

PROPOSED LANCASTER SPRINGS UNIT

EDDY COUNTY, NEW MEXICO

READ & STEVENS, INC.

ROSWELL, NEW MEXICO

100% WI  
95% RTH  
Committed

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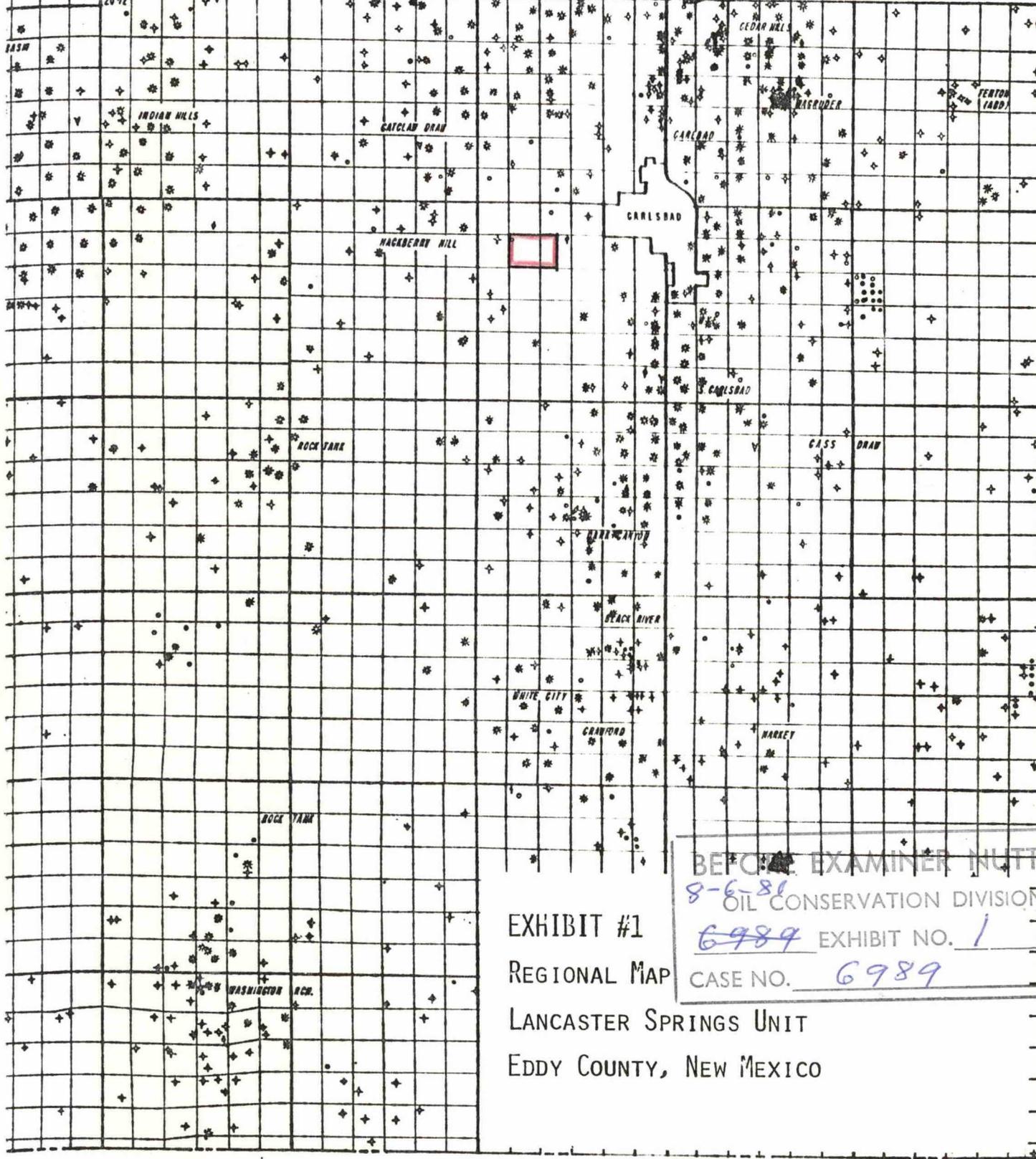


