

CASE 6519: INEXCO OIL COMPANY FOR AP-
PROVAL OF THE BISON WALLOW UNIT, EDDY
COUNTY, NEW MEXICO

CASE NO.

6519

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

Unit Name BISON WALLOW UNIT - EXPLORATORY
Operator Inexco Oil Company
County Eddy

OCe

DATE	OCC CASE NO.	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	6519	1-10-80	7,040.00	1,280.00	5,760.00	-0-	Yes	5 yrs.
Commissioner	Commission							
1-3-80	4-25-79							

UNIT AREA

TOWNSHIP 25 SOUTH, RANGE 29 EAST, N/2PM
Sections 25 through 27: All
Sections 33 through 36: All
TOWNSHIP 26 SOUTH, RANGE 29 EAST, N/2PM
Sections 2 through 4: All
Section 9: N/2
Section 10: N/2

TERMINATED
7-2-81

All acreage committed except 400 acres of Federal lands.
Total acreage committed is 6,640.00

Unit Name Bison Wallow Unit- EXPLORATORY
 Operator Inexco Oil Company
 County Eddy

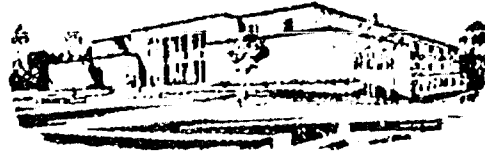
STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
17	1G-1083	C.S.	2	26S	29E	A11	7-18-79	640.00		Great Western Drilling Co
18	1. -4058-3	C.S.	36	25S	29E	SW/4, SE/4NE/4	7-12-79	200.00		Inexco Oil Company
19	1G-6123	C.S.	36	25S	29E	NW/4	7-12-79	160.00		Inexco Oil Company
20	1G-6325	C.S.	36	25S	29E	N/2NE/4, SW/4NE/4, SE/4	7-12-79	280.00		Inexco Oil Company

TERMINATED
 7-12-81

State of New Mexico



ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands

July 14, 1981

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Inexco Oil Company
1100 Milam Bldg., Suite 1900
Houston, Texas 77002

6519 7
Re: Bison Wallow Unit
Eddy County, New Mexico

ATTENTION: Mr. L. J. Tacconi

Gentlemen:

Please be advised that the Bison Wallow Unit, Eddy County, New Mexico has been terminated by this office effective as of July 2, 1981, being the date your second test unit well was to of been commence. The USGS gave their termination July 10, 1981 Effective as of July 2, 1981.

Please notify all interested parties of this action.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

BY:
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505-827-2748

AJA/RDG/s
cc:

OCD-Santa Fe, New Mexico
USGS-Albuquerque, New Mexico

RECEIVED
JUL 13 1981
OIL CONSERVATION DIVISION
SANTA FE

South Central Region
P. O. Box 26124
Albuquerque, New Mexico 87125

6519 10 JUL 1981

Inexco Oil Company
Attention: L. J. Tacconi
1100 Milam Bldg., Suite 1900
Houston, Texas 77002

Gentlemen:

The Bison Wallow Unit Agreement, No. 14-08-0001-18040, Eddy County, New Mexico, was approved January 10, 1980, effective as of the date of approval. The term of such agreement is contingent upon the unit operator drilling one well at a time, allowing not more than six months time between the completion of one well and the beginning of the next, until a well capable of producing utilized substances in paying quantities is completed.

Our records show that the initial test well was completed as a non-commercial producer on July 2, 1980, making the second unit test well due to be commenced by January 2, 1981. Your request for a six-month extension of time in which to commence drilling the second unit test well under the terms of the agreement was approved, making the second test well due to be commenced by July 2, 1981.

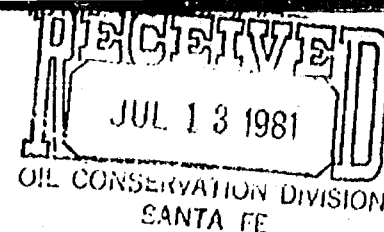
Inasmuch as the second unit test well was not commenced, the Bison Wallow Unit Agreement is considered to have terminated automatically as of July 2, 1981, pursuant to Section 9 of the unit agreement.

Sincerely yours,

(ORIG. SGD.) GENE F. DANIEL

Gene F. Daniel
Deputy Conservation Manager
Oil and Gas

cc:
BLM, Santa Fe
Com. of Public Lands, Santa Fe
N.M.O.C.D., Santa Fe



South Central Region
P. O. Box 26124
Albuquerque, New Mexico 87125

10 JUL 1981

Coquina Oil Corporation
Attention: Betsy S. Perry
P. O. Drawer 2960
Midland, Texas 79702

Gentlemen:

Enclosed is an approved copy of Communitization Agreement No. SCR-109, involving 160.0 acres of land in Federal leases NM-19842-A, NM-33276 and NM-22631 and 160.0 acres of Fee land, Eddy County, New Mexico, comprising a 320.0-acre well spacing unit.

The agreement communitizes all rights as to natural gas and associated liquid hydrocarbons producible from the Atoka and Morrow formations in the N $\frac{1}{4}$ section 33, T. 22 S., R. 28 E., N.M.P.M., and is effective May 5, 1981.

You are requested to furnish all interested principals with appropriate evidence of this approval.

Sincerely yours,

(ORIG. SGD.) JOE G. LARA

FOR Gene F. Daniel
Deputy Conservation Manager
Oil and Gas

Enclosure

cc:
BLM, Santa Fe (w/enclosure)
~~MOCD, Santa Fe~~
Roswell District (w/enclosure)

State of New Mexico



ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands

February 25, 1981

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Inexco Oil Company
1100 Milam Building- Suite 1900
Houston, Texas 77002

6519

Re: Bison Wallow Unit
Initial Participating Area
Wolfcamp formation
Eddy County, New Mexico

ATTENTION: Mr. L. J. Tacconi

Gentlemen:

The Commissioner of Public Lands has this date approved the Initial Participating Area for the Wolfcamp Formation for the Bison Wallow Unit, Eddy County, New Mexico. Our approval is subject to like approval by the United States Geological Survey. The New Mexico Oil Conservation Division gave their approval on February 17, 1981.

Enclosed is one approved copy for your files.

On December 30, 1980, this office wrote you a letter asking for additional information on your 1981 Plan of Development. To this date we have not received an answer from you. Please let us hear from you regarding our letter of the above mentioned date.

Very truly yours,

ALEX J. ARMIJO
Commissioner of Public Lands

BY:
RAY D. GRAHAM, Director
Oil and Gas Division

AJA/RDG/s
encls.
cc:

OCD-Santa Fe, New Mexico
USGS-Roswell, New Mexico
USGS-ALBUQUERQUE, New Mexico



INEXCO OIL COMPANY

6519

August 26, 1980

United States Geological Survey
South Central Region
P. O. Box 26124
Albuquerque, New Mexico 87125

Attention: Armando Lopez

Re: Bison Wallow Unit NM146
No. 14-08-0001-18040
Eddy County, New Mexico

Gentlemen:

Attached are copies of Well Completion or Recompletion Report and Log, Sundry Notice and Reports on Wells, and a Gas Well Shut-in Pressure Report filed with your Artesia, New Mexico office. The purpose of this letter is to verify that the unit should now be considered a producing unit and to advise the owners under the unit to pay rentals for the extended terms of their leases.

The Bison Wallow Unit #1 well should be tied into the El Paso line within the next ten to fifteen days and on production. Shortly thereafter, we shall apply for the initial participating area and file our plan of development pursuant to the terms of the unit agreement.

Should you have any questions, please advise us at your earliest convenience.

Very truly yours,


L. J. Tacconi
Area Landman

LJT/ph
Enclosure

cc: Alex J. Armijo
Commissioner of Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87501
Attn: Ray D. Graham
Oil & Gas Division

New Mexico Oil
Conservation Commission
State Land Office
Santa Fe, New Mexico 87501

Addressee List Attached

ADDRESS LIST

Mobil Oil Corporation
9 Greenway Plaza
Suite 2700
Houston, Texas 77046
Attention: Mr. S. W. Akers

Phillips Petroleum Corporation
311 Phillips Building
Odessa, Texas 79761
Attention: Mr. Paul E. Hanna

El Paso Natural Gas Company
1800 Wilco Building
Midland, Texas 79701
Attention: Mr. Robert D. Janssen

Mar-Win Development Co.
P. O. Box 874
Midland, Texas 79702

Great Western Drilling Co.
P. O. Box 1659
Midland, Texas 79702
Attention: Mr. W. T. Cowan

UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY

Form Approved
Budget Bureau No. 42-B355.6

WELL COMPLETION OR RECOMPLETION REPORT AND LOG *

1a. TYPE OF WELL: OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> DAY <input type="checkbox"/> Other _____		7. UNIT AGREEMENT NAME Bison Wallow Unit	
b. TYPE OF COMPLETION: NEW WELL <input checked="" type="checkbox"/> WORK OVER <input type="checkbox"/> DEEP-EN <input type="checkbox"/> PLUG BACK <input type="checkbox"/> REPAIR <input type="checkbox"/> Other _____		79 No. 14-08-0001-18040	
2. NAME OF OPERATOR Inexco Oil Company		8. FARM OR LEASE NAME Bison Wallow	
3. ADDRESS OF OPERATOR 1100 Milam Bldg., Suite 1900, Houston, Tex. 77002		9. WELL NO. 1	
4. LOCATION OF WELL (Report location clearly and in accordance with instructions) At surface 1980' FNL & 660' FEL At top prod. interval reported below same as above At total depth same as above		10. FIELD AND POOL, OR WILDCAT Wildcat	
11. PERMIT NO. ARTESIA, NEW MEXICO		11. SEC., T., R., M., OR BLOCK AND SURVEY OR AREA Sec. 34, T25S, R29E	
15. DATE SPUDDED 12/31/79		16. DATE T.D. REACHED 4/03/80	
17. DATE COMPL. (Ready to prod.) 7/02/80 *		18. ELEVATIONS (DY, RKB, RT, CR, ETC.) * 2988.3 GR	
20. TOTAL DEPTH, MD & TVD 14391'		21. PLUG BACK T.D., MD & TVD 14305'	
22. IF MULTIPLE COMPL., HOW MANY? -----		23. INTERVALS DRILLED BY 0-14391'	
24. PRODUCING INTERVALS (OF THIS COMPLETION) FOR BOTTOM NAME (MD AND TVD) 11379' - top 11449' - bottom Wolfcamp		25. WAS DIRECTIONAL SURVEY MADE Yes-attached	
26. TYPE ELECTRIC AND OTHER LOGS RUN Dual Laterolog Micro SFL, Fracture I.D. Log, Borehole Compensated Sonic, & Compensated Neutron-Formation Density		27. WAS WELL CORED No	
28. CASING RECORD (Report all strings set in well)			
CASING SIZE	WEIGHT, LB./FT.	DEPTH SET (MD)	AMOUNT PULLED
20"	9.4	363'	800 sx "C" + 2% CaCl2
13-3/8"	61.	3010'	2920 sx Halliburton Lite + 300 sx "C"
9-5/8"	47.	11154'	985 sx TLW + 300 sx "H"
5-1/2"	20.	14391'	1100 sx "H" + 535 sx "H"
29. LINER RECORD			
SIZE	TOP (MD)	BOTTOM (MD)	PACKER SET (MD)
			11315'
30. TUBING RECORD			
SIZE	DEPTH SET (MD)	PACKER SET (MD)	
2-7/8"	11315'	11315'	
31. PERFORATION RECORD (Interval, size and number) 11379' - 11449' w/2 SPF *		32. ACID, SHOT, FRACTURE, CEMENT SQUEEZE, ETC.	
		DEPTH INTERVAL (MD)	AMOUNT AND KIND OF MATERIAL USED
		11379-11449	10,000 gals MOD-202
33. PRODUCTION			
DATE FIRST PRODUCTION 7/02/80	PRODUCTION METHOD (Flowing, gas lift, pumping—size and type of pump) Flowing		WELL STATUS (Producing or shut-in) shut in
DATE OF TEST 7/02/80	HOURS TESTED 8	CHOKE SIZE 18/64"	PROD'N. FOR TEST PERIOD 32.2
FLOW. TUBING PRESS. 2700	CASING PRESSURE P.O.	CALCULATED 24-HOUR RATE 96.60	OIL—BBL. 2500
34. DISPOSITION OF GAS (Sold, used for fuel, vented, etc.) Vented		TEST WITNESSED BY -----	
35. LIST OF ATTACHMENTS One complete set of logs and copy of the directional survey.			
36. I hereby certify that the foregoing and attached information is complete and correct as determined from all available records			
SIGNED <i>Cynthia G. Zator</i>		TITLE Production Clerk	DATE 7/28/80

*(See Instructions and Spaces for Additional Data on Reverse Side)

INSTRUCTIONS

General: This form is designed for submitting a complete and correct well completion report and log on all types of lands and leases to either a Federal agency or a State agency, or both, pursuant to applicable Federal and/or State laws and regulations. Any necessary special instructions concerning the use of this form and the number of copies to be submitted, particularly with regard to local, area, or regional procedures and practices, either are shown below or will be issued by, or may be obtained from, the local Federal and/or State office. See instructions on Items 22 and 24, and 33, below regarding separate reports for separate completions. If not filed prior to the time this summary record is submitted, copies of all currently available logs (drillers, geologists, sample and core analysis, all types electric, etc.), formation and pressure tests, and directional surveys, should be attached hereto, to the extent required by applicable Federal and/or State laws and regulations. All attachments should be listed on this form, see Item 35.

Item 4: If there are no applicable State requirements, locations on Federal or Indian land should be described in accordance with Federal requirements. Consult local State or Federal office for specific instructions.

Item 18: Indicate which elevation is used as reference (where not otherwise shown) for depth measurements given in other spaces on this form and in any attachments.

Items 22 and 24: If this well is completed for separate production from more than one interval zone (multiple completion), so state in Item 22, and in item 24 show the producing interval, or intervals, top(s), bottom(s) and name(s) (if any) for only the interval reported in Item 33. Submit a separate report (page) on this form, adequately identified, for each additional interval to be separately produced, showing the additional data pertinent to such interval.

Item 29: "Sacks Cement": Attached supplemental records for this well should show the details of any multiple stage cementing and the location of the cementing tool.

Item 33: Submit a separate completion report on this form for each interval to be separately produced. (See instruction for Items 22 and 24 above.)

37. SUMMARY OF POROUS ZONES:				38. GEOLOGIC MARKERS		
SHOW ALL IMPORTANT ZONES OF POROSITY AND CONTENTS THEREOF; CORED INTERVALS; AND ALL DRILL-STEM TESTS, INCLUDING DEPTH INTERVAL TESTED, CURSION USED, TIME TOOL OPEN, FLOWING AND SHUT-IN PRESSURES, AND RECOVERIES						
FORMATION	TOP	BOTTOM	DESCRIPTION, CONTENTS, ETC.	NAME	TOP	
					MEAS. DEPTH	TRUE VERT. DEPTH
				Quaternary	0-35'	
				Perm Dewey Lake	35-110'	
				T. Anhy	110'	
				T. Salt	395'	
				B. Salt	2605'	
				Del. Lm.	3052'	
				Del. Sd.	3078'	
				Cherry Canyon	4194'	
				Brushy Canyon	5614'	
				Bone Springs	6835'	
				3rd. Bone Springs	9683'	
				P Wolfcamp	10065'	
				L Wolfcamp	11359'	
				Bison Wallow Pay	11379'	
				Phantom Draw Pay		
				& Corral Draw Pay	11602'	
				T Cisco (Bough C)	12358'	
				Canyon	12486'	
				Strawn	12641'	
				Atoka	12882'	
				Morrow	13399'	
				Morrow Claustics	13556'	

★ U.S. GOVERNMENT PRINTING OFFICE: 1974-780-680/VIII-238 (A zone)

Form 7-234
July 1968

UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY

FORM 7-234 (Rev. 7-78)
Other Instructions
(Reverse Side)

Form approved
Budget Bureau No. 42 R1421
5. LEASE DESIGNATION AND SERIAL NO.

SUNDRY NOTICE AND REPORTS ON WELLS

* (Do not use this form for proposals to drill or to deepen or plug back to a different reservoir.
Use "APPLICATION FOR PERMIT" for such proposals.)

1. <input type="checkbox"/> OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> OTHER	dated 7-12-79	7. UNIT ASSIGNMENT NAME Bison Wallow Unit
2. NAME OF OPERATOR Inexco Oil Company		8. LEASE NO. No. 14-08-0001-18040
3. ADDRESS OF OPERATOR 1100 Milam Bldg., Suite 1900 Houston, Tex. 77002		9. FARM OR LEASE NAME Bison Wallow
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements. See also space 17 below.) At surface Unit Letter H located 1980' FNL & 660' FEL		10. WELL NO. 1
14. PERMIT NO.	15. ELEVATIONS (Show whether DT, RT, GR, etc.) 2988.3 GR	11. FIELD AND POOL, OR WILDCAT Wildcat
		12. SEC., T., R., M., OR L.M., AND SURVEY OR AREA Sec. 34, T25S, R29E
		13. COUNTY OR PARISH Eddy
		13. STATE New Mexico

16. Check Appropriate Box To Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:		SUBSEQUENT REPORT OF:	
TEST WATER SHUT-OFF <input type="checkbox"/>	PULL OR ALTER CASING <input type="checkbox"/>	WATER SHUT-OFF <input type="checkbox"/>	REPAIRING WELL <input type="checkbox"/>
FRACTURE TREAT <input type="checkbox"/>	MULTIPLE COMPLETE <input type="checkbox"/>	FRACTURE TREATMENT <input type="checkbox"/>	ALTERING CASING <input type="checkbox"/>
SHOOT OR ACIDIZE <input type="checkbox"/>	ABANDON* <input type="checkbox"/>	SHOOTING OR ACIDIZING <input type="checkbox"/>	ABANDONMENT* <input type="checkbox"/>
REPAIR WELL <input type="checkbox"/>	CHANGE PLANS <input type="checkbox"/>	(Other) <input type="checkbox"/>	
(Other) <input type="checkbox"/>	*see below <input checked="" type="checkbox"/>		

(NOTE: Report results of multiple completion on Well Completion or Recompletion Report and Log form.)

17. DESCRIBE PROPOSED OR COMPLETED OPERATIONS (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.) *

*Shut in pending pipeline connection.

Well statiscally completed as a shut in gas well 7/02/80. Perforated 11379' - 11449' Wolfcamp.

RECEIVED

JUL 30 1980

U.S. GEOLOGICAL SURVEY
ARTESIA, NEW MEXICO

18. I hereby certify that the foregoing is true and correct

SIGNED Cynthia D. Bator TITLE Production Clerk DATE 7/28/80

(This space for Federal or State office use)

APPROVED BY ASST. DIR. OF MINE & RECLAMATION TITLE ASST. DIR. OF MINE & RECLAMATION DATE JUL 31 1980

CONDITIONS OF APPROVAL, IF ANY:

*See Instructions on Reverse Side



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

April 13, 1981

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

Inexco Oil Company
1100 Milam Building
Suite 1900
Houston, Texas 77002

Attention: L. J. Tacconi

Re: Case No. 6519
Bison Wallow Unit
Extension of Time

Gentlemen:

We hereby approve the extension of six months from January 2, 1981, for the drilling of a second test well on the Bison Wallow Unit, Eddy County, New Mexico, subject to like approval by the United States Geological Survey and the Commissioner of Public Lands.

One approved copy of the Extension is returned herewith.

Yours very truly,

JOE D. RAMEY
Director

JDR/EP/fd
enc.

cc: U.S.G.S. - Albuquerque
Commissioner of Public Lands

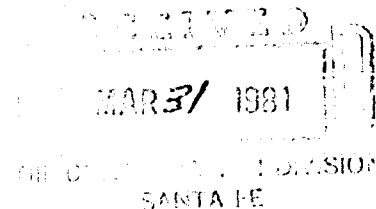


INEXO OIL COMPANY

March 26, 1981

United States Geological Survey
P.O. Box 26124
Albuquerque, New Mexico 87125

Attn: Armando Lopez



RE: Bison Wallow Unit NM 146
Cert. No. _____
Eddy County, New Mexico

Gentlemen:

Pursuant to the terms of the Unit Agreement, a second exploratory well was to have been drilled on the referenced unit on or about January 2, 1981, in the event production, as defined under the terms of the Unit Agreement, had not been established. As you know, we originally thought the Bison Wallow Unit #1 well qualified as a producing well within the outlines set by the Unit Agreement. Subsequent decline in pressure and production has clouded the issue.

We are presently engaged in reworking the well by perforating and acidizing the following additional intervals not heretofore open in the Lower Wolfcamp zone:

<u>Intervals</u>	<u>Feet of Perforations</u>
11,364' - 11,374'	10'
11,451' - 11,453'	2'
11,460' - 11,464'	4'
11,466' - 11,468'	2'
11,478' - 11,480'	2'
11,497' - 11,514'	17'
11,519' - 11,521'	2'
11,538' - 11,550'	12'
11,564' - 11,567'	3'
11,591' - 11,594'	3'
	<hr/>
	57' Total

United States Geological Survey
March 26, 1981
Page Two

It is respectfully requested that an extension of six (6) months from January 2, 1981, be granted before the second test well be drilled on the Unit Area in order that we may properly evaluate the results of our endeavor. We apologize for our lateness in this request, but circumstances with the well have made us change and evaluate our plans several times.

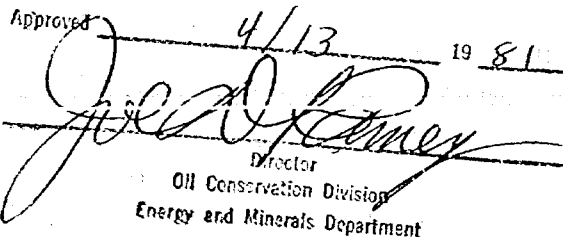
Very truly yours,


L. S. Tacconi
Area Landman

LJT/pr

cc: State of New Mexico
Commissioner of Public Lands
P.O. Box 1148
Santa Fe, New Mexico 87501
Attn: Ray D. Graham

✓ State of New Mexico
Oil Conservation Division
c/o State Land Office Bldg.
Santa Fe, New Mexico 87501

Approved 4/13 19 81

Director
Oil Conservation Division
Energy and Minerals Department

THIS APPROVAL GRANTED SUBJECT TO LIKE APPROVAL
OF THE UNITED STATES GEOLOGICAL
SURVEY AND BY THE COMMISSIONER OF PUBLIC LANDS
OF THE STATE OF NEW MEXICO.

OIL CONSERVATION DIVISION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

February 17, 1981

Inexco Oil Company
1100 Milam Building Suite 1900
Houston, Texas 77002

Attention: L. J. Tacconi

Re: Case No. 6519
Bison Wallow Unit
Initial Participating
Area for Wolfcamp Formation

Gentlemen:

We hereby approve the Initial Participating Area for the Wolfcamp Formation for the Bison Wallow Unit, Eddy County, New Mexico, subject to like approval by the United States Geological Survey and the Commissioner of Public Lands.

One approved copy of the Initial Participating Area is returned herewith.

Yours very truly,

JOE D. RAMEY
Director

JDR/EP/fd
enc.

cc: U.S.G.S. - Albuquerque
Commissioner of Public Lands

C
O
P
Y



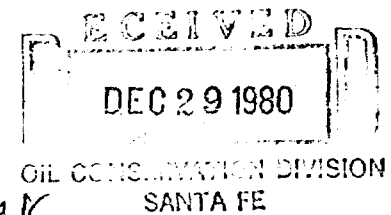
INEXCO OIL COMPANY

6519

December 22, 1980

Area Oil and Gas Supervisor
United States Geological Survey
South Central Region
P. O. Box 26124
421 Gold Ave. SW
Albuquerque, New Mexico

Attention: Mr. Armando Lopez



Re: Application for Approval
Initial Participating Area
Wolfcamp Formation
Bison Wallow Unit NM-146
No. 14-08-0001-18040
Eddy County, New Mexico

Gentlemen:

Enclosed for your consideration in quadruplicate are the following:

1. Application for approval of the Initial Participating Area Wolfcamp Formation dated December 22, 1980.
2. Plat marked Exhibit "A" which has delineated thereon the proposed Initial Participating Area Wolfcamp formation.
3. Schedule marked Exhibit "B" describing the lands and leases within the proposed participating area.
4. Geological plat showing the top of the Lower Wolfcamp.

Your approval is therefore requested for the lands indicated in the enclosed Exhibit "A" as the Initial Participating Area Wolfcamp Formation effective as of July 3, 1980.

Very truly yours,

L. J. Tacconi
Area Landman

LJT/ph

cc: State of New Mexico
Oil Conservation Division
State Land Office
Santa Fe, New Mexico 87501

State of New Mexico
Commissioner of Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87501



INEXCO OIL COMPANY

December 22, 1980

Application for Approval of
the Initial Participating Area
Bison Wallow Unit NM-146
Cert. No. 14-08-0001-18040
Eddy County, New Mexico

Area Oil and Gas Supervisor
United States Geological Survey

Inexco Oil Company as Unit Operator for the Bison Wallow Unit Agreement respectfully requests your approval, pursuant to Section 11 of the Agreement, of the selection of lands indicated on the land ownership map, attached hereto as Exhibit "A", to constitute the Initial Participating Area for the Wolfcamp formation. The participating area consists of 320.00 acres, more or less, in accordance with State regulations.

The schedule of lands attached hereto as Exhibit "B" describes the Bison Wallow Unit participating area and indicates the percentage of participation credited to each lease or tract in said area.

A geological map attached hereto as Exhibit "C" is being submitted as justification for the proposed Initial Wolfcamp Participating Area.

The request for approval of the Initial Wolfcamp Participating Area is predicated upon the information obtained by the completion of the following well:

INEXCO BISON WALLOW UNIT NO. 1 WELL
Location: 1980'FNL 660'FEL Sec. 34-T25S, R29E
Completed: July 3, 1980
First Sales: September 10, 1980
I. P.: 1.3 MMCFPD with 54 BCPD
FTP: 6,300 PSI
Cumulative Sales: To Nov. 30, 1980 540 BBLS Oil
39,588 MCF Gas

Pursuant to Section 11 of the Unit Agreement, the Initial Participating area should be effective July 3, 1980. Your approval is therefore requested for the selection of lands indicated on the attached Exhibit "A".

Approved

2/17/81

Dated this 22nd day of

December

1980.

