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OG5SECT

ONGARD
INQUIRE LAND BY SECTION

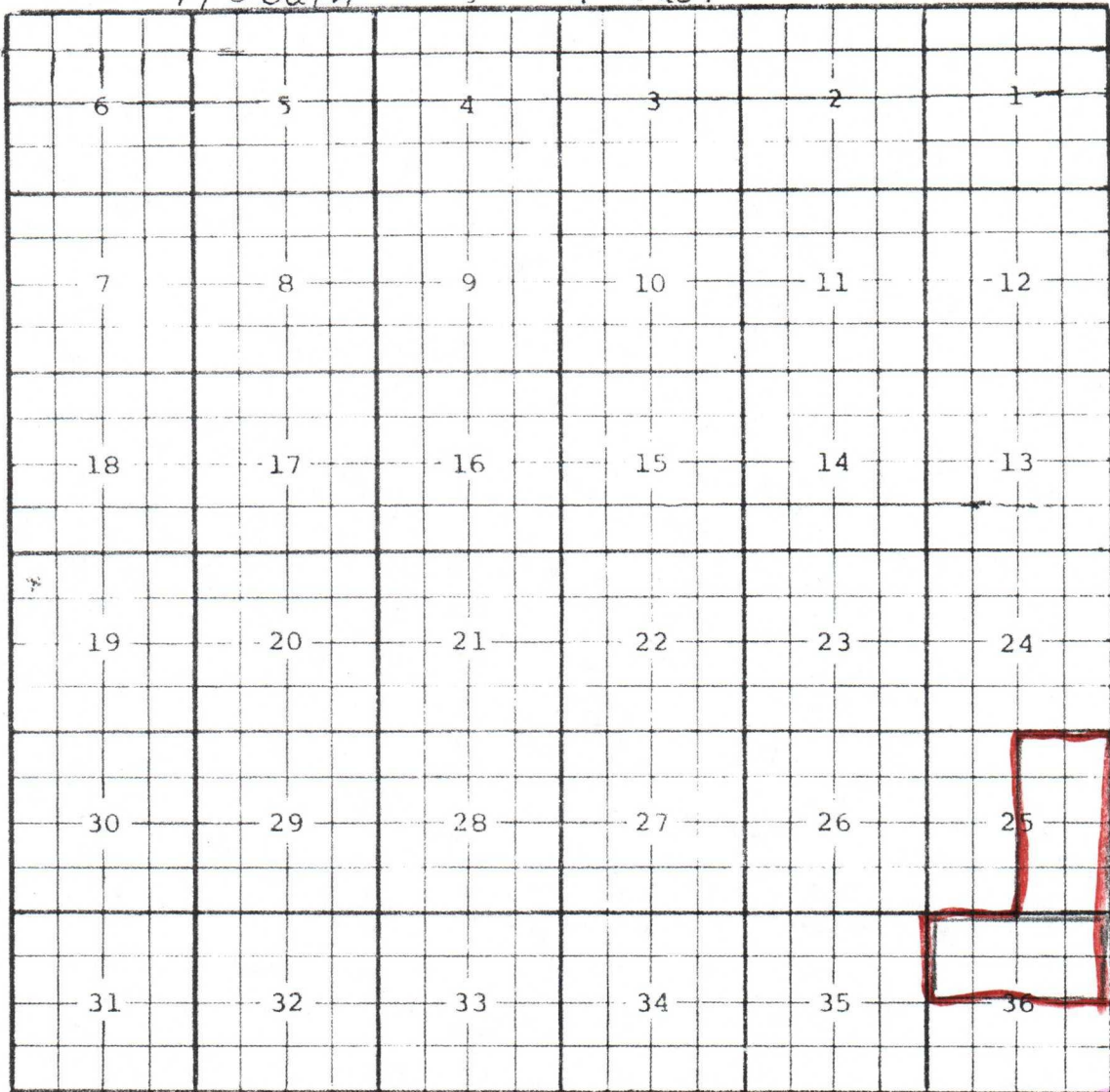
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OGOMES -TQSI
PAGE NO: 1

Sec : 01 Twp : 20S Rng : 21E Section Type : NORMAL

4	5	3	6	2	7	1	8
22.56	40.00	22.63	40.00	22.70	40.00	22.80	40.20
Federal owned		Federal owned		Federal owned		Federal owned	
<i>206.09</i>		<i>206.09</i>		<i>206.09</i>		<i>206.09</i>	
E	40.00	F	40.00	G	40.00	<i>40.39</i>	40.39
Federal owned		Federal owned		Federal owned		Federal owned	
<i>102.70</i>		<i>102.70</i>		<i>102.70</i>		<i>102.70</i>	
L	40.00	K	40.00	J	40.00	I	40.59
Federal owned		Federal owned		Federal owned		Federal owned	
<i>367.46</i>		<i>367.46</i>		<i>367.46</i>		<i>367.46</i>	
M	40.00	N	40.00	O	40.00	<i>164.37</i>	40.78
Federal owned		Federal owned		Federal owned		Federal owned	
<i>164.37</i>		<i>164.37</i>		<i>164.37</i>		<i>164.37</i>	
A							
Federal owned		Federal owned		Federal owned		Federal owned	