EXHIBIT #1  
 REGIONAL MAP  
 LANCASTER SPRINGS UNIT  
 EDDY COUNTY, NEW MEXICO

BEFORE EXAMINER NUTTER  
 8-6-81 OIL CONSERVATION DIVISION  
 6989 EXHIBIT NO. 1  
 CASE NO. 6989

23E R24E R25E R26E R27E R28E

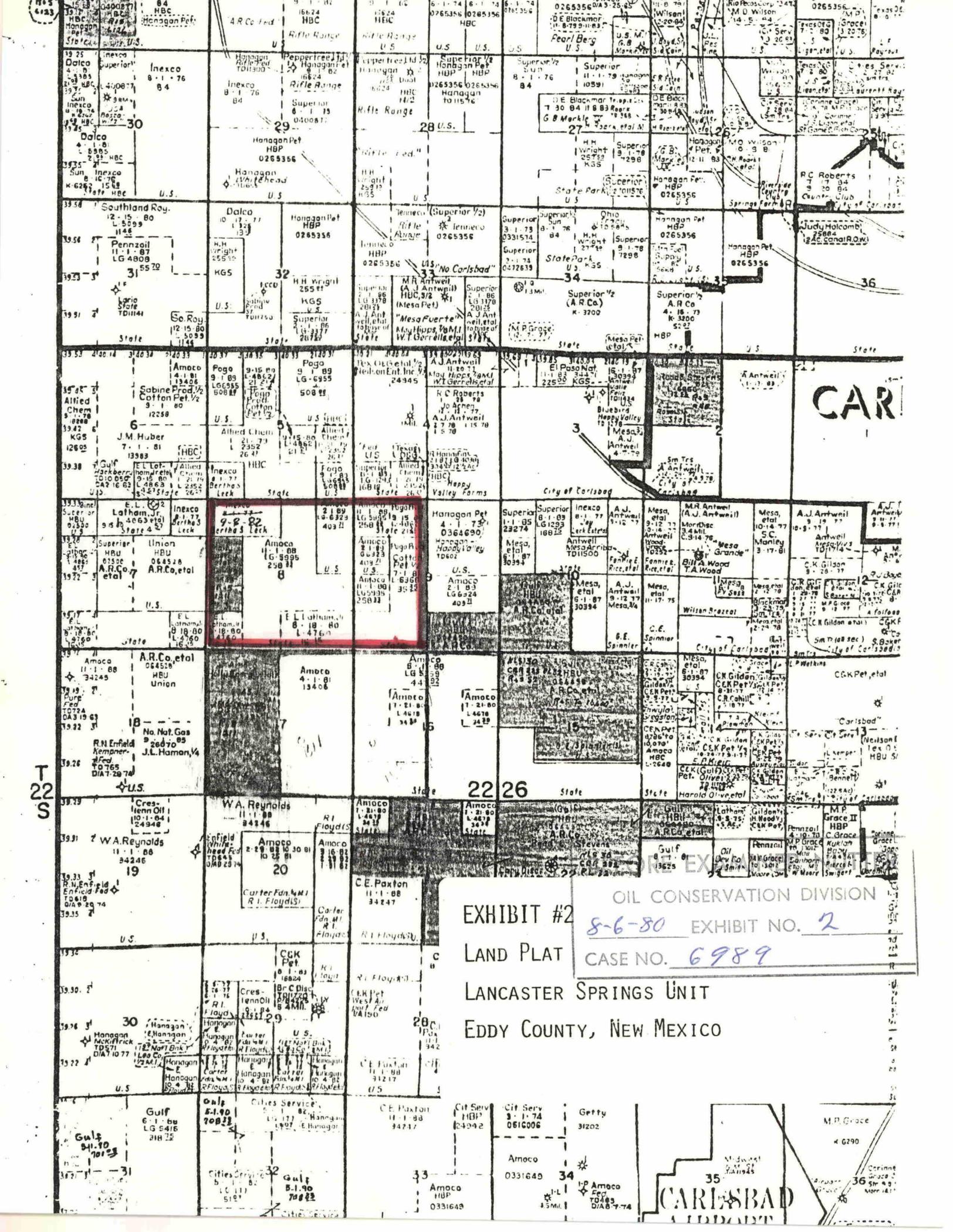


EXHIBIT #2 OIL CONSERVATION DIVISION  
 8-6-80 EXHIBIT NO. 2  
 LAND PLAT CASE NO. 6989

LANCASTER SPRINGS UNIT  
 EDDY COUNTY, NEW MEXICO

CARLSBAD

T  
22  
S

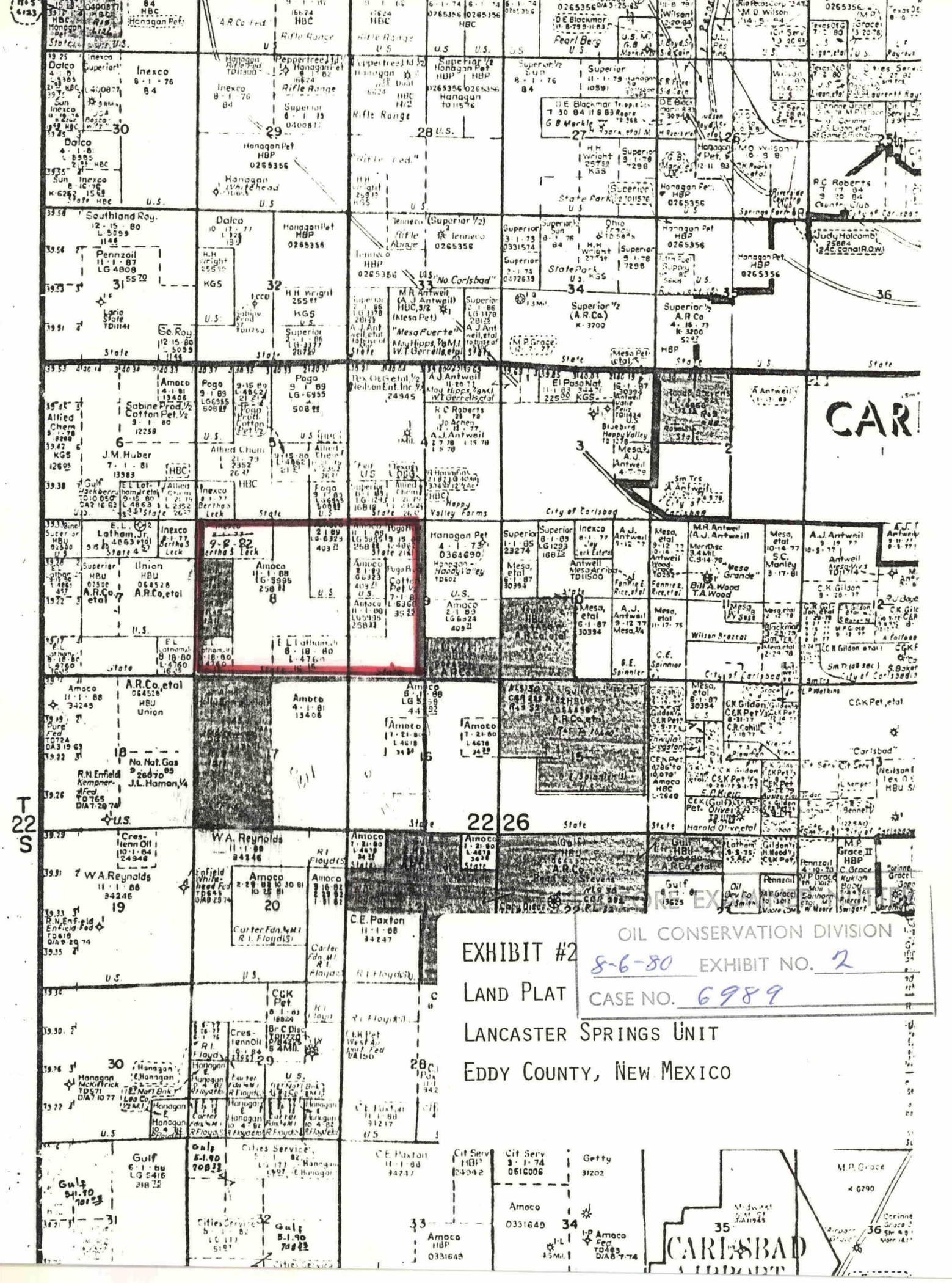
CAR

REX

CARLSBAD

CARLSBAD

Amoco 0331649  
 Cit Serv 061C006  
 Getty 31202  
 M.P. Grace 46290  
 Amoco 0331649  
 Cit Serv 061C006  
 Getty 31202  
 M.P. Grace 46290



GEOLOGICAL REPORT  
PROPOSED LANCASTER SPRINGS UNIT  
EDDY COUNTY, NEW MEXICO

PURPOSE

The purpose of this report is to briefly summarize the geological reasons for forming a 1½ section Federal, State and Fee Unit. A 12000 foot Mississippian test will be drilled within this unit.

