to the parties hereto shall be deemed fully given if 27
28 **given in writing and personally delivered to the party or sent by postpaid regis-** 28
29 **tered or certified mail, addressed to such party or parties at their respective** 29
30 addresses set forth in connection with the signatures hereto or to the ratifi- 30
31 cation or consent hereof or to such other address as any such party may have 31
32 furnished in writing to party sending the notice, demand or statement. 32

1 24. NO WAIVER OF CERTAIN RIGHST. Nothing in this agreement contained 1
2 shall be construed as a waiver by any party hereto of the right to assert any 2
3 legal or constitutional right or defense as to the validity or invalidity of 3
4 any law of the State wherein said unitized lands are located, or of the 4
5 United States, or regulations issued thereunder in any way affecting such 5
6 party, or as a waiver by any such party of any right beyond his or its 6
7 authority to waive. 7

8 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring 8
9 the Unit Operator to commence or continue drilling or to operate on or produce 9
10 unitized substances from any of the lands covered by this agreement shall be 10
11 suspended while the Unit Operator, despite the exercise of due care and 11
12 diligence, is prevented from complying with such obligations, in whole or in 12
13 part, by strikes, acts of God, Federal, State, or municipal law or agencies, 13
14 unavoidable accidents, uncontrollable delays in transportation, inability 14
15 to obtain necessary materials in open market, or other matters beyond the 15
16 reasonable control of the Unit Operator whether similar to matters herein 16
17 enumerated or not. No unit obligation which is suspended under this 17
18 section shall become due less than thirty (30) days after it has been 18
19 determined that the suspension is no longer applicable. Determination of 19
20 creditable "Unavoidable Delay" time shall be made by the unit operator subject 20
21 to approval of the Supervisor. 21

22 26. NONDISCRIMINATION. In connection with the performance of work under 22
23 this agreement, the operator agrees to comply with all the provisions of 23
24 section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), 24
25 which are hereby incorporated by reference in this agreement. 25

26 27. LOSS OF TITLE. In the event title to any tract of unitized land 26
27 shall fail and the true owner cannot be induced to join in this unit agreement, 27
28 such tract shall be automatically regarded as not committed hereto and share 28
29 shall be such readjustment of future costs and benefits as may be required on 29
30 account of the loss of such title. In the event of a dispute as to title as 30
31 to any royalty, working interest, or other interests subject thereto, pay- 31
32 ment or delivery on account thereof may be withheld without liability for 32
33 interest until the dispute is finally settled; provided, that, as to Federal 33
34 land or leases, no payments of funds due the United States should be withheld, 34
35 but such funds shall be deposited as directed by the Supervisor to be held 35
36 as unearned money pending final settlement of the title dispute, and then 36
37 applied as earned or returned in accordance with such final settlement. 37

1 Unit Operator as such is relieved from any responsibility for any 1
2 defect or failure of any title hereunder. 2

3 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any sub- 3
4 stantial interest in a tract within the unit area fails or refuses to sub- 4
5 scribe or consent to this agreement, the owner of the working interest in that 5
6 tract may withdraw said tract from this agreement by written notice delivered 6
7 to the Supervisor and the Unit Operator prior to the approval of this agree- 7
8 ment by the Supervisor. Any oil or gas interests in lands within the unit area 8
9 not committed hereto prior to submission of this agreement for final approval 9
10 may thereafter be committed hereto by the owner or owners thereof subscribing 10
11 or consenting to this agreement, and, if the interest is a working interest, by 11
12 the owner of such interest also subscribing to the unit operating agreement. 12
13 After operations are commenced hereunder, the right of subsequent joinder, as 13
14 provided in this section, by a working interest owner is subject to such 14
15 requirements or approvals, if any, pertaining to such joinder, as may be 15
16 provided for in the unit operating agreement. After final approval hereof, 16
17 joinder by a non-working interest owner must be consented to in writing 17
18 by the working interest owner committed hereto and responsible for the 18
19 payment of any benefits that may accrue hereunder in behalf of such non- 19
20 working interest. A non-working interest may not be committed to this unit 20
21 agreement unless the corresponding working interest ~~is~~ committed hereto. 21
22 Joinder to the unit agreement by a working-interest owner, at any time, 22
23 must be accompanied by appropriate joinder to the unit operating agreement, 23
24 if more than one committed working-interest owner is involved, in order for 24
25 the interest to be regarded as committed to this unit agreement. Except as 25
26 may otherwise herein be provided, subsequent joinders to this agreement shall 26
27 be effective as of the first day of the month following the filing with the 27
28 Supervisor of duly executed counterparts of all or any papers necessary to 28
29 establish effective commitment of any tract to this agreement unless objection 29
30 to such joinder is duly made within 60 days by the Supervisor. 30