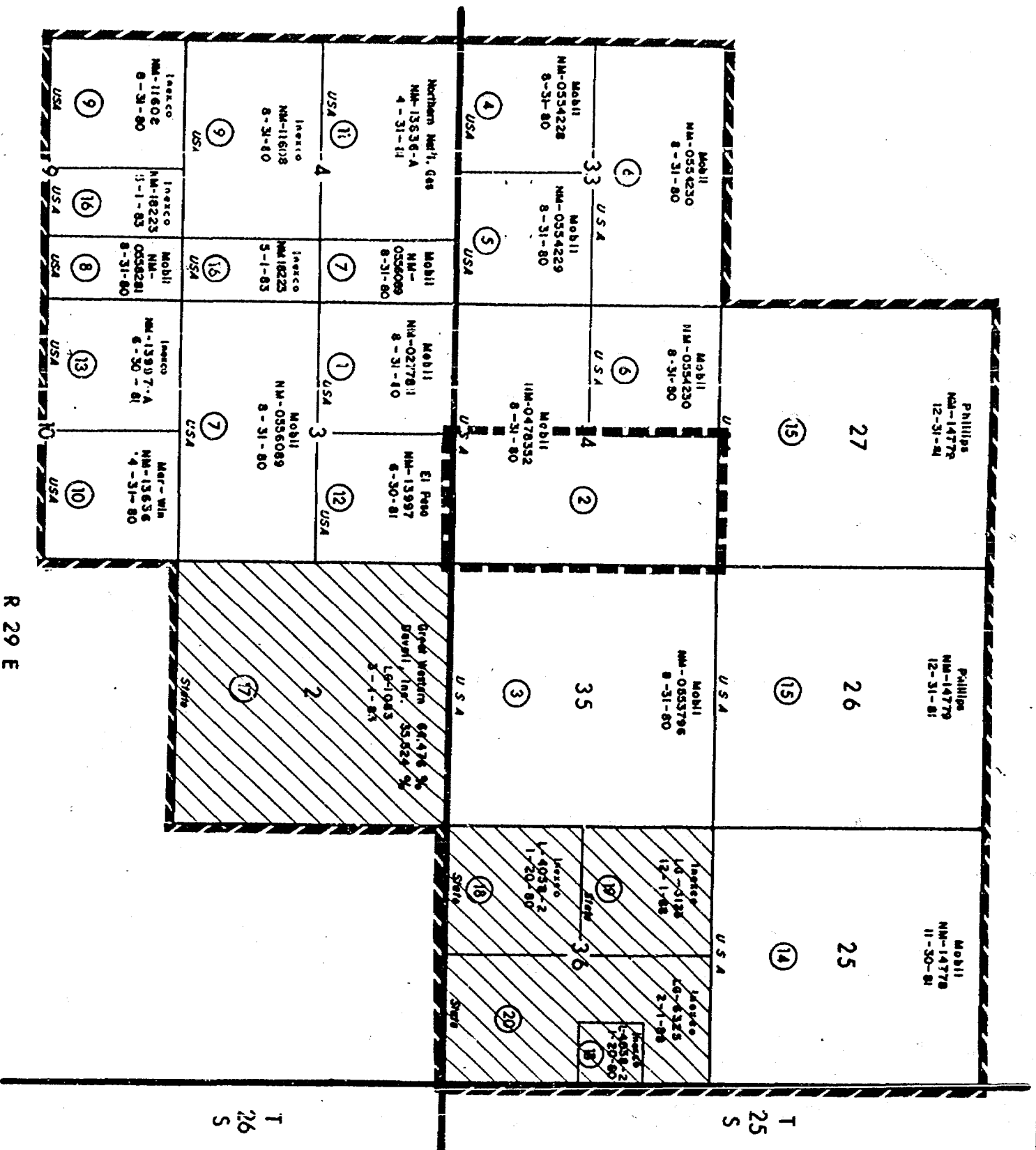
THIS APPROVAL GRANTED SUBJECT TO LIKE APPROVAL
BEING GRANTED BY THE UNITED STATES GEOLOGICAL
SURVEY AND THE COMMISSIONER OF PUBLIC LANDS
OF THE STATE OF NEW MEXICO.

INEXCO OIL COMPANY

L. J. Tacconi
Area Landman

Director
Oil Conservation Division
Energy and Minerals Department

1100 MILAM BUILDING • SUITE 1900 • HOUSTON, TEXAS 77002 • (713) 651-3300



R 29 E

T 26 S

T 25 S

BISON WALLOW UNIT AREA

EDDY COUNTY, NEW MEXICO

EXHIBIT "A"

Scale in Miles

1100 Milam Bldg., Houston, Texas 77002
713-651-3300

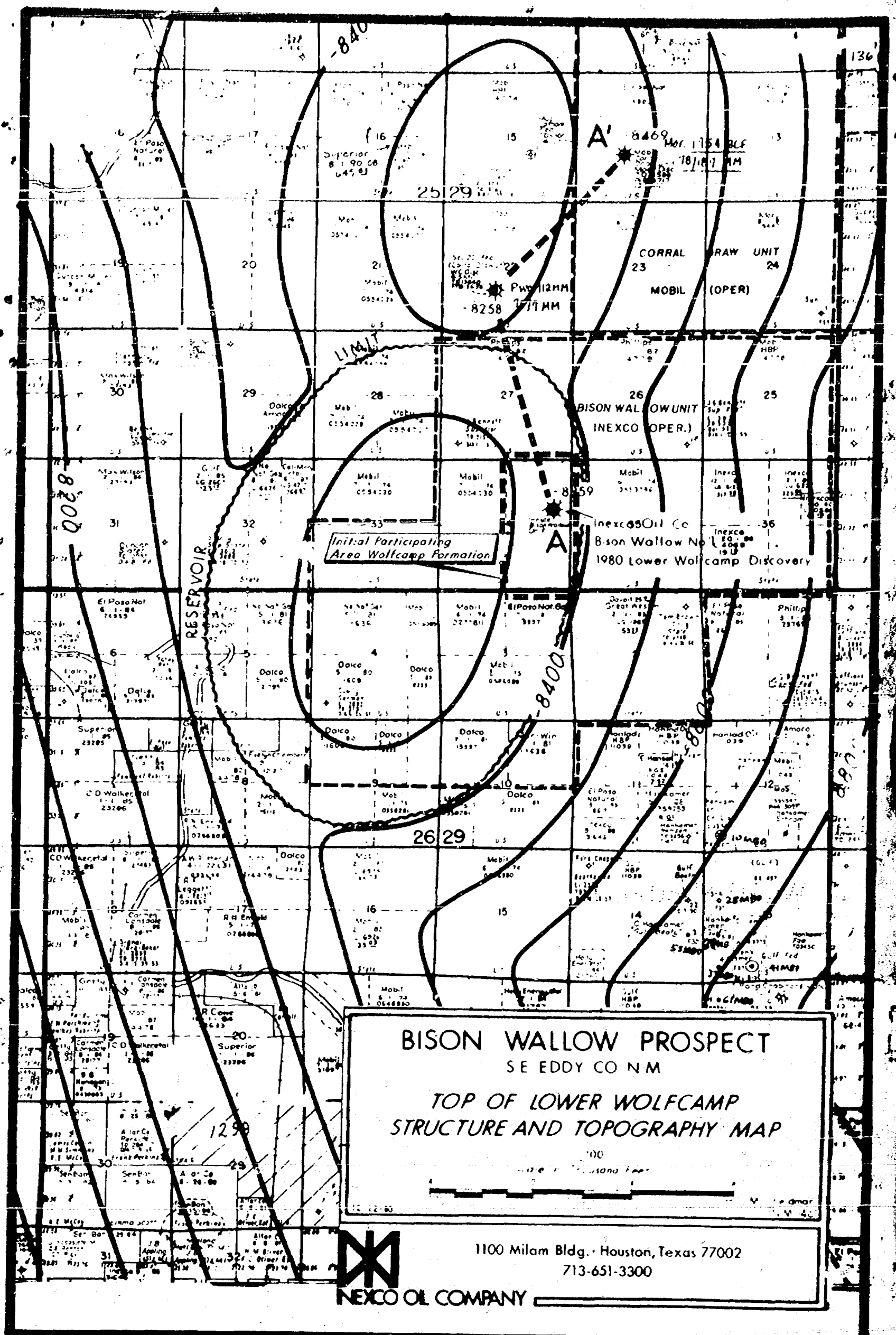
NEXCO OIL COMPANY

- Initial Participating Area
- Wolfcamp Formation
- Tract No.
- Federal Lands
5,760.00 Acres
80.7229% of Unit Area
- State Lands
1,280.00 Acres
19.2771% of Unit Area

Exhibit "B"
Initial Participating Area Wolfcamp Formation
Bison Wallow Unit Agreement
Eddy County, New Mexico

TRACT NO.	LEASE NO. & TYPE OF LAND	DESCRIPTION	PARTICIPATING AREA (Ac.)	PERCENT OF PARTICIPATION	OWNER OF RECORD	PERCENT OF TRACT	WI PERCENT OF PARTICIPATION
-----------	-----------------------------	-------------	-----------------------------	-----------------------------	--------------------	---------------------	--------------------------------

2	USA NM-0478352	T25S, R29E Section 34: E/2	320.00	100%	Mobil Oil Corp.	100%	100%
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OIL CONSERVATION DIVISION
P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

February 17, 1981

Inexco Oil Company
1100 Milam Building Suite 1900
Houston, Texas 77002

Attention: L. J. Tacconi

Re: Case No. 6519
Bison Wallow Unit
1981 Plan of Development

Gentlemen:

We hereby approve the 1981 Plan of Development for the
Bison Wallow Unit, Eddy County, New Mexico, subject to like
approval by the United States Geological Survey and the
Commissioner of Public Lands.

One approved copy of the Plan of Development is returned
herewith.

Yours very truly,

JOE D. RAMEY
Director

JDR/EP/fd
enc.

cc: U.S.G.S. - Albuquerque
Commissioner of Public Lands

C
O
P
Y



December 19, 1980

United States Geological Survey
South Central Region
P. O. Box 26124
421 Gold Ave. SW
Albuquerque, New Mexico 87125

Attention: Armando Lopez

Re: Bison Wallow Unit NM146
Cert. No. 14-08-0001-18040
Plan of Development for 1981
Eddy County, New Mexico

Gentlemen:

Inexco Oil Company, as Unit Operator for the Bison Wallow Unit, above referenced, hereby submits in quadruplicate for your approval the Plan of Development for 1981.

Summary of Operations:

The Bison Wallow Unit was approved effective January 10, 1980. The initial test well, the Bison Wallow Unit #1 Well located in the E/2 Section 34-T25S, R29E (1980' FNL & 660' FEL) was spudded on January 14, 1980, and drilled to a depth of 14,391 feet. After unsuccessful completion attempts in the Morrow and Atoka zones the well was finally completed as a Wolfcamp discovery. The Bison Wallow Unit No. 1 Well was placed on production on September 10, 1980, with a flowing tubing pressure of 6300 psi. Since this time the tubing pressure has dropped below 3,000 psi and the production has stabilized at about 500 mcf per day. Sales for the well for the first three months of production are as follows:

Month	Oil	Gas
September	363 bbls.	10,526 mcf
October	177 bbls.	17,068 mcf
November	0	11,994 mcf
	<u>540 bbls.</u>	<u>39,588 mcf</u>

United States Geological Survey
Bison Wallow Unit NM-146
Plan of Development for 1980
Cert. No. 14-08-0001-18040
Page Two
December 19, 1980

DEVELOPMENT PLANNED FOR 1981

Proposed Morrow test wells for 1981 will be located at a legal location in the E/2 Section 4-T26S, R29E and at a legal location in the W/2 Section 34-T25S, R29E. Negotiations are presently being conducted for the section four location and working interest owners have been polled as we expect to try and drill this well in the first quarter of 1981.

Inexco Oil Company, as Operator for the Bison Wallow Unit, respectfully requests your approval of this Plan of Development for 1981.

Very truly yours, .

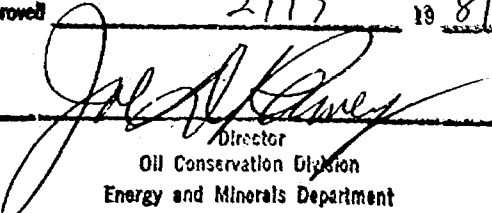

L. J. Tacconi
Area Landman

LJT/ph

cc: State of New Mexico
Oil Conservation Division
State Land Office
Santa Fe, New Mexico 87501

State of New Mexico
Commissioner of Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87501

Working Interest Owners

Approved 2/17 19 81

Director
Oil Conservation Division
Energy and Minerals Department

THIS APPROVAL IS LIMITED SUBJECT TO LIKE APPROVAL
BEING GRANTED BY THE UNITED STATES GEOLOGICAL
SURVEY AND BY THE COMMISSIONER OF PUBLIC LANDS
OF THE STATE OF NEW MEXICO.



INEXCO OIL COMPANY

May 16, 1980

6519

Alex J. Armijo
Commissioner of Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87501

Attention: Ray D. Graham
Oil and Gas Division

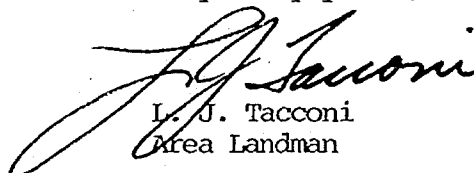
Re: Ratification and Joinder
Consent to Joinder El Paso Tract
Bison Wallow Unit NM 146
Eddy County, New Mexico
No. 14-08-001-18040

Gentlemen:

By copy of our letter dated March 13, 1980, to the United States Geological Survey in Roswell you have been furnished various instruments with regard to the joinder of the El Paso tract to the Bison Wallow Unit. Please accept my apology for not realizing that I had not formally requested approval of the Commissioner for the El Paso Joinder.

Inexco Oil Company hereby respectfully requests your review of the material which accompanied the above-mentioned letter and, if satisfactory, your approval to the joinder of the El Paso tract to the Bison Wallow Unit.

Very truly yours,


L. J. Tacconi
Area Landman

LJT/ph

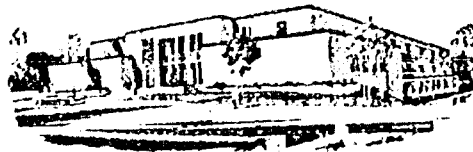
cc: U. S. G. S.
Attention: Jim Gillham
P. O. Drawer 1857
Roswell, New Mexico 88201

New Mexico Oil Conservation
Commission
State Land Office
Santa Fe, New Mexico 87501

State of New Mexico



ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands

May 12, 1980

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Inexco Oil Company
1100 Milam Building, Suite 1900
Houston, Texas 77002

Re: Ratification and Joinder
Consent to Joinder El Paso Tract
Bison Wallow Unit NM-146
No. 14-08-001-18040
Eddy County, New Mexico

ATTENTION: Mr. L. J. Tacconi

Gentlemen:

This office is in receipt of a copy of a letter and instruments requesting approval by the United States Geological Survey.

The Bison Wallow Unit contains 1,280.00 acres of State of New Mexico Lands, therefore, since this is a separate regulatory agency whose approval is needed you must request approval by the Commissioner of Public Lands.

These instruments will be held in suspense until such time you send your request for the approval of the Commissioner.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

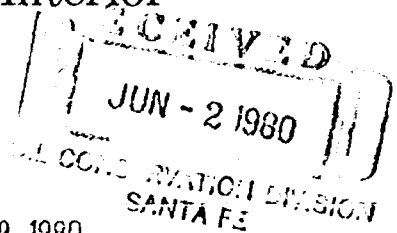
BY: *Ray D. Graham*
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505-827-2748

AJA/RDG/s



United States Department of the Interior

GEOLOGICAL SURVEY
South Central Region
P. O. Box 26124
Albuquerque, New Mexico 87125



MAY 29 1980

#1519

Inexco Oil Company
Attention: L. J. Tacconi
1100 Milam Building, Suite 1900
Houston, Texas 77002

Gentlemen:

The Ratification and Joinder of William G. Ross to the Bison Wallow
Unit Agreement, submitted to this office with your transmittal
letter of January 21, 1980, is accepted for record purposes. Two
signed copies are enclosed.

Sincerely yours,

(ORIG. SGD.) JACK WILLOCK

FOR Floyd L. Stelzer
Acting Deputy Conservation Manager
Oil and Gas

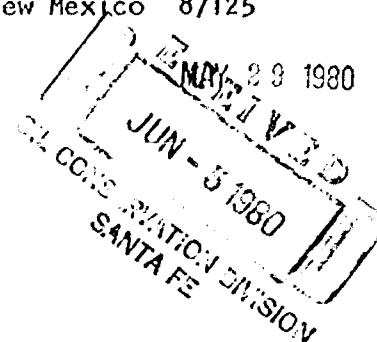
Enclosures 2

cc:
NMOCD, Santa Fe



United States Department of the Interior

GEOLOGICAL SURVEY
South Central Region
P. O. Box 26124
Albuquerque, New Mexico 87125



Inexco Oil Company
Attention: L. J. Tacconi
1100 Milam Building, Suite 1900
Houston, Texas 77002

Gentlemen:

Your letter filed with this office on March 13, 1980, transmitted four copies each of Ratification and Joinder to the Bison Wallow Unit by El Paso Natural Gas Company and Consent to Ratification and Joinder by Inexco Oil Company, Mobil Oil, Phillips Petroleum, Great Western, and Mar-Win. Also enclosed were amended pages to the Unit Agreement and Unit Operating Agreement, including revised Exhibits A and B.

Pursuant to section 28 of the Unit Agreement, such Ratification and Joinder and Consent to Ratification and Joinder are hereby accepted and effectively commit lease NM-13997 to the Bison Wallow Unit Agreement effective April 1, 1980. The amended documents are accepted for record purposes. One approved copy is enclosed.

Sincerely yours,

(ORIG. SGD.) JACK WILLOCK

FOR Floyd L. Stelzer
Acting Deputy Conservation Manager
Oil and Gas

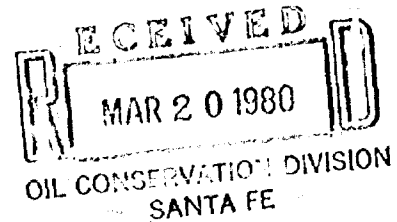
Enclosure

cc:
NMOCD, Santa Fe



INEXO OIL COMPANY

March 13, 1980



United States Geological Survey
P. O. Drawer 1857
Roswell, New Mexico 88201

Attention: Jim Gillham

Re: Ratification and Joinder
Consent to Joinder El Paso Tract
Bison Wallow Unit NM-146
No. 14-08-001-18040
Eddy County, New Mexico

Gentlemen:

Enclosed for your further handling and approval are quadruplicate copies of the following instruments:

1. Ratification and Joinder to Unit Agreement and Unit Operating Agreement executed on behalf of El Paso Natural Gas Company
2. Consent to Ratification and Joinder executed on behalf of Inexo Oil Company
3. Consent to Ratification and Joinder executed on behalf of Mobil Oil
4. Consent to Ratification and Joinder executed on behalf of Phillips Petroleum
5. Consent to Ratification and Joinder executed on behalf of Great Western
6. Consent to Ratification and Joinder executed on behalf of Mar-Win.

Should you find these to be in satisfactory form, we request your approval to the late joinder to the Bison Wallow Unit Agreement of the El Paso tract. In this connection, assuming approval to the late joinder of the El Paso tract, we enclose amended pages to the Unit Agreement and Unit Operating Agreement which will be necessitated by the increase in participating acreage within the unit boundaries.

Very truly yours,

L. J. Tacconi
Area Landman

LJT/ph
Enclosure

cc: Contract Department
Addressee List

New Mexico Oil
Conservation Commission
State Land Office
Santa Fe, New Mexico 87501

State of New Mexico,
Commissioner of Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87501

CONSENT TO RATIFICATION AND JOINDER TO
BISON WALLOW UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT DATED JULY 12, 1979
DESIGNATED NO. 14-08-0001-18040
EDDY COUNTY, NEW MEXICO

RECEIVED
MAR 10 1980
OIL CONSERVATION DIVISION
SANTA FE

The undersigned, a working interest owner in the Bison Wallow Unit Agreement and Unit Operating Agreement, hereby commits in the joinder of the leasehold interest of El Paso Natural Gas Company in Township 25 South, Range 29 East, Section 3, NE $\frac{1}{4}$, (Tract 12) Eddy County, New Mexico to said Unit Agreement and Unit Operating Agreement.

Mar-Win Development Co.

Date: Feb. 21, 1980

By: S.H. Marshall, Jr.
President

Address: P.O. Box 4482

Topeka, Ks. 66604

WORKING INTEREST OWNER

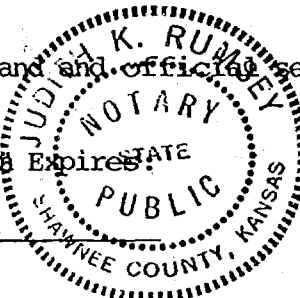
STATE OF Kansas)
COUNTY OF Shawnee) SS.

The foregoing instrument was acknowledged before me by
S.H. Marshall, Jr., as President of Mar-Win Development Co.
21st day of Feb. 1980.

WITNESS my hand and official seal.

My Commission Expires:

5/17/81



Judith K. Rumsey
Notary Public

CONSENT TO RATIFICATION AND JOINDER TO THE
BISON WALLOW UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT DATED JULY 12, 1979
DESIGNATED NO. 14-08-0001-18040
EDDY COUNTY, NEW MEXICO

The undersigned, a working interest owner in the Bison Wallow Unit Agreement and Unit Operating Agreement, hereby commits in the joinder of the leasehold interest of El Paso Natural Gas Company in Township 25 South, Range 29 East, Section 3, NE $\frac{1}{4}$, (Tract 12) Eddy County, New Mexico to said Unit Agreement and Unit Operating Agreement.

Mar-Win Development Co.

Date: Feb. 21, 1980

By: J. H. Marshall
President

Address: P. O. Box 4482

Topeka, Ks. 66604

WORKING INTEREST OWNER

STATE OF Kansas)
) SS.
COUNTY OF Shawnee)

The foregoing instrument was acknowledged before me by
S.H. Marshall, Jr., as President of Mar-Win Development Co.
21st day of Feb. 1980.

WITNESS my hand and official seal.

My Commission Expires

5/17/81



Judith K. Ramsey
Notary Public

RATIFICATION AND JOINDER OF THE UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT FOR THE DEVELOPMENT AND
OPERATION OF THE BISON WALLOW UNIT, EDDY COUNTY,
NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, an Agreement dated July 12, 1979, and entitled Unit Agreement for the Development and Operation of the Bison Wallow Unit Area, County of Eddy, State of New Mexico provides that any owner of a Royalty Interest or Working Interest, or both, in and to any Tract described therein may become a party to said Unit Agreement by signing an instrument agreeing to become a party thereto; and

WHEREAS, a companion Agreement entitled Unit Operating Agreement, Bison Wallow Unit, County of Eddy, State of New Mexico, of like date, likewise provides that any owner of a Working Interest in and to any Tract described therein may become a party to the Unit Operating Agreement by signing an instrument agreeing to become a party thereto; and

WHEREAS, the Undersigned represents that it (or he) is the owner of a Royalty Interest or a Working Interest, or both, in and to one or more of the Tracts described in said Agreements.

NOW, THEREFORE, in consideration of the mutual agreements of the parties to the respective Agreements, the Undersigned Owner of Working Interests, or the Owner of both Working Interests and Royalty Interests, hereby agrees to become a party to both the Unit Agreement and the Unit Operating Agreement, with respect to all of its (his) interest in and to all of the Tracts described in said Agreements.

The Undersigned hereby acknowledges receipt of a full and true copy of both the Unit Agreement and the Unit Operating Agreement.

IN WITNESS WHEREOF, the Undersigned has executed this instrument this 1st day of February, 1980.

EL PASO NATURAL GAS COMPANY

D. N. Canfield
Attorney-in-fact

STATE OF TEXAS)
COUNTY OF EL PASO)

The foregoing instrument was acknowledged before me this February 1, 1980 by D. N. CANFIELD,
Attorney-in-Fact of EL PASO NATURAL GAS COMPANY,
a Delaware corporation, on behalf of said
corporation.

Dot Wallen
Notary Public

My Commission Expires:

NOT VALID
Notary Public in and for El Paso County, Texas

RATIFICATION AND JOINDER OF THE UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT FOR THE DEVELOPMENT AND
OPERATION OF THE BISON WALLOW UNIT, EDDY COUNTY,
NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, an Agreement dated July 12, 1979, and entitled Unit Agreement for the Development and Operation of the Bison Wallow Unit Area, County of Eddy, State of New Mexico provides that any owner of a Royalty Interest or Working Interest, or both, in and to any Tract described therein may become a party to said Unit Agreement by signing an instrument agreeing to become a party thereto; and

WHEREAS, a companion Agreement entitled Unit Operating Agreement, Bison Wallow Unit, County of Eddy, State of New Mexico, of like date, likewise provides that any owner of a Working Interest in and to any Tract described therein may become a party to the Unit Operating Agreement by signing an instrument agreeing to become a party thereto; and

WHEREAS, the Undersigned represents that it (or he) is the owner of a Royalty Interest or a Working Interest, or both, in and to one or more of the Tracts described in said Agreements.

NOW, THEREFORE, in consideration of the mutual agreements of the parties to the respective Agreements, the Undersigned Owner of Working Interests, or the Owner of both Working Interests and Royalty Interests, hereby agrees to become a party to both the Unit Agreement and the Unit Operating Agreement, with respect to all of its (his) interest in and to all of the Tracts described in said Agreements.

The Undersigned hereby acknowledges receipt of a full and true copy of both the Unit Agreement and the Unit Operating Agreement.

IN WITNESS WHEREOF, the Undersigned has executed this instrument this 1st day of February, 1980.

EL PASO NATURAL GAS COMPANY

D. N. Canfield
Attorney-in-Fact

STATE OF TEXAS)

COUNTY OF EL PASO)

The foregoing instrument was acknowledged before me this February 1, 1980 by D. N. CANFIELD,
Attorney-in-Fact of EL PASO NATURAL GAS COMPANY,
a Delaware corporation, on behalf of said
corporation.

Dot Wallen
Notary Public

My Commission Expires:

NOT VALID
Notary Public for Eddy County, New Mexico

CONSENT TO RATIFICATION AND JOINDER TO THE
BISON WALLOW UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT DATED JULY 12, 1979
DESIGNATED NO. 14-08-0001-18040
EDDY COUNTY, NEW MEXICO

The undersigned, a working interest owner in the Bison Wallow Unit Agreement and Unit Operating Agreement, hereby commits in the joinder of the leasehold interest of El Paso Natural Gas Company in Township 25 South, Range 29 East, Section 3, NE $\frac{1}{4}$, (Tract 12) Eddy County, New Mexico to said Unit Agreement and Unit Operating Agreement.

INEXCO OIL COMPANY

Date: March 13, 1980

By: 

Address: _____

WORKING INTEREST OWNER

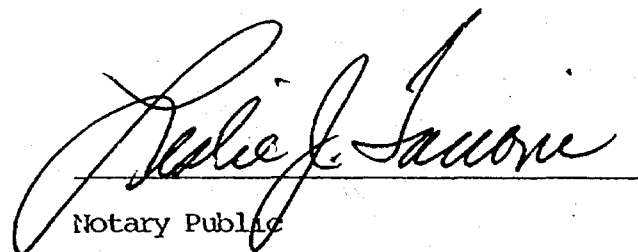
STATE OF Texas)
) SS.
COUNTY OF Harris)

The foregoing instrument was acknowledged before me by William G. Goodwin, as Vice President of Inexco Oil Company.
This 13 day of March 1980.

WITNESS my hand and official seal.

My Commission Expires:

April 30, 1981


Notary Public

CONSENT TO RATIFICATION AND JOINDER TO THE
BISON WALLOW UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT DATED JULY 12, 1979
DESIGNATED NO. 14-08-0001-18040
EDDY COUNTY, NEW MEXICO

The undersigned, a working interest owner in the Bison Wallow Unit Agreement and Unit Operating Agreement, hereby consents in the joinder of the leasehold interest of El Paso Natural Gas Company in Township 25 South, Range 29 East, Section 3, NE $\frac{1}{4}$, (Tract 12) Eddy County, New Mexico to said Unit Agreement and Unit Operating Agreement.

INEXCO OIL COMPANY

Date: March 13, 1980

By: [Signature]

Address: _____

WORKING INTEREST OWNER

STATE OF Texas)
) SS.
COUNTY OF Harris)

The foregoing instrument was acknowledged before me by William G. Goodwin, as Vice President of Inexco Oil Company.
This 13 day of March 1980.

WITNESS my hand and official seal.