LOCATION AND LAND

The proposed Lancaster Springs Unit is located approximately two miles southwest of Carlsbad, New Mexico. The unit area contains 960 acres of which 160 acres are Federal; 720 acres are State; and 80 acres are Fee. The unit includes all of section 8 and the west ½ of section 9 of T22S - R26E.

GENERAL GEOLOGICAL DISCUSSION

The Lancaster Springs Unit is located near the Capitan Reef front and thus is near the northern edge of the Delaware Basin. A 12000 test should penetrate all of the prospective pay zones and bottom in the Mississippian Formation. The expected tops are as follows:

Delaware	2700'
Bone Spring	5000'
Wolfcamp	8669'
Strawn	10200'
Atoka	10700'
Morrow	11100'
Miss.	11950'

The proposed test has the Morrow clastic zone as its main objective with the Canyon and Strawn as secondary targets.

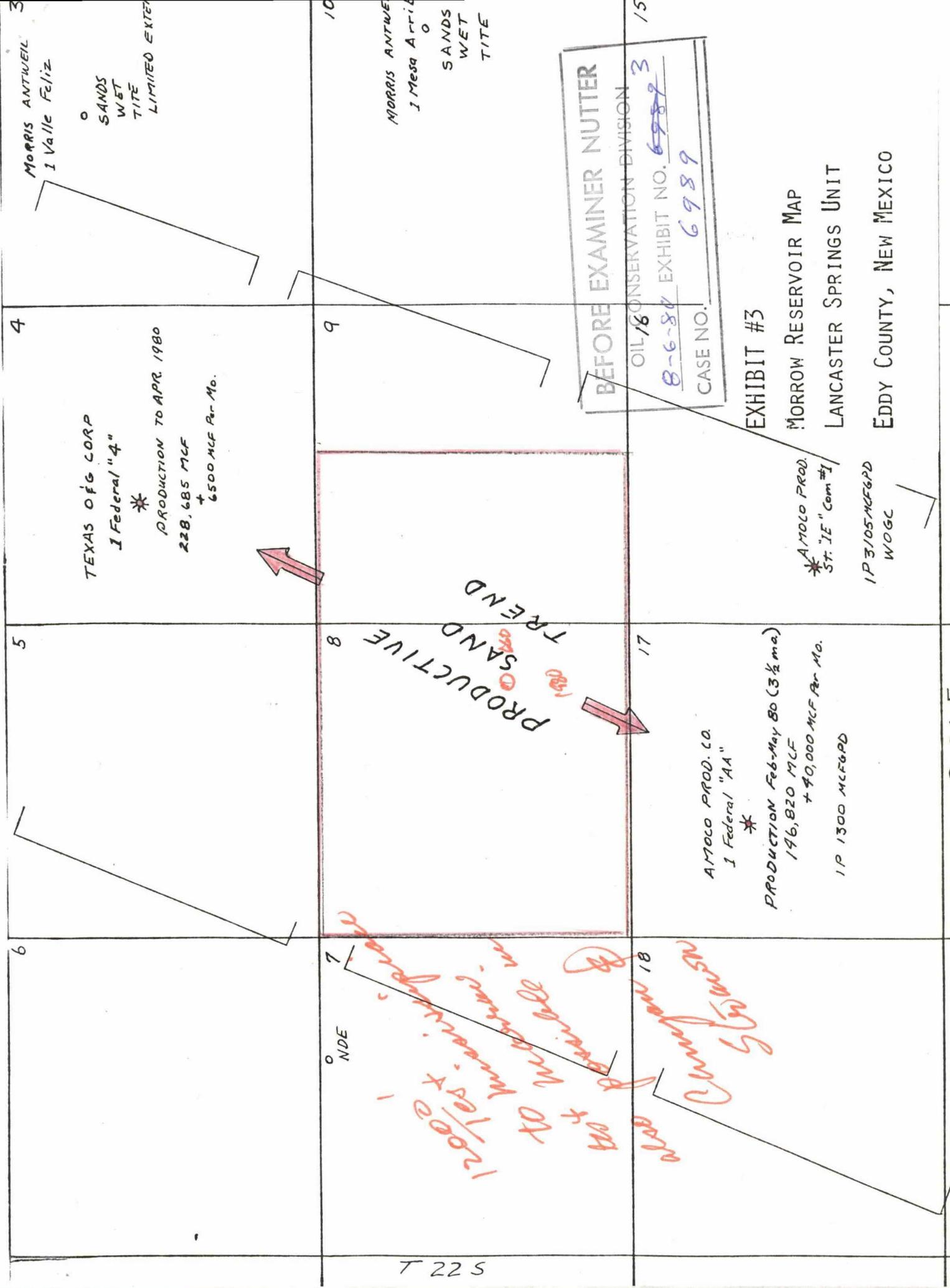
BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
8-6-50	EXHIBIT NO. 5
CASE NO.	6787