County Eddy Pool Bunting Ranch - Atoka Gas

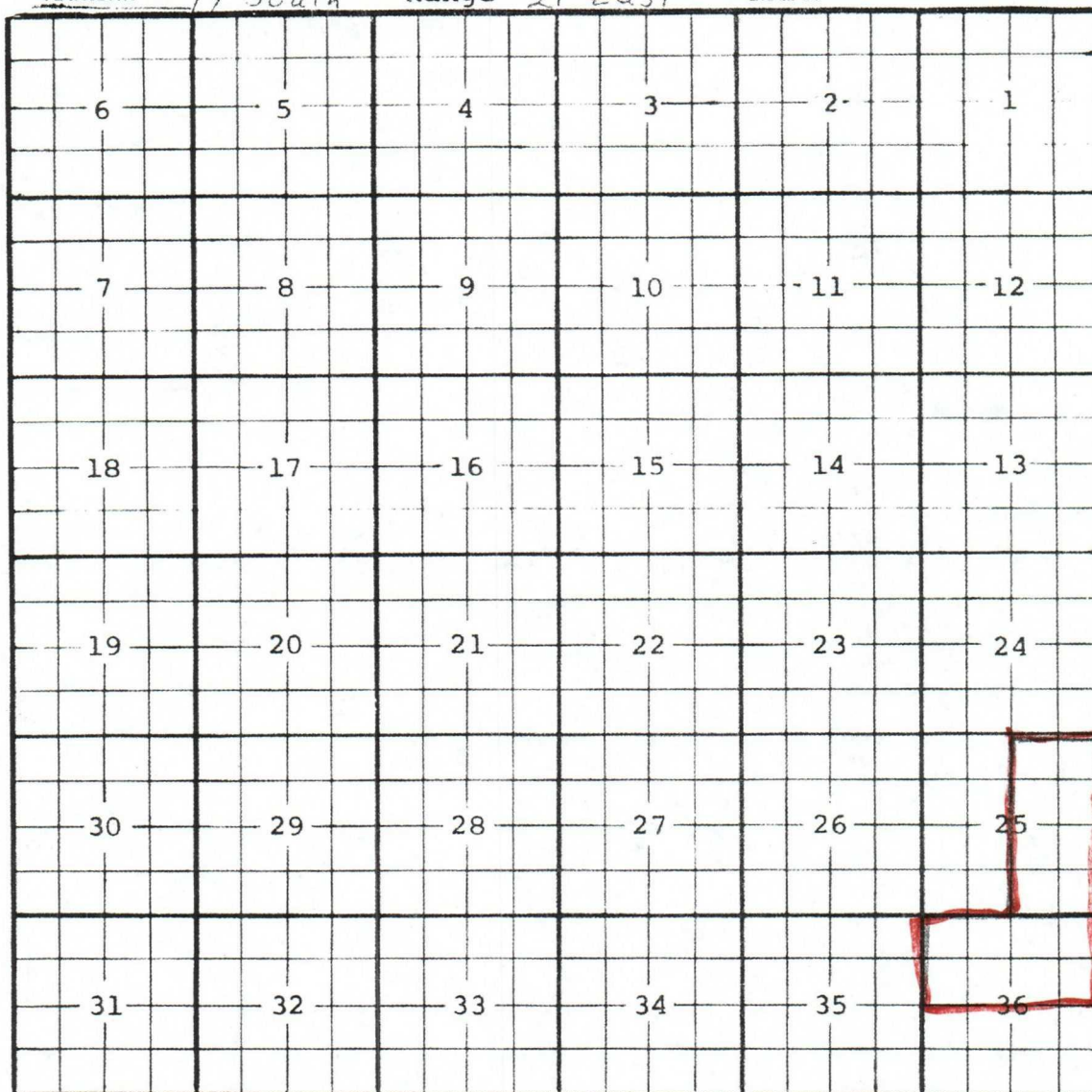
TOWNSHIP 19 South Range 21 East NMPM



Description: N/2 Sec. 36 (R-9884, 4-26-93) Ext. E/2 Sec. 25 (R-11895, 2-6-03)

County Eddy Pool Bunting Ranch-Morrow Gas

TOWNSHIP 19 South Range 21 East NMPM



Note:
Range 22 East
does not
exist.

Description: $\frac{1}{2}$ Sec. 36 (R-6657, 4-20-81) Ext: $\frac{1}{2}$ Sec. 25 (R-11745, 3-15-02)

Ext: $\frac{1}{2}$ Sec. 25 (R-11745, 3-15-02)

County Eddy Pool Bunting Ranch - Morrow Gas

TOWNSHIP

19 S

Range

23 E

NMPM

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Ext $5\frac{1}{2}$ sec 30, $N\frac{1}{2}$ sec 31 (R-6876, 1-22-82)

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

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

**CASE NO. 13018
ORDER NO. R-11927**

**APPLICATION OF YATES PETROLEUM CORPORATION FOR A UNIT
AGREEMENT, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on March 13, 2003 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 25th day of March, 2003, the Division Director, having considered the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Yates Petroleum Corporation, seeks approval of its Arley Federal Exploratory Unit Agreement for all oil and gas in all formations underlying the following-described 2,925.50 acres, more or less, of Federal (2,845.50 acres or 97.27%) and fee (80.00 acres or 2.73%) lands in Eddy County, New Mexico:

TOWNSHIP 20 SOUTH, RANGE 21 EAST, NMPM

Irregular Section 1: Lots 1, 2, 7, 8, 9, 10, and 11, SW/4 NE/4, and S/2 SE/4
Section 12: All

TOWNSHIP 20 SOUTH, RANGE 23 EAST, NMPM

Sections 6 and 7: All
Section 18: All.

(3) No interested party appeared or otherwise objected to the proposed unit agreement.

(4) The approval of the proposed unit agreement will serve to prevent waste and protect correlative rights within the lands assigned to the unit area.

IT IS THEREFORE ORDERED THAT:

(1) The Arley Federal Exploratory Unit Agreement, executed by Yates Petroleum Corporation, is hereby approved for all oil and gas in all formations underlying the following-described 2,925.50 acres, more or less, of Federal (2,845.50 acres or 97.27%) and fee (80.00 acres or 2.73%) lands in Eddy County, New Mexico:

TOWNSHIP 20 SOUTH, RANGE 21 EAST, NMPM

Irregular Section 1: Lots 1, 2, 7, 8, 9, 10, and 11, SW/4 NE/4, and S/2 SE/4
Section 12: All

TOWNSHIP 20 SOUTH, RANGE 23 EAST, NMPM

Sections 6 and 7: All
Section 18: All.

(2) The plan contained in the Arley Federal Exploratory Unit Agreement for the development and operation of the above-described unit area is hereby approved in principle; provided, however, notwithstanding any of the provisions contained in the unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation that is now, or may hereafter be, vested in the Division to supervise and control operations for the unit and production of oil and gas therefrom.

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

(4) All: (i) plans of development and operation; (ii) creations, expansions or contractions of participating areas; and (iii) expansions or contractions of the unit area shall be submitted to the Division Director for approval.

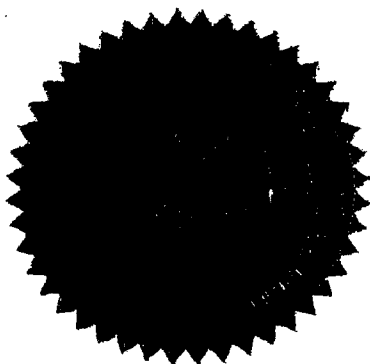
(5) This order shall become effective upon the approval of the unit agreement by the Director of the appropriate agency of the United States Department of the Interior. This order shall terminate upon the termination of the unit agreement. The last unit operator shall notify the Division immediately in writing of such termination.

(6) Jurisdiction of this case 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director



SEAL

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
ARLEY FEDERAL EXPLORATORY UNIT
COUNTY OF EDDY
STATE OF NEW MEXICO
NO. _____

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13018 Exhibit No. 1
Submitted by:
YATES PETROLEUM CORPORATION
Hearing Date: March 13, 2003

THIS AGREEMENT, entered into as of the 7th day of February, 2003, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH:

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

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

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

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

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

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

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

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

drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

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

Township 20 South, Range 21 East, N.M.P.M.
Section 1: Lots 1, 2, 7, 8, 9, 10, 11, SWNE, W2SE
Section 12: Lots 1, 2, 3, 4, W2E2, W2
Township 20 South, Range 23 East, N.M.P.M.
Section 6: Lots 1, 2, 3, 4, E2, E2W2
Section 7: Lots 1, 2, 3, 4, E2W2, E2
Section 18: Lots 1, 2, 3, 4, E2W2, E2
Containing 2,925.50 acres, more or less
Eddy County, New Mexico.