My Commission Expires:

April 30, 1981

[Signature]
Notary Public

CONSENT TO RATIFICATION AND JOINDER TO THE
BISON WALLOW UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT DATED JULY 12, 1979
DESIGNATED NO. 14-08-0001-18040
EDDY COUNTY, NEW MEXICO

The undersigned, a working interest owner in the Bison Wallow Unit Agreement and Unit Operating Agreement, hereby commits in the joinder of the leasehold interest of El Paso Natural Gas Company in Township 25 South, Range 29 East, Section 3, NE $\frac{1}{4}$, (Tract 12) Eddy County, New Mexico to said Unit Agreement and Unit Operating Agreement.

Date: February 20, 1980

ATTEST:

W. L. Lavan

ASSISTANT SECRETARY

By: John Hampton

President

Address: P. O. Box 1659

Midland, Texas

GREAT WESTERN DRILLING COMPANY
WORKING INTEREST OWNER

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me by John Hampton, as President of Great Western Drilling Company 20th day of February 1980.

WITNESS my hand and official seal.

My Commission Expires:

11-30-80

L. L. Little
Notary Public, Midland County, Texas

CONSENT TO RATIFICATION AND JOINDER TO THE
BISON WALLOW UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT DATED JULY 12, 1979
DESIGNATED NO. 14-08-0001-18040
EDDY COUNTY, NEW MEXICO

The undersigned, a working interest owner in the Bison Wallow Unit Agreement and Unit Operating Agreement, hereby commits in the joinder of the leasehold interest of El Paso Natural Gas Company in Township 25 South, Range 29 East, Section 3, NE $\frac{1}{4}$, (Tract 12) Eddy County, New Mexico to said Unit Agreement and Unit Operating Agreement.

Date: February 20, 1980

ATTEST:

W. L. Lavan

ASSISTANT SECRETARY

By: John Hampton

President

Address: P. O. Box 1659

Midland, Texas

GREAT WESTERN DRILLING COMPANY
WORKING INTEREST OWNER

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me by John Hampton
_____, as President of Great Western Drilling Company
20th day of February 1980.

WITNESS my hand and official seal.

My Commission Expires:

11-30-80

L. L. Little

Notary Public, Midland County, Texas

CONSENT TO RATIFICATION AND JOINDER TO THE
BISON WALLOW UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT DATED JULY 12, 1979
DESIGNATED NO. 14-08-0001-18040
EDDY COUNTY, NEW MEXICO

The undersigned, a working interest owner in the Bison Wallow Unit Agreement and Unit Operating Agreement, hereby commits in the joinder of the leasehold interest of El Paso Natural Gas Company in Township 25 South, Range 29 East, Section 3, NE $\frac{1}{4}$, (Tract 12) Eddy County, New Mexico to said Unit Agreement and Unit Operating Agreement.

Date: February 25, 1980

By: Cliff Ohr, Attorney-in-Fact
Address: P. O. Box 1967
Houston, TX 77001

PHILLIPS PETROLEUM COMPANY
WORKING INTEREST OWNER

STATE OF TEXAS)
) SS.
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before me by Cliff Ohr
, as Attorney-in-Fact of Phillips Petroleum Company.
_____ 25th day of February 1980.

WITNESS my hand and official seal.

My Commission Expires:

September 22, 1980

Kenneth L. Martin
Notary Public

CONSENT TO RATIFICATION AND JOINDER TO THE
BISON WALLOW UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT DATED JULY 12, 1979
DESIGNATED NO. 14-08-0001-18040
EDDY COUNTY, NEW MEXICO

The undersigned, a working interest owner in the Bison Wallow Unit Agreement and Unit Operating Agreement, hereby commits in the joinder of the leasehold interest of El Paso Natural Gas Company in Township 25 South, Range 29 East, Section 3, NE $\frac{1}{4}$, (Tract 12) Eddy County, New Mexico to said Unit Agreement and Unit Operating Agreement.

Date: February 25, 1980

By: Cliff Ohr, Attorney-in-Fact
Address: P. O. Box 1967
Houston, TX 77001

PHILLIPS PETROLEUM COMPANY
WORKING INTEREST OWNER

STATE OF TEXAS)
) SS.
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before me by Cliff Ohr
, as Attorney-in-Fact of Phillips Petroleum Company.
25th day of February 1980.

WITNESS my hand and official seal.

My Commission Expires:

September 22, 1980

Kenneth L. Martin
Kenneth L. Martin
Notary Public

CONSENT TO RATIFICATION AND JOINDER TO THE
BISON WALLOW UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT DATED JULY 12, 1979
DESIGNATED NO. 14-08-0001-18040
EDDY COUNTY, NEW MEXICO

The undersigned, a working interest owner in the Bison Wallow Unit Agreement and Unit Operating Agreement, hereby commits in the joinder of the leasehold interest of El Paso Natural Gas Company in Township 25 South, Range 29 East, Section 3, NE $\frac{1}{4}$, (Tract 12) Eddy County, New Mexico to said Unit Agreement and Unit Operating Agreement.

Date: February 22, 1980

MOBIL PRODUCING TEXAS & NEW MEXICO INC.

Address: 9 Greenway Plaza, Suite 2700

Houston, Texas 77046

BY

S. T. Alexander
S. T. ALEXANDER, ASST. SECRETARY
(AUTHORITY IN BLM 066100)
EASTERN STATES OFFICE,
BLM, ALEXANDRIA, VA

STATE OF TEXAS)
) SS.
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before me by S. T. Alexander, as Asst. Secretary of Mobil Producing Texas & New Mexico Inc., 22nd day of February 1980.

WITNESS my hand and official seal.

My Commission Expires:

AGNES MALONE
Notary Public in and for Harris County, Texas
My Commission Expires 6-7-81

Agnes Malone
Notary Public

CONSENT TO RATIFICATION AND JOINDER TO THE
BISON WALLOW UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT DATED JULY 12, 1979
DESIGNATED NO. 14-08-0001-18040
EDDY COUNTY, NEW MEXICO

The undersigned, a working interest owner in the Bison Wallow Unit Agreement and Unit Operating Agreement, hereby commits in the joinder of the leasehold interest of El Paso Natural Gas Company in Township 25 South, Range 29 East, Section 3, NE $\frac{1}{4}$, (Tract 12) Eddy County, New Mexico to said Unit Agreement and Unit Operating Agreement.

Date: February 22, 1980

MOBIL PRODUCING TEXAS & NEW MEXICO INC.

Address: 9 Greenway Plaza, Suite 2700

Houston, Texas 77046

BY

S. T. Alexander
S. T. ALEXANDER, ASST. SECRETARY
(AUTHORITY IN BLM 066100)
EASTERN STATES OFFICE

STATE OF Texas)
COUNTY OF Harris) SS.

The foregoing instrument was acknowledged before me by S. T. ALEXANDER, as Asst. Secretary of Mobil Producing Texas & New Mexico Inc., 22nd day of February 1980.

WITNESS my hand and official seal.

My Commission Expires:

AGNES MALONE
Notary Public in and for Harris County, Texas
My Commission Expires 6-7-81

Agnes Malone
Notary Public

thereto, is equal to the costs of drilling, testing, completing, equipping and operating the Earning Well. The said costs shall be determined in accordance with the Accounting Procedure attached hereto as Exhibit "C".

12. "Working Interest" shall mean the right to explore for and produce oil, gas and other minerals. When used in connection with a mineral lease, it means the leasehold or operating interest under such lease; i.e., it is the entire minerals interest covered by said lease (all the mineral rights the lessor had before the lease was executed) subject to the terms of the lease. Under a lease covering all (8/8) of the minerals in a tract of land and providing for a 1/8 lessor's royalty, the owner of the working interest bears all (8/8) of the cost of operations and is entitled to 7/8 of 8/8 of all production from said land (the other 1/8 of 8/8 being Lessor's share of the production.)
13. "Earning Well Rights" shall mean all rights and interest in and to the said Earning Well, the leasehold estate and operating rights with respect thereto, all production from the base of such well, all equipment therein and thereon or used in connection therewith, and the proration/spacing unit now or hereafter assigned to such Earning Well insofar as is applies to the stratigraphic equivalent from the surface of the earth to 100' below the deepest depth drilled in the Earning Well.
14. "Net Beneficial Interest" (N.B.I.) shall mean that share of the production allocable to the interest of each party hereto, after the deduction therefrom of each parties' pro rata share of royalties, overriding royalties, production payments or any other charges burdening the contributed acreage. For the purpose of computing Net Beneficial Interest, the following table and formula shall be used on all wells except the Initial Well:

OWNER	UNIT ACRES	WEIGHTED AVERAGE NRI	UNIT WI	ROY & ORRI ACRES DEDUCTED	BENEFICIAL ACRES	BENEFICIAL INTEREST
Inexco	3360.00	.8407143	.4941176	535.20	2824.80	.4985880
Mobil	1600.00	.8255000	.2352941	279.20	1320.80	.2331262
Phillips	1280.00	.8125000	.1882353	240.00	1040.00	.1835640
Great Western	206.32	.8750000	.0303412	25.79	180.53	.0318642
Davoil	113.68	.8750000	.0167177	14.21	99.47	.0175568
Mar-Win	80.00	.8750000	.0117647	10.00	70.00	.0123553
El Paso	160.00	.8125000	.0235294	30.00	130.00	.0229455
	6800.00	.8331765	1.0000000	1134.40	5665.60	1.0000000

8/8 - Landowner's Royalty-Overriding Royalties X Beneficial Interest = NET BENEFICIAL INTEREST

NET BENEFICIAL INTEREST INITIAL WELL:

Before Payout

Inexco 8/8 - .125 LOR - .05 ORRI X .7934905 - .0502353 Mobil, et al
ORRI = .6043944 NBI
Phillips 8/8 - .125 LOR - .05 ORRI X .1835640 = .1514403 NBI
El Paso 8/8 - .125 LOR - .05 ORRI X .0229455 = .0189300 NBI

After Payout

Inexco 8/8 - .125 LOR - .05 ORRI X .4985880 = .411351 N.B.I.
Mobil 8/8 - .125 LOR - .05 ORRI X .2331262 = .1923291 N.B.I.
Phillips 8/8 - .125 LOR - .05 ORRI X .1835640 = .1514403 N.B.I.
* Great Western 8/8 - .125 LOR - .05 ORRI X .0318642 = .0262880 N.B.I.
Davoil 8/8 - .125 LOR - .05 ORRI X .0175568 = .0144844 N.B.I.
Mar-Win 8/8 - .125 LOR - .05 ORRI X .0123553 = .0101931 N.B.I.
El Paso 8/8 - .125 LOR - .05 ORRI X .0229455 = .0189300 N.B.I.

* See page 15a

14. Notwithstanding anything to the contrary insofar as the interests by and between Inexco Oil Company and Great Western Drilling Co. are subject to this Agreement, Article XV.B.14 shall be amended to read as follows for the Great Western Drilling Co. interest:

NET BENEFICIAL INTEREST INITIAL WELL:

After payout.

Great Western $8/8 - .125 \text{ IOR} \times .0303412 = .0265485 \text{ N.B.I.}$

The intent here is to clarify that Great Western has a .0303412 working interest and .0265485 N.B.I. in each well drilled in the unit.

subject, however, to all the terms and provisions of this Operating Agreement and particularly to Article XV, H. The said lands are deemed to be contributed to the Contract Area by Davoil (50%) and Inexco (50%). During the term of this Operating Agreement, Inexco hereby agrees to reimburse Davoil for fifty percent (50%) of all rentals, minimum royalties and shut-in payments due and paid by Davoil on the lands contributed hereto.

F. Mar-Win Farmout:

When and if the Earning Well is completed as a producer of oil and/or gas, or both, or plugged and abandoned as a dry hole on the Contract Area, Mar-Win shall assign to Inexco an undivided fifty percent (50%) of all its right and interest in the rights from the surface of the earth down to 100' below the stratigraphic equivalent of the deepest depth drilled by the Earning Well in and to the following described lands:

Township 26 South, Range 29 East
Section 10: NE/4

Containing 160 acres, more or less, in
Eddy County, New Mexico

subject, however, to all the terms and provisions of this Operating Agreement and particularly to Article XV, H. The said lands are deemed to be contributed to the Contract Area by Mar-Win (50%) and Inexco (50%). During the term of this Operating Agreement, Inexco hereby agrees to reimburse Mar-Win for fifty percent (50%) of all rentals, minimum royalties, and shut-in payments due and paid by Mar-Win on the lands contributed hereto.

G. Working Interest of Phillips and El Paso:

- i. Phillips shall have the right to and shall own 18.82353% of the Earning Well Rights, as defined herein, and 18.82353% of the Working Interest in the remainder of the Contract Area, subject, however, to royalties and other burdens on production in effect as of the date hereof.
- ii. El Paso shall have the right to and shall own 2.35294% of the Earning Well Rights, as defined herein, and 2.35294% of the Working Interest in the remainder of the Contract Area, subject, however, to royalties and other burdens on production in effect as of the date hereof.

H. Overriding Royalties and Conversion Options:

It is agreed by and between the parties hereto that Inexco shall have the right to and shall own 78.82353% of the Earning Well Rights, as defined herein, subject, however, to royalties and other burdens on such production in effect as of the date hereof, and also subject to the following overriding royalty interests and conversion options.

1. An overriding royalty owned by Mobil (hereinafter sometimes referred to as Mobil's ORRI) equal to 47.05882% of 1/4 of 8/8 of all production attributable to the Earning Well Rights. Mobil's ORRI shall be inclusive of a landowner's royalty burden equivalent to 400 royalty acres/6800 total acres or 5.88235% and an overriding royalty burden equivalent to 158.4 overriding royalty acres/6800 total acres or 2.32941% for a net overriding royalty in the Earning Well of 3.55294%.
2. An overriding royalty owned by Great Western (hereinafter sometimes referred to as Great Western's ORRI) equal to 6.06824% of 1/4 of 8/8 of all production attributable to the Earning Well Rights. Great Western's ORRI shall be inclusive of a landowner's royalty burden equivalent to 51.58 royalty acres/6800 total acres or .75853% for a net overriding royalty in the Earning Well of .75853%.
3. An overriding royalty owned by Davoil (hereinafter sometimes referred to as Davoil's ORRI) equal to 3.34353% of 1/4 of 8/8 of all production attributable to the Earning Well Rights. Davoil's ORRI shall be inclusive of a landowner's royalty burden equivalent to 28.42 royalty acres/6800 total acres

or .41794% for a net overriding royalty in the Earning Well of .41794%.

4. An overriding royalty owned by Mar-Win (hereinafter sometimes referred to as Mar-Win's ORRI) equal to 2.35294% of 1/4 of 8/8 of all production attributable to the Earning Well Rights. Mar-Win's ORRI shall be inclusive of a landowner's royalty burden equivalent to 20 royalty acres/6800 total acres or .29412% for a net overriding royalty in the Earning Well of .29412%.

Mobil, Great Western, Davoil and Mar-Win are hereinafter sometimes referred to as "Farmors" and each of such Farmors shall have the option, at Payout, to convert its said overriding royalty interest described hereinabove to a portion of the Working Interest in the Earning Well Rights, as set out hereinbelow. Operator shall, within thirty (30) days after the date of completion of the Earning Well, furnish Farmors an itemized statement of the cost of drilling, completing and equipping the subject well. Operator shall furnish Farmors with monthly statements indicating the current status of the amount to be recouped from said Earning Well and Operator shall immediately notify each Farmor when payout has occurred. Each Farmor shall have thirty (30) days after its receipt of said notice of payout to notify Operator in writing, that it has elected to exercise its option to convert its overriding royalty interest to a portion of the Working Interest. Such election, if made, shall be effective 7:00 A.M. on the first day of the month succeeding the day in which payout occurs. If any Farmor fails to so notify Operator within said period it will be construed as an election by Farmor to retain its overriding royalty interest rather than convert its overriding royalty interest as set out below:

- a. The Mobil ORRI may be converted to 50% of 47.05882% of the Working Interest in the Earning Well Rights;
- b. The Great Western ORRI may be converted to 50% of 6.06824% of the Working Interest in the Earning Well Rights;
- c. The Davoil ORRI may be converted to 50% of 3.34353% of the Working Interest in the Earning Well Rights;
- d. The Mar-Win ORRI may be converted to 50% of 2.35294% of the Working Interest in the Earning Well Rights.

If any Farmor fails to convert its overriding royalty as provided for hereinabove, then such Farmor shall retain its overriding royalty in the production from the Earning Well and the Earning Well Rights and shall not have any Working Interest therein. All Working Interest in the Earning Well Rights not acquired by Farmors as provided for above shall be owned by Inexco and Exhibit "A", attached hereto, shall be revised accordingly.

Notwithstanding anything to the contrary, it is understood that in the event the Farmout Agreements referred to above in Articles XV.C, XV.D, XV.E and XV.F cover and affect less than the entire operating rights in and to the lands described in each of the said Farmout Agreements, or in the event the leases subject to the said Farmout Agreements cover and affect less than all of the Working Interest, the overriding royalties (and upon conversion, proportionately reduced).

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement for the Bison Wallow Unit by and between INEXCO OIL COMPANY, as Operator, and MOBIL OIL CORPORATION, ET AL, as Non-Operators.

CONTRACT AREA:

The Contract Area subject to this Operating Agreement shall consist of the oil and gas rights from the surface of the earth down to the 100 feet below the total depth drilled in the Earning Well or 175' below the top of the Morrow "C" zone, whichever is the deeper depth in and under the following described in Exhibit "B" to that certain Unit Agreement dated July 12, 1979, for the development and operation of the Bison Wallow Unit Area:

Township 25 South, Range 29 East NMPM
Sections 25, 26, 27, 33, 34, 35, 36: ALL

Township 26 South, Range 29 East NMPM
Sections 2, 3, 4: ALL
Section 9: N/2
Section 10: N/2

The leases contributed to the Contract Area by the parties hereto are listed on Exhibit "A-1", attached hereto and made a part hereof, each party having contributed the leases which are listed on Exhibit "A-1" under said party's name or in accordance with the terms of the Operating Agreement to which said Exhibit "A-1" is attached.

NAMES AND ADDRESSES OF THE PARTIES

Inexco Oil Company
1100 Milam Building, Suite 1900
Houston, Texas 77002

Great Western Drilling Co.
P. O. Box 1659
Midland, Texas 79702

Mobil Oil Corporation
9 Greenway Plaza, Suite 2700
Houston, Texas 77046

Davoil, Inc.
P. O. Box 12507
Fort Worth, Texas 76116

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

Mar-Win Development Co.
P. O. Box 874
Midland, Texas 79702

El Paso Natural Gas Company
1800 Wilcox Building
Midland, Texas 79701

INTEREST OF THE PARTIES

Before payout of Earning Well:

Inexco	78.82353% WI
Phillips	18.82353% WI
El Paso	2.35294% WI
Mobil	3.55294% ORRI
Great Western	.75853% ORRI
Davoil	.41794% ORRI
Mar-Win	.29412% ORRI

After payout of Earning Well and all subsequent wells in the Contract Area, Subject to Article XV, J, 1-4 inclusive of this Operating Agreement:

Inexco	49.41176% WI
Phillips	18.82353% WI
Mobil	23.52941% WI
Great Western	3.03412% WI
Davoil	1.67177% WI
Mar-Win	1.17647% WI
El Paso	2.35294% WI

EXHIBIT "A-1"

Attached to and made a part of that certain Operating Agreement between INEXCO OIL COMPANY, as Operator and MOBIL OIL CORPORATION, ET AL, as Non-Operators covering the Bison Wallow Unit

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION
MM-0277811	U.S.A.	Mobil Oil Corp.	April 1, 1964	T26S, R29E Section 3: NW/4
NM-0478352	U.S.A.	Mobil Oil Corp.	January 1, 1964	T25S, R29E Section 34: NE/4, S/2
MM-0553796	U.S.A.	Mobil Oil Corp.	June 1, 1964	T25S, R29E Section 35: All
MM-0554228	U.S.A.	Mobil Oil Corp.	July 1, 1964	T25S, R29E Section 33: SW/4
MM-0554229	U.S.A.	Mobil Oil Corp.	July 1, 1964	T25S, R29E Section 33: SE/4
MM-0554230	U.S.A.	Mobil Oil Corp.	July 1, 1964	T25S, R29E Section 33: N/2 Sec. 34: NW/4
MM-0556089	U.S.A.	Mobil Oil Corp.	Feb. 1, 1965	T26S, R29E Section 3: S/2 Sec. 4: E/2 NE/4
MM-0558281	U.S.A.	Mobil Oil Corp.	Nov. 1, 1965	T26S, R29E Section 9: E/2 NE/4
MM-11608	U.S.A.	Inexco Oil Company	May 1, 1970	T26S, R29E Section 4: W/2 SE/4, SW/4 Section 9: NW/4
MM-13636	U.S.A.	Mar-Win Development	May 1, 1971	T26S, R29E Section 10: NE/4
MM-13636-A	U.S.A.	Northern Natural Gas	May 1, 1971	T26S, R29E Section 4: NW/4, W/2 NE/4
MM-13997	U.S.A.	El Paso Natural Gas	July 1, 1971	T26S, R29E Section 3: NE/4
MM-13997-A	U.S.A.	Inexco Oil Company	July 1, 1971	T26S, R29E Section 10: NW/4
MM-14778	U.S.A.	Mobil Oil Corp.	Dec. 1, 1971	T25S, R29E Section 25: All
MM-14779	U.S.A.	Phillips Petroleum Co.	Jan. 1, 1972	T25S, R29E Section 26: All Section 27: All

Non-joinder to unit but within unit boundaries

EXHIBIT "B" PAGE (2)
BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP. & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INT.	WORKING INT. & PERCENTAGE
8	<u>T26S, R23E</u> Sec. 9: E 1/2 NE 1/4	80.00	NM-0558281 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Geo. Conley .030000	Mobil Oil Corp. 100.00%
9	<u>T26S, R23E</u> Sec. 4: W 1/2 SE 1/4, SW 1/4 Sec. 9: NW 1/4	400.00	NM-11608 8-31-80	USA 12.5%	Inexco Oil Company 100.00%	Victoria M. Blunt .020000 Richard P. Desmet .030000	Inexco Oil Company 100.00%
10	<u>T26S, R23E</u> Sec. 10: NE 1/4	160.00	NM-13636 4-30-81	USA 12.5%	Mar-Win Develop Co. 100.00%	NONE	Mar-Win Develop Co 100.00%
* 11	<u>T26S, R23E</u> Sec. 4: NW 1/4, W 1/2 NE 1/4	240.00	NM-13636-A 4-30-81	USA 12.5%	Northern Nat'l Gas 100.00%	Mar-Win Dev. Co. .050000	Northern Nat'l Gas 100.00%
12	<u>T26S, R23E</u> Sec. 3: NE 1/4	160.00	NM-13997 6-30-81	USA 12.5%	El Paso Nat. Gas 100.00%	Gloster Production Properties, LTD. .062500	El Paso Nat. Gas 100.00%
13	<u>T26S, R23E</u> Sec. 10: NW 1/4	160.00	NM-13997-A 6-30-81	USA 12.5%	Inexco Oil Company 100.00%	Joseph Falgout .005000 Edgar B. Stern, Jr. .015000 Phillip M. Stern .015000 Lester E. Kabacott .015000	Inexco Oil Company 100.00%
						<u>.050000</u>	

*Tracts 11 is non-jointer to the unit.

EXHIBIT "B" PAGE (4)
BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP. & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INT.	WORKING INT. & PERCENTAGE
15	T25S, R29E Sec. 26: A11 Sec. 27: A11	1280.00	NM-14779 12-31-81	USA 12.5%	Phillips Petroleum 100.00%	W. G. Ross .0625000	Phillips Petroleum 100.00%
16	T26S, R29E Sec. 4: E 1/2 SE 1/4 Sec. 9: W 1/2 NE 1/4	160.00	NM-18223 5-1-83	USA 12.5%	Inexco Oil Company 100.00%	Marjorie Smith .050000	Inexco Oil Company 100.00%
TOTAL: 5,520.00% Acres Federal Lands; 81.17647% of Unit Area							
STATE OF NEW MEXICO LANDS							
17	T26S, R29E Sec. 2: A11	640.00	LG-1083 3-1-83	State 12.5%	Great Western Dr'g. Co. 100.00%	NONE	Great Western Dr'g. Co 64.476%
18	T25S, R29E Sec. 36: SW 1/4, SE 1/4 NE 1/4	200.00	LG-4058-2 1-20-80	State 12.5%	Inexco Oil Company 100.00%	NONE	Davonil, Inc. 35.324%
19	T25S, R29E Sec. 36: NW 1/4	160.00	LG-6123 12-1-88	State 12.5%	Inexco Oil Company 100.00%	NONE	Inexco Oil Company 100.00%

EXHIBIT "B" PAGE (5)
BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP. DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INT.	WORKING INT. & PERCENTAGE
20	T25S, R29E Sec. 36: N 1/2 NE 1/4, SW 1/4 NE 1/4, SE 1/4	280.00	LG-6325 2-1-88	State 12.5%	Inexco Oil Company 100.00%	NONE	Inexco Oil Company 100.00%
TOTAL: 1,230.00 ACRES STATE OF NEW MEXICO LANDS, 18.82353% OF UNIT AREA							
RECAPITULATION							
		5,520.00 ACRES FEDERAL LANDS, 81.17647 OF UNIT AREA					
		1,280.00 ACRES STATE LANDS, 18.82353 OF UNIT AREA					
		6,800.00 ACRES PARTICIPATING UNIT AREA			100.0000% OF UNIT AREA		
		7,040.00 ACRES WITHIN UNIT BOUNDARIES					
		240.00 ACRES NON JOINDER TO UNIT					

thereto, is equal to the costs of drilling, testing, completing, equipping and operating the Earning Well. The said costs shall be determined in accordance with the Accounting Procedure attached hereto as Exhibit "C".

12. "Working Interest" shall mean the right to explore for and produce oil, gas and other minerals. When used in connection with a mineral lease, it means the leasehold or operating interest under such lease; i.e., it is the entire minerals interest covered by said lease (all the mineral rights the lessor had before the lease was executed) subject to the terms of the lease. Under a lease covering all (8/8) of the minerals in a tract of land and providing for a 1/8 lessor's royalty, the owner of the working interest bears all (8/8) of the cost of operations and is entitled to 7/8 of 8/8 of all production from said land (the other 1/8 of 8/8 being Lessor's share of the production.)
13. "Earning Well Rights" shall mean all rights and interest in and to the said Earning Well, the leasehold estate and operating rights with respect thereto, all production from the base of such well, all equipment therein and thereon or used in connection therewith, and the proration/spacing unit now or hereafter assigned to such Earning Well insofar as is applies to the stratigraphic equivalent from the surface of the earth to 100' below the deepest depth drilled in the Earning Well.
14. "Net Beneficial Interest" (N.B.I.) shall mean that share of the production allocable to the interest of each party hereto, after the deduction therefrom of each parties' pro rata share of royalties, overriding royalties, production payments or any other charges burdening the contributed acreage. For the purpose of computing Net Beneficial Interest, the following table and formula shall be used on all wells except the Initial Well:

OWNER	UNIT ACRES	WEIGHTED AVERAGE NRI	UNIT WI	ROY & ORRI ACRES DEDUCTED	BENEFICIAL ACRES	BENEFICIAL INTEREST
Inexco	3360.00	.8407143	.4941176	535.20	2824.80	.4985880
Mobil	1600.00	.8255000	.2352941	279.20	1320.80	.2331262
Phillips	1280.00	.8125000	.1882353	240.00	1040.00	.1835640
Great Western	206.32	.8750000	.0303412	25.79	180.53	.0318642
Davol	113.68	.8750000	.0167177	14.21	99.47	.0175568
Mar-Win	80.00	.8750000	.0117647	10.00	70.00	.0123553
El Paso	160.00	.8125000	.0235294	30.00	130.00	.0229455
	6800.00	.8331765	1.0000000	1134.40	5665.60	1.0000000

8/8 - Landowner's Royalty-Overriding Royalties X Beneficial Interest = NET BENEFICIAL INTEREST

NET BENEFICIAL INTEREST INITIAL WELL:

Before Payout

Inexco 8/8 - .125 LOR - .05 ORRI X .7934905 - .0502353 Mobil, et al
ORRI = .6043944 NBI
Phillips 8/8 - .125 LOR - .05 ORRI X .1835640 = .1514403 NBI
El Paso 8/8 - .125 LOR - .05 ORRI X .0229455 = .0189300 NBI

After Payout

Inexco 8/8 - .125 LOR - .05 ORRI X .4985880 = .411351 N.B.I.
Mobil 8/8 - .125 LOR - .05 ORRI X .2331262 = .1923291 N.B.I.
Phillips 8/8 - .125 LOR - .05 ORRI X .1835640 = .1514403 N.B.I.
* Great Western 8/8 - .125 LOR - .05 ORRI X .0318642 = .0262880 N.B.I.
Davol 8/8 - .125 LOR - .05 ORRI X .0175568 = .0144844 N.B.I.
Mar-Win 8/8 - .125 LOR - .05 ORRI X .0123553 = .0101931 N.B.I.
El Paso 8/8 - .125 LOR - .05 ORRI X .0229455 = .0189300 N.B.I.