Exhibit #4 shows the structure to be regional dip to the east-southeast over the unit and the surrounding area. The structure apparently has very little control over the hydrocarbon accumulations. As in the case of most Morrow sandstone reservoirs, the stratigraphic trap is the dominant type of mechanism in this area for trapping gas.

Exhibit #3 is a compilation of production and testing data in the wells surrounding the unit. The Productive sand trend is delineated by three producers in sections 4,16, and 17. The southeastern boundary is defined by the wells in sections 3 and 10 that had DST's to show the sands were either wet, tite or of limited extent. The northwestern boundary is not nearly as well defined, but additional risk would be incurred by drilling beyond the boundary as marked.

#### CONCLUSION

The Lancaster Springs Unit has geological merit that warrants a Morrow test and the unit boundaries are set by the productive sand trend.



MORRIS ANTWEIL  
I Valle Feliz  
SANDS  
WET  
TITE  
LIMITED EXTE

MORRIS ANTWEIL  
I Mesa Arril  
SANDS  
WET  
TITE

TEXAS OIL & GAS CORP  
I Federal "4"  
\*  
PRODUCTION TO APR 1980  
228,685 MCF  
+ 6500 MCF Per Mo.

PRODUCTIVE SAND TREND

AMOLO PROD. CO.  
I Federal "AA"  
\*  
PRODUCTION Feb-May 80 (3 1/2 ma.)  
146,820 MCF  
+ 40,000 MCF Per Mo.  
IP 1300 MCF/GPD

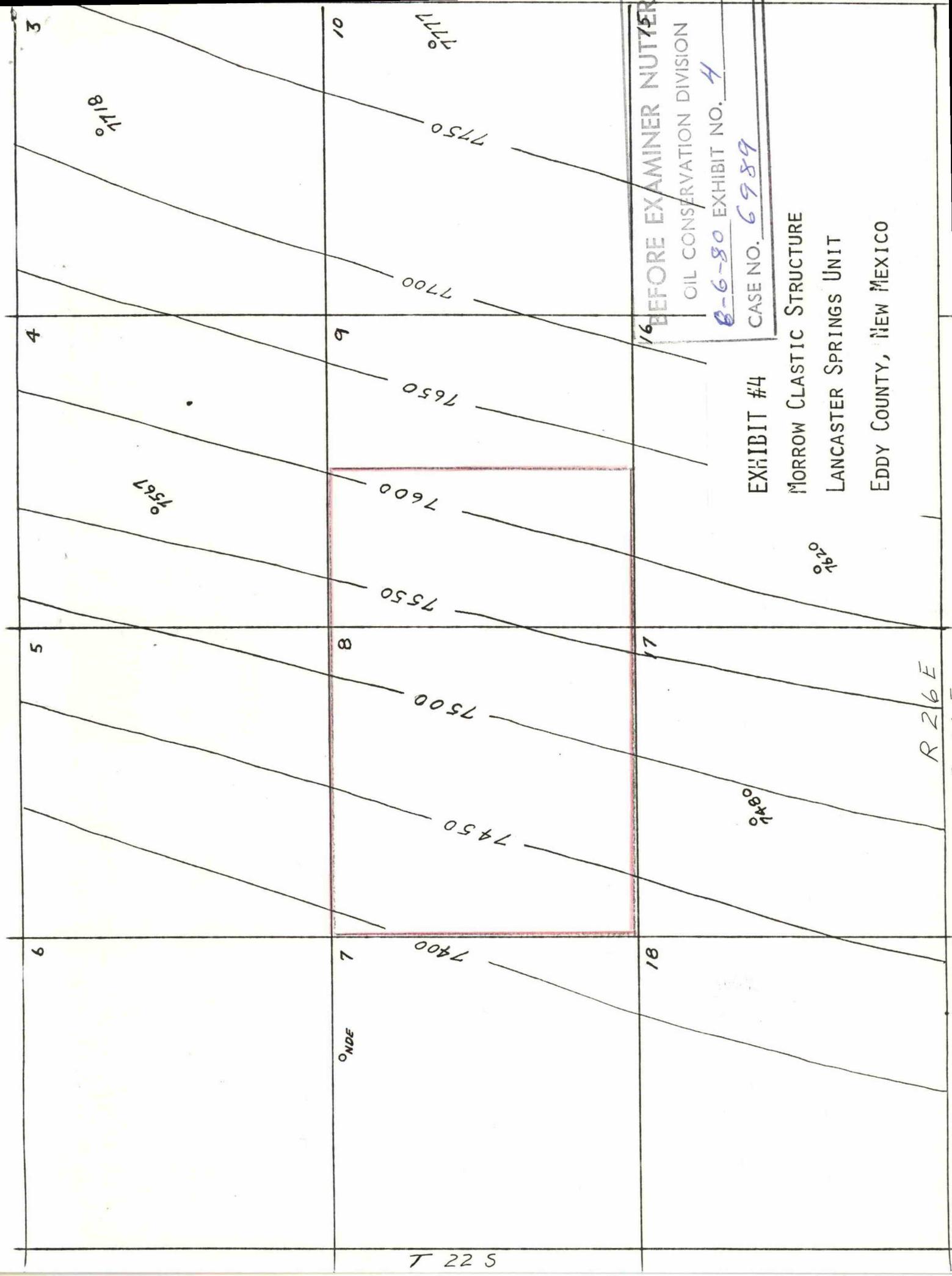
\* AMOLO PROD.  
ST. JE "Com #1"  
IP 3105 MCF/GPD  
WOGC

