

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

RECEIVED

NOV 3 1989

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF YATES DRILLING COMPANY FOR
STATUTORY UNITIZATION OR, IN
THE ALTERNATIVE, A UNIT AGREEMENT,
CHAVES COUNTY, NEW MEXICO.

CASE NO. 9823

APPLICATION

COMES NOW YATES DRILLING COMPANY, pursuant to the provisions of the Statutory Unitization Act (Sections 70-7-1 through 70-7-21, N.M.S.A., 1978 Comp.) and hereby applies to the New Mexico Oil Conservation Division for an order unitizing the Cactus Queen Unit, Chaves County, New Mexico or, in the alternative, approving its Cactus Queen Unit Agreement and in support of its application states:

1. Yates Drilling Company (Yates) is a New Mexico corporation authorized to transact business in the State of New Mexico and is engaged in the business of, among other things, producing and selling oil and gas.
2. The proposed unit area for which this application for statutory unitization is made consists of 560 acres, more or less, of Federal, State and Fee lands located in Chaves County, New Mexico, and is more particularly described on Exhibit A attached hereto and incorporated herein by reference. Yates seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of the project area.

CAMPBELL & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
J. SCOTT HALL
JOHN H. BEMIS
WILLIAM P. SLATTERY
MARTE D. LIGHTSTONE
PATRICIA A. MATTHEWS

OIL CONSERVATION DIVISION
RECEIVED

'89 NOV 7 AM 8 47

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 25, 1989

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Case No. 9823
m.s.

TO ALL AFFECTED INTEREST OWNERS IN THE CACTUS QUEEN UNIT:

Re: Application of Yates Drilling Company for Statutory Unitization or, in the Alternative, a Unit Agreement, Chaves County, New Mexico

Gentlemen:

This letter is to advise you that Yates Drilling Company has filed an application with the New Mexico Oil Conservation Division seeking an order statutorily unitizing for the purpose of establishing a secondary recovery project, all mineral interests in the Queen formation, Southeast Chaves Queen Field, underlying 560 acres, more or less, of Federal, State and Fee lands in portions of Sections 26, 27, 34 and 35 of Township 12 South, Range 31 East. Said unit is to be designated the Cactus Queen Unit. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of the horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a provision for carrying any nonconsenting working interest owner within the unit area upon such terms and conditions to be determined by the Division as just and reasonable. In the alternative, Yates Drilling Company seeks approval of a voluntary unit containing 320 acres, more or less, of Federal and State lands in portions of Section 27 and 34, Township 12 South, Range 31 East.

TO ALL AFFECTED INTEREST OWNERS IN THE CACTUS QUEEN UNIT

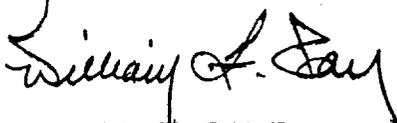
October 25, 1989

Page Two

Attached hereto as Exhibit A is a description of the lands to be included in each proposal for unitization.

This application has been set for hearing before an Examiner of the Oil Conservation Division on November 15, 1989. You do not need to be present at the hearing, but failure to appear at the hearing or otherwise become a party of record in this case will preclude you from challenging this matter at a later date.

Very truly yours,

A handwritten signature in cursive script, appearing to read "William F. Carr".

WILLIAM F. CARR
ATTORNEY FOR YATES DRILLING COMPANY
WFC:mlh

EXHIBIT A

**PROPOSED BOUNDARY FOR
STATUTORY UNITIZATION
OF CACTUS QUEEN UNIT
560 ACRES
TOWNSHIP 12 SOUTH, RANGE 31 EAST, N.M.P.M.**

Section 26: SW/4 SW/4
Section 27: SE/4, E/2 SW/4, SW/4 SW/4
Section 34: N/2 NE/4, SE/4 NE/4, N/2 NW/4
Section 35: NW/4 NW/4

**PROPOSED BOUNDARY FOR
VOLUNTARY UNITIZATION
OF CACTUS QUEEN UNIT
320 ACRES
TOWNSHIP 12 SOUTH, RANGE 31 EAST, N.M.P.M.**

Section 27: W/2 SE/4, E/2 SW/4, SW/4 SW/4
Section 34: NW/4 NE/4, N/2 NW/4

CAMPBELL & BLACK, P.A.

LAWYERS

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October 25, 1989

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO ALL AFFECTED INTEREST OWNERS IN THE CACTUS QUEEN UNIT:

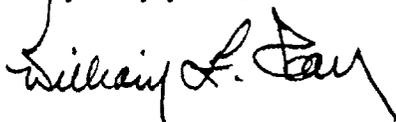
Re: Application of Yates Drilling Company for Approval of a Waterflood Project,
Chaves County, New Mexico

Gentlemen:

This letter is to advise you that Yates Drilling Company has filed an application with the New Mexico Oil Conservation Division seeking authority to institute a waterflood project by injection of water into the Queen formation in its proposed Cactus Queen Unit, underlying portions of Sections 26, 27, 34 and 35, Township 12 South, Range 31 East, Southeast Chaves Queen Field, Chaves County, New Mexico.