* See page 15a

14. Notwithstanding anything to the contrary insofar as the interests by and between Inexco Oil Company and Great Western Drilling Co. are subject to this Agreement, Article XV.B.14 shall be amended to read as follows for the Great Western Drilling Co. interest:

NET BENEFICIAL INTEREST INITIAL WELL:

After payout.

Great Western 3/8 - .125 LOR x .0303412 = .0265485 N.B.I.

The intent here is to clarify that Great Western has a .0303412 working interest and .0265485 N.B.I. in each well drilled in the unit.

subject, however, to all the terms and provisions of this Operating Agreement and particularly to Article XV, H. The said lands are deemed to be contributed to the Contract Area by Davoil (50%) and Inexco (50%). During the term of this Operating Agreement, Inexco hereby agrees to reimburse Davoil for fifty percent (50%) of all rentals, minimum royalties and shut-in payments due and paid by Davoil on the lands contributed hereto.

F. Mar-Win Farmout:

When and if the Earning Well is completed as a producer of oil and/or gas, or both, or plugged and abandoned as a dry hole on the Contract Area, Mar-Win shall assign to Inexco an undivided fifty percent (50%) of all its right and interest in the rights from the surface of the earth down to 100' below the stratigraphic equivalent of the deepest depth drilled by the Earning Well in and to the following described lands:

Township 26 South, Range 29 East
Section 10: NE/4

Containing 160 acres, more or less, in
Eddy County, New Mexico

subject, however, to all the terms and provisions of this Operating Agreement and particularly to Article XV, H. The said lands are deemed to be contributed to the Contract Area by Mar-Win (50%) and Inexco (50%). During the term of this Operating Agreement, Inexco hereby agrees to reimburse Mar-Win for fifty percent (50%) of all rentals, minimum royalties, and shut-in payments due and paid by Mar-Win on the lands contributed hereto.

G. Working Interest of Phillips and El Paso:

- i. Phillips shall have the right to and shall own 18.82353% of the Earning Well Rights, as defined herein, and 18.82353% of the Working Interest in the remainder of the Contract Area, subject, however, to royalties and other burdens on production in effect as of the date hereof.
- ii. El Paso shall have the right to and shall own 2.35294% of the Earning Well Rights, as defined herein, and 2.35294% of the Working Interest in the remainder of the Contract Area, subject, however, to royalties and other burdens on production in effect as of the date hereof.

H. Overriding Royalties and Conversion Options:

It is agreed by and between the parties hereto that Inexco shall have the right to and shall own 78.82353% of the Earning Well Rights, as defined herein, subject, however, to royalties and other burdens on such production in effect as of the date hereof, and also subject to the following overriding royalty interests and conversion options.

1. An overriding royalty owned by Mobil (hereinafter sometimes referred to as Mobil's ORRI) equal to 47.05882% of 1/4 of 8/8 of all production attributable to the Earning Well Rights. Mobil's ORRI shall be inclusive of a landowner's royalty burden equivalent to 400 royalty acres/6800 total acres or 5.88235% and an overriding royalty burden equivalent to 158.4 overriding royalty acres/6800 total acres or 2.32941% for a net overriding royalty in the Earning Well of 3.55294%.
2. An overriding royalty owned by Great Western (hereinafter sometimes referred to as Great Western's ORRI) equal to 6.06824% of 1/4 of 8/8 of all production attributable to the Earning Well Rights. Great Western's ORRI shall be inclusive of a landowner's royalty burden equivalent to 51.58 royalty acres/6800 total acres or .75853% for a net overriding royalty in the Earning Well of .75853%.
3. An overriding royalty owned by Davoil (hereinafter sometimes referred to as Davoil's ORRI) equal to 3.34353% of 1/4 of 8/8 of all production attributable to the Earning Well Rights. Davoil's ORRI shall be inclusive of a landowner's royalty burden equivalent to 28.42 royalty acres/6800 total acres

or .41794% for a net overriding royalty in the Earning Well of .41794%.

4. An overriding royalty owned by Mar-Win (hereinafter sometimes referred to as Mar-Win's ORRI) equal to 2.35294% of 1/4 of 8/8 of all production attributable to the Earning Well Rights. Mar-Win's ORRI shall be inclusive of a landowner's royalty burden equivalent to 20 royalty acres/6800 total acres or .29412% for a net overriding royalty in the Earning Well of .29412%.

Mobil, Great Western, Davoil and Mar-Win are hereinafter sometimes referred to as "Farmors" and each of such Farmors shall have the option, at Payout, to convert its said overriding royalty interest described hereinabove to a portion of the Working Interest in the Earning Well Rights, as set out hereinbelow. Operator shall, within thirty (30) days after the date of completion of the Earning Well, furnish Farmors an itemized statement of the cost of drilling, completing and equipping the subject well. Operator shall furnish Farmors with monthly statements indicating the current status of the amount to be recouped from said Earning Well and Operator shall immediately notify each Farmor when payout has occurred. Each Farmor shall have thirty (30) days after its receipt of said notice of payout to notify Operator in writing, that it has elected to exercise its option to convert its overriding royalty interest to a portion of the Working Interest. Such election, if made, shall be effective 7:00 A.M. on the first day of the month succeeding the day in which payout occurs. If any Farmor fails to so notify Operator within said period it will be construed as an election by Farmor to retain its overriding royalty interest rather than convert its overriding royalty interest as set out below:

- a. The Mobil ORRI may be converted to 50% of 47.05882% of the Working Interest in the Earning Well Rights;
- b. The Great Western ORRI may be converted to 50% of 6.06824% of the Working Interest in the Earning Well Rights;
- c. The Davoil ORRI may be converted to 50% of 3.34353% of the Working Interest in the Earning Well Rights;
- d. The Mar-Win ORRI may be converted to 50% of 2.35294% of the Working Interest in the Earning Well Rights.

If any Farmor fails to convert its overriding royalty as provided for hereinabove, then such Farmor shall retain its overriding royalty in the production from the Earning Well and the Earning Well Rights and shall not have any Working Interest therein. All Working Interest in the Earning Well Rights not acquired by Farmors as provided for above shall be owned by Inexco and Exhibit "A", attached hereto, shall be revised accordingly.

Notwithstanding anything to the contrary, it is understood that in the event the Farmout Agreements referred to above in Articles XV.C, XV.D, XV.E and XV.F cover and affect less than the entire operating rights in and to the lands described in each of the said Farmout Agreements, or in the event the leases subject to the said Farmout Agreements cover and affect less than all of the Working Interest, the overriding royalties (and upon conversion, proportionately reduced.

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement for the Bison Wallow Unit by and between INEXCO OIL COMPANY, as Operator, and MOBIL OIL CORPORATION, ET AL, as Non-Operators.

CONTRACT AREA:

The Contract Area subject to this Operating Agreement shall consist of the oil and gas rights from the surface of the earth down to the 100 feet below the total depth drilled in the Earning Well or 175' below the top of the Morrow "C" zone, whichever is the deeper depth in and under the following described in Exhibit "B" to that certain Unit Agreement dated July 12, 1979, for the development and operation of the Bison Wallow Unit Area:

Township 25 South, Range 29 East NMPM
Sections 25, 26, 27, 33, 34, 35, 36: ALL

Township 26 South, Range 29 East NMPM
Sections 2, 3, 4: ALL
Section 9: N/2
Section 10: N/2

The leases contributed to the Contract Area by the parties hereto are listed on Exhibit "A-1", attached hereto and made a part hereof, each party having contributed the leases which are listed on Exhibit "A-1" under said party's name or in accordance with the terms of the Operating Agreement to which said Exhibit "A-1" is attached.

NAMES AND ADDRESSES OF THE PARTIES

Inexco Oil Company
1100 Milam Building, Suite 1900
Houston, Texas 77002

Great Western Drilling Co.
P. O. Box 1659
Midland, Texas 79702

Mobil Oil Corporation
9 Greenway Plaza, Suite 2700
Houston, Texas 77046

Davoil, Inc.
P. O. Box 12507
Fort Worth, Texas 76116

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

Mar-Win Development Co.
P. O. Box 874
Midland, Texas 79702

El Paso Natural Gas Company
1800 Wilcox Building
Midland, Texas 79701

INTEREST OF THE PARTIES

Before payout of Earning Well:

Inexco	78.82353% WI
Phillips	18.82353% WI
El Paso	2.35294% WI
Mobil	3.55294% ORRI
Great Western	.75853% ORRI
Davoil	.41794% ORRI
Mar-Win	.29412% ORRI

After payout of Earning Well and all subsequent wells in the Contract Area, Subject to Article XV, J, 1-4 inclusive of this Operating Agreement:

Inexco	49.41176% WI
Phillips	18.82353% WI
Mobil	23.52941% WI
Great Western	3.03412% WI
Davoil	1.67177% WI
Mar-Win	1.17647% WI
El Paso	2.35294% WI

EXHIBIT "A-1"

Attached to and made a part of that certain Operating Agreement between INEXCO OIL COMPANY, as Operator and MOBIL OIL CORPORATION, ET AL, as Non-Operators covering the Bison Wallow Unit

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION
NM-0277811	U.S.A.	Mobil Oil Corp.	April 1, 1964	T26S, R29E Section 3: NW/4
NM-0478352	U.S.A.	Mobil Oil Corp.	January 1, 1964	T25S, R29E Section 34: NE/4, S/2
NM-0553796	U.S.A.	Mobil Oil Corp.	June 1, 1964	T25S, R29E Section 35: All
NM-0554228	U.S.A.	Mobil Oil Corp.	July 1, 1964	T25S, R29E Section 33: SW/4
NM-0554229	U.S.A.	Mobil Oil Corp.	July 1, 1964	T25S, R29E Section 33: SE/4
NM-0554230	U.S.A.	Mobil Oil Corp.	July 1, 1964	T25S, R29E Section 33: N/2 Sec. 34: NW/4
NM-0556089	U.S.A.	Mobil Oil Corp.	Feb. 1, 1965	T26S, R29E Section 3: S/2 Sec. 4: E/2 NE/4
NM-0558281	U.S.A.	Mobil Oil Corp.	Nov. 1, 1965	T26S, R29E Section 9: E/2 NE/4
NM-11608	U.S.A.	Inexco Oil Company	May 1, 1970	T26S, R29E Section 4: W/2 SE/4, SW/4 Section 9: NW/4
NM-13636	U.S.A.	Mar-Win Development	May 1, 1971	T26S, R29E Section 10: NE/4
NM-13636-A	U.S.A.	Northern Natural Gas	May 1, 1971	T26S, R29E Section 4: NW/4, W/2 NE/4
NM-13997	U.S.A.	El Paso Natural Gas	July 1, 1971	T26S, R29E Section 3: NE/4
NM-13997-A	U.S.A.	Inexco Oil Company	July 1, 1971	T26S, R29E Section 10: NW/4
NM-14778	U.S.A.	Mobil Oil Corp.	Dec. 1, 1971	T25S, R29E Section 25: All
NM-14779	U.S.A.	Phillips Petroleum Co.	Jan. 1, 1972	T25S, R29E Section 26: All Section 27: All

Non-joinder to unit but within unit boundaries

EXHIBIT "B" PAGE (2)
BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP. & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INT.	WORKING INT. & PERCENTAGE
8	T26S, R29E Sec. 9: E 1/2 NE 1/4	80.00	NM-0558281 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Geo. Conley .030000	Mobil Oil Corp. 100.00%
9	T26S, R29E Sec. 4: W 1/2 SE 1/4, SW 1/4 Sec. 9: NW 1/4	400.00	NM-11608 8-31-80	USA 12.5%	Inexco Oil Company 100.00%	Victoria M. Blunt .020000 Richard P. Desmet .030000	Inexco Oil Company 100.00%
10	T26S, R29E Sec. 10: NE 1/4	160.00	NM-13636 4-30-81	USA 12.5%	Mar-Win Develop Co. 100.00%	NONE	Mar-Win Develop Co 100.00%
* 11	T26S, R29E Sec. 4: NW 1/4, W 1/2 NE 1/4	240.00	NM-13636-A 4-30-81	USA 12.5%	Northern Nat'l Gas 100.00%	Mar-Win Dev. Co. .050000	Northern Nat'l Gas 100.00%
12	T26S, R29E Sec. 3: NE 1/4	160.00	NM-13997 6-30-81	USA 12.5%	El Paso Nat. Gas 100.00%	Gloster Production Properties, LTD. .062500	El Paso Nat. Gas 100.00%
13	T26S, R29E Sec. 10: NW 1/4	160.00	NM-13997-A 6-30-81	USA 12.5%	Inexco Oil Company 100.00%	Joseph Falgout .005000 Edgar B. Stern, Jr. .015000 Phillip M. Stern .015000 Lester E. Kabacott .015000	Inexco Oil Company 100.00%

*Tracts 11 is non-joinder to the unit.

.050000

EXHIBIT "B" PAGE (4)
BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP. & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INT.	WORKING INT. & PERCENTAGE
15	<u>T25S, R29E</u> Sec. 26: A11 Sec. 27: A11	1280.00	NM-14779 12-31-81	USA 12.5%	Phillips Petroleum 100.00%	W. G. Ross .0625000	Phillips Petroleum 100.00%
16	<u>T26S, R29E</u> Sec. 4: E 1/2 SE 1/4 Sec. 9: W 1/2 NE 1/4	160.00	NM-18223 5-1-83	USA 12.5%	Inexco Oil Company 100.00%	Marjorie Smith .050000	Inexco Oil Company 100.00%
<u>TOTAL: 5,520.00% Acres Federal Lands; 81.17647% of Unit Area</u>							
<u>STATE OF NEW MEXICO LANDS</u>							
17	<u>T26S, R29E</u> Sec. 2: A11	340.00	LG-1083 3-1-83	State 12.5%	Great Western Drig. Co. 100.00%	NONE	Great Western Drig. Co. 64.476%
18	<u>T25S, R29E</u> Sec. 36: SW 1/4, SE 1/4 NE 1/4	200.00	LG-4058-2 1-20-80	State 12.5%	Inexco Oil Company 100.00%	NONE	Inexco Oil Company 100.00%
19	<u>T25S, R29E</u> Sec. 36: NW 1/4	160.00	LG-6123 12-1-88	State 12.5%	Inexco Oil Company 100.00%	NONE	Inexco Oil Company 100.00%

Davoll, Inc.
35.524%

EXHIBIT "B" PAGE (5)
BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP. & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INT.	WORKING INT. & PERCENTAGE
20	T25S, R29E Sec. 36: N 1/2 NE 1/4, SW 1/4 NE 1/4, SE 1/4	280.00	LG-6325 2-1-88	State 12.5%	Inexco Oil Company 100.00%	NONE	Inexco Oil Company 100.00%
TOTAL: 1,280.00 ACRES STATE OF NEW MEXICO LANDS, 18.82353% OF UNIT AREA							
RECAPITULATION							
		5,520.00 ACRES FEDERAL LANDS, 81.17647 OF UNIT AREA					
		1,280.00 ACRES STATE LANDS, 18.82353 OF UNIT AREA					
		6,800.00 ACRES PARTICIPATING UNIT AREA					
		7,040.00 ACRES WITHIN UNIT BOUNDARIES					
		240.00 ACRES NON JOINDER TO UNIT					

P. O. Box 26124
Albuquerque, New Mexico 87125

JAN 10 1980

6519

Inexco Oil Company
Attention: Mr. L.J. Tacconi
1100 Milan Building - Suite 1900
Houston, Texas 77002

Gentlemen:

Four approved copies of the Bison Wallow unit agreement, Eddy County, New Mexico, with Inexco Oil Company as unit operator, are enclosed. Such agreement has been assigned No. 14-08-0001-18040 and is effective as of the date approved.

You are requested to furnish the Commissioner of Public Lands, the Oil Conservation Division both of the State of New Mexico and all other interested principals with appropriate evidence of this approval.

Sincerely yours,

(ORIG. SGD.) JAMES W. SUTHERLAND

Area Oil and Gas Supervisor, SRMA

cc: Artesia (w/cy appln)
Area Geologist, Roswell (1tr only)
NMOCC, Santa Fe (1tr only) ✓
Com. Pub. Lands, Santa Fe (1tr only)
File
ARF
RCF
Suspense

AGT:ham;cag:1/7/80
JAN 11 1980
OIL CONSERVATION DIVISION
SANTA FE

State of New Mexico



ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands
January 3, 1980

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Inexco Oil Company
1100 Milam Building-Suite 1900
Houston, Texas 77002

6519

Re: Bison Wallow Unit
Eddy County, New Mexico

ATTENTION: Mr. L. J. Tacconi

Gentlemen:

The Commissioner of Public Lands has this date approved your Bison Wallow Unit, Eddy County, New Mexico. Our approval is subject to like approval by the United States Geological Survey.

Enclosed are Five (5) Certificates of approval.

Your filing fee in the amount of One Hundred Twenty (\$120.00) Dollars was received with your letter of March 27, 1979.

Please advise this office when the USGS gives their approval so that we may finish processing same.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

BY:
FLOYD O. PRANDO, Assistant Director
Oil and Gas Division
AC 505-827-2748

AJA/FOP/s
encls.

cc: OCD-Santa Fe, New Mexico ✓
USGS-Roswell, New Mexico
USGS-Albuquerque, New Mexico

Unit Name BISON WALLOW UNIT - EXPLORATORY
 Operator Inexco Oil Company
 County Eddy

DATE	OCC CASE NO. <u>6519</u>	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. <u>R-5991</u>							
Commissioner	Commission	<u>1-10-80</u>	<u>7,040.00</u>	<u>1,280.00</u>	<u>5,760.00</u>	<u>-0-</u>	<u>Yes</u>	<u>5 yrs.</u>
<u>1-3-80</u>	<u>4-25-79</u>							

UNIT AREA

TOWNSHIP 25 SOUTH, RANGE 29 EAST, NPM
 Sections 25 through 27: All
 Sections 33 through 36: All
 TOWNSHIP 26 SOUTH, RANGE 29 EAST, NPM
 Sections 2 through 4: All
 Section 9: N/2
 Section 10: N/2

All acreage committed except 400 acres of Federal lands.
 Total acreage committed is 6,640.00

Unit Name Bison Willow Unit- EXPLORATORY
 Operator Inexco Oil Company
 County Eddy

STATE TRACT NO.	LEASE NO.	INSTL-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
17	LG-1083	C.S.	2	26S	29E	All	7-18-79	640.00		Great Western Drilling Co
18	L-4058-3	C.S.	36	25S	29E	SW/4, SE/4NE/4	7-12-79	200.00		Inexco Oil Company
19	LG-6123	C.S.	36	25S	29E	NW/4	7-12-79	160.00		Inexco Oil Company
20	LG-6325	C.S.	36	25S	29E	N/2NE/4, SW/4NE/4, SE/4	7-12-79	280.00		Inexco Oil Company

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6519
Order No. R-5991

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

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on April 11, 1979, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 25th day of April, 1979, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Inexco Oil Company, seeks approval of the Bison Wallow Unit Agreement covering 7,040 acres, more or less, of State and Federal lands described as follows:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 25 SOUTH, RANGE 29 EAST, NMPM
Sections 25 through 27: All
Sections 33 through 36: All

TOWNSHIP 26 SOUTH, RANGE 29 EAST, NMPM
Sections 2 through 4: All
Section 9: N/2
Section 10: N/2

(3) That all plans of development and operation and creations, expansions, or contractions of participating areas

-2-

Case No. 6519
Order No. R-5991

or expansions or contractions of the unit area, should be submitted to the Director of the Division for approval.

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

IT IS THEREFORE ORDERED:

(1) That the Bison Wallow Unit Agreement is hereby approved.

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

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

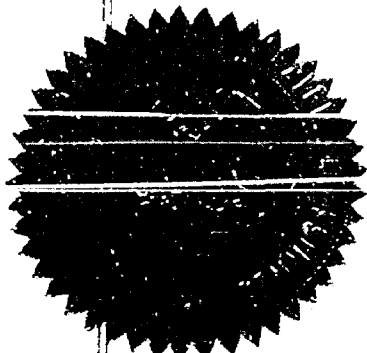
(4) That all plans of development and operation, all unit participating areas and expansions and contractions thereof, and all expansions or contractions of the unit area, shall be submitted to the Director of the Oil Conservation Division for approval.

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

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

-3-
Case No. 6519
Order No. R-5991

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



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY,
Director

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
11 April 1979

EXAMINER HEARING

IN THE MATTER OF:

Application of Inexco Oil Company for) CASE
a unit agreement, Eddy County, New) 6519
Mexico.)

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Lynn Teschendorf, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87503

For the Applicant:

William F. Carr, Esq.
CAMPBELL & BLACK P. A.
Jefferson Place
Santa Fe, New Mexico 87501

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3020 Plaza Blanca (505) 471-2462
Santa Fe, New Mexico 87501

I N D E X

M. L. FELDMAN

Direct Examintion by Mr. Carr	3
Cross Examination by Mr. Nutter	12

E X H I B I T S

Applicant Exhibit One, Unit Agreement	4
Applicant Exhibit Two, Letter	5
Applicant Exhibit Three, Plat	5
Applicant Exhibit Four, (A-E) Report	6

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SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3026 Plaza Blanca (505) 471-2462
Santa Fe, New Mexico 87501

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MR. NUTTER: Call Case Number 6519.

MS. TESCHENDORF: Case 6519. Application of Inexco Oil Company for a unit agreement, Eddy County, New Mexico.

MR. CARR: May it please the Examiner, I'm William F. Carr, Campbell and Black, P. A., Santa Fe, appearing on behalf of the applicant.

I have one witness who needs to be sworn.

(Witness sworn.)

M. L. FELDMAN

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your full name and your present occupation?

A My name is M. L. Feldman, F-E-L-D-M-A-N, I'm a geologist for Inexco Oil Company, handling southeast New Mexico.

Q Mr. Feldman, have you previously testified before this Commission, had your credentials accepted and made a matter of record?

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3030 Plaza Blanca (505) 471-2462
Santa Fe, New Mexico 87501

1 A. Yes, I have.

2 Q. Are you familiar with the Bison Wallow Unit
3 and the matters contained in the application which is pending
4 before the Commission in this case?

5 A. Yes.

6 MR. CARR: Are the witness' credentials
7 acceptable?

8 MR. NUTTER: Yes, they are.

9 Q. (Mr. Carr continuing.) Mr. Feldman, will
10 you refer to what has been marked for identification as
11 Exhibit Number One, and explain to the Examiner what it is?

12 A. This is a copy of the unit agreement for
13 the Bison Wallow Unit in 25 and 26 South, 29 East, Eddy
14 County, New Mexico.

15 Q. Mr. Feldman, is the form of the unit agree-
16 ment that which is prescribed by Federal regulations?

17 A. Yes, it is.

18 Q. Has this application been submitted to the
19 State Land Office and approved as to form?

20 A. We have -- it has been submitted. We have
21 discussed this with the State Land Office. They see no
22 problem in our form and will send us a letter to that effect
23 in the next few days.

24 Q. Mr. Feldman, when you receive that letter
25 will you supply copies to the Oil Conservation Division?

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3030 Plaza Blanca (SOS) 471-2462
Santa Fe, New Mexico 87501

- 1 A. Yes.
- 2 Q. Has the unit area been designated by the
- 3 United States Geological Survey as an area logically suitable
- 4 for development under a unit plan of development?
- 5 A. Yes, it has.
- 6 Q. And is their letter of approval what has
- 7 been marked as Inexco Exhibit Number Two?
- 8 A. Yes. This is the approval after the --
- 9 following the preliminary hearing and submittal of the re-
- 10 port, geologic report, to the USGS in Roswell, New Mexico.
- 11 Q. Will you please tell the Examiner the total
- 12 number of acres within the unit and the percentage of this
- 13 acreage which is Federal and the percentage which is State?
- 14 A. The unit as proposed has 7,040 acres.
- 15 5,760 acres are Federal lands. That's 81.81 percent. And
- 16 1280 acres are State land. That's 18.18 percent. There is
- 17 no fee land.
- 18 Q. Okay.
- 19 A. It's all Federal and State.
- 20 Q. Will you refer to what has been marked for
- 21 identification as Exhibit Number Three and explain to the
- 22 Examiner what it is and what it shows?
- 23 A. This is a breakdown of the unit acreage as
- 24 to Federal and State, the various tracts, of the Bison
- 25 Wallow Unit, which is in Township 25 and 26 South, Range

1 29 East, Eddy County, New Mexico.

2 Q Where does this unit lie in respect to
3 other units in the area?

4 A This is the southern portion of what was
5 the Mobil Corral Draw Unit, which was contracted by Mobil
6 last year, and on the Mobil Corral Draw Unit two wells were
7 drilled, the Mobil No. 1 Corral Draw Unit, which was com-
8 pleted as a Morrow gas well, and which has made some 1.76
9 billion cubic feet of gas, and the -- in Section 22, both
10 of these were in 25 South, 26 -- I mean, 25 South, 29 East,
11 Section 14 is the Mobil No. 1 Corral Draw Unit; Section 22
12 is the Mobil No. 2 Corral Draw Unit well, which was com-
13 pleted for a Wolfcamp discovery, and it made a few hundred
14 thousand cubic feet of gas.

15 Q Now, Mr. Feldman, I would ask you to direct
16 your attention to what has been marked as Inexco's Exhibit
17 Four A through Four E, and briefly review this report for
18 the Examiner, referring to the maps by name, and indicating
19 the significance of such maps and the cross sections.

20 A Exhibit Four A is an index map showing the
21 location of the proposed Bison Wallow Unit. On this map
22 are two intestinal-shaped trends, which are the -- which
23 we believe to be alongshore bar trends, clastic bar trends,
24 of the Morrow.

25 The pinched in areas, one of which is marked

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Santa Fe, New Mexico 87501

1 surge channel, are believed to be surge channels in which
2 an intimate admixture of lagoonal shales and silts and
3 basinal shales and silts, form a barrier to lateral migration,
4 separating these various pods into separate reservoirs in
5 the Morrow formation.

6 On this map there are portrayed the Mobil
7 No. 1 and 2 Corral Draw Unit wells in Section -- Sections
8 14 and 22 of 25 South, 29 East, and these two wells are
9 portrayed as being on the shelfward edge of the trend.

10 The Bass 42 Poker Lake Unit Well, a small
11 Atoka discovery in 25 South, 30 East, Section 10, is por-
12 trayed as being on the basinward southeast flank of this
13 alongshore clastic bar.