1 29. COUNTERPARTS. This agreement may be executed in any number of 1
2 counterparts no one of which needs to be executed by all parties or may be 2
3 ratified or consented to by separate instrument in writing specifically 3
4 referring hereto and shall be binding upon all those parties who have 4
5 executed such a counterpart, ratification, or consent hereto with the same 5
6 force and effect as if all such parties had signed the same document and 6
7 regardless of whether or not it is executed by all other parties owning or 7
8 claiming an interest in the lands within the above-described unit area. 8

9 30. SURRENDER. Nothing in this agreement shall prohibit the exercise 9
10 by any working interest owner of the right to surrender vested in such party by 10
11 any lease, sublease, or operating agreement as to all or any part of the lands 11
12 covered thereby, provided that each party who will or might acquire such 12
13 working interest by such surrender or by forfeiture as hereafter set forth, 13
14 is bound by the terms of this agreement. 14

15 If as a result of any such surrender the working interest rights as to 15
16 such lands become vested in any party other than the fee owner of the unitized 16
17 substances, said party may forfeit such rights and further benefits from 17
18 operation hereunder as to said land to the party next in the chain of title 18
19 who shall be and become the owner of such working interest. 19

20 If as the result of any such surrender or forfeiture working interest 20
21 rights become vested in the fee owner of the unitized substances, such 21
22 owner may: 22

23 (1) Accept those working interest rights subject to this agreement 23
24 and the unit operating agreement; or 24

25 (2) Lease the portion of such land as is included in a participating 25
26 area established hereunder subject to this agreement and the unit 26
27 operating agreement. 27

28 (3) Provide for the independent operation of any part of such land 28
29 that are not then included within a participating area established 29
30 hereunder. 30

1 If the fee owner of the unitized substances does not accept the working 1
2 interest rights subject to this agreement and the unit operating agreement 2
3 or lease such lands as above provided within six (6) months after the 3
4 surrendered or forfeited working interest rights become vested in the fee 4
5 owner, the benefits and obligations of operations accruing to such lands 5
6 under this agreement and the unit operating agreement shall be shared by the 6
7 remaining owners of unitized working interests in accordance with their 7
8 respective working interest ownerships, and such owners of working interests 8
9 shall compensate the fee owner of unitized substances in such lands by paying 9
10 sums equal to the rentals, minimum royalties, and royalties applicable to 10
11 such lands under the lease in effect when the lands were unitized. 11

12 An appropriate accounting and settlement shall be made for all benefits 12
13 accruing to or payments and expenditures made or incurred on behalf of such 13
14 surrendered or forfeited working interest subsequent to the date of surrender 14
15 or forfeiture, and payment of any moneys found to be owing by such an 15
16 accounting shall be made as between the parties within thirty (30) days. In 16
17 the event no unit operating agreement is in existence and a mutually acceptable 17
18 agreement between the proper parties thereto cannot be consummated, the 18
19 Supervisor may prescribe such reasonable and equitable agreement as he deems 19
20 warranted under the circumstances. 20

21 The exercise of any right vested in a working interest owner to reassign 21
22 such working interest to the party from whom obtained shall be subject to the 22
23 same conditions as set forth in this section in regard to the exercise of a 23
24 right to surrender. 24

25 31. TAXES. The working interest owners shall render and pay for 25
26 their account and the account of the royalty owners all valid taxes on or meas- 26
27 ured by the unitized substances in and under or that may be produced, gathered 27
28 and sold from the land subject to this contract after the effective date of this 28
29 agreement, or upon the proceeds or net proceeds derived therefrom. The working 29

1 interest owners on each tract shall and may charge the proper proportion of 1
2 said taxes to the royalty owners having interests in said tract, and may 2
3 currently retain and deduct sufficient of the unitized substances or 3
4 derivative products, or net proceeds thereof from the allocated share of each 4
5 royalty owner to secure reimbursement for the taxes so paid. No such taxes 5
6 shall be charged to the United States or the State of New Mexico or to 6
7 any lessor who has a contract with his lessee which requires the lessee to 7
8 pay such taxes. 8