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A" and "B" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized Officer, hereinafter referred to as "AO", and not less than four (4) copies of the revised Exhibits shall be filed with the proper Bureau of Land Management office and one (1) copy with the New Mexico Oil Conservation Division of the Energy and Minerals Department, hereinafter referred to as "Division".

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

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

(b) Said notice shall be delivered to the proper Bureau of Land Management office, and copies thereof mailed to the last known address of each working interest owner, lessee and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding Item (b) hereof, Unit Operator shall file with the AO and the Division, evidence of mailing of the Notice of Expansion or Contraction and a copy of any objections thereto which have been filed with Unit Operator, together with an application in triplicate, for approval of such expansion or contraction and with appropriate joinders.

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

(e) Notwithstanding any prior elimination under the "Drilling to Discovery" section, 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 ninety (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 ten (10) years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. The Unit Operator shall, within ninety (90) days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and Land Commissioner and promptly notify all parties in interest. All lands reasonably proved productive of unitized substances in paying quantities by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said first 5-year period. However, when such diligent drilling operations cease, all nonparticipating lands not then entitled to be in a participating area shall be automatically eliminated effective as of the 91st day thereafter.

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

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

4. **UNIT OPERATOR.** YATES PETROLEUM CORPORATION hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest only when such an interest is owned by it.

5. **RESIGNATION OR REMOVAL OF UNIT OPERATOR.** Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from

the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after notice of intention to resign has been served by Unit Operator on all working interest owners and the AO and the Land Commissioner and the Division, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO as to Federal lands and the Division as to State and fee lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time after a participating area established hereunder is in existence, but in all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than thirty (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 AO 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 newly qualified successor Unit Operator or to the common agent, if no such new Unit Operator is selected, elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

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 the working interest owners, the owners of the working interests according to their respective acreage interests in all unitized land shall, pursuant to the approval of the parties requirements of the unit operating agreement, select a successor Unit 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 AO and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the AO 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 agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed in the proper Bureau of Land Management office and one true copy with the Land Commissioner, and one true copy with the Division prior to approval of this unit agreement.

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

9. **DRILLING TO DISCOVERY.** Within six (6) months after the effective date hereof, the Unit Operator shall commence to drill an adequate test well at a location approved by the AO and by the Division if on Fee land, unless on such effective date a well is being drilled in conformity with the terms hereof, and thereafter continue such drilling diligently until the Morrow formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the AO if on Federal land or the Division if located on Fee land, that further drilling of said well would be unwarranted or impractical, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 8300 feet. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than six (6) months between the completion of one well and the commencement of drilling operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO if it be on Federal land or the Division if on Fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

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

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

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

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

- (a) Specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and
- (b) Provide a summary of operations and production for the previous year.

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

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

11. **PARTICIPATION AFTER DISCOVERY.** Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Land Commissioner or the Division, the Unit Operator shall submit for approval by the AO, the Land Commissioner and Division, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of

unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, the Land Commissioner and Division effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. The schedule shall also set forth the percentage of unitized substances to be allocated, as provided in Section 12 to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the AO, the Land Commissioner and the Division. When production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO, the Land Commissioner and Division. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, the Land Commissioner, and Division to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably proved not to be productive of unitized substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the AO, the Land Commissioner and Division. No land shall be excluded from a participating area on account of depletion of its unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating areas is based are abandoned.

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

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

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

benefits from such a nonpaying unit well shall be made as provided in the unit operations agreement.

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

13. **DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS.** Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the AO and the Land Commissioner, and the Division at such party's sole risk, cost and expense, drill an oil well to test any formation provided the well is outside any participating area established for that formation, unless within ninety (90) days of receipt of notice from said party of his intention to drill the well, the Unit Operator elects and commences to drill the well in a like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled under this section by a working interest owner results in production of unitized substances in paying quantities 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 under this section by a working interest owner that 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 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 therefore 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 in this section 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 in to any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery in conformity with a plan of development and operation approved by the AO and the Land Commissioner and the Division, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of development and operation or as may otherwise be consented to by the AO and the Land Commissioner and the Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due the United States shall be computed as provided in 30 CFR Group 200 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided in Section 12 at the rates specified in the respective Federal lease, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

Royalty due on account of 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 appropriate working interest owners 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 rate specified in the respective leases.

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

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

17(A) DRAINAGE. The Unit Operator shall take such measures as the AO and Land Commissioner deems appropriate and adequate to prevent drainage of unitized substances for unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO, as to Federal leases and the Land Commissioner, as to State leases.

17(B) In order to compensate the United States for drainage from any unleased Federal lands sharing a common pool or deposit with land in the participating area, 12.5 percent of the production that would be attributable to such Federal lands under section 12 of this agreement, if they were leased, committed, and within the participating area, shall be payable as compensatory royalties to the Federal Government beginning on the last day of the calendar month next following the calendar month of production under the Bureau of Land Management's case recordation number for the participating area. Payment shall accrue from the date of first production of unitized substances from the participating area (or participating area expansion) sharing a common pool or deposit with the unleased Federal lands. If leased Federal lands that share in actual production allocation from the participating area become unleased, the payment shall accrue from the date the Federal lands become unleased. Payment due under this provision shall end when the unleased Federal tract is leased, or when production of unitized substances ceases within the participating area sharing a common pool with the unleased Federal tract, whichever occurs first.

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

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

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

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

(d) Each lease, sublease or contract relating to the exploration drilling, development, or operation for oil or gas of lands other than those of the United States and State of New Mexico committed to this agreement which, by its terms might expire prior to the termination of this

agreement, is hereby extended beyond any such terms so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

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

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

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

If the public interest requirement is not satisfied, the segregation of a lease and/or extension of a lease pursuant to 43 CFR 3107.3-2 and 43 CFR 3107.4, respectively, shall not be effective.

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

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

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

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

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

(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 this agreement on such ground is Given by the Unit Operator to all parties in interest at their last known addresses, this agreement is terminated with approval of the AO and the Land Commissioner; or

(c) A valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long thereafter as unitized substances can be produced as to Federal lands and are being produced as to State lands in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder. Should production cease and diligent drilling operations to restore production or new production are not in progress or reworking within sixty (60) days and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred; or,

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

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

alteration or modification shall be effective as to any land of the State of New Mexico, as to the rate of prospecting and developing in the absence of the specific written approval thereof by the Commissioner and also to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

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

22. **APPEARANCES.** Unit Operators 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 Division, and to appeal from orders issued under the regulations of said Department or Land Commissioner and Division or to apply for relief from any of said regulations, or in any proceedings relative to operations before the Department or the Land Commissioner and Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at its own expense to be heard in any such proceeding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If the fee owner of the unitized substances does not accept the working interest rights subject to this agreement and the unit operating agreement or lease such lands as above provided within 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 of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

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

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

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

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

33. **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 caused this agreement to be executed and have set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER

YATES PETROLEUM CORPORATION
YATES DRILLING COMPANY
ABO PETROLEUM CORPORATION
MYCO INDUSTRIES, INC.