14 Exhibit B is a top of the Morrow B limestone
15 a persistent oolitic limestone within the Morrow section,
16 a structure map based on top of the Morrow B limestone.
17 It shows an anticlinal feature, a topographic high. The
18 unit -- one of the parameters used for drawing this unit
19 was that all proration units of 320 acres or more would fall
20 more than 50 percent within the contour which is 10,700
21 feet subsea.

22 The exhibit marked Exhibit C at the top is
23 an Isolith map of the Morrow sands. It shows the very thin
24 sands of the Mobil No. 2 Corral Draw Unit. It shows that
25 this well on the flank of this alongshore bar had only 9 feet

1 of net sand. The thickest bed was 3 feet thick and it had
2 only one foot of greater than 7 percent porosity, sand with
3 greater than 7 percent porosity.

4 The Mobil No. 1 Corral Draw Unit in Section
5 14, 25 South, 29 East, had a little more sand. It had 47
6 feet of net sand. It had -- its thickest bed was 7 feet
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9 Our proposed location is in the southeast
10 quarter of the northeast quarter of Section 34, 25 South,
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12 sight of the 150-foot net contour, net sandstone contour,
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20 was the Exhibit B, which was the structural horizon on
21 which Exhibit B was contoured. It also portrays the sands
22 of the lower Morrow clastics section in this stippled pat-
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24 It shows two parameters that we use to
25 choose the location of alongshore bars. One of these para-

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1 meters is the fact that if you -- as you approach an along-
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4 Draw Unit Well, the lowest stratigraphic position of sand
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7 slightly higher, or slightly more towards the axis of this
8 alongshore bar, you can see that the base of the Morrow
9 sands, or the bottom sand is some 100 feet or so below the
10 Morrow B limestone.

11 The Bass No. 42 Poker Lake Unit, on the
12 other hand, has sand which we feel is on the basinward
13 side of the this alongshore clastic bar, has sand some 200
14 feet below the Morrow B limestone. So we feel that it is
15 closer to the axis of this alongshore bar than either of the
16 Mobil wells.

17 And our proposed location for the first test
18 of this unit is near the axis of the alongshore bar where
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20 sandstone in the lower Morrow Clastic section.

21 Q Mr. Feldman, will you briefly summarize
22 your conclusions as to the formations you are likely to
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24 A Within this vicinity of Delaware Basin,
25 which we're somewhat centrally located between the outcrops

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1 of the Capitan Reef to the west in Eddy County, some 30
2 miles to the west, and the subcrops of the Capitan Reef in
3 southeastern Lea County, about 30 miles to the east, in
4 this vicinity we have production from the Bell Canyon, or
5 Delaware Sand section, the Bone Springs Sand, and the
6 Cherry Canyon, which I should have mentioned first, very
7 marginal oil and gas production from the shallow Permian
8 horizons. The most likely commercial production in this
9 area, and there is nearby production from these zones, is
10 the Wolfcamp, lower basal Permian Wolfcamp section; the
11 Strawn section of the Pennsylvanian; the Atoka section of
12 the Pennsylvanian; and the Morrow section of basal Pennsyl-
13 vanian age.

14 Q Will you please tell the Examiner the loca-
15 tion and projected depth for the initial test well in the
16 unit?

17 A The initial test well would be in the south-
18 east quarter of the northeast quarter of Section 34, 25
19 South, 29 East, Eddy County, New Mexico. We have a proposed
20 depth of 14,200 feet and/or 175 feet below the top of the
21 Morrow C zone, which is illustrated on the cross section,
22 Exhibit C, not to exceed a total depth of 14,400 feet.

23 Q Have you contacted other working interest
24 owners within the unit area?

25 A All of the working interest unit -- all

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1 other working interest operators within the unit have been
2 contacted.

3 Q And what percentage of the working interests
4 will be committed to the unit and also what percentage of
5 the royalty interests?

6 A At this date better than 94 percent of
7 the working interest will be committed, and I believe that
8 that will be true, also, of the royalty interest.

9 Q And this will give you effective control of
10 the unit?

11 A Yes, it will.

12 Q Mr. Feldman, in your opinion will the oper-
13 ation of this area under the proposed unit plan of operation
14 be in the interest of conservation and the prevention of
15 waste?

16 A Yes, it will.

17 Q In the event of production, will the cor-
18 relative rights of all parties to the unit agreement be
19 protected?

20 A Yes.

21 Q Were Exhibits One through Four F either
22 prepared by you or compiled under your direction and super-
23 vision?

24 A Yes.

25 Q At this time, Mr. Examiner, we would offer

1 into evidence Inexco's Exhibits One through Four F.

2 MR. NUTTER: Inexco Exhibits One through
3 Four F will be admitted in evidence.

4 MR. CARR: Mr. Examiner, at this time I
5 would also like to state that we've just been notified by
6 Ray Graham that the Land Office has given preliminary ap-
7 proval on the Bison Wallow Unit and MR. Feldman will have
8 a letter available for you later today.

9 MR. NUTTER: You answered my next question.

10 MR. CARR: And I have nothing further at
11 this time.

12 CROSS EXAMINATION

13 BY MR. NUTTER:

14 Q Mr. Feldman, why did Mobil contract the
15 Corral Draw Unit and eliminate all this acreage from the
16 unit if it's a good prospect?

17 A They contracted it because they felt that
18 the Federal government -- it's my understanding, this is
19 hearsay -- that they felt that the Federal government was
20 going to force the contraction, either force development or
21 contraction of some of the large units which cover most of
22 the east half of western Eddy County, and as a result they
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24 prospect there. They contacted us and asked our company
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1 if we would like to consider farming out from them and
2 forming a new unit there.

3 Q I see.

4 A And so when they contracted it, and that
5 extended all the leases within the unit for two years, which
6 gave us -- and that happened last fall, and that gave us
7 time to put a new unit together covering the -- a portion
8 of what used to be the southern portion of their unit.

9 Q Well now did this Mobil Corral Draw No. 2
10 in Section 22 used to be in the unit, also?

11 I notice it's outside the unit boundary.

12 A It's outside, I believe, of the contracted
13 unit, but I believe that it was within the --

14 Q So that acreage was contracted out, also,
15 then.

16 A I believe that is correct.

17 Q And the old unit has only the one well, the
18 No. 1 Well in it.

19 A That is my understanding.

20 Q And the Land Office, you have your letter
21 from the GS, and the Land Office has now tentatively ap-
22 proved the unitization of these lands, also?

23 A Yes, that is correct.

24 MR. NUTTER: Are there any other questions
25 of the witness? He may be excused.

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Do you have anything further, Mr. Carr?

MR. CARR: No, sir.

MR. NUTTER: Does anyone have anything they wish to offer in Case Number 6519?

We'll take the case under advisement.

(Hearing concluded.)

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REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill, from my notes taken at the time of the hearing.

Sally W. Boyd
Sally W. Boyd, C.S.R.

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. *6519*
heard by me on *4/11* *1979*.
[Signature], Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
11 April 1979

EXAMINER HEARING

IN THE MATTER OF:

Application of Inexco Oil Company for) CASE
a unit agreement, Pddy County, New) 6519
Mexico.)

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Lynn Teschendorf, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87503

For the Applicant:

William F. Carr, Esq.
CAMPBELL & BLACK P. A.
Jefferson Place
Santa Fe, New Mexico 87501

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I N D E X

M. L. FELDMAN

Direct Examintion by Mr. Carr	3
Cross Examination by Mr. Nutter	12

E X H I B I T S

Applicant Exhibit One, Unit Agreement	4
Applicant Exhibit Two, Letter	5
Applicant Exhibit Three, Plat	5
Applicant Exhibit Four, (A-E) Report	6

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MR. NUTTER: Call Case Number 6519.

MS. TESCHENDORF: Case 6519. Application of
Inexco Oil Company for a unit agreement, Eddy County, New
Mexico.

MR. CARR: May it please the Examiner, I'm
William F. Carr, Campbell and Black, P. A., Santa Fe,
appearing on behalf of the applicant.

I have one witness who needs to be sworn.

(Witness sworn.)

M. L. FELDMAN

being called as a witness and having been duly sworn upon
his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your full name and your
present occupation?

A My name is M. L. Feldman, F-E-L-D-M-A-N,
I'm a geologist for Inexco Oil Company, handling southeast
New Mexico.

Q Mr. Feldman, have you previously testified
before this Commission, had your credentials accepted and
made a matter of record?

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1 A Yes, I have.

2 Q Are you familiar with the Bison Wallow Unit
3 and the matters contained in the application which is pending
4 before the Commission in this case?

5 A Yes.

6 MR. CARR: Are the witness' credentials
7 acceptable?

8 MR. NUTTER: Yes, they are.

9 Q (Mr. Carr continuing.) Mr. Feldman, will
10 you refer to what has been marked for identification as
11 Exhibit Number One, and explain to the Examiner what it is?

12 A This is a copy of the unit agreement for
13 the Bison Wallow Unit in 25 and 26 South, 29 East, Eddy
14 County, New Mexico.

15 Q Mr. Feldman, is the form of the unit agree-
16 ment that which is prescribed by Federal regulations?

17 A Yes, it is.

18 Q Has this application been submitted to the
19 State Land Office and approved as to form?

20 A We have -- it has been submitted. We have
21 discussed this with the State Land Office. They see no
22 problem in our form and will send us a letter to that effect
23 in the next few days.

24 Q Mr. Feldman, when you receive that letter
25 will you supply copies to the Oil Conservation Division?

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1 A. Yes.

2 Q. Has the unit area been designated by the
3 United States Geological Survey as an area logically suitable
4 for development under a unit plan of development?

5 A. Yes, it has.

6 Q. And is their letter of approval what has
7 been marked as Inexco Exhibit Number Two?

8 A. Yes. This is the approval after the --
9 following the preliminary hearing and submittal of the re-
10 port, geologic report, to the USGS in Roswell, New Mexico.

11 Q. Will you please tell the Examiner the total
12 number of acres within the unit and the percentage of this
13 acreage which is Federal and the percentage which is State?

14 A. The unit as proposed has 7,040 acres.
15 5,760 acres are Federal lands. That's 81.81 percent. And
16 1280 acres are State land. That's 18.18 percent. There is
17 no fee land.

18 Q. Okay.

19 A. It's all Federal and State.

20 Q. Will you refer to what has been marked for
21 identification as Exhibit Number Three and explain to the
22 Examiner what it is and what it shows?

23 A. This is a breakdown of the unit acreage as
24 to Federal and State, the various tracts, of the Bison
25 Wallow Unit, which is in Township 25 and 26 South, Range

1 29 East, Eddy County, New Mexico.

2 Q Where does this unit lie in respect to
3 other units in the area?

4 A This is the southern portion of what was
5 the Mobil Corral Draw Unit, which was contracted by Mobil
6 last year, and on the Mobil Corral Draw Unit two wells were
7 drilled, the Mobil No. 1 Corral Draw Unit, which was com-
8 pleted as a Morrow gas well, and which has made some 1.76
9 billion cubic feet of gas, and the -- in Section 22, both
10 of these were in 25 South, 26 -- I mean, 25 South, 29 East,
11 Section 14 is the Mobil No. 1 Corral Draw Unit; Section 22
12 is the Mobil No. 2 Corral Draw Unit well, which was com-
13 pleted for a Wolfcamp discovery, and it made a few hundred
14 thousand cubic feet of gas.

15 Q Now, Mr. Feldman, I would ask you to direct
16 your attention to what has been marked as Inexco's Exhibit
17 Four A through Four E, and briefly review this report for
18 the Examiner, referring to the maps by name, and indicating
19 the significance of such maps and the cross sections.

20 A Exhibit Four A is an index map showing the
21 location of the proposed Bison Wallow Unit. On this map
22 are two intestinal-shaped trends, which are the -- which
23 we believe to be alongshore bar trends, clastic bar trends,
24 of the Morrow.

25 The pinched in areas, one of which is marked

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1 surge channel, are believed to be surge channels in which
2 an intimate admixture of lagoonal shales and silts and
3 basinal shales and silts, form a barrier to lateral migration,
4 separating these various pods into separate reservoirs in
5 the Morrow formation.

6 On this map there are portrayed the Mobil
7 No. 1 and 2 Corral Draw Unit wells in Section -- Sections
8 14 and 22 of 25 South, 29 East, and these two wells are
9 portrayed as being on the shelfward edge of the trend.

10 The Bass 42 Poker Lake Unit Well, a small
11 Atoka discovery in 25 South, 30 East, Section 10, is por-
12 trayed as being on the basinward southeast flank of this
13 alongshore clastic bar.

14 Exhibit B is a top of the Morrow B limestone
15 a persistent oolitic limestone within the Morrow section,
16 a structure map based on top of the Morrow B limestone.
17 It shows an anticlinal feature, a topographic high. The
18 unit -- one of the parameters used for drawing this unit
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20 more than 50 percent within the contour which is 10,700
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4 MR. CARR: Mr. Examiner, at this time I
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6 Ray Graham that the Land Office has given preliminary ap-
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8 a letter available for you later today.

9 MR. NUTTER: You answered my next question.

10 MR. CARR: And I have nothing further at
11 this time.

12
13 CROSS EXAMINATION

14 BY MR. NUTTER:

15 Q Mr. Feldman, why did Mobil contract the
16 Corral Draw Unit and eliminate all this acreage from the
17 unit if it's a good prospect?

18 A They contracted it because they felt that
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9 Q Well now did this Mobil Corral Draw No. 2
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11 I notice it's outside the unit boundary.

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20 Q And the Land Office, you have your letter
21 from the GS, and the Land Office has now tentatively ap-
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23 A Yes, that is correct.

24 MR. NUTTER: Are there any other questions
25 of the witness? He may be excused.

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Do you have anything further, Mr. Carr?

MR. CARR: No, sir.

MR. NUTTER: Does anyone have anything they wish to offer in Case Number 6519?

We'll take the case under advisement.

(Hearing concluded.)

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REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill, from my notes taken at the time of the hearing.

Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6519 heard by me on 4/11 1979.

 Examiner
Oil Conservation Division

SALLY WALTON BOYD
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Santa Fe, New Mexico 87501

Dockets Nos. 16-79 and 17-79 are tentatively set for hearing on April 25 and May 9, 1979. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 11, 1979

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutt, Examiner, or Richard L. Stamets, Alternate Examiner:

- CASE 6517: Application of Managan Petroleum Corporation for special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Avalon-Wolfcamp Gas Pool, Eddy County, New Mexico, to provide for 320-acre spacing rather than 160 acres. In the absence of objection, this pool will be placed on the standard 320-acre spacing for Wolfcamp gas pools rather than the present 160-acre spacing.
- CASE 6518: Application of McClellan Oil Corporation for an unorthodox gas well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Federal Well No. 2, located 2310 feet from the North and East lines of Section 11, Township 14 South, Range 28 East, Sams Ranch-Grayburg Gas Pool, Chaves County, New Mexico, the NE/4 of said Section 11 to be dedicated to the well.
- CASE 6519: Application of Inexco Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for its Bison Hallow Unit Area, comprising 7,040 acres, more or less, of Federal and State lands in Townships 25 and 26 South, Range 29 East, Eddy County, New Mexico.
- CASE 6520: Application of Belco Petroleum Corporation for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Strawn and Morrow production in the wellbore of its Union Mead Com Well No. 1 located in Unit H of Section 8, Township 22 South, Range 27 East, Carlsbad Field, Eddy County, New Mexico.
- CASE 6521: Application of Adobe Oil Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for its East Tatum State Unit Area, comprising 2,560 acres, more or less, of State lands in Township 12 South, Range 36 East, Lea County, New Mexico.
- CASE 6522: Application of Petroleum Corporation of Texas for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Fruitland and Pictured Cliffs production in the wellbore of its Hanley Well No. 2-A located in Unit F of Section 18, Township 29 North, Range 10 West, San Juan County, New Mexico.
- CASE 6523: Application of Lonnie J. Buck for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Yates formation underlying each of the following 40-acre tracts in Section 25, Township 25 South, Range 36 East, Lea County, New Mexico: NW/4 SW/4 to be dedicated to the Brown Well No. 6 located in Unit L and SW/4 SW/4 to be dedicated to the Brown Well No. 7 located in Unit M. Also to be considered will be the cost of recompleting said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the wells and a charge for risk involved in recompleting said wells.
- CASE 6502: (Continued from March 28, 1979, Examiner Hearing)
- Application of Stevens Oil Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the SW/4 SW/4 of Section 30, Township 8 South, Range 29 East, Chaves County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6524: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, and extending the vertical and horizontal limits of certain pools in Eddy and Lea Counties, New Mexico:
- (a) CREATE a new pool in Eddy County, New Mexico, classified as an oil pool for Seven Rivers production and designated as the Cave-Seven Rivers Pool. The discovery well is Kincaid and Watson Drilling Company Humble 8 Well No. 7 located in Unit D of Section 8, Township 17 South, Range 29 East, NMPM. Said pool would comprise:

TOWNSHIP 17 SOUTH, RANGE 29 EAST, NMPM
Section 8: NW/4

State of New Mexico



ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands

April 6, 1979

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Inexco Oil Company
1100 Milam Building
Suite 1900
Houston, Texas 77002

Re: Proposed-Bison Wallow Unit.
Eddy County, New Mexico

ATTENTION: Mr. William G. Goodwin
Vice President

Gentlemen:

We have reviewed the form of unit agreement, Exhibits "A" and "B", which you have submitted for the Bison Wallow Unit, Eddy County, New Mexico. The form of agreement meets the requirements of the Commissioner of Public Lands, therefore, we have this date approved your agreement as to form and content.

On your Exhibit "B", Tract 17, Davoill, Inc. should not appear under the Lessee of Record column, since Great Western Drilling Co. is the only record title owner, Davoill, Inc. should appear under the Working Interest column.

When submitting your agreement for final approval, the following are required by this office.

1. Application for final approval stating all tracts committed and Tracts not committed.
2. Two fully executed copies of unit agreement-one must contain original signatures, together with two copies of Exhibits "A" and "B".
3. Two sets of all ratifications from Lessees of Record and Working Interest Owners.
4. One executed copy of Operating Agreement fully executed by all parties.
5. Order of the New Mexico Oil Conservation Division.

Inexco Oil Company
April 6, 1979
Page 2.

6. The filing fee in the amount of One Hundred and Twenty (\$120.00) Dollars.

If we may be of further help please do not hesitate to call on us.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

BY:
RAY D. GRAHAM, Director
Oil and Gas Division

AJA/RDG/s

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
Inexco EXHIBIT NO. 1
CASE NO. 6519

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

THIS AGREEMENT, entered into as of the 12th day of March, 19 79, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H :

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 Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 7-11-29 N.M. Statutes 1953 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 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

*better than P&W I will be committed
expect the same for royalty interest*

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 BISON WALL 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 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:

T-25-S, R-29-E, NMPM
Section 25: All
Section 26: All
Section 27: All
Section 33: All
Section 35: All
Section 36: All

T-26-S, R-29-E, NMPM
Section 2: All
Section 3: All
Section 4: All
Section 9: N 1/2
Section 10: N 1/2

EDDY COUNTY, NEW MEXICO
Containing 7,040. ACRES,
More or Less

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentities of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in 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 when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," 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 (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission."

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 Geological Survey, hereinafter referred to as "Director", or on demand of the Land Commissioner, after preliminary concurrence by the Director, 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 Supervisor, the Land Commissioner and the State Commission, and copies thereof mailed to the last known address of each working-interest owner, lessee, and lessor whose interest are affected, advising that thirty (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 Supervisor, the Land Commissioner, and the State Commission, 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 Supervisor, the Land Commissioner, and State Commission, become effective as of the date prescribed in the notice thereof.

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are 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 Supervisor and the Land Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the ten-year period specified in this subsection 2 (e), a single extension of not to exceed two years may be accomplished by consent of the owners of 90% of the working interest 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 ten-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. INEXCO OIL COMPANY
is hereby designated as Unit Operator and by signature hereto as

Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used 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 six (6) months after notice of intention to resign has been served by Unit Operator on all working-interest owners and the Supervisor and the Land Commissioner, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and the State Commission as to State lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring

prior to the effective date of its resignation.

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

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

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

(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 and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the Director and the Land Commissioner, at their 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 and one true copy with the Land Commissioner, prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Pennsylvanian Age Beds have been penetrated to 175 feet below the top of the Morrow "C" Zone and tested, or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 14,400 feet. Until the discovery of a deposit of unitized substances

capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

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

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (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 Supervisor, the Land Commissioner, and State Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Land Commissioner, and State Commission, 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission.

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 Supervisor and the Land Commissioner are authorized to grant a reasonable extension of the six-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 Supervisor, the Land Commissioner, and State Commission, 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 Supervisor, the Land Commissioner, or the State Commission, the Unit Operator shall submit for approval by the Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and the State Commission. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the Supervisor, the Land Commissioner, and State Commission. 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 Supervisor, the Land Commissioner, and State Commission. 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 Supervisor, the Land Commission, and State Commission, 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 Supervisor and the Land Commission. Royalties due the United States shall be determined by the Supervisor for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the Supervisor 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 Supervisor, the Land Commissioner, and State Commission 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.

Determination as to whether a well completed within the Unit Area prior to the effective date of this agreement is capable of producing unitized substances in paying quantities shall be deferred until an initial participating area is established as a result of the completion of a well for production in paying quantities in accordance with Section 9 hereof.

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, Land Commission, and State Commission, or unavoidable 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 and the Land Commissioner, 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 area has been established if such location is not within said participating area, unless within 90 days of receipts of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working-interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this

agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

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

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

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into

which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor and the Land Commissioner as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

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

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates 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 Supervisor and Land Commissioner deem 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 and State 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 thereof 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 nonunitized 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 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 of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the 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 of 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, or 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 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 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 the approval of the Supervisor 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 are 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 are 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 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.

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 interest affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner 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 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.

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

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

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join

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

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

26. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor, the Land Commissioner, the State Commission, and the Unit Operator prior to the approval of this agreement by the Supervisor. Any oil or gas interest in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final

approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor, the Land Commissioner, and the State Commission of duly executed counterparts of all or any papers necessary to establish commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor, the Land Commissioner, or State Commission.

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

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

by the terms of this agreement.

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

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

(1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or

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

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

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

An appropriate accounting and settlement shall be made, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made

as between the parties within thirty (30) days. In the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

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

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

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

33. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working-interest owners, nor any of them, shall be subject to any forfeiture, termination, or expiration of any right hereunder or under any leases or contracts subject hereto, or to any penalty

or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the working-interest owners, or any of them, are hindered, delayed, or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the State Commission, agree that all powers and authority vested in the State Commission in and by any provisions of this agreement are vested in the State Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

34. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify or change either the special Federal Lease stipulations relating to surface management or such special Federal Lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

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

ATTEST:

INEXCO OIL COMPANY

BY: ASSISTANT SECRETARY

BY: WILLIAM G. GOODWIN
VICE-PRESIDENT

ADDRESS: 1100 Milam Bldg.
Suite 1900
Houston, Texas 77002

STATE OF TEXAS)
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before this day of _____, 19____, by WILLIAM G. GOODWIN who is Vice-President of INEXCO OIL COMPANY, a Delaware Corporation, for and on behalf of said Corporation.

My Commission Expires:

NOTARY PUBLIC



IN REPLY REFER TO.

United States Department of the Interior

GEOLOGICAL SURVEY

Box 25046

Denver Federal Center

Denver, Colorado 80225

RECEIVED

APR - 9 1979

LAND DEPT.

Inexco Oil Company
Attention: William G. Goodwin
1100 Milam Building - Suite 1900
Houston, Texas 77002

Gentlemen:

Your application of March 12, 1979 filed with the U.S. Geological Survey office in Roswell, New Mexico, requests the designation of the Bison Wallow unit area embracing 7,040.00 acres, more or less, Eddy County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act, as amended.

Pursuant to unit plan regulations 30 CFR 226 the land requested as outlined on your plat marked "Exhibit A Bison Wallow Unit Area, Eddy County, New Mexico" is hereby designated as a logical unit area.

The unit agreement submitted for the area designated should provide for a well to test the Morrow "C" Zone or to a depth of 14,400 feet. Your proposed use of the Form of Agreement for Unproved Areas will be accepted with the modifications requested in your application.

If conditions are such that further modification of said standard form is deemed necessary, three copies of the proposed modifications with appropriate justification must be submitted to this office through the Oil and Gas Supervisor for preliminary approval.

In the absence of any other type of land requiring special provisions or of any objections not now apparent, a duly executed agreement identical with said form, modified as outlined above, will be approved if submitted in approvable status within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted which, in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.



*5760 acres or
81.8182% Fed
1280 acres or
18.1818% State*

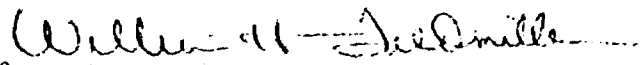
BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
~~INEXCO~~ EXHIBIT NO. 2
CASE NO. 6519

Land Ope has given tentative approval.

When the executed agreement is transmitted to Roswell, New Mexico for the Supervisor's approval, include the latest status of all acreage. In preparation of Exhibits "A" and "B", follow closely the format of the sample exhibits attached to the 1968 reprint of the aforementioned form.

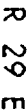
Inasmuch as this unit agreement involves State land, we are sending a copy of this letter to the Commissioner of Public Lands in Santa Fe. Please contact the State of New Mexico before soliciting joinders regardless of prior contacts or clearances from the State.

Sincerely yours,


ACTING Regional Conservation Manager
For the Director

OIL CONSERVATION DIVISION

CASE NO. 6517



265

EDDY COUNTY, NEW MEXICO

Scale in Miles

MM-146



Tract No.