BEFORE EXAMINER NUTTER  
OIL CONSERVATION DIVISION  
8-6-80 EXHIBIT NO. 6989  
CASE NO. 6989

EXHIBIT #3  
MORROW RESERVOIR MAP  
LANCASTER SPRINGS UNIT  
EDDY COUNTY, NEW MEXICO

T 225

R 26 E



BEFORE EXAMINER NUTTER  
 OIL CONSERVATION DIVISION  
 EXHIBIT NO. 4  
 CASE NO. 6989

EXHIBIT #4

MORROW CLASTIC STRUCTURE  
 LANCASTER SPRINGS UNIT  
 EDDY COUNTY, NEW MEXICO

R 26 E

T 22 S

7118

7567

7820

7400

7450

7500

7550

7600

7650

7700

7750

7777

3

4

5

6

10

9

8

7

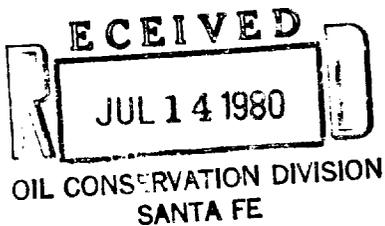
ONDE

16

17

18

UNIT AGREEMENT



FOR THE DEVELOPMENT AND OPERATION

OF THE

LANCASTER SPRING UNIT AREA

EDDY COUNTY, NEW MEXICO

NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 10th day of July 1980 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 or gas interests in the unit area subject to this agreement; and

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, New Mexico Statutes 1980 Annotated), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, New Mexico Statutes 1978 Annot.) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. New Mexico Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the White Draw 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:

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.

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

T-22-S, R-26-E, NMPM  
Sec. 8; All  
Sec. 9; W½

Containing 960.00 acres,  
more or less, Eddy County,  
New Mexico.

Exhibit A attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit B attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits A and B shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: Read & Stevens, Inc. whose address is Security Bldg. Roswell, N. M. is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit B, and 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 interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

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

Exhibit A attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit B attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits A and B shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

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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 determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner and the Division.

The resignation or removal of the unit operator under this agreement shall not terminate his 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 equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of unit operator, and (b) the selection shall have been approved by the Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned, among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and owners of such 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 "Operating Agreement". No such 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 inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said unit operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to an 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.

8. DRILLING TO DISCOVERY: The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embrace within the unit area and shall drill said well with due diligence to a depth sufficient to test the entire Pennsylvanian formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 12,000 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing

unitized substances in paying quantities is completed to the satisfaction of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights, privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES:

Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such

lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees of record in the manner prescribed by (Sec. 19-10-20 N. M. Statutes 1978 Annotated,) of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES:

All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by 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.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA:

The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to

make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the term of this agreement and the approval of this agreement by the commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not effect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offsets to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

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 as to the portion not committed and the terms of such leases shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement 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 therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil and gas, or either of them, are being produced in paying quantities from any portion of said lands.