Attorney-in-Fact

Date of Execution:

Address:

2-7-03

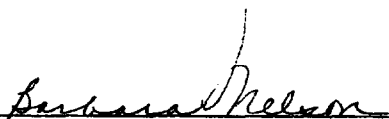
105 South Fourth Street
Artesia, New Mexico 88210

STATE OF NEW MEXICO)
 :SS
COUNTY OF EDDY)

This instrument was acknowledged before me this 7th day of February, 2003, by Randy G. Patterson, Attorney-in-Fact for YATES PETROLEUM CORPORATION, YATES DRILLING COMPANY, ABO PETROLEUM CORPORATION and MYCO INDUSTRIES, INC., all New Mexico corporations, on behalf of said corporations.

My commission expires:

1-8-04



Notary Public

WORKING INTEREST OWNERS

DOMINION OKLAHOMA TEXAS
EXPLORATION & PRODUCTION, INC.

By: _____

Title: _____

Date of Execution:

Address:

14000 Quail Springs Parkway, #600
Oklahoma City, OK 73134-2600

STATE OF _____ §

COUNTY OF _____

This instrument was acknowledged before me this _____ day of February, 2003, by _____, as _____, of
Dominion Oklahoma Texas Exploration & Production, Inc., a _____
corporation, on behalf of said corporation.

My commission expires:

Notary Public

ECHO PRODUCTION, INC.

By: _____

Title: _____

Date of Execution:

Address:

PO Box 1210
Graham, TX 76450

STATE OF _____ §

COUNTY OF _____

This instrument was acknowledged before me this _____ day of February, 2003, by _____, as _____, of
Echo Production, Inc., a _____ corporation, on behalf of said corporation.

My commission expires:

Notary Public

51612
Canebo Res. V
Marathon
2.1. 2005
V. 3706
112 32

MIDLAND

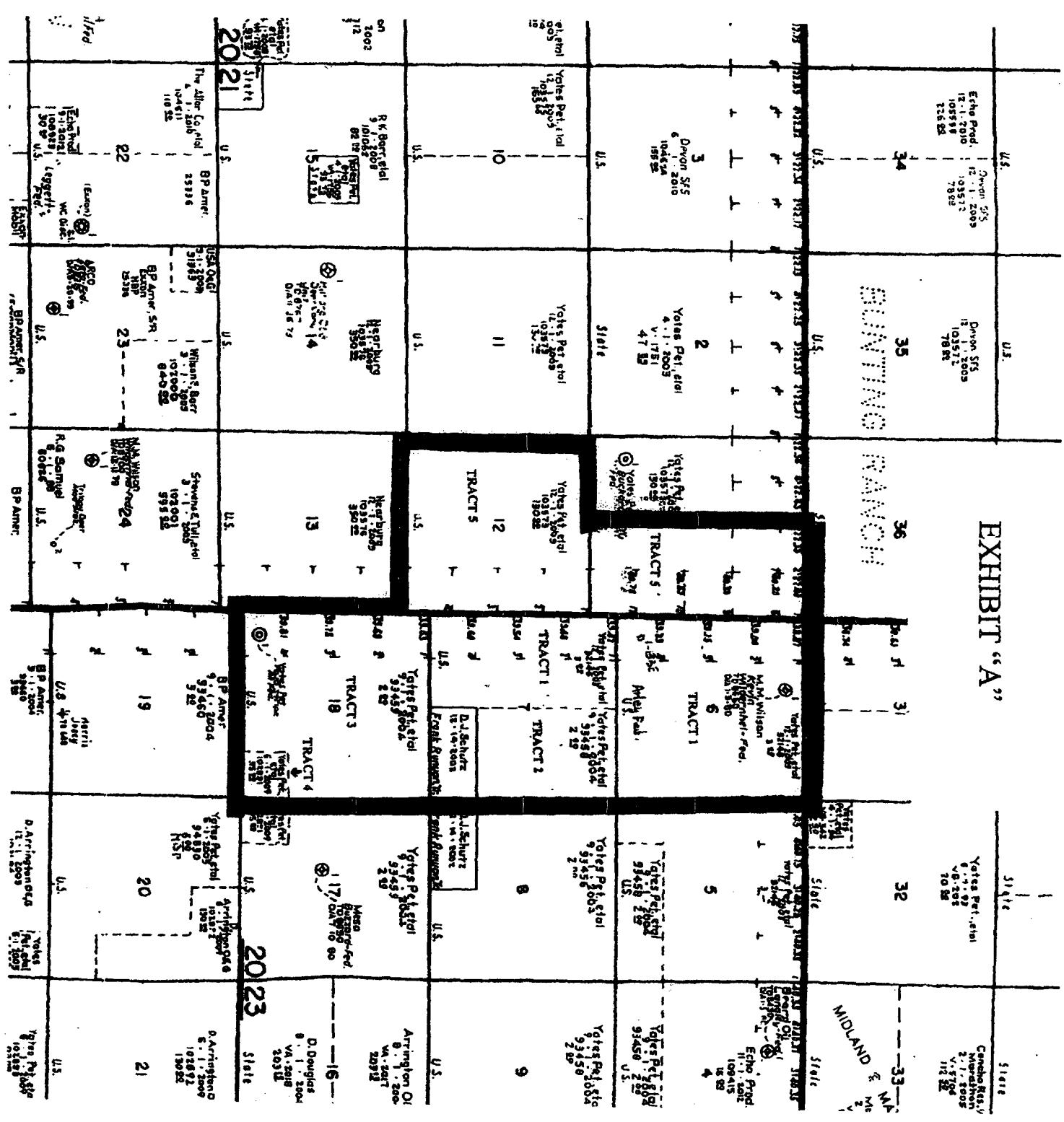


EXHIBIT "B"

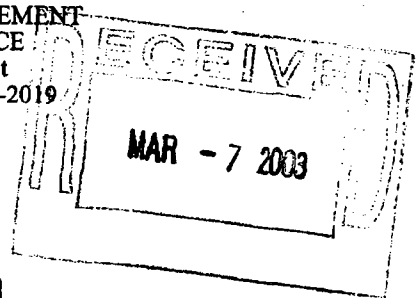
Arley Federal Exploratory Unit
Eddy County, New Mexico