Unit Outline

BEFORE EXAMINER NUTTER	
OF CONSERVATION DIVISION	
INEXCO	EXHIBIT NO. <u>4</u>
CASE NO. <u>6519</u>	

I N E X C O O I L C O M P A N Y

GEOLOGY OF THE PROPOSED

BISON WALLOW UNIT

EDDY COUNTY, NEW MEXICO

M. L. Feldman
February 1, 1979

Exploration Memo #66-77

ENCLOSURES AND ATTACHMENTS

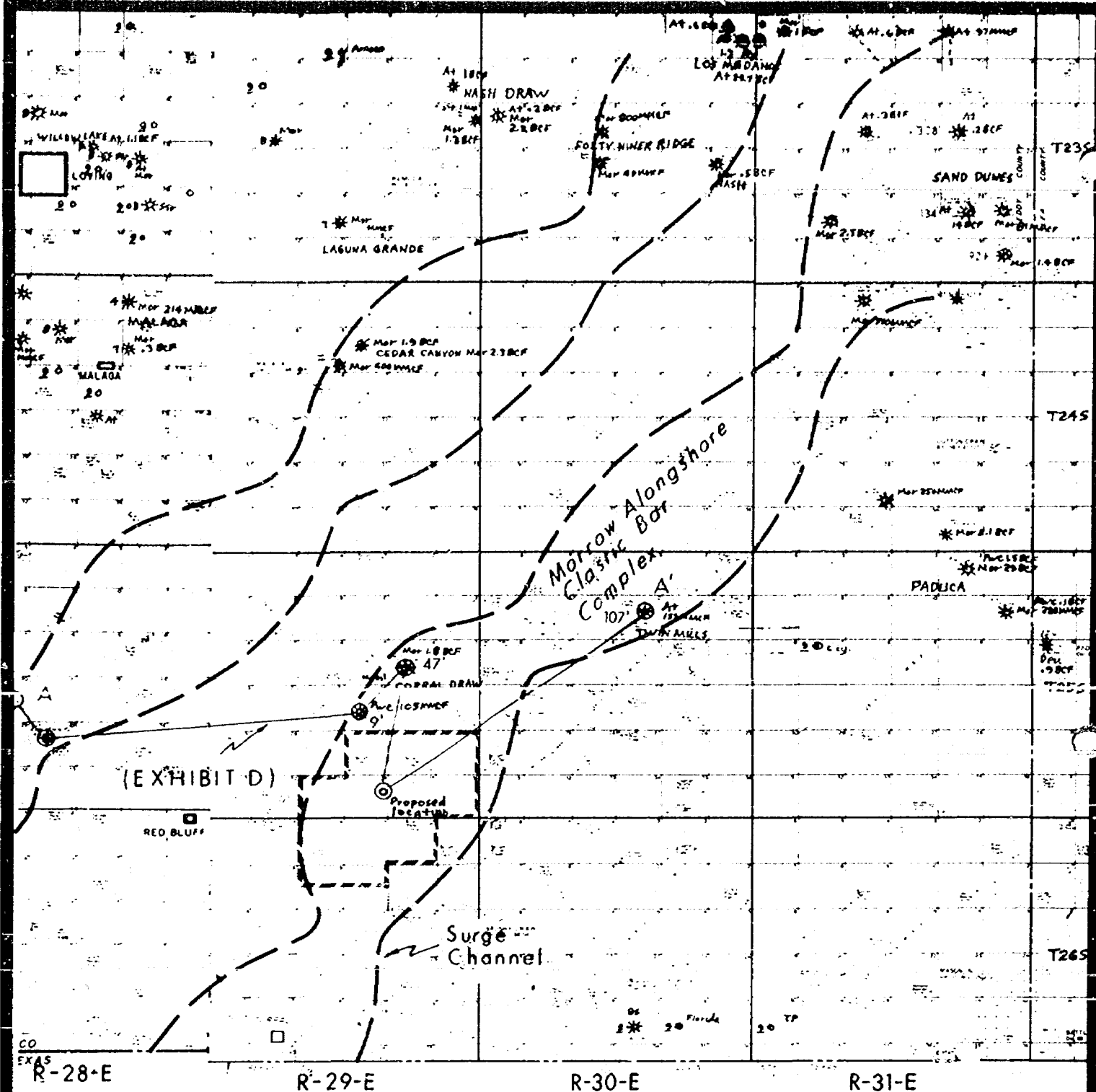
EXHIBIT A-----Regional Index Map

EXHIBIT B-----Morrow "B" Limestone Structure

EXHIBIT C-----Lower Morrow Sandstone Isolith

EXHIBIT D-----West-East Stratigraphic
Cross Section A-A'

EXHIBIT E-----Current Well Cost Estimate



LEGEND

Pay zone abbreviations
B.S. = Permian Bone Spring
P.W. = Permian Wolfcamp
St. = Pennsylvanian Stroman
At. = " Atoka
Mor. = " Morrow
Dev. = Devonian
MM# BCF Numbers = 1-1-78 Cum. Prod.
Footage Numbers = Net Lower Morrow S.S.

SCALE

1" = 3 Miles

INDEX MAP OF PROPOSED BISON WALLOW UNIT EDDY COUNTY, NEW MEXICO

EXHIBIT A

-15-79

ALL feldman



INEXCO OIL COMPANY

1100 Milam Bldg. - Houston, Texas 77002
713-651-3300

G E O L O G I C A L R E P O R T

PROPOSED BISON WALLOW UNIT EDDY COUNTY, NEW MEXICO

PURPOSE

Purpose of this report is to summarize the geological reasons for formation of a 7040 acre Federal unit to be tested by a 14,200 foot Pennsylvanian Morrow wildcat in the SE/4 of the NE/4 of Section 34, T25S, R29E, Eddy County, New Mexico. Total depth will be 14,200 feet or 175 feet below the top of the Morrow "C" zone, not to exceed 14,400 feet.

Proposed unit is 9 1/2 miles southeast of the town of Malaga, New Mexico and 13 miles southeast of the town of Loving, New Mexico (EXHIBIT A). It is centrally located in the north end of the Delaware Basin about midway between the surface outcrop of the Permian Capitan carbonate reef to the west, and its subsurface counterpart to the east in southeastern Lea County, New Mexico. Locally, the unit will be situated just east of the Pecos River and two miles north of Red Bluff Reservoir.

GENERAL GEOLOGY

Proposed Bison Wallow Unit is centrally located in the north end of the Delaware Basin, but is about 30 miles west of its axis of sedimentary deposition. The depocenter lies along the west flank of the vertical block uplift, which is termed the Central Basin Platform. Stratigraphic and structural strike in the vicinity of the prospect are northeast-southwest (EXHIBITS B & C). Regional structural dip is to the east-southeast at two degrees at the Morrow horizon and coincides with sedimentary thickening in the same direction. The sedimentary depocenter of the Permian Delaware Basin is approximately the axis

of the Pre-Permian Tobosa Basin.

Proposed unit is on the western shelf of the Tobosa Basin which was a northern embayment of the Llanoria seaway. During early Pennsylvanian Morrowan time the Tobosa Basin widened to the northwest. This was probably a response to the incipient uplift of the Central Basin Platform during late Mississippian time as evidenced by differential sedimentation. Clean Meramecian and Chesteran carbonates deposited in the vicinity of the platform change facies into argillaceous carbonates and shales in the Midland and Delaware Basins.

As the Tobosa seaway transgressed northwestward during Early Pennsylvanian time, it encroached to the northwest onto a cratonic element termed the Pedernal Landmass which is centered in Lincoln County, New Mexico. This episodic transgression was marked by the periodic deposition of a number of along-shore clastic bar complexes parallel to the southwest flank of the Pedernal Landmass. The Bison Wallow Prospect is located on one of these northeast-southwest trending bars (EXHIBIT A). Strike continuity of these clastic bars is interrupted by surge channels filled with siltstone and shale. The fine grained clastics in these may provide lateral barriers for hydrocarbon stratigraphic entrapment. Individual along-shore bar trends are separated shelfward and basinward by silty and shaley lagoonal and basinal facies.

The shallow marine depositional character of the along-shore bars is indicated by light colored oolitic limestone beds interbedded with cyclic siliceous clastics. Locally, these northeast-southwest trending bar complexes are crossed diagonally by northwest-southeast trending fluvial-deltaic channels. These channels are characterized by poorly cemented clear quartz conglomeratic fill which often provides excellent reservoir rock. Sparse well control in the vicinity of the Bison Wallow Prospect precludes prediction of the location of any of these channels.

Two diagnostic characteristics of Lower Morrow along-shore clastic bar complexes are an increase of net sandstone and a stratigraphic descent of the base of sandstone toward their along-shore depositional axes. These characteristics are present on the northwest flank of the Bison Lallow Prospect as illustrated by the Morrow sandstone beds encountered in the Mobil No's. 1 and 2 Corral Draw Unit wells (EXHIBITS C & D). The No. 1 Corral Draw Unit (Sec. 14, 25S, 29E) was closer to the axis of the Lower Morrow along-shore bar than the No. 2 Corral Draw Unit well (Sec. 22, 25S, 29E), as indicated by an increase in Morrow net sandstone and a lower stratigraphic position of basal Morrow sandstone (EXHIBIT D). The Bass No. 42 Poker Lake Unit (Sec. 10, 25S, 30E), on the basinward flank of the same Morrow along-shore bar trend, was closer to the depositional axis than the two Mobil wells based on the same distinguishing features (EXHIBITS A & D).

Relative to Permian sedimentation, this prospect is centrally located in the Delaware Basin about midway between the surface outcrop of the Permian Capitan carbonate reef to the west and its subsurface counterpart to the east. Capitan reef is the youngest of several reefs flanking this basin which progressively deepened and shrank in areal extent during Permian time. In Post Capitan Permian time, this basin was cut off from open marine waters and the Delaware Basin inside the Capitan reef highlands became an isolated evaporative pan. Over 2400 feet of seasonally varved gypsiferous evaporites and carbonaceous material, known as the Castile Formation, were deposited in this localized depression. This sedimentation, accompanied by some peripheral fore-reef down to basin faulting and slumping, filled this local topographic basin to near the top of the flanking Capitan reef highlands. Subsequently, evaporate deposition spread over the rest of the Permian Basin. These younger evaporites, up to 3000 feet thick, are the Salado Formation.

Practical importance of the Delaware Basin localization of Castile and thick fore-reef Capitan basinal clastics is that most underlying Pre-Capitan age reservoir rocks appear to be at least partially pressure isolated from the rest of the region. As a result, porous and permeable reservoirs are characterized by abnormally high pressures which increase toward the sedimentary depocenter of the basin (EXHIBIT D). Abnormally high reservoir pressures, generally increase reservoir proficiency.

LOCAL GEOLOGY

Bison Wallow Prospect is a northeast-southwest trending feature which has been tested by two wells on its north end, Mobil No's. 1 and 2 Corral Draw Units. The No. 1 Corral Draw was completed in the Morrow clastic section after testing GCSW in the Upper Devonian. Well was potentialed 12-31-73 for a COF of 19.5 MMCFGPD from the upper part of the Morrow Clastic Formation. Largest 4 point test flow was 9.4 MMCFGPD thru a 22/64" choke with a 3858# T.P. Other tests are shown on attached cross section. As of 1-1-78, this well had produced 1.768 BCFG since 12-74. It produced 740 MMCFG during 1977 and has an E.U.R. of 2.57 BCFG. Mobil No. 2 Corral Draw was completed in a Wolfcamp carbonate reservoir after swabbing water from thin sandstone beds in the Morrow (EXHIBIT D). No. 2 Corral Draw flowed 6.15 MMCFGPD thru a 2" orifice with a 2615# T.P. COF was 6.577 MCF and well had produced 105 MMCFG as of 1-1-78. It made only 18 MMCFG in 1977.

Only 47 net feet of sandstone were present in the Lower Morrow in the No. 1 Corral Draw and 9 net feet in the No. 2 well (EXHIBIT C). Wells to the northeast on this same along-shore trend have penetrated over 100 net feet of Morrow sandstone (EXHIBIT A).

The small amount of Morrow sandstone present and its stratigraphic position

in the two Mobil Corral Draw wells suggest they are on the edge of a sandstone bar complex. No sandstone is present in the lower part of the "B" zone of the Morrow clastic section in either well. Combined with the westward climb of the sandstone base from the No's. 1 and 2 wells, these wells are interpreted as being located on the western lagoonal silty and argillaceous side of a sandstone bar. Best developed sandstones of this bar should be present to the southeast of these two wells (EXHIBITS A, C & D).

Examples of the prolific multipay production obtainable in southeast Eddy County are the following:

<u>Field</u>	<u>Dist. & Direction From Proposed Inexco Test</u>	<u>Reservoir of Disc. or 1st Prod.</u>	<u>No. of Wells</u>	<u>1-1-78 Cum. in BCF</u>
Los Medanos	18 miles North Northeast	Strawn 3-73	1	1.325
		Atoka 8-74	2	19.691 (19.1 from 1 well)
		Morrow 1-76	1	.944
Sand Dunes	15 miles Northeast	Atoka 3-70	1	14.349 INA
		Morrow 7-73	2	1.531
Paduca	13 miles East Northeast	Wolfcamp	1	1.469 INA
		Morrow 6-70	3	34.552 (29.1 from 1 well)
		Devonian	1	.934 INA

Possible pay zones in Bison Wallow area include Permian Bell Canyon (Delaware SS) Brushy Canyon and Bone Spring sandstones. Carbonates and sandstones of the Permian Wolfcamp and Pennsylvanian Strawn, Atoka and Morrow are the most attractive pay zones in this portion of the Permian Basin.

Based on an estimated DF of 3000 feet, a 14,200 foot test in the SENE of Sec. 34, 25S, 29E, should encounter the following markers:

Delaware 1m	3050 (- 50)'
Wolfcamp	10,120 (-7120)'
Cisco - Canyon	12,220 (-9220)'

Strawn	12,395 (- 9395)'
Atoka	12,515 (- 9515)'
U. Morrow lm fm	13,170 (-10,170)'
L. Morrow clastic fm	13,440 (-10,440)'
Morrow B lm	13,590 (-10,590)'
Morrow C zone	14,025 (-11,025)'

Outline of the proposed Bison Wallow Federal Unit is based on two parameters:

- (1) Over 50% of all 320 acre Pennsylvanian Morrow gas location sites fall within the 10,700 foot subsea contour on the Morrow "B" limestone structure map (EXHIBIT B),
- (2) Approximately 50% of all 320 acre Pennsylvanian Morrow gas location sites fall within the 100 foot Lower Morrow net sandstone isolith contour as interpreted on the Lower Morrow sandstone isolith map (EXHIBIT C).

M. L. Feldman

/ds 2-23-79



INEXCO OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

EXHIBIT E

AFE No. (Inexco Property No.) _____
Prospect Bison Wallow
Well Name and Number Bison Wallow Unit #1
Estimated Days to Drill 125
Estimated Days to Complete 12

Location: SE NE
Sec 34-T-25S-R29E
Eddy County, NM

	SANDS	AND	DEPTH
OBJECTIVES	<u>U. Morrow Im</u>		<u>13,170</u>
	<u>L. Morrow Clastic</u>		<u>13,450</u>
	<u>Morrow "B" Im</u>		<u>13,617</u>
	<u>Morrow "C"</u>		<u>14,025</u>

Est. T.D. 14,200
Est. Spud _____
AFE Prepared 3/7/79
By: V. C. Mather

XXX Drill

() Workover Same Zone

() Recomplete in New Zone

DESCRIPTION		ESTIMATED COSTS		ACTUAL COST
		DRILLING	COMPLETION	
INTANGIBLE COSTS (343):				
01	Access and Location Costs	30,000	6,000	
02	Move-in, Rig-up, Rig-down, Move-out	30,000		
	Contract Drilling			
03	Footage _____ ft. at \$ _____ ft.			
04	Daywork <u>125</u> days at \$ <u>4650</u> day.	581,300		
05	Completion Unit <u>12</u> days at \$ <u>2000</u> day		24,000	
06	Fuel, Power, Water and Water Lines.	26,000		
07	Bits, Reamers and Stabilizers	84,800		
	Equipment Rental	110,500		
08	Cementing and Squeezing -			
	Conductor Casing 13 3/8	2,000		
	Surface Casing 9 5/8	17,000		
	Intermediate Casing 7 5/8	11,000		
	Production Casing			
	Liner		14,000	
	Other			
10	Drilling Mud and Chemicals	214,000		
10	Mud Logger	64,800		
11	Logging, Coring and Testing -			
	Cores			
	DST's 7	16,800		
	Logs... EDC/CNL/GR . 0'-11,000'; 11,000' to TD			
 DIL/RXO... Surf. csg. to 11,000'; 11,000' to TD	44,100		
			
12	Perforating		9,000	
12	Acidizing and Fracturing			
13	Labor and Supervision	2,000	2,000	
13	Contract Labor	87,600	17,900	
14	Drilling Overhead	11,400		
15	Transportation	9,000	4,100	
16	Sales Tax	6,200	7,700	
17	Other Miscellaneous Intangible Costs	20,000	15,000	
18	Losses, Damages and Abandonment	13,000	(12,000)	
19	Fishing Tool Expense and/or Directional Drilling			
	Dry Hole Contributions			
22	Well Control Insurance	10,700		
TOTAL INTANGIBLE		\$ 1,479,900	\$ 1,392,200	\$ 87,700

DESCRIPTION				ESTIMATED COSTS		ACTUAL COST
				DRILLING	COMPLETION	
TANGIBLE COSTS (342):						
	Conductor Csg.	350	ft. of 13 3/8 at 16.05 /ft	5,700		
02	Surface Csg.	3000	ft. of 9 5/8 at 12.16 /ft	36,600		
03	Intermediate Csg.	11000	ft. of 7 5/8 at 18.90 /ft	209,800		
04	Production Csg.		ft. of at /ft			
05	Liner	3600	ft. of 5 at 14.51 /ft		52,300	
06	Tubing	14200	ft. of 2 7/8 2 3/8 10.73 /ft		152,300	
07	Casing Head Assembly			10,000		
07	Tubing Head Assembly				40,000	
08	Pumping Unit					
09	Prime Mover					
12	Installation Costs and Non-Controllable Well Equipment				20,000	
15	Storage Tanks				8,000	
16	Separator				9,000	
17	Dehydrator				14,000	
18	Heater - Treater				8,000	
19	LACT Unit					
20	LTX or Production Unit					
21	Line Pipe				4,000	
22	Gas Recorders				4,000	
23	Installation Costs and Non-Controllable Lease Equipment				18,000	
TOTAL TANGIBLE				\$ 591,700	\$ 262,100	\$ 329,600
TOTAL WELL				\$2,071,600	\$1,654,300	\$ 417,300

It is recognized that the amounts herein are estimates only and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than that herein set out.

OWNERSHIP APPROVALS:

INEXCO OIL COMPANY	Interest:	\$	* Authorized Signature	Date:

WELL CONTROL INSURANCE

This AFE includes in Item 22, Page 1, Well Control Insurance, during drilling and completion only, covering: 1) the cost of control of a well in the event of a blowout; 2) bodily injury or property damage liability caused by pollution, seepage or contamination; 3) pollution cleanup; 4) extinguishing of an oil or gas well fire; and 5) redrilling of the well. You MUST INDICATE your acceptance or declination of your prorata share of the subject insurance by signing below. NO INDICATION WILL BE A CONCLUSIVE PRESUMPTION OF ACCEPTANCE.

If you decline the coverage offered, you must satisfy Inexco that you already have insurance or that you can bear the out of pocket cost of well control.

*INSURANCE COVERAGE ONLY

Accept _____

Decline _____

☐ Will Self Insure ☐ Have Alternate Insurance

*PLEASE BE SURE YOU HAVE SIGNED IN BOTH REQUIRED PLACES

INSURANCE

Operator shall at all times during the term of this Agreement carry insurance to protect the parties hereto as follows:

(1) Workers' Compensation, U. S. Longshoremen's Act and Harbor Workers' coverage as required by the laws of the state where the operations are to be conducted and Employer's Liability Insurance with a limit of not less than \$100,000.

(2) Comprehensive General Public Liability Insurance, including completed operations insurance, with limits of not less than:

- \$250,000 - each occurrence
- \$500,000 - each accident
- \$100,000 - for loss of or damage to property in any one accident

The policy is extended to cover as additional insureds all co-owners, joint ventures, mining partners with the name insured in the oil and gas properties.

(3) Automobile Public Liability Insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:

- \$250,000 - each occurrence
- \$500,000 - each accident
- \$100,000 - for loss of or damage to property in any one accident

If automotive equipment used is owned exclusively by Operator, no charge will be made to the Joint Account for premiums for this coverage except as provided in Section 111, Paragraph 5 of the Accounting Procedure.

Operator shall require all contractors performing work under this Agreement to carry the following insurance:

(1) Workers' Compensation, U. S. Longshoremen's Act and Harbor Workers' coverage as required by the laws of the state where the operations are to be conducted and Employer's Liability Insurance with a limit of not less than \$100,000.

(2) Comprehensive General Public Liability Insurance with limits of not less than:

- \$250,000 - each occurrence
- \$500,000 - each accident
- \$100,000 - for loss of or damage to property in any one accident

(3) Automobile Public Liability Insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:

- \$250,000 - each occurrence
- \$500,000 - each accident
- \$100,000 - for loss of or damage to property in any one accident

(4) Contractual Insurance covering indemnity agreement and Contractor's other obligations under this contract with limits of not less than:

- \$250,000 - each occurrence
- \$500,000 - each accident
- \$100,000 - for loss of or damage to property in any one accident

Excess liability insurance may be carried to meet the above requirements.

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

THIS AGREEMENT, entered into as of the 12th day of _____
March, 19 79, by and between the parties
subscribing, ratifying, or consenting hereto, and herein referred
to as the "parties hereto,"

W I T N E S S E T H :

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 Commissioner of Public Lands of the State of
New Mexico is authorized by an Act of the Legislature (Sec. 7-11-29
N.M. Statutes 1953 Annotated) to consent to or approve this agree-
ment 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 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 BISON WALLOW 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 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:

T-25-S, R-29-E, NMPM
Section 25: All
Section 26: All
Section 27: All
Section 33: All
Section 35: All
Section 36: All

T-26-S, R-29-E, NMPM
Section 2: All
Section 3: All
Section 4: All
Section 9: N 1/2
Section 10: N 1/2

EDDY COUNTY, NEW MEXICO
Containing 7,040. ACRES,
More or Less

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentities of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in 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 when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," 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 (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission."

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 Geological Survey, hereinafter referred to as "Director", or on demand of the Land Commissioner, after preliminary concurrence by the Director, 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 Supervisor, the Land Commissioner and the State Commission, and copies thereof mailed to the last known address of each working-interest owner, lessee, and lessor whose interest are affected, advising that thirty (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 Supervisor, the Land Commissioner, and the State Commission, 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 Supervisor, the Land Commissioner, and State Commission, become effective as of the date prescribed in the notice thereof.

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are 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 Supervisor and the Land Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the ten-year period specified in this subsection 2 (e), a single extension of not to exceed two years may be accomplished by consent of the owners of 90% of the working interest 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 ten-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. INEXCO OIL COMPANY
is hereby designated as Unit Operator and by signature hereto as

Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used 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 six (6) months after notice of intention to resign has been served by Unit Operator on all working-interest owners and the Supervisor and the Land Commissioner, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and the State Commission as to State lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring

prior to the effective date of its resignation.

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

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

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

(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 and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the Director and the Land Commissioner, at their 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 and one true copy with the Land Commissioner, prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Pennsylvanian Age Beds have been penetrated to 175 feet below the top of the Morrow "C" Zone and tested, or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 14,400 feet. Until the discovery of a deposit of unitized substances

capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

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

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (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 Supervisor, the Land Commissioner, and State Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Land Commissioner, and State Commission, 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission.

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 Supervisor and the Land Commissioner are authorized to grant a reasonable extension of the six-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 Supervisor, the Land Commissioner, and State Commission, 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 Supervisor, the Land Commissioner, or the State Commission, the Unit Operator shall submit for approval by the Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and the State Commission. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the Supervisor, the Land Commissioner, and State Commission. 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 Supervisor, the Land Commissioner, and State Commission. 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 Supervisor, the Land Commission, and State Commission, 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 Supervisor and the Land Commission. Royalties due the United States shall be determined by the Supervisor for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the Supervisor 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 Supervisor, the Land Commissioner, and State Commission 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.

Determination as to whether a well completed within the Unit Area prior to the effective date of this agreement is capable of producing unitized substances in paying quantities shall be deferred until an initial participating area is established as a result of the completion of a well for production in paying quantities in accordance with Section 9 hereof.

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, Land Commission, and State Commission, or unavoidable 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 and the Land Commissioner, 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 area has been established if such location is not within said participating area, unless within 90 days of receipts of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working-interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this

agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

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

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

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into

which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor and the Land Commissioner as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

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

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates 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 Supervisor and Land Commissioner deem 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 and State 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 thereof 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 nonunitized 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 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 of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the 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 of 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, or 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 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 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 the approval of the Supervisor 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 are 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 are 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 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.

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 interest affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner 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 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.

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

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

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor, the Land Commissioner, the State Commission, and the Unit Operator prior to the approval of this agreement by the Supervisor. Any oil or gas interest in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final

approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor, the Land Commissioner, and the State Commission of duly executed counterparts of all or any papers necessary to establish commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor, the Land Commissioner, or State Commission.

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

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

by the terms of this agreement.

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

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

(1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or

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

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

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

An appropriate accounting and settlement shall be made, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made

as between the parties within thirty (30) days. In the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

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

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

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

33. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working-interest owners, nor any of them, shall be subject to any forfeiture, termination, or expiration of any right hereunder or under any leases or contracts subject hereto, or to any penalty

or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the working-interest owners, or any of them, are hindered, delayed, or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the State Commission, agree that all powers and authority vested in the State Commission in and by any provisions of this agreement are vested in the State Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

34. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify or change either the special Federal Lease stipulations relating to surface management or such special Federal Lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

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

ATTEST:

INEXCO OIL COMPANY

BY:

ASSISTANT SECRETARY

BY:

WILLIAM G. GOODWIN
VICE-PRESIDENT

ADDRESS: 1100 Milam Bldg.
Suite 1900
Houston, Texas 77002

STATE OF TEXAS)
)
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before this day of _____, 19____, by WILLIAM G. GOODWIN who is Vice-President of INEXCO OIL COMPANY, a Delaware Corporation, for and on behalf of said Corporation.

My Commission Expires: _____



IN REPLY REFER TO:

United States Department of the Interior

GEOLOGICAL SURVEY
Box 25046
Denver Federal Center
Denver, Colorado 80225

RECEIVED

APR - 9 1979

LAND DEPT.

APR 6 1979

Inexco Oil Company
Attention: William G. Goodwin
1100 Milam Building - Suite 1900
Houston, Texas 77002

Gentlemen:

Your application of March 12, 1979 filed with the U.S. Geological Survey office in Roswell, New Mexico, requests the designation of the Bison Wallow unit area embracing 7,040.00 acres, more or less, Eddy County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act, as amended.

Pursuant to unit plan regulations 30 CFR 226 the land requested as outlined on your plat marked "Exhibit A Bison Wallow Unit Area, Eddy County, New Mexico" is hereby designated as a logical unit area.

The unit agreement submitted for the area designated should provide for a well to test the Morrow "C" Zone or to a depth of 14,400 feet. Your proposed use of the Form of Agreement for Unproved Areas will be accepted with the modifications requested in your application.

If conditions are such that further modification of said standard form is deemed necessary, three copies of the proposed modifications with appropriate justification must be submitted to this office through the Oil and Gas Supervisor for preliminary approval.

In the absence of any other type of land requiring special provisions or of any objections not now apparent, a duly executed agreement identical with said form, modified as outlined above, will be approved if submitted in approvable status within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted which, in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.



BEFORE EXAMINER NOTTER	
OIL CONSERVATION DIVISION	
INEXCO	EXHIBIT NO. 2
CASE NO.	6519

When the executed agreement is transmitted to Roswell, New Mexico for the Supervisor's approval, include the latest status of all acreage. In preparation of Exhibits "A" and "B", follow closely the format of the sample exhibits attached to the 1968 reprint of the aforementioned form.

Inasmuch as this unit agreement involves State land, we are sending a copy of this letter to the Commissioner of Public Lands in Santa Fe. Please contact the State of New Mexico before soliciting joinders regardless of prior contacts or clearances from the State.