9 32. NO PARTNERSHIP. It is expressly agreed that the relation of 9
10 the parties hereto is that of independent contractors and nothing in this 10
11 agreement contained, expressed or implied, nor any operations conducted 11
12 hereunder, shall create or be deemed to have created a partnership or 12
13 association between the parties hereto or any of them. 13

14 33. PROTECTION OF POTASH DEPOSITS. No wells will be drilled 14
15 for oil or gas at a location on the Unit Area which in the opinion of the 15
16 Supervisor would result in undue waste of potash deposits or constitute a 16
17 hazard to or unduly interfere with mining operations being conducted for 17
18 the extraction of potash deposits. 18

19 The drilling or abandonment of any well on unitized land shall be done 19
20 in accordance with applicable oil and gas operating regulations, including 20
21 such requirements as may be prescribed by the Supervisor, as necessary 21
22 to prevent the infiltration of oil, gas or water into formations containing 22
23 potash deposits or into mines or workings being utilized in the extraction of 23
24 such deposits. 24

25 Well records and survey plats that an oil and gas lessee of Federal 25
26 lands must file pursuant to applicable operating regulations (30 CFR Part 221) 26
27 shall be available for inspection at the Office of the Supervisor to any 27
28 party holding a potash permit or lease on the Federal land on which the well 28
29 is situated insofar as such records are pertinent to the mining and protection 29
30 of potash deposits. 30

1

IN WITNESS WHEREOF, the parties hereto have caused this agreement

1

2 to be executed and have set opposite their respective names the date of

2

3 execution.

3

UNIT OPERATOR AND WORKING INTEREST OWNER

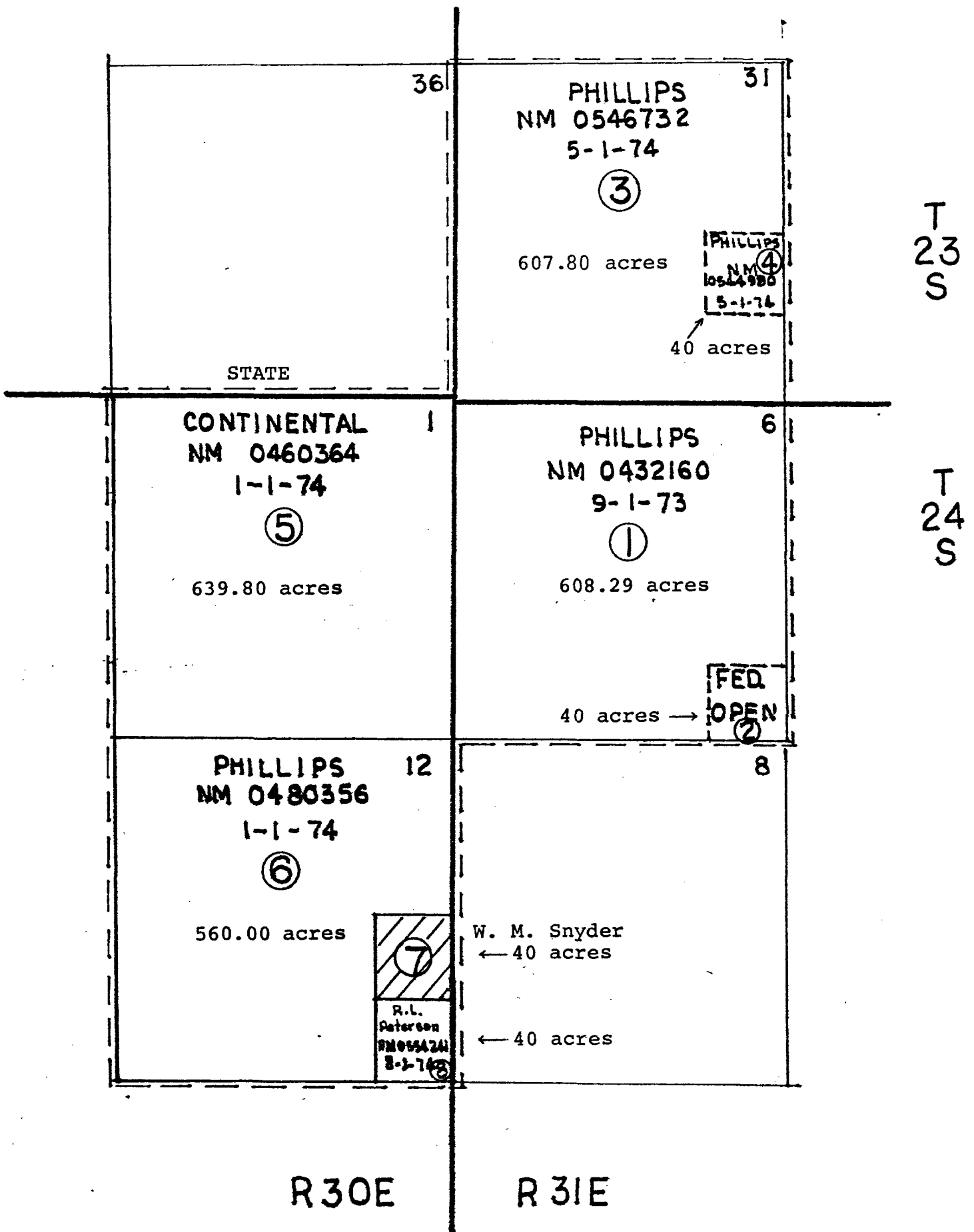
AMERICAN QUASAR PETROLEUM CO.
OF NEW MEXICO