TRACT NUMBER	DESCRIPTION OF LANDS	SERIAL NUMBER AND EXPIRATION DATE	LESSOR & BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	WORKING INTEREST
1	T20S-R23E Section 6: Lots 1,2,3,4, E2, E2W2 Section 7: Lots 1,2,3,4, E2W2	NM-92146 11/30/03	USA 1/8	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc.	0	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc.
2	T20S-R23E Section 7: NE4, N2SE4	NM-93458 8/31/04	USA 1/8	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc.	0	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc.
3	T20S-R23E Section 18: Lots 1-4 E2W2, NE4, N2SE4, SW4SE4	NM-93459 8/31/04	USA 1/8	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc.	0	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc.
4	T20S-R23E Section 18: SE4SE4	NM-102891 5/31/09	USA 1/8	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc.	0	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc.
5	T20S-R21E Section 1: Lots 1,2, 7,8,9,10,11, E2SW, SWNE Section 12: Lots 1,2,3,4, W2E2, W2	NM-103573 11/30/09	USA 1/8	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc.	0	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycro Industries, Inc.
Total Federal Lands		2845.50 acres or 97.27%				
6	T20S-R23E Section 7: S2SE4	80.00	Fee	William F. Runyan II 1/5	0	Dominion Oklahoma Texas Exploration & Production Inc.
Total Fee Lands		80.00 acres or 2.73%				
Total Federal Lands		2845.50 acres or 97.27%				
Total Fee Lands		80.00 acres or 2.73%				
TOTAL UNIT ACRES		2,925.50 acres or 100.00%				



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
ROSSELL FIELD OFFICE
2909 West Second Street
Roswell, New Mexico 88201-2019



IN REPLY REFER
NMNM109672X
31.80 (06300)

MAR 06 2003

Yates Petroleum Corporation
Attention: Robert Bullock
105 S. Fourth Street
Artesia, NM 88210

Gentlemen:

One approved copy of the Arley Federal Unit Agreement, No. NMNM109672X, Eddy County, New Mexico, is enclosed. Such agreement is effective as of the date of approval.

Pursuant to 43 CFR 3183.4(b) and Section 9 of the unit agreement, if the Public Interest Requirement is not fulfilled, the unit will be declared invalid and no lease committed to this agreement shall receive the benefits of 43 CFR 3107.3-2 and 3107.4.

Approval of the agreement does not warrant or certify that the operator thereof and other working interest owners hold legal or equitable title to the leases which are committed hereto.

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

Sincerely,

Larry D. Bray
Assistant Field Manager,
Lands and Minerals

Enclosure

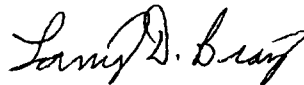
BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13018 Exhibit No. 2
Submitted by:
YATES PETROLEUM CORPORATION
Hearing Date: March 13, 2003

CERTIFICATION - DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, under the Act approved February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. sec 181, et seq., and delegated to the Authorized Officer of the Bureau of Land Management, under the authority of 43 CFR 3183, I do hereby:

- A. Approve the attached agreement for the development and operation of the Arley Federal Unit Area, State of New Mexico. This approval shall be invalid *ab initio* if the public interest requirement under §3183.4(b) of this title is not met.
- B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.
- C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of all Federal leases committed to said Agreement are hereby established, altered, changed or revoked to conform with the terms and conditions of this agreement.

Dated: March 6, 2003



Authorized Officer
Bureau of Land Management

Contract No.: NMNM109672X



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

AUTHORITY FOR EXPENDITURE
NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE Type:

<input checked="" type="checkbox"/> New Drilling
<input type="checkbox"/> Recompletion
<input type="checkbox"/> Re-entry

Well Objective:

<input type="checkbox"/> Oil
<input checked="" type="checkbox"/> Gas
<input type="checkbox"/> Injector

Well Type:

<input checked="" type="checkbox"/> Development
<input type="checkbox"/> Exploratory

AFE NO.

03-047-0

AFE DATE

2/7/03

AFEND (rev. 6/96)

2-1-03

AFE STATUS:

<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Revised
<input type="checkbox"/> Final
<input type="checkbox"/> Supplemental

LEASE NAME

Arley BBE Federal #1

COUNTY

Eddy

FIELD

LOCATION

Section 6 T20S-R23E, 660'S & 660' W

PROJ'D DEPTH

8,300'

STATE

New Mexico

HORIZON

Chester

DIVISION CODE

100

DIVISION NAME

Oil & Gas Division

DISTRICT CODE

DISTRICT NAME

BRANCH CODE

BRANCH NAME

PROGNOSIS: New well drilled to 8,300'. Will possibly test the Cisco, Atoka, and Morrow formations.

INTANGIBLE DRILLING COSTS:

		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	6,000	6,000
920-110	Location, Right-of-Way	40,000	40,000
920-120	Drilling, Footage		
920-130	Drilling, Daywork 24 days @ \$7,000/day + \$25,000/day for mob	205,000	205,000
920-140	Drilling Water, Fasline Rental	15,000	15,000
920-150	Drilling Mud & Additives	30,000	30,000
920-160	Mud Logging Unit, Sample Bags	13,000	13,000
920-170	Cementing - Surface Casing	20,000	20,000
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies	30,000	30,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	45,000	45,000
920-205	Control of Well-Insurance	3,000	3,000
920-210	Supervision & Overhead	24,000	24,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	25,000	25,000
920-350	Cementing - Production Casing		30,000
920-410	Completion Unit - Swabbing		25,000
920-420	Water for Completion		5,000
920-430	Mud & Additives for Completion		2,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion		20,000
920-460	Tools & Equip. Rental, Etc. - Completion		50,000
920-470	Stimulation for Completion		100,000
920-480	Supervision & O/H - Completion		6,000
920-490	Additional LOC Charges - Completion		3,000
920-510	Bits, Tools & Supplies - Completion		1,000
920-500	Contingency for Completion		
TOTAL INTANGIBLE DRILLING COSTS		456,000	698,000

TANGIBLE EQUIPMENT COSTS:

930-010	Christmas Tree & Wellhead	3,500	18,000
930-020	Casing 13 3/8" @ 350'	6,100	6,100
	8 5/8" @ 2,100'	17,750	17,750
	5 1/2" @ 8,300'		60,600
930-030	Tubing 2 7/8" @ 8,100'		26,900
930-040	Packer & Special Equipment		0
940-010	Pumping Equipment		
940-020	Storage Facilities		10,000
940-030	Separation Equip., Flowlines, Misc.		25,000
940-040	Trucking & Construction Costs		12,000
TOTAL TANGIBLE EQUIPMENT COSTS		27,350	176,350

TOTAL COSTS

483,350 874,350

IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Prepared By RB Jeremiah Mullen	Operations Approval
-----------------------------------	------------------------

BY	DATE
----	------

BY	DATE
----	------

BY	DATE
----	------

BY	DATE
----	------

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13018 Exhibit No. 3
Submitted by:
YATES PETROLEUM CORPORATION
Hearing Date: March 13, 2003

**Arley Federal Exploratory Unit
Sections 1 (E/2), 12 T20S R21E
Sections 6,7,18 T20S R23E
Eddy County, New Mexico
Description and Geologic Justification**