14. 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 laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. 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 leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder to the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty, or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in two years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production and so long thereafter as the unitized substances so discovered can be produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto, with the approval of the Commissioner and with notice to Division. Likewise, the failure to comply with the drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

18. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Commission, and in conformity with all applicable laws and lawful regulations.

19. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby, before the Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulations of the Commissioner or Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceeding.

20. NOTICES: All notices, demands, or statements required hereunder to be given or rendered to the parties hereto, shall be deemed fully given, if given in writing and sent by postpaid registered mail, addressed to such party or parties at their respective addresses, set forth in connection with the signatures hereto or to the ratification or consent hereof, or to such other address as any such party may have furnished in writing to party sending the notice, demand, or statement.

21. 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, but only so long as, 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, war, act of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the unit operator, whether similar to matters herein enumerated or not.

22. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof, without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

23. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval



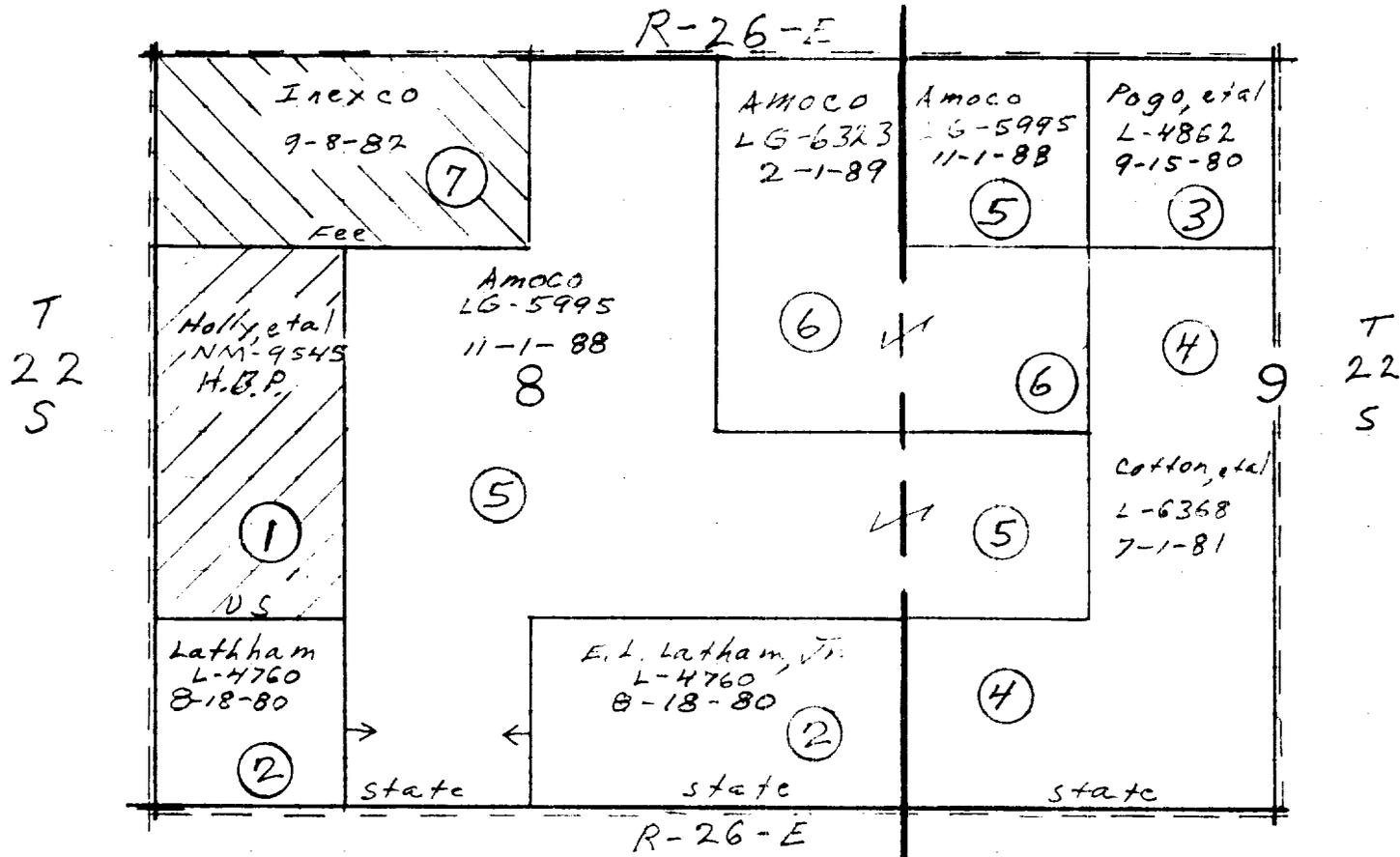


EXHIBIT "A"  
 Lancaster Spring Unit Area  
 Eddy County, New Mex

- Unit Outline
- Tract No.
- State of New Mexico Lands  
800,00 Acres, 83.34%
- ▨ Federal Lands  
80,00 Acres, 8.33%
- ▨ Fee Lands  