This application has been set for hearing before an Examiner of the Oil Conservation Division on November 15, 1989. You do not need to be present at the hearing, but failure to appear at the hearing or otherwise become a party of record in this case will preclude you from challenging this matter at a later date.

Very truly yours,



WILLIAM F. CARR
ATTORNEY FOR YATES DRILLING COMPANY
WFC:mlh

October 11-89

CAMPBELL & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
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October 11, 1989

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO ALL AFFECTED INTEREST OWNERS IN THE CACTUS QUEEN UNIT:

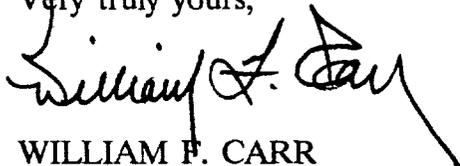
Re: Application of Yates Drilling Company for Approval of a Waterflood Project,
Chaves County, New Mexico

Gentlemen:

This letter is to advise you that Yates Drilling Company has filed an application with the New Mexico Oil Conservation Division seeking authority to institute a waterflood project by injection of water into the Queen formation in its proposed Cactus Queen Unit, underlying portions of Sections 26, 27, 34 and 35, Township 12 South, Range 31 East, Southeast Chaves Queen Field, Chaves County, New Mexico.

This application has been set for hearing before an Examiner of the Oil Conservation Division on November 1, 1989. You do not need to be present at the hearing, but failure to appear at the hearing or otherwise become a party of record in this case will preclude you from challenging this matter at a later date.

Very truly yours,



WILLIAM F. CARR
ATTORNEY FOR YATES DRILLING COMPANY
WFC:mlh

CAMPBELL & BLACK, P.A.

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October 11, 1989

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO ALL AFFECTED INTEREST OWNERS IN THE CACTUS QUEEN UNIT:

Re: Application of Yates Drilling Company for Statutory Unitization or, in the Alternative, a Unit Agreement, Chaves County, New Mexico

Gentlemen:

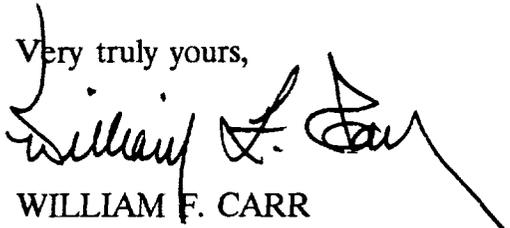
This letter is to advise you that Yates Drilling Company has filed an application with the New Mexico Oil Conservation Division seeking an order statutorily unitizing for the purpose of establishing a secondary recovery project, all mineral interests in the Queen formation, Southeast Chaves Queen Field, underlying 560 acres, more or less, of Federal, State and Fee lands in portions of Sections 26, 27, 34 and 35 of Township 12 South, Range 31 East. Said unit is to be designated the Cactus Queen Unit. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of the horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a provision for carrying any nonconsenting working interest owner maintain the unit area upon such terms and conditions to be determined by the Division as just and reasonable. In the alternative, Yates Drilling Company seeks approval of a voluntary unit containing 320 acres, more or less, of Federal and State lands in portions of Section 27 and 34, Township 12 South, Range 31 East.

TO ALL AFFECTED INTEREST OWNERS IN THE CACTUS QUEEN UNIT
October 11, 1989
Page Two

Attached hereto as Exhibit A is a description of the lands to be included in each proposal for unitization.

This application has been set for hearing before an Examiner of the Oil Conservation Division on November 1, 1989. You do not need to be present at the hearing, but failure to appear at the hearing or otherwise become a party of record in this case will preclude you from challenging this matter at a later date.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is written in a cursive style with a large, sweeping flourish at the end.

WILLIAM F. CARR
ATTORNEY FOR YATES DRILLING COMPANY
WFC:mlh

EXHIBIT A

**PROPOSED BOUNDARY FOR
STATUTORY UNITIZATION
OF CACTUS QUEEN UNIT
560 ACRES
TOWNSHIP 12 SOUTH, RANGE 31 EAST, N.M.P.M.**

Section 26: SW/4 SW/4
Section 27: SE/4, E/2 SW/4, SW/4 SW/4
Section 34: N/2 NE/4, SE/4 NE/4, N/2 NW/4
Section 35: NW/4 NW/4

**PROPOSED BOUNDARY FOR
VOLUNTARY UNITIZATION
OF CACTUS QUEEN UNIT
320 ACRES
TOWNSHIP 12 SOUTH, RANGE 31 EAST, N.M.P.M.**

Section 27: W/2 SE/4, E/2 SW/4, SW/4 SW/4
Section 34: NW/4 NE/4, N/2 NW/4