Yates Petroleum Corporation is requesting the formation of the Arley Federal Exploratory Unit to support the drilling of an exploratory well to be located in the S/2 of Section 6 (Bottom Hole Location of 660 FSL/ 660 FWL), Township 20 South Range 23 East, in Eddy County, New Mexico. The unit will include the following lands as shown on Exhibit A; Sections 1 (E/2) and 12 T20S R21E and Sections 6,7 and 18 T20S R23E. **The primary objective of the proposed well will be the gas productive Lower Morrow Sandstone at a depth of 8300 feet measured depth. Regional subsurface mapping in the area indicates a Lower Morrow channel exists over the proposed exploration unit.** Exhibit 5 is a Net Sand Isopach of the Lower Morrow Interval; it is believed that the acreage under the Proposed Unit could be a Northern extension of the channel that produces in Little Box Canyon (Morrow) Field. Exhibit 6 is a type log from the Little Box Canyon field neXt to a control well within the Proposed Unit (Max Wilson's Kevin Wildernhl #1 well in Section 6) indicating the similarities in electric log signature between the two. This well drill stem tested gas and formation water in the Lower Morrow; it is believed that the first proposed drill site would be updip from the Wilson well and produce commercial quantities of natural gas (see Exhibit 8; Structure Map of the Top of the Lower Morrow Interval). Exhibit 7 is Cross Section A-A' which shows the lateral limits of the Lower Morrow sand adjacent to the Proposed Unit.

In addition to potential in the Lower Morrow Sand, it is believed that the Atoka Sandstones, Cisco Limestone and Lower Abo Dolomite are potentially productive over the proposed exploration unit (the Cisco is productive in wells in the southern part of T20S R21E). **All permitted wells will be drilled through these zones to test their potential in their area.**

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 13,018
)
APPLICATION OF YATES PETROLEUM)
CORPORATION FOR APPROVAL OF A UNIT)
AGREEMENT, EDDY COUNTY, NEW MEXICO)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

RECEIVED

March 13th, 2003

MAR 27 2003

Santa Fe, New Mexico

Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 13th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

March 13th, 2003
 Examiner Hearing
 CASE NO. 13,018

	PAGE
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>JOHN F. HUMPHREY</u> (Geologist)	
Direct Examination by Mr. Feldewert	4
Examination by Examiner Stogner	15
REPORTER'S CERTIFICATE	20

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	15
Exhibit 2	8	15
Exhibit 3	9	15
Exhibit 4	9	15
Exhibit 5	11	15
Exhibit 6	12	15
Exhibit 7	13	15
Exhibit 8	13	15

* * *

A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS, JR.
Attorney at Law
Energy, Minerals and Natural Resources Department
Assistant General Counsel
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: MICHAEL H. FELDEWERT

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 9:03 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 13,018, Application of Yates Petroleum Corporation
5 for approval of a unit agreement, Eddy County, New Mexico.
6 Call for appearances.

7 MR. FELDEWERT: May it please the Examiner,
8 Michael Feldewert with the Santa Fe office of the law firm
9 of Holland and Hart, for the Applicant Yates Petroleum
10 Corporation, and I have one witness today.

11 EXAMINER STOGNER: Any other appearances?
12 Will the witness please step forward and remain
13 standing to be sworn?

14 (Thereupon, the witness was sworn.)

15 EXAMINER STOGNER: Boy, you emptied out the room,
16 Mr. Feldewert.

17 MR. FELDEWERT: I guess I did.

18 JOHN F. HUMPHREY,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. FELDEWERT:

23 Q. Would you please state your full name and address
24 for the record?

25 A. My name is John Fitzgerald Humphrey, I reside in

1 Artesia, New Mexico.

2 Q. And by whom are you employed and in what
3 capacity?

4 A. I'm a senior geologist with Yates Petroleum
5 Corporation.

6 Q. And have you previously testified before the
7 Division and had your credentials as a geologist made a
8 matter of public record?

9 A. Yes, I have.

10 Q. And are you familiar with the Application that
11 has been filed by Yates Petroleum Corporation in this case?

12 A. Yes, I am.

13 Q. Are you familiar with the status of the lands in
14 the proposed unit area for Yates's proposed Arley Federal
15 Exploratory Unit?

16 A. Yes, I am.

17 Q. And have you made a geologic study of the area
18 that is the subject of this Application?

19 A. Yes, I have.

20 Q. And are you prepared to share the results of your
21 work with the Examiner?

22 A. Yes, I am.

23 MR. FELDEWERT: Mr. Examiner, are the witness's
24 qualifications acceptable?

25 EXAMINER STOGNER: They are.

1 Q. (By Mr. Feldewert) Why don't you briefly state
2 what Yates seeks with this Application?

3 A. Yates Petroleum seeks approval of the proposed
4 Arley Federal Exploratory Unit Agreement, a voluntary
5 exploratory unit containing approximately 2960.97 acres of
6 federal and fee lands located in Eddy County, New Mexico.

7 Q. Does Yates Petroleum Corporation seek to be
8 designated the unit operator?

9 A. Yes, we do.

10 Q. Okay, would you identify and review for the
11 Examiner what has been marked as Yates Exhibit Number 1?

12 A. Exhibit 1 is the standard federal form -- based
13 on the standard federal form for an exploratory unit.

14 Q. Okay, and does it have attached to it an Exhibit
15 "A"?

16 A. Yes, it does.

17 Q. And does that Exhibit "A" identify the unit area?

18 A. Yes, it does.

19 Q. Now, can you tell the Examiner how many leases
20 are involved in this unit area?

21 A. There are six leases involved in the unit area,
22 Mr. Examiner, five of which are held by Yates Petroleum,
23 one 80-acre fee tract held by Dominion and Echo Production.
24 They chose not to participate in the unit, so that 80-acre
25 tract will not be part of the proposed Arley Unit, and that

1 acreage is located in the south half of the southeast
2 quarter of Section 7, 20 South, 23 East.

3 Q. So If I'm looking at Exhibit "A", you're talking
4 about that little section down there that's squared off, it
5 has "D.J. Schultz" --

6 A. "D.J. Schultz", that's correct.

7 Q. Okay. That is not going to be part of the unit
8 area?

9 A. No, it is not.

10 Q. Okay. And that is fee land?

11 A. That is correct.

12 Q. Okay. Is all the remaining tracts that are shown
13 within the unit area, is that federal land?

14 A. That is correct.

15 Q. You said there's five federal leases?

16 A. That is correct.

17 Q. Yates is the operator, or the lessee for all of
18 those leases?

19 A. Yes, they are.

20 Q. And are those leases and the ownership of those
21 leases identified on Exhibit "B" to what has been marked as
22 Yates Exhibit Number 1?

23 A. Yes, they are.

24 Q. Is all of the federal acreage set forth on
25 Exhibit "B", has that been dedicated to the unit area?

1 A. Yes, it has.

2 Q. And has the BLM, the Bureau of Land Management,
3 designated the proposed unit area as an area logically
4 suited for development under a unit plan?