80,00 Acres, 8.33%

*Rough Copy  
 to be drafted*

5. Sec. 8: SE<sup>1</sup>/<sub>4</sub>NW<sup>1</sup>/<sub>4</sub>,  
 W<sup>1</sup>/<sub>2</sub>N<sup>1</sup>/<sub>2</sub>E<sup>1</sup>/<sub>4</sub>,  
 N<sup>1</sup>/<sub>2</sub>S<sup>1</sup>/<sub>2</sub>E<sup>1</sup>/<sub>4</sub>,  
 E<sup>1</sup>/<sub>2</sub>S<sup>1</sup>/<sub>2</sub>W<sup>1</sup>/<sub>4</sub>  
 Sec. 9: NW<sup>1</sup>/<sub>4</sub>NW<sup>1</sup>/<sub>4</sub>,  
 NW<sup>1</sup>/<sub>4</sub>S<sup>1</sup>/<sub>2</sub>W<sup>1</sup>/<sub>4</sub>

360.00 LG-5995 State 12.5 Amoco Production Company All None Amoco Prod. Co.  
 11-1-88

6. Sec. 8: E<sup>1</sup>/<sub>2</sub>N<sup>1</sup>/<sub>2</sub>E<sup>1</sup>/<sub>4</sub>  
 Sec. 9: SW<sup>1</sup>/<sub>4</sub>NW<sup>1</sup>/<sub>4</sub>

120.00 LG-6323 State 12.5 Amoco Production Company All None Amoco Prod. Co.  
 2-1-89

800.00 Acres of State of New Mexico Lands, 83.34%

PATENTED (FEE) LANDS

7. Sec. 8: N<sup>1</sup>/<sub>2</sub>NW<sup>1</sup>/<sub>4</sub>

80.00 Fee 9-8-82 Bertha Leck 12.5 Inexco Oil Company All Inexco Oil Co.  
 ALL

80.00 Acres Fee Lands, 8.33%

RECAPITULATION

80.00 Acres Federal land 8.33%  
 800.00 Acres State land 83.34%  
 80.00 Acres Fee land 8.33%  
 960.00 Acres Unit Area 100.00%

EXHIBIT "B", PART I

SCHEDULE SHOWING ALL LAND AND LEASES  
WITHIN THE LANCASTER SPRING UNIT AREA  
EDDY COUNTY, NEW MEXICO

All Lands are located in T-22-S, R-26-E, N.M.P.M.

FEDERAL LANDS

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
1.	Sec. 8: SW $\frac{1}{4}$ NW $\frac{1}{4}$ , NW $\frac{1}{4}$ SW $\frac{1}{4}$	80.00	NM-9545	USA 12.5	Holly Read & Stevens, Incorporated	87.5 12.5	Same as Lessee of Record
<u>STATE OF NEW MEXICO LANDS</u>							
2.	Sec. 8: S $\frac{1}{8}$ SE $\frac{1}{4}$ , SW $\frac{1}{4}$ SW $\frac{1}{4}$	120.00	L-4760 8-18-80	State 12.5	E. L. Latham, Jr.	All	E. L. Latham, Jr. All
3.	Sec. 9: NE $\frac{1}{4}$ NW $\frac{1}{4}$	40.00	L-4862 9-15-80	State 12.5	POGO Producing Company Cotton Petroleum	50 50	Same as Lessee of Record
4.	Sec. 9: SE $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{2}$ S $\frac{1}{4}$ SW $\frac{1}{4}$ , S $\frac{1}{4}$ SW $\frac{1}{4}$	160.00	L-6368 7-1-81	State 12.5	POGO Producing Company Cotton Petroleum	50 50	Same as Lessee of Record