Sincerely yours,

William H. McDermott
ACTING Regional Conservation Manager
For the Director

Fig # 3
T-2400
Area 6619

Unit Outline
Treat No.
Federal Lands
5,760.00 Acres
81.8182 % of Unit Area
State Lands
1,280.00 Acres
18.1818 % of Unit Area

BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO
EXHIBIT "A"
Scale in Miles
NM-146

NECO COMPANY
100 William Bldg. - Houston, Texas 77002
713-651-3300

Tract No. _____

Federal Lands
5,760.00 Acres
81.8182 % of Unit Area

State Lands	1,280.00 Acres	18.1818 % of Unit Area
-------------	----------------	------------------------

BISON WALLOW UNIT AREA

EDDY COUNTY, NEW MEXICO

EXHIBIT "A"

Score in Miles

3-22-79

0

NM-146

100 Milam Bldg. - Houston, Texas 77002

713-651-3300

INEXCO OIL COMPANY

I N E X C O O I L C O M P A N Y

GEOLOGY OF THE PROPOSED

BISON WALLOW UNIT

EDDY COUNTY, NEW MEXICO

Exhibit 4
Case 6519

M. L. Feldman
February 1, 1979

Exploration Memo #66-77

ENCLOSURES AND ATTACHMENTS

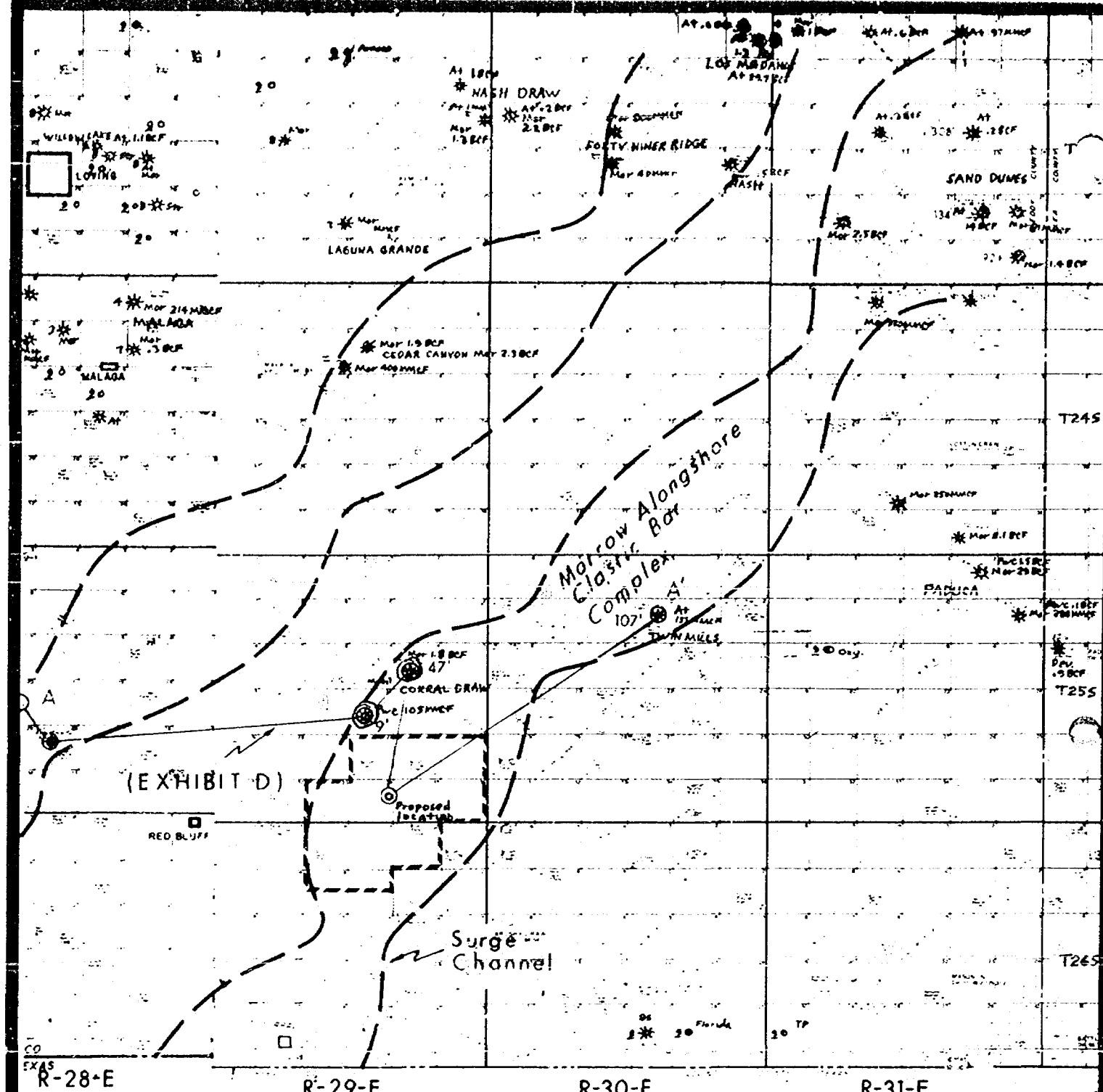
EXHIBIT A-----Regional Index Map

EXHIBIT B-----Morrow "B" Limestone Structure

EXHIBIT C-----Lower Morrow Sandstone Isolith

EXHIBIT D-----West-East Stratigraphic
Cross Section A-A'

EXHIBIT E-----Current Well Cost Estimate



LEGEND

Pay zone abbreviations
 B.S. = Permian Bone Spring
 P.W. = Permian Wolfcamp
 Str. = Pennsylvanian Strawn
 At. = Atoka
 Mor. = Morrow
 Dev. = Devonian
 MM+BCF Numbers = 1-1-78 Cum. Prod.
 Footage Numbers = Net Lower Morrow S.S.

SCALE

1" = 3 Miles

**INDEX MAP OF PROPOSED
 BISON WALLOW UNIT
 EDDY COUNTY, NEW MEXICO**

EXHIBIT A

1-15-79

M.L. Feldman



INEXCO OIL COMPANY

1100 Milam Bldg. - Houston, Texas 77002
 713-651-3300

G E O L O G I C A L R E P O R T

PROPOSED BISON WALLOW UNIT EDDY COUNTY, NEW MEXICO

PURPOSE

Purpose of this report is to summarize the geological reasons for formation of a 7040 acre Federal unit to be tested by a 14,200 foot Pennsylvanian Morrow wildcat in the SE/4 of the NE/4 of Section 34, T25S, R29E, Eddy County, New Mexico. Total depth will be 14,200 feet or 175 feet below the top of the Morrow "C" zone, not to exceed 14,400 feet.

Proposed unit is 9 1/2 miles southeast of the town of Malaga, New Mexico and 13 miles southeast of the town of Loving, New Mexico (EXHIBIT A). It is centrally located in the north end of the Delaware Basin about midway between the surface outcrop of the Permian Capitan carbonate reef to the west, and its subsurface counterpart to the east in southeastern Lea County, New Mexico. Locally, the unit will be situated just east of the Pecos River and two miles north of Red Bluff Reservoir.

GENERAL GEOLOGY

Proposed Bison Wallow Unit is centrally located in the north end of the Delaware Basin, but is about 30 miles west of its axis of sedimentary deposition. The depocenter lies along the west flank of the vertical block uplift, which is termed the Central Basin Platform. Stratigraphic and structural strike in the vicinity of the prospect are northeast-southwest (EXHIBITS B & C). Regional structural dip is to the east-southeast at two degrees at the Morrow horizon and coincides with sedimentary thickening in the same direction. The sedimentary depocenter of the Permian Delaware Basin is approximately the axis

of the Pre-Permian Tobosa Basin.

Proposed unit is on the western shelf of the Tobosa Basin which was a northern embayment of the Llanoria seaway. During early Pennsylvanian Morrowan time the Tobosa Basin widened to the northwest. This was probably a response to the incipient uplift of the Central Basin Platform during late Mississippian time as evidenced by differential sedimentation. Clean Meramecian and Chesteran carbonates deposited in the vicinity of the platform change facies into argillaceous carbonates and shales in the Midland and Delaware Basins.

As the Tobosa seaway transgressed northwestward during Early Pennsylvanian time, it encroached to the northwest onto a cratonic element termed the Pedernal Landmass which is centered in Lincoln County, New Mexico. This episodic transgression was marked by the periodic deposition of a number of along-shore clastic bar complexes parallel to the southwest flank of the Pedernal Landmass. The Bison Wallow Prospect is located on one of these northeast-southwest trending bars (EXHIBIT A). Strike continuity of these clastic bars is interrupted by surge channels filled with siltstone and shale. The fine grained clastics in these may provide lateral barriers for hydrocarbon stratigraphic entrapment. Individual along-shore bar trends are separated shelfward and basinward by silty and shaley lagoonal and basinal facies.

The shallow marine depositional character of the along-shore bars is indicated by light colored oolitic limestone beds interbedded with cyclic siliceous clastics. Locally, these northeast-southwest trending bar complexes are crossed diagonally by northwest-southeast trending fluvial-deltaic channels. These channels are characterized by poorly cemented clear quartz conglomeratic fill which often provides excellent reservoir rock. Sparse well control in the vicinity of the Bison Wallow Prospect precludes prediction of the location of any of these channels.

Two diagnostic characteristics of Lower Morrow along-shore clastic bar complexes are an increase of net sandstone and a stratigraphic descent of the base of sandstone toward their along-shore depositional axes. These characteristics are present on the northwest flank of the Bison Wallow Prospect as illustrated by the Morrow sandstone beds encountered in the Mobil No's. 1 and 2 Corral Draw Unit wells (EXHIBITS C & D). The No. 1 Corral Draw Unit (Sec. 14, 25S, 29E) was closer to the axis of the Lower Morrow along-shore bar than the No. 2 Corral Draw Unit well (Sec. 22, 25S, 29E), as indicated by an increase in Morrow net sandstone and a lower stratigraphic position of basal Morrow sandstone (EXHIBIT D). The Bass No. 42 Poker Lake Unit (Sec. 10, 25S, 30E), on the basinward flank of the same Morrow along-shore bar trend, was closer to the depositional axis than the two Mobil wells based on the same distinguishing features (EXHIBITS A & D).

Relative to Permian sedimentation, this prospect is centrally located in the Delaware Basin about midway between the surface outcrop of the Permian Capitan carbonate reef to the west and its subsurface counterpart to the east. Capitan reef is the youngest of several reefs flanking this basin which progressively deepened and shrank in areal extent during Permian time. In Post Capitan Permian time, this basin was cut off from open marine waters and the Delaware Basin inside the Capitan reef highlands became an isolated evaporative pan. Over 2400 feet of seasonally varved gypsiferous evaporites and carbonaceous material, known as the Castile Formation, were deposited in this localized depression. This sedimentation, accompanied by some peripheral fore-reef down to basin faulting and slumping, filled this local topographic basin to near the top of the flanking Capitan reef highlands. Subsequently, evaporate deposition spread over the rest of the Permian Basin. These younger evaporites, up to 3000 feet thick, are the Salado Formation.

Practical importance of the Delaware Basin localization of Castile and thick fore-reef Capitan basinal clastics is that most underlying Pre Capitan age reservoir rocks appear to be at least partially pressure isolated from the rest of the region. As a result, porous and permeable reservoirs are characterized by abnormally high pressures which increase toward the sedimentary depocenter of the basin (EXHIBIT D). Abnormally high reservoir pressures, generally increase reservoir proficiency.

LOCAL GEOLOGY

Bison Wallow Prospect is a northeast-southwest trending feature which has been tested by two wells on its north end, Mobil No's. 1 and 2 Corral Draw Units. The No. 1 Corral Draw was completed in the Morrow clastic section after testing GCSW in the Upper Devonian. Well was potentialled 12-31-73 for a COF of 19.5 MMCFGPD from the upper part of the Morrow Clastic Formation. Largest 4 point test flow was 9.4 MMCFGPD thru a 22/64" choke with a 3858# T.P. Other tests are shown on attached cross section. As of 1-1-78, this well had produced 1.768 BCFG since 12-74. It produced 740 MMCFG during 1977 and has an E.U.R. of 2.57 BCFG. Mobil No. 2 Corral Draw was completed in a Wolfcamp carbonate reservoir after swabbing water from thin sandstone beds in the Morrow (EXHIBIT D). No. 2 Corral Draw flowed 6.15 MMCFGPD thru a 2" orifice with a 2615# T.P. COF was 6.577 MCF and well had produced 105 MMCFG as of 1-1-78. It made only 18 MMCFG in 1977.

Only 47 net feet of sandstone were present in the Lower Morrow in the No. 1 Corral Draw and 9 net feet in the No. 2 well (EXHIBIT C). Wells to the north-east on this same along-shore trend have penetrated over 100 net feet of Morrow sandstone (EXHIBIT A).

The small amount of Morrow sandstone present and its stratigraphic position

in the two Mobil Corral Draw wells suggest they are on the edge of a sandstone bar complex. No sandstone is present in the lower part of the "B" zone of the Morrow clastic section in either well. Combined with the westward climb of the sandstone base from the No's. 1 and 2 wells, these wells are interpreted as being located on the western lagoonal silty and argillaceous side of a sandstone bar. Best developed sandstones of this bar should be present to the southeast of these two wells (EXHIBITS A, C & D).

Examples of the prolific multipay production obtainable in southeast Eddy County are the following:

Field	Dist. & Direction From Proposed Inexco Test	Reservoir of Disc. or 1st Prod.	No. of Wells	1-1-78 Cum. in BCF
Los Medanos	18 miles North Northeast	Strawn 3-73	1	1.325
		Atoka 8-74	2	19.691 (19.1 from 1 well)
		Morrow 1-76	1	.944
Sand Dunes	15 miles Northeast	Atoka 3-70	1	14.349 INA
		Morrow 7-73	2	1.531
Paduca	13 miles East Northeast	Wolfcamp	1	1.469 INA
		Morrow 6-70	3	34.552 (29.1 from 1 well)
		Devonian	1	.934 INA

Possible pay zones in Bison Wallow area include Permian Bell Canyon (Delaware SS) Brushy Canyon and Bone Spring sandstones. Carbonates and sandstones of the Permian Wolfcamp and Pennsylvanian Strawn, Atoka and Morrow are the most attractive pay zones in this portion of the Permian Basin.

Based on an estimated DF of 3000 feet, a 14,200 foot test in the SENE of Sec. 34, 25S, 29E, should encounter the following markers:

Delaware 1m	3050 (- 50)'
Wolfcamp	10,120 (-7120)'
Cisco - Canyon	12,220 (-9220)'

Strawn	12,395 (- 9395)'
Atoka	12,515 (- 9515)'
U. Morrow lm fm	13,170 (-10,170)'
L. Morrow clastic fm	13,440 (-10,440)'
Morrow B lm	13,590 (-10,590)'
Morrow C zone	14,025 (-11,025)'

Outline of the proposed Bison Wallow Federal Unit is based on two parameters:

- (1) Over 50% of all 320 acre Pennsylvanian Morrow gas location sites fall within the 10,700 foot subsea contour on the Morrow "B" limestone structure map (EXHIBIT B),
- (2) Approximately 50% of all 320 acre Pennsylvanian Morrow gas location sites fall within the 100 foot Lower Morrow net sandstone isolith contour as interpreted on the Lower Morrow sandstone isolith map (EXHIBIT C).

M. L. Feldman

/ds 2-23-79



INEXCO OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

EXHIBIT E

AFE No. (Inexco Property No.) _____

Prospect Bison WallowWell Name and Number Bison Wallow Unit #1Estimated Days to Drill 125Estimated Days to Complete 12Location: SE NESec 34-T-25S-R29EEddy County, NM

	SANDS	AND	DEPTH
OBJECTIVES	<u>U. Morrow lm</u>		<u>13,170</u>
	<u>L. Morrow Clastic</u>		<u>13,450</u>
	<u>Morrow "B" lm</u>		<u>13,617</u>
	<u>Morrow "C"</u>		<u>14,025</u>

Est. T.D. 14,200

Est. Spud _____

A F E Prepared 3/2/79By: V. C. Mathis

XXX Drill

() Workover Same Zone

() Recomplete in New Zone

DESCRIPTION		ESTIMATED COSTS		ACTUAL COST
		DRILLING	COMPLETION	
INTANGIBLE COSTS (343):				
01	Access and Location Costs	30,000	6,000	
02	Move-in, Rig-up, Rig-down, Move-out	30,000		
Contract Drilling				
03	Footage _____ ft. at \$ _____ ft.			
04	Daywork <u>125</u> days at \$ <u>4650</u> day	581,300		
05	Completion Unit <u>12</u> days at \$ <u>2000</u> day		24,000	
06	Fuel, Power, Water and Water Lines	26,000		
07	Bits, Reamers and Stabilizers	84,800		
	Equipment Rental	110,500		
09	Cementing and Squeezing -			
	Conductor Casing 13 3/8	2,000		
	Surface Casing 9 5/8	17,000		
	Intermediate Casing 7 5/8	11,000		
	Production Casing			
	Liner		14,000	
	Other			
10	Drilling Mud and Chemicals	214,000		
10	Mud Logger	64,800		
11	Logging, Coring and Testing -			
	Cores			
	DST's 7	16,800		
	Logs... FDC/CNL/GR .0'-11,000'; 11,000' to TD			
 DTL/RXO... Surf. csg to 11,000'; 11,000' to TD	44,100		
			
12	Perforating		9,000	
12	Acidizing and Fracturing			
13	Labor and Supervision	2,000	2,000	
13	Contract Labor	87,600	17,900	
14	Drilling Overhead	11,400		
15	Transportation	9,000	4,100	
16	Sales Tax	6,200	7,700	
17	Other Miscellaneous Intangible Costs	20,000	15,000	
18	Losses, Damages and Abandonment	13,000	(12,000)	
19	Fishing Tool Expense and/or Directional Drilling			
	Dry Hole Contributions			
22	Well Control Insurance	10,700		
TOTAL INTANGIBLE		\$ 1,479,900	\$ 87,700	\$

DESCRIPTION				ESTIMATED COSTS		ACTUAL COST
				DRILLING	COMPLETION	
TANGIBLE COSTS (342):						
	Conductor Csg.	350 ft. of 13 3/8 at 16.05 /ft		5,700		
02	Surface Csg.	3000 ft. of 9 5/8 at 12.18 /ft		36,600		
03	Intermediate Csg.	11000 ft. of 7 5/8 at 18.90 /ft		209,800		
04	Production Csg.	ft. of at /ft				
05	Liner	3600 ft. of 5 at 14.51 /ft			52,300	
06	Tubing	14200 ft. of 2 7/8 2 3/8 10.73 /ft			152,300	
07	Casing Head Assembly			10,000		
07	Tubing Head Assembly				40,000	
08	Pumping Unit					
09	Prime Mover					
12	Installation Costs and Non-Controllable Well Equipment				20,000	
15	Storage Tanks				8,000	
16	Separator				9,000	
17	Dehydrator				14,000	
18	Heater - Treater				8,000	
19	LACT Unit					
20	LTX or Production Unit					
21	Line Pipe				4,000	
22	Gas Recorders				4,000	
23	Installation Costs and Non-Controllable Lease Equipment				18,000	
TOTAL TANGIBLE				\$ 591,700	\$ 262,100	\$ 329,600
TOTAL WELL				\$2,071,600	\$1,654,300	\$ 417,300

It is recognized that the amounts herein are estimates only and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than that herein set out.

OWNERSHIP APPROVALS:

INEXCO OIL COMPANY	Interest:	\$	*Authorized Signature	Date:

WELL CONTROL INSURANCE

This AFE includes in Item 22, Page 1, Well Control Insurance, during drilling and completion only, covering: 1) the cost of control of a well in the event of a blowout; 2) bodily injury or property damage liability caused by pollution, seepage or contamination; 3) pollution cleanup; 4) extinguishing of an oil or gas well fire; and 5) redrilling of the well. You MUST INDICATE your acceptance or declination of your prorata share of the subject insurance by signing below. NO INDICATION WILL BE A CONCLUSIVE PRESUMPTION OF ACCEPTANCE.

If you decline the coverage offered, you must satisfy Inexco that you already have insurance or that you can bear the out of pocket cost of well control.

*INSURANCE COVERAGE ONLY

Accept _____

Decline _____

☐ Will Self Insure ☐ Have Alternate Insurance

*PLEASE BE SURE YOU HAVE SIGNED IN BOTH REQUIRED PLACES

INSURANCE

Operator shall at all times during the term of this Agreement carry insurance to protect the parties hereto as follows:

(1) Workers' Compensation, U. S. Longshoremen's Act and Harbor Workers' coverage as required by the laws of the state where the operations are to be conducted and Employer's Liability Insurance with a limit of not less than \$100,000.

(2) Comprehensive General Public Liability Insurance, including completed operations insurance, with limits of not less than:

- \$250,000 — each occurrence
- \$500,000 — each accident
- \$100,000 — for loss of or damage to property in any one accident

The policy is extended to cover as additional insureds all co-owners, joint ventures, mining partners with the name insured in the oil and gas properties.

(3) Automobile Public Liability Insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:

- \$250,000 — each occurrence
- \$500,000 — each accident
- \$100,000 — for loss of or damage to property in any one accident

If automotive equipment used is owned exclusively by Operator, no charge will be made to the Joint Account for premiums for this coverage except as provided in Section 111, Paragraph 5 of the Accounting Procedure.

Operator shall require all contractors performing work under this Agreement to carry the following insurance:

(1) Workers' Compensation, U. S. Longshoremen's Act and Harbor Workers' coverage as required by the laws of the state where the operations are to be conducted and Employer's Liability Insurance with a limit of not less than \$100,000.

(2) Comprehensive General Public Liability Insurance with limits of not less than:

- \$250,000 — each occurrence
- \$500,000 — each accident
- \$100,000 — for loss of or damage to property in any one accident

(3) Automobile Public Liability Insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:

- \$250,000 — each occurrence
- \$500,000 — each accident
- \$100,000 — for loss of or damage to property in any one accident

(4) Contractual Insurance covering indemnity agreement and Contractor's other obligations under this contract with limits of not less than:

- \$250,000 — each occurrence
- \$500,000 — each accident
- \$100,000 — for loss of or damage to property in any one accident

Excess liability insurance may be carried to meet the above requirements.

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

Exhibit 1
Case 6519

THIS AGREEMENT, entered into as of the 12th day of _____
March, 19 79, by and between the parties
subscribing, ratifying, or consenting hereto, and herein referred
to as the "parties hereto,"

W I T N E S S E T H :

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 Commissioner of Public Lands of the State of
New Mexico is authorized by an Act of the Legislature (Sec. 7-11-29
N.M. Statutes 1953 Annotated) to consent to or approve this agree-
ment 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 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 BISON WALLOW 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 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:

T-25-S, R-29-E, NMPM
Section 25: All
Section 26: All
Section 27: All
Section 33: All
Section 35: All
Section 36: All

T-26-S, R-29-E, NMPM
Section 2: All
Section 3: All
Section 4: All
Section 9: N 1/2
Section 10: N 1/2

EDDY COUNTY, NEW MEXICO
Containing 7,040. ACRES,
More or Less

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentities of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in 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 when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," 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 (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission."

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 Geological Survey, hereinafter referred to as "Director", or on demand of the Land Commissioner, after preliminary concurrence by the Director, 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 Supervisor, the Land Commissioner and the State Commission, and copies thereof mailed to the last known address of each working-interest owner, lessee, and lessor whose interest are affected, advising that thirty (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 Supervisor, the Land Commissioner, and the State Commission, 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 Supervisor, the Land Commissioner, and State Commission, become effective as of the date prescribed in the notice thereof.

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are 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 Supervisor and the Land Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the ten-year period specified in this subsection 2 (e), a single extension of not to exceed two years may be accomplished by consent of the owners of 90% of the working interest 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 ten-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. INEXCO OIL COMPANY
is hereby designated as Unit Operator and by signature hereto as

Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used 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 six (6) months after notice of intention to resign has been served by Unit Operator on all working-interest owners and the Supervisor and the Land Commissioner, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and the State Commission as to State lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring

prior to the effective date of its resignation.

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

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

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

(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 and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the Director and the Land Commissioner, at their 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 and one true copy with the Land Commissioner, prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Pennsylvanian Age Beds have been penetrated to 175 feet below the top of the Morrow "C" Zone and tested _____, or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 14,400 feet. Until the discovery of a deposit of unitized substances

capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

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

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (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 Supervisor, the Land Commissioner, and State Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Land Commissioner, and State Commission, 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission.

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 Supervisor and the Land Commissioner are authorized to grant a reasonable extension of the six-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 Supervisor, the Land Commissioner, and State Commission, 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 Supervisor, the Land Commissioner, or the State Commission, the Unit Operator shall submit for approval by the Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and the State Commission. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the Supervisor, the Land Commissioner, and State Commission. 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 Supervisor, the Land Commissioner, and State Commission. 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 Supervisor, the Land Commission, and State Commission, 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 Supervisor and the Land Commission. Royalties due the United States shall be determined by the Supervisor for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the Supervisor 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 Supervisor, the Land Commissioner, and State Commission 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.

Determination as to whether a well completed within the Unit Area prior to the effective date of this agreement is capable of producing unitized substances in paying quantities shall be deferred until an initial participating area is established as a result of the completion of a well for production in paying quantities in accordance with Section 9 hereof.

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, Land Commission, and State Commission, or unavoidable 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 and the Land Commissioner, 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 area has been established if such location is not within said participating area, unless within 90 days of receipts of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working-interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this

agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

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

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

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into

which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor and the Land Commissioner as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

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

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates 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 Supervisor and Land Commissioner deem 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 and State 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 thereof 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 nonunitized 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 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 of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the 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 of 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, or 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 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 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 the approval of the Supervisor 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 are 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 are 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 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.

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 interest affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner 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 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.

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

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

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor, the Land Commissioner, the State Commission, and the Unit Operator prior to the approval of this agreement by the Supervisor. Any oil or gas interest in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final

approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor, the Land Commissioner, and the State Commission of duly executed counterparts of all or any papers necessary to establish commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor, the Land Commissioner, or State Commission.

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

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

by the terms of this agreement.

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

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

(1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or

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

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

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

An appropriate accounting and settlement shall be made, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made

as between the parties within thirty (30) days. In the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

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

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

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

33. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working-interest owners, nor any of them, shall be subject to any forfeiture, termination, or expiration of any right hereunder or under any leases or contracts subject hereto, or to any penalty

or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the working-interest owners, or any of them, are hindered, delayed, or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the State Commission, agree that all powers and authority vested in the State Commission in and by any provisions of this agreement are vested in the State Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

34. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify or change either the special Federal Lease stipulations relating to surface management or such special Federal Lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

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

ATTEST:

INEXCO OIL COMPANY

BY: ASSISTANT SECRETARY

BY: WILLIAM G. GOODWIN
VICE-PRESIDENT

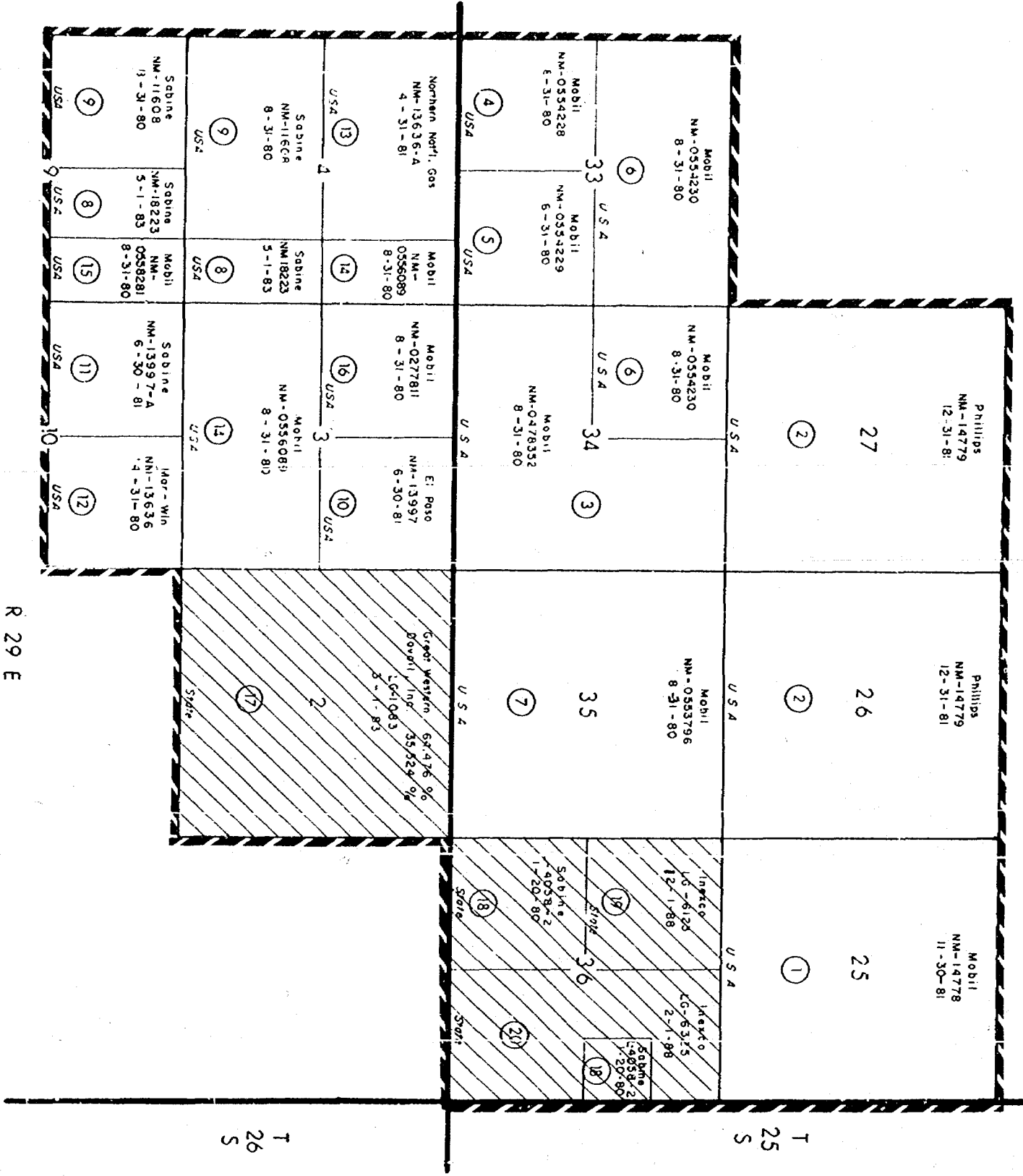
ADDRESS: 1100 Milam Bldg.
Suite 1900
Houston, Texas 77002

STATE OF TEXAS)
)
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before this day of _____, 19____, by WILLIAM G. GOODWIN who is Vice-President of INEXCO OIL COMPANY, a Delaware Corporation, for and on behalf of said Corporation.