5 A. Yes, they have.

6 Q. And has that letter been marked as Yates Exhibit
7 Number 2?

8 A. Yes, it has.

9 Q. Now, what horizons are being unitized under the
10 proposed Arley Federal Exploratory Unit?

11 A. All horizons will be unitized.

12 Q. Okay. Now, does this Unit Agreement that has
13 been marked as Exhibit 1, does it provide for periodic
14 filing of plans of development?

15 A. Yes, it does.

16 Q. And where is that within the Unit Agreement?

17 A. It's Article 10, which is located on page 6 in
18 the Unit Agreement.

19 Q. Does Article 10 also require Yates to file plans
20 of development with the Division as well as with the BLM?

21 A. Yes, they do.

22 Q. And how often --

23 A. Yes, it does.

24 Q. -- are these plans to be filed?

25 A. The initial plan will be filed six months after

1 completion of the initial unit well, and the subsequent
2 plans will be filed 12 months thereafter.

3 Q. Okay. Would you now turn to Yates Exhibit Number
4 3, identify it and review that for the Examiner, please?

5 A. Yates Exhibit 3 is the AFE for the initial test
6 well. Dryhole cost is estimated to be a little over
7 \$483,000 and the completed well is estimated to be
8 approximately \$874,000.

9 Q. And what is the projected depth for this proposed
10 well?

11 A. We're looking in that, sometime early fall, to
12 drill this.

13 Q. And what's the depth?

14 A. Depth is 8300 feet.

15 Q. And this is going to be the Arley "BBE" Federal
16 Number 1?

17 A. That's correct.

18 Q. Now, when is the first lease due to expire within
19 the unit area?

20 A. December 1st, 2003.

21 Q. And you're proposing to spud this well as early
22 as this fall?

23 A. We'd like to, yes.

24 Q. I'd like you to turn now to Yates Exhibit Number
25 4. Is this a written summary of your geologic

1 presentation?

2 A. Yes, it is.

3 Q. Does this written summary identify the location
4 of the initial test well?

5 A. Yes, it does. The initial test well will be
6 located in the south half of Section 6, Township 20 South,
7 Range 23 East, bottomhole location to be 660 feet from the
8 south line, 660 feet from the west line.

9 Q. Okay. And this is going to be drilled at 8300
10 feet. What's your primary objective for this well?

11 A. Primary objective for this well is the lower
12 Morrow sandstone.

13 Q. Is this a wildcat well?

14 A. Yes, it is.

15 Q. Okay, are there any secondary objectives?

16 A. Secondary objectives in this area include the
17 Atoka sands, the Cisco limestone, and there's a remote
18 possibility of Abo dolomite.

19 Q. And are these formations identified in the second
20 paragraph of Exhibit Number 4?

21 A. Yes, they are.

22 Q. All right. Okay, why don't you leave that
23 exhibit out in front of you then and turn to Yates Exhibit
24 Number 5. Identify and review that for the Examiner,
25 please.

1 A. Yates Exhibit 5 is a net sand isopach for the
2 lower Morrow in this area. By net sand, I use a gamma-ray
3 cutoff of 50 API units to indicate clean sand. And at
4 least what I'm visualizing here is trying to extend
5 production in the lower Morrow from the Little Box Canyon
6 area, which has a cumulative production of over 67 BCF to
7 date, and we're hoping to extend production to the north
8 over the Arley Federal Unit.

9 Q. Okay. Now, your proposed well is identified on
10 this map?

11 A. Yes, it's the red dot located in Section 6, 20
12 South, 23 East.

13 Q. Now, is this going to be a straight well or a
14 deviated?

15 A. This will be a deviated well. There's fairly
16 severe topography over a lot of the unit area.

17 Q. So does that red dot represent the bottomhole
18 location?

19 A. Yes, it does.

20 Q. Okay. You have a well listed there in blue?

21 A. Yes, there is one control point within the unit
22 that did have a thick Morrow sand, lower Morrow sand
23 section that tested -- on drill stem tested -- had a show
24 of gas with formation water in the lower Morrow.

25 Q. Okay. Now, you mentioned the Little Box Canyon

1 Morrow field to the south. Is there a well within that
2 area that you're going to be referencing later on?

3 A. Yes, Exhibit 6 is a type log for the area, and
4 this compares the log signatures to a typical well on the
5 Little Box Canyon field, in this case, Stevens and Tull
6 Little Box State 2, which is located in the south half of
7 Section 36, 20 South, 21 East. It's about, oh, six miles
8 from the control point well.

9 Again, what this type log shows is the similarity
10 and sand quality and characteristics between the two areas,
11 and what we would like to do, at least in that north half
12 -- we'll look at a structure map for the lower Morrow in a
13 minute, but the reason we include the north half of Section
14 6 is, we believe we can get updip to that control well and
15 be gas productive.

16 Q. Okay, so Exhibit Number 6, you have a well on the
17 right, which is the Wilson well?

18 A. That's the Wilson well, located in 20 South, 23
19 East, Section 6, and again it's comparing it to an average
20 well in the Little Box Canyon field, and in the example
21 I've shown that particular well has cum'd approximately 16
22 BCF to date.

23 Q. Okay, all right. Then why don't you move to
24 Yates Exhibit Number 7, identify that and review that for
25 the Examiner.

1 A. Yates Exhibit 7 is cross-section A-A' that you
2 see on both the net sand isopach and the structural map
3 we'll see next. This is basically showing kind of the
4 lateral, the width of this particular fluvial channel
5 system. You see Buckaroo "AYG" Federal 1, which is the
6 westernmost well. I believe both that and the Mesa
7 Petroleum Buzzard, what I consider to be overbanked
8 nonproductive-type deposits, and that basically sets your
9 east and west boundaries of this fluvial channel system,
10 with the Wilson well in the middle, smack in the channel
11 system.

12 Q. All right, now you mentioned your structure map.
13 Has that been marked as Exhibit Number 8?

14 A. Yes, it is.

15 Q. Okay, why don't you review that for the Examiner,
16 please?

17 A. This is a structure map on the top of the lower
18 Morrow interval. As you can see on the map in Exhibit 8
19 the proposed Arley "BBE" Federal Number 1 location, we are
20 predicting that to be almost 200 feet higher than the Max
21 Wilson Wildernhl Federal 1 well that was shown on the type
22 log in cross-section A-A'.

23 In addition, you could drill a well 660 from the
24 north and west in the north half of 6 there and be almost a
25 hundred feet high, even at that location.

1 So again, I think that's -- I think you can get
2 updip, and I think that's justification for having the
3 north half of 6 and 6 in the unit, even though there's a
4 control point there.

5 Q. You think by moving updip you will eliminate the
6 problem that they saw in the Wilson well?

7 A. Yes, hopefully.

8 Q. All right. Well, why don't you summarize for the
9 Examiner why you're proposing to develop this area under a
10 unit plan?