BY: _____

ATTEST:


DATE _____


ADDRESS: _____



----- OUTLINE OF UNIT AREA

① TRACT NUMBER

 FEDERAL LAND, 2,535.89 ACRES
98.44% of UNIT AREA

 PATENTED (FEE) LANDS, 40 ACRES
1.55% of UNIT AREA

TOTAL 2,575.89 ACRES

SERIAL NUMBERS OF
FEDERAL LEASES:

NM 0418942 (expired)
0432160
0460364
0480356
0544986-B
0546732-A
0554241

EXHIBIT "A"
DUNES UNIT
EDDY COUNTY, NEW MEXICO

EXHIBIT "B"
SCHEDULE OF LANDS AND LEASES
DUNES UNIT AREA
EDDY COUNTY, NEW MEXICO

EXHIBIT "B" UPON COMPLETION, WILL REFLECT THE ACQUISITION
OF NEW LEASES BY OPERATOR. THERE ARE NO STATE OF NEW
MEXICO LANDS IN THE UNIT AREA.

EXHIBIT "B"
SCHEDULE OF LANDS AND LEASES
DUNES UNIT AREA
EDDY COUNTY, NEW MEXICO

Fract No.	Description	Number of Acres	Lease		Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty		Working Interest	
			Serial No.	Expiration Date				Owner and Percentage	Owner and Percentage		
Township 24 South, Range 31 East, NMPPM											
1	Section 6: lots 1,2,3,4,5,6,7, SE/4 NW/4, E/2 SW/4, S/2 NE/4, W/2 SE/4, W/2 SE/4 & NE/4 SE/4	608.29	NM-0432160 8-31-73 (extended by drilling oprs)		U.S.A. 12.5	Phillips Petroleum Co.	All	Redfern Development Corporation	5.00	Phillips Pet. Corp.	All
2	Section 6: SE/4 SE/4	40.00	NM-19443 9-30-83		U.S.A. 12.5	Silver Monument and Mineral Corp.	All	None		Silver Monument and Minerals Corp.	All
Township 23, South, Range 31, East, NMPPM											
3	Section 31: Lots 1,2,3,4, E/2 W/2, NE/4, W/2 SE/4, SE/4 SE/4	607.80	NM-0546732-A 4-30-74		U.S.A. 12.5	Phillips Petroleum Co.	All	R. E. Boyle Estate of Henry W. Denton, deceased Discovery, Inc. George R. Gibson Thomas Allen G. W. Allen	2.00000 1.00000 0.50000 0.50000 0.99646 0.00354	Phillips Petroleum Co. All	

Tract No.	Description of Acres	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Overriding Royalty Owner and Percentage		Working Interest Owner and Percentage	
					Lessee of Record	Interest	Lessee of Record	Interest

Township 24 South, Range 30 East, NMMPM

7	Section 12: NE/4 SE/4	40.00	Fee 9-5-78	Snyder Ranches, LTD. 18.75	American Quasar Petroleum Co. of New Mexico	All	None	American Quasar Pet. Co. of New Mexico. All
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40 acres, Patented (fee) Lands

RECAPITULATION

2,535.89 acres, Federal Lands -	98.44% of Unit Area
40.00 acres, Fee Lands -	1.55% of Unit Area
<u>2,575.89 acres,</u>	<u>100.00%</u>