My Commission Expires:

Notary Public



BISON WALLOW UNIT AREA

EDDY COUNTY, NEW MEXICO

EXHIBIT "A"

1100 Wilham Bldg., Houston, Texas 77002

713-651-3300

INEXCO OIL COMPANY

- Unit Outline
- Tract No.
- Federal Lands
5,760.00 Acres
81.8182 % of Unit Area
- State Lands
1,280.00 Acres
18.1818 % of Unit Area

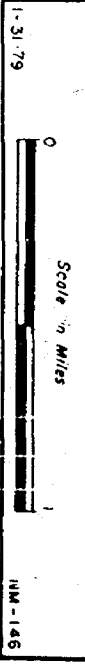


EXHIBIT "B" PAGE (2)
BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INTEREST	WORKING INT. & PERCENTAGE
2.	T25S, R29E Sec. 26: All Sec. 27: All	1280.00	NM-14775 12-31-81	USA 12.5%	Phillips Pet. Corp. 100.00%	W. G. Ross .062500	Phillips Pet. Corp. 100.00%
3.	T25S, R29E Sec. 34: NE $\frac{1}{4}$, S $\frac{1}{4}$	480.00	NM-0478352 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Shirley Birdsong .050000	Mobil Oil Corp. 100.00%
4.	T25S, R29E Sec. 33: SW $\frac{1}{4}$	160.00	NM-0554228 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Erlon E. Nowel .025000	Mobil Oil Corp. 100.00%
5.	T25S, R29E Sec. 33: SE $\frac{1}{4}$	160.00	NM-0554229 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	L. Clark Roark .025000	Mobil Oil Corp. 100.00%
6.	T25S, R29E Sec. 33: NE $\frac{1}{4}$ Sec. 34: NW $\frac{1}{4}$	480.00	NM-0554230 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Bonnie J. Andrikopoulos .050000	Mobil Oil Corp. 100.00%
7.	T25S, R29E Sec. 35: All	640.00	NM-0553796 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	A. G. Gueymard .050000	Mobil Oil Corp. 100.00%
8.	T26S, R29E Sec. 4: E $\frac{1}{2}$ SE $\frac{1}{4}$ Sec. 5: E $\frac{1}{2}$ NE $\frac{1}{4}$	160.00	NM-18223 5-1-83	USA 12.5%	Sabine Prod. Co. 100.00%	Marjorie Smith .050000	Sabine Prod. Co. 100.00%
9.	T26S, R29E Sec. 4: W $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ Sec. 9: NW $\frac{1}{4}$	400.00	NM-11608 8-31-80	USA 12.5%	Sabine Prod. Co. 100.00%	Victoria M. Blunt .020000 Richard P. Desmet .030000	Sabine Prod. Co. 100.00%

EXHIBIT "B" PAGE (3)
BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INTEREST	WORKING INT. & PERCENTAGE
10.	T26S, R29E Sec. 3: NE $\frac{1}{4}$	160.00	NM-13997 6-30-81	USA 12.5%	El Paso Nat. Gas 100.00%	Gloster Production Properties, LTD. .062500	El Paso Nat. Gas 100.00%
11.	T26S, R29E Sec. 10: NW $\frac{1}{4}$	160.00	NM-13997-A 6-30-81	USA 12.5%	Sabine Prod. Co. 100.00%	Joseph Falgout .005000	Sabine Prod. Co. 100.00%
						Edgar B. Stern, Jr. .015000	
						Phillip M. Stern .015000	
						Lester E. Kabacott .015000	
						<u>.050000</u>	
12.	T26S, R29E Sec. 10: NE $\frac{1}{4}$	160.00	NM-13636 4-31-81	USA 12.5%	Mar-Win Develop Co. 100.00%	NONE	Mar-Win Develop Co. 100.00%
13.	T26S, R29E Sec. 4: NW $\frac{1}{4}$, W $\frac{1}{2}$ NE $\frac{1}{4}$	240.00	NM-13636-A 4-31-81	USA 12.5%	Northern Nat'l Gas 100.00%	Mar-Win Dev. Co. .050000	Northern Nat'l Gas 100.00%
14.	T26S, R29E Sec. 3: S $\frac{1}{2}$ Sec. 4: E $\frac{1}{2}$ NE $\frac{1}{4}$	400.00	NM-0556089 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Tom Clark .050000	Mobil Oil Corp. 100.00%

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INTEREST	WORKING INTEREST & PERCENTAGE
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	Acres	State	Private	Unit Area
15. T26S, R29E Sec. 9: E½NE¼	80.00	NM-0558281 8-31-80	USA	12.5% Mobil Oil Corp. 100.00% Geo. Conley .030000
16. T26S, R29E Sec. 3: NW¼	160.00	NM-0277811 8-31-80	USA	12.5% Mobil Oil Corp. 100.00% Ilabelle Shanahan .050000
T O T A L: 5,760.00 Acres Federal Lands; 81.8182% of Unit Area				
S T A T E O F N E W M E X I C O L A N D S				
17. T26S, R29E Sec. 2: All	640.00	LG-1083 3-1-83	State	12.5% Great Western Drlg. Co. 64.476% NONE
18. T25S, R29E Sec. 36: SW¼, SE¼NE¼	200.00	L-4058-2 1-20-80	State	12.5% Davoil, Inc. 35.524% Sabine Prod. Co. 100.00% NONE
19. T25S, R29E Sec. 36: NW¼	160.00	LG-6123 12-1-88	State	12.5% Inexco Oil Company 100.00% NONE
20. T25S, R29E Sec. 36: N½NE¼, SW¼NE¼, SE¼	280.00	LG-6325 2-1-88	State	12.5% Inexco Oil Company 100.00% NONE
T O T A L: 1,280.00 Acres State of New Mexico Lands, 18.1818% of Unit Area				

EXHIBIT "B" PAGE (5)
 BISON WALLOW UNIT AREA
 EDDY COUNTY, NEW MEXICO

R E C A P I T U L A T I O N

5,760.00	ACRES FEDERAL LANDS,	81.8182% of Unit Area
<u>1,280.00</u>	ACRES STATE LANDS,	<u>18.1818% of Unit Area</u>
<u>7,040.00</u>	ACRES UNIT AREA	<u>100.00% OF UNIT AREA</u>

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

THIS AGREEMENT, entered into as of the 12th day of _____
March, 19 79, by and between the parties
subscribing, ratifying, or consenting hereto, and herein referred
to as the "parties hereto,"

W I T N E S S E T H :

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 Commissioner of Public Lands of the State of
New Mexico is authorized by an Act of the Legislature (Sec. 7-11-29
N.M. Statutes 1953 Annotated) to consent to or approve this agree-
ment 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 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 BISON WALLOW 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 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:

T-25-S, R-29-E, NMPM

Section 25: All
Section 26: All
Section 27: All
Section 33: All
Section 35: All
Section 36: All

T-26-S, R-29-E, NMPM

Section 2: All
Section 3: All
Section 4: All
Section 9: N 1/2
Section 10: N 1/2

EDDY COUNTY, NEW MEXICO
Containing 7,040. ACRES,
More or Less

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentities of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in 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 when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," 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 (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission."

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 Geological Survey, hereinafter referred to as "Director", or on demand of the Land Commissioner, after preliminary concurrence by the Director, 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 Supervisor, the Land Commissioner and the State Commission, and copies thereof mailed to the last known address of each working-interest owner, lessee, and lessor whose interest are affected, advising that thirty (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 Supervisor, the Land Commissioner, and the State Commission, 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 Supervisor, the Land Commissioner, and State Commission, become effective as of the date prescribed in the notice thereof.

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are 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 Supervisor and the Land Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the ten-year period specified in this subsection 2 (e), a single extension of not to exceed two years may be accomplished by consent of the owners of 90% of the working interest 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 ten-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. INEXCO OIL COMPANY
is hereby designated as Unit Operator and by signature hereto as

Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used 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 six (6) months after notice of intention to resign has been served by Unit Operator on all working-interest owners and the Supervisor and the Land Commissioner, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor as to Federal lands and the State Commission as to State lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring

prior to the effective date of its resignation.

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

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

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

(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 and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the Director and the Land Commissioner, at their 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 and one true copy with the Land Commissioner, prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Pennsylvanian Age Beds have been penetrated to 175 feet below the top of the Morrow "C" Zone and tested, or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 14,400 feet. Until the discovery of a deposit of unitized substances

capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

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

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (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 Supervisor, the Land Commissioner, and State Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Land Commissioner, and State Commission, 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission.

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 Supervisor and the Land Commissioner are authorized to grant a reasonable extension of the six-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 Supervisor, the Land Commissioner, and State Commission, 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 Supervisor, the Land Commissioner, or the State Commission, the Unit Operator shall submit for approval by the Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and State Commission 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 Supervisor, the Land Commissioner, and the State Commission. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the Supervisor, the Land Commissioner, and State Commission. 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 Supervisor, the Land Commissioner, and State Commission. 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 Supervisor, the Land Commission, and State Commission, 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 Supervisor and the Land Commission. Royalties due the United States shall be determined by the Supervisor for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the Supervisor 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 Supervisor, the Land Commissioner, and State Commission 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.

Determination as to whether a well completed within the Unit Area prior to the effective date of this agreement is capable of producing unitized substances in paying quantities shall be deferred until an initial participating area is established as a result of the completion of a well for production in paying quantities in accordance with Section 9 hereof.

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, Land Commission, and State Commission, or unavoidable 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 and the Land Commissioner, 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 area has been established if such location is not within said participating area, unless within 90 days of receipts of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working-interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this

agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

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

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

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into

which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor and the Land Commissioner as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

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

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates 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 Supervisor and Land Commissioner deem 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 and State 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 thereof 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 nonunitized 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 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 of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the 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 of 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, or 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 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 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 the approval of the Supervisor 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 are 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 are 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 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.

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 interest affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner 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 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.

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

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

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor, the Land Commissioner, the State Commission, and the Unit Operator prior to the approval of this agreement by the Supervisor. Any oil or gas interest in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final

approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor, the Land Commissioner, and the State Commission of duly executed counterparts of all or any papers necessary to establish commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor, the Land Commissioner, or State Commission.

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

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

by the terms of this agreement.

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

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

(1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or

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

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

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

An appropriate accounting and settlement shall be made, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made

as between the parties within thirty (30) days. In the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

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

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

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

33. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working-interest owners, nor any of them, shall be subject to any forfeiture, termination, or expiration of any right hereunder or under any leases or contracts subject hereto, or to any penalty

or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the working-interest owners, or any of them, are hindered, delayed, or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the State Commission, agree that all powers and authority vested in the State Commission in and by any provisions of this agreement are vested in the State Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

34. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify or change either the special Federal Lease stipulations relating to surface management or such special Federal Lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

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

ATTEST:

INEXCO OIL COMPANY

BY: ASSISTANT SECRETARY

BY: WILLIAM G. GOODWIN
VICE-PRESIDENT

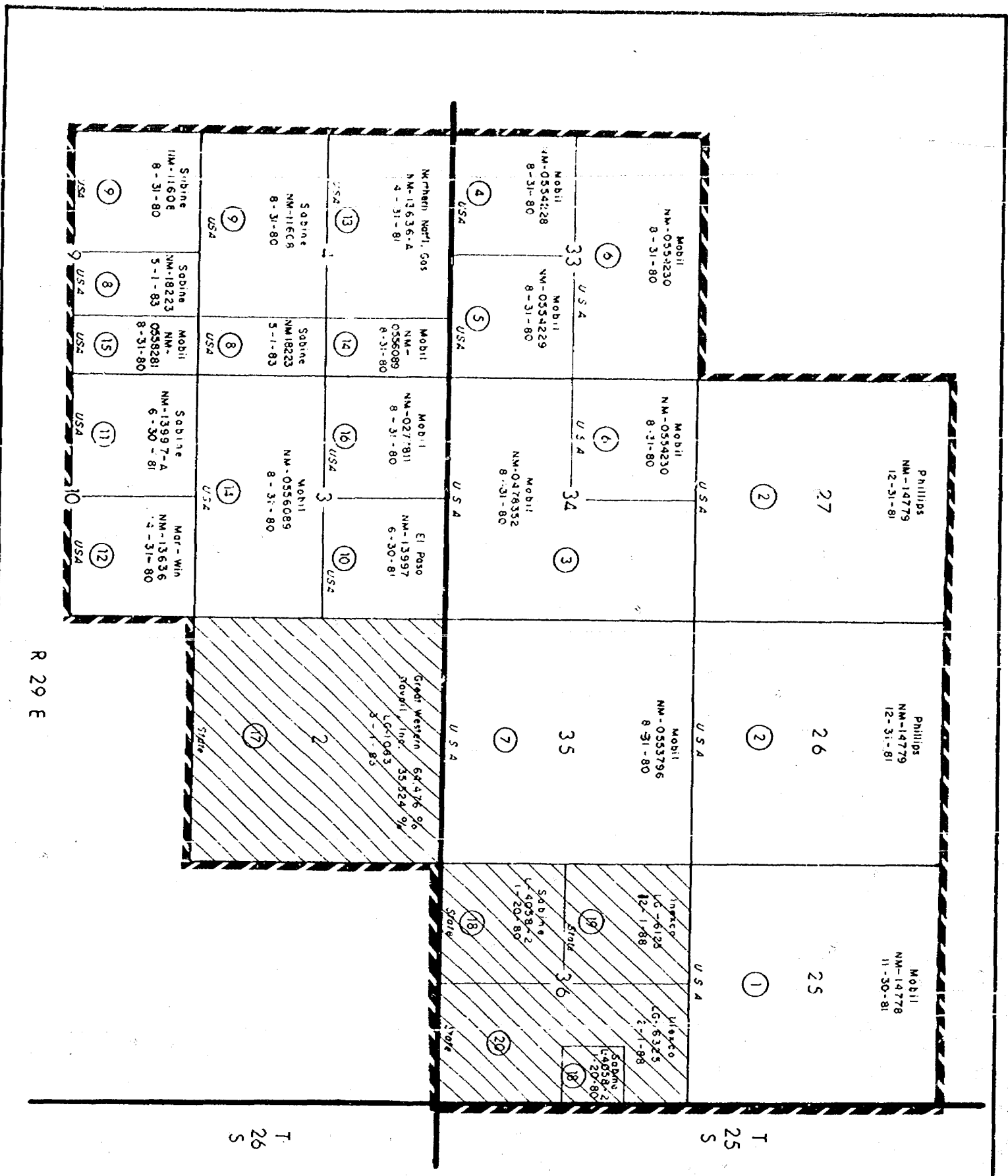
ADDRESS: 1100 Milam Bldg.
Suite 1900
Houston, Texas 77002

STATE OF TEXAS)
)
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before this day of _____, 19____, by WILLIAM G. GOODWIN who is Vice-President of INEXCO OIL COMPANY, a Delaware Corporation, for and on behalf of said Corporation.

My Commission Expires:

Notary Public



BISON WALLOW UNIT AREA

EDDY COUNTY, NEW MEXICO

EXHIBIT "A"

1100 Milam Bldg., Houston, Texas 77002

713-651-3300

Scale in Miles

0 1 2

1-31-79

NM-146

- Federal Lands
- 3,760.00 Acres
- 81,818 % of Unit Area
- Store Lands
- 1,280.00 Acres
- 18,181 % of Unit Area
- Tract No.
- Unit Outline

EXHIBIT "B"

SCHEDULE OF LANDS AND LEASES

BISON WALLOW UNIT AREA

EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INTEREST	WORKING INT. & PERCENTAGE
1.	T25S, R29E Sec. 25: All	640.00	NM-14778 11-30-81	USA 12.5	Mobil Oil Corp. 100.00%	M. R. Latham .004167 C. D. Martin .005208 Johnny M. Latham .004167 Lajean Henry .004167 Rita Marie Martin .006250 William A. Hudson .007072 Edward R. Hudson, Jr., Trustee .007072 Edward R. Hudson, Jr. .002021 W. T. Probandt .000501 Wm. G. Ross .005049 Robert L. Noah .000326	Mobil Oil Corp. 100.00%
						.050000	

EXHIBIT "B" PAGE (2)
BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INTEREST	WORKING INT. & PERCENTAGE
2.	T25S, R29E Sec. 26: All Sec. 27: All	1280.00	NM-14779 12-31-81	USA 12.5%	Phillips Pet. Corp. 100.00%	W. G. Ross .062500	Phillips Pet. Corp. 100.00%
3.	T25S, R29E Sec. 34: NE $\frac{1}{4}$, S $\frac{1}{2}$	480.00	NM-0478352 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Shirley Birdsong .050000	Mobil Oil Corp. 100.00%
4.	T25S, R29E Sec. 33: SW $\frac{1}{4}$	160.00	NM-0554228 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Erion E. Nowel .025000 L. Clark Roark .025000	Mobil Oil Corp. 100.00%
5.	T25S, R29E Sec. 33: SE $\frac{1}{4}$	160.00	NM-0554229 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Patricia Boyle .050000	Mobil Oil Corp. 100.00%
6.	T25S, R29E Sec. 33: NE $\frac{1}{4}$ Sec. 34: NW $\frac{1}{4}$	480.00	NM-0554230 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Bonnie J. Andrikopoulos .050000	Mobil Oil Corp. 100.00%
7.	T25S, R29E Sec. 35: All	640.00	NM-0553796 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	A. G. Gueymard .050000	Mobil Oil Corp. 100.00%
8.	T26S, R29E Sec. 4: E $\frac{1}{2}$ SE $\frac{1}{4}$ Sec. 5: W $\frac{1}{2}$ NE $\frac{1}{4}$	160.00	NM-18223 5-1-83	USA 12.5%	Sabine Prod. Co. 100.00%	Marjorie Smith .050000	Sabine Prod. Co. 100.00%
9.	T26S, R29E Sec. 4: W $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ Sec. 9: NW $\frac{1}{4}$	400.00	NM-11608 8-31-80	USA 12.5%	Sabine Prod. Co. 100.00%	Victoria M. Blunt .020000 Richard P. Desmet .030000	Sabine Prod. Co. 100.00%

EXHIBIT "B" PAGE (3)
BISON WALLOW UNIT AREA
EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INTEREST	WORKING INT. & PERCENTAGE
10.	T26S, R29E Sec. 3: NE $\frac{1}{4}$	160.00	NM-13997 6-30-81	USA 12.5%	El Paso Nat. Gas 100.00%	Gloster Production Properties, LTD. .062500	El Paso Nat. Gas 100.00%
11.	T26S, R29E Sec. 10: NW $\frac{1}{4}$	160.00	NM-13997-A 6-30-81	USA 12.5%	Sabine Prod. Co. 100.00%	Joseph Falgout .005000	Sabine Prod. Co. 100.00%
						Edgar B. Stern, Jr. .015000	
						Phillip M. Stern .015000	
						Lester E. Kabacott .015000	
						<u>.050000</u>	
12.	T26S, R29E Sec. 10: NE $\frac{1}{4}$	160.00	NM-13636 4-31-81	USA 12.5%	Mar-Win Develop Co. 100.00%	NONE	Mar-Win Develop Co. 100.00%
13.	T26S, R29E Sec. 4: NW $\frac{1}{4}$, W $\frac{1}{2}$ NE $\frac{1}{4}$	240.00	NM-13636-A 4-31-81	USA 12.5%	Northern Nat'l Gas 100.00%	Mar-Win Dev. Co. .050000	Northern Nat'l Gas 100.00%
14.	T26S, R29E Sec. 3: S $\frac{1}{4}$ Sec. 4: E $\frac{1}{2}$ NE $\frac{1}{4}$	400.00	NM-0556089 8-31-80	USA 12.5%	Mobil Oil Corp. 100.00%	Tom Clark .050000	Mobil Oil Corp. 100.00%

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. EXP & DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY & DECIMAL INTEREST	WORKING INTEREST & PERCENTAGE
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15.	T26S, R29E Sec. 9: E½NE½	80.00	NM-0558281 8-31-80	USA	12.5%	Mobil Oil Corp. 100.00%	Geo. Conley .030000	Mobil Oil Corp. 100.00%
16.	T26S, R29E Sec. 3: NW¼	160.00	NM-0277811 8-31-80	USA	12.5%	Mobil Oil Corp. 100.00%	Ilabelle Shanahan .050000	Mobil Oil Corp. 100.00%
<hr/>								
T O T A L: 5,760.00 Acres Federal Lands; 81.8182% of Unit Area								
<hr/>								
S T A T E O F N E W M E X I C O L A N D S								
<hr/>								
17.	T26S, R29E Sec. 2: All	640.00	LG-1083 3-1-83	State	12.5%	Great Western Drlg. Co. 64.476%	NONE	Great Western Drlg Co. 64.476%
<hr/>								
18.	T25S, R29E Sec. 36: SW¼, SE½NE½	200.00	L-4058-2 1-20-80	State	12.5%	Sabine Prod. Co. 100.00%	NONE	Sabine Prod. Co. 100.00%
19.	T25S, R29E Sec. 36: NW¼	160.00	LG-6123 12-1-88	State	12.5%	Inexo Oil Company 100.00%	NONE	Inexo Oil Company 100.00%
20.	T25S, R29E Sec. 36: N½NE½, SW½NE½, SE½	280.00	LG-6325 2-1-88	State	12.5%	Inexo Oil Company 100.00%	NONE	Inexo Oil Company 100.00%

TOTAL: 1,280.00 Acres State of New Mexico Lands, 18.1818% of Unit Area

EXHIBIT "B" PAGE (5)
 BISON WALLOW UNIT AREA
 EDDY COUNTY, NEW MEXICO

RECAPITULATION

5,760.00	ACRES FEDERAL LANDS,	81.81628 of Unit Area
<u>1,280.00</u>	ACRES STATE LANDS,	<u>18.18188</u> of Unit Area
<u>7,040.00</u>	ACRES UNIT AREA	<u>100.008</u> OF UNIT AREA

81

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
BISON WALLOW UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

Case 6519

New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

Comes the undersigned Inexco Oil Company, with offices at Houston, Texas and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Bison Wallow Unit Area, Eddy County, New Mexico and hereby makes application for approval of said Unit Agreement as provided by law, and in support thereof states:

1. That the proposed Unit Area covered by said Agreement embraces 7,040.00 acres of land, more or less, more particularly described as follows:

T-25-S, R-29-E, NMPM

Section 25: All
Section 26: All
Section 27: All
Section 33: All
Section 34: All
Section 35: All
Section 36: All

T-26-S, R-29-E, NMPM

Section 2: All
Section 3: All
Section 4: All
Section 9: N 1/2
Section 10: N 1/2

Eddy County, New Mexico

2. That of the lands embraced within the proposed Unit, 5,760.00 acres are lands of the United States, being 81.8182% of the Area; and 1280.00 acres are State of New Mexico lands being 18.1818% of the Area.

3. That Applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological feature involved, and that in the event of a discovery of oil and gas thereon, that said Unit Agreement will permit the producing area to be developed or operated in the interest of conservation and the prevention of waste of the unitized substances.

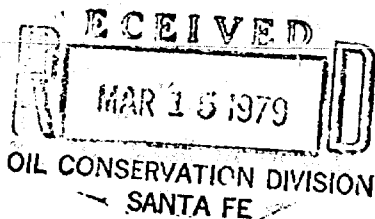
4. That Inexco Oil Company is designated as the Unit Operator in said Unit Agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the drilling of an Initial Test Well to a depth sufficient to penetrate the Pennsylvanian Age Beds to 175 feet below the top of the Morrow "C" Zone, but applicant is not obligated to drill said well in any event to a depth in excess of 14,400 feet.

5. That the applicant believes that in the event oil or gas is discovered in paying quantities on lands within the Unit Area, that the field or area can be developed more economically and efficiently under the terms of said Unit Agreement, to the end that maximum recovery will be obtained of unitized substances and that said Unit Agreement is in the interest of conservation of prevention of waste as contemplated by the New Mexico Oil Conservation rules and regulations.

6. That Application for Approval of said Unit Agreement has been filed with the Commissioner of Public Lands.

7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said Unit Agreement, and after approval by the United States Department of Interior, an approved copy will be filed with the New Mexico Oil Conservation Commission.

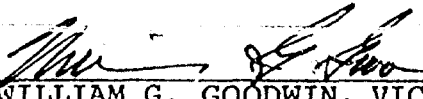
WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner on the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and the prevention of waste. Applicant respectfully requests that this matter be heard at the first available hearing following this date.



DATED THIS 15th DAY OF MARCH, 1979.

INEXCO OIL COMPANY

BY:


WILLIAM G. GOODWIN, VICE-PRESIDENT
1100 Milam Building
Suite 1900
Houston, Texas 77002 *RA*

Randolph M. Richardson, III
Attorney at Law
P. O. Box 819
Roswell, New Mexico 88201

ROUGH

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6519 6519

Order No. R-5991

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

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on April 11
19 79, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of April, 1979, the
Division Director, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

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

(2) That the applicant, Inexco Oil Company,
seeks approval of the Bison wallow Unit Agreement
and
covering 7,040 acres, more or less, of State/ Federal
~~and~~ ~~Free~~ lands described as follows:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 25 SOUTH, RANGE 29 EAST, NMPM
Sections 25 through 27: All
Sections 33 through 36: All
TOWNSHIP 26 SOUTH, RANGE 29 EAST, NMPM
Sections 2 through 4: All
Section 9: N/2
Section 10: N/2

(3) That all plans of development and operation and creations,
expansions, or contractions of participating areas or expansions
or contractions of the unit area, should be submitted to the
Director of the Division for approval.

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

IT IS THEREFORE ORDERED:

(1) That the Bison Wallow Unit Agreement is hereby approved.

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

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

(4) That all plans of development and operation, all unit participating areas and expansions and contractions thereof, and all expansions or contractions of the unit area, shall be submitted to the Director of the Oil Conservation Division for approval.

(5) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for

State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Division immediately in writing of such termination.

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

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