11 A. Yates is proposing to develop the area under a
12 unit plan because well costs are expensive in the area.
13 This is an area and a reservoir that can be effectively
14 developed under a unit plan. The formation of this unit
15 will result in the most reasonable and efficient
16 development of these reserves.

17 Q. Mr. Humphrey, in your opinion will the approval
18 of this Application be in the best interests of
19 conservation, the prevention of waste and the protection of
20 correlative rights?

21 A. Yes, I believe it will.

22 Q. Were Yates Exhibits 1 through 8 prepared by you
23 or prepared under your direction and supervision?

24 A. Yes, they were.

25 MR. FELDEWERT: Mr. Examiner, at this time I

1 would move the admission into evidence of Yates Exhibits 1
2 through 8.

3 EXAMINER STOGNER: Exhibits 1 through 8 will be
4 admitted into evidence.

5 MR. FELDEWERT: And that concludes my examination
6 of this witness.

7 EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. I want to refer now to the first exhibit, last
10 page -- that's Exhibit B to this document --

11 A. Uh-huh.

12 Q. -- and that is Tract 6, the fee acreage?

13 A. That's correct.

14 Q. And that is leased -- who's the lessee of record
15 again on this?

16 A. That's Dominion, that's held by Dominion and Echo
17 Production.

18 Q. When you say "held", they have the lease from --

19 A. Yes. Yes, sir.

20 Q. -- William Runyan? I show a William F. --

21 A. Yeah, a William F. Runyan. Yes, yes.

22 Q. Okay. What communications or -- was their
23 approach to join the unit?

24 A. Yes, we approached both parties to join the unit,
25 and they both declined to join the unit.

1 Q. Okay. Also, I think it's important that we cover
2 something here, for people who don't know the area. I
3 especially want to refer to the maps, Exhibit 8 and 5, and
4 then the description of this unit area. It's the blatant
5 absence of a Township 20 South and Range 22 East. This is
6 not a typo, is it?

7 A. No, it is not.

8 Q. There is no Township 20 South, Range 22 East?

9 A. No, there is not.

10 Q. Okay, did Yates have anything to do with there
11 not being this township, 36 sections? What happened to it?

12 A. I think this even predated Yates, so...

13 Q. Okay, this was essentially a correction in the
14 survey; is that correct?

15 A. That is correct.

16 Q. And so everything is contiguous?

17 A. Uh-huh.

18 Q. The two wells that are within -- I'm sorry, the
19 two old plugged and abandoned or dry and abandoned wells
20 within the proposed unit area --

21 A. Uh-huh.

22 Q. -- there is only two; is that correct?

23 A. Yes, sir. The one in Section 18, which I didn't
24 mention, reached a TD of 100 feet, which is not sufficient
25 to get to anything. They have surface -- I didn't check,

1 but sometimes you have severe surface hole problems out
2 here and that may have been the case with that one, and
3 they just abandoned it after hitting some surface karst or
4 something. But that's the other dry hole within the unit.

5 Q. Okay. And actually, I'm glad you brought that
6 up. This is in the cave and karst area of the recognized
7 BLM cave and karst area?

8 A. Yes, sir. And a lot of these are going to have
9 to be drilled directionally. The topography is pretty bad
10 over most of the -- or difficult.

11 Q. Actually you bring up a good point. Now
12 referring back to this Exhibit "B" of Exhibit "A" --

13 A. Uh-huh.

14 Q. -- the royalty -- with the exception of that
15 small fee acreage, the royalty is all U.S. government and
16 the working interest looks like it's identical throughout
17 the unit, other than that 80-acre fee unit?

18 A. Yes, sir, that's correct.

19 Q. And your first well that's going to be drilled,
20 it's going -- yeah, please identify -- Let's talk about
21 that test well.

22 A. The test well will be located 660 feet from the
23 south and west line, Section 6, 20 South, 23 East, and if
24 you're looking at Exhibit "A" you can see it's a 1-BBE on
25 that. It's in Tract 1.

1 Q. Oh, okay, it is identified --

2 A. Yes, sir.

3 Q. -- on that Exhibit A that you --

4 A. Yeah, it's just in writing on it.

5 Q. Now, has this well been staked? Is this the
6 proposed -- Are you going to do any directional drilling on
7 this well?

8 A. Yes, sir, this well, we have an approved APD on
9 this particular well.

10 Q. Now, is it going to be directionally drilled,
11 or --

12 A. Yes, sir. Yes, sir.

13 Q. Where's the bottomhole going to be?

14 A. I didn't put that. It's going to be about 1000
15 feet to the -- approximately 1000 feet, 1000, 1500 feet to
16 the east.

17 MR. FELDEWERT: Let me -- If I may, Mr. Examiner,
18 I'm looking at Exhibit 4. We show -- If we need to correct
19 this, we need to -- it says a bottomhole location of 660
20 from the south line and 660 from the west line. Is that
21 surface or bottomhole, do you know?

22 THE WITNESS: That's bottomhole.

23 MR. FELDEWERT: Okay.

24 THE WITNESS: Exhibit 4 says bottomhole location
25 of 660 from the south and 660 from the west.

1 Q. (By Examiner Stogner) Okay, I'm confused here.
2 Okay, now I've got Exhibits 3 and 4. Now, the location you
3 show on Exhibit 3 that's 660 from the south and west, and
4 then we refer to Exhibit 4. The bottomhole is 660 from the
5 south, 660 from the west. Okay, so -- and now you say it
6 was going to be directionally drilled 1000 feet to the --

7 A. No, I apologize for the mis- -- The surface
8 location will be 1000 to 1500 to the west.

9 Q. Okay, so --

10 A. I mean to the east, excuse me.

11 Q. -- any reference to the 660 south, 660 west, is
12 the actual bottomhole location?

13 A. That's the actual bottomhole location, Mr.
14 Examiner. I apologize for the confusion.

15 EXAMINER STOGNER: Anything further in this
16 matter?

17 Thank you. Since there's nothing further, Case
18 Number 13,018 will be taken under advisement.

19 Let's take about a five-minute recess at this
20 time.

21 (Thereupon, these proceedings were concluded at
22 9:22 a.m.)

23

* * *

13018
13 March 2003
Oil Conservation Division

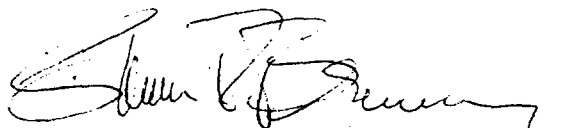
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter
and Notary Public, HEREBY CERTIFY that the foregoing
transcript of proceedings before the Oil Conservation
Division was reported by me; that I transcribed my notes;
and that the foregoing is a true and accurate record of the
proceedings.

I FURTHER CERTIFY that I am not a relative or
employee of any of the parties or attorneys involved in
this matter and that I have no personal interest in the
final disposition of this matter.

WITNESS MY HAND AND SEAL March 14th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006

STEVEN T. BRENNER, CCR
(505) 989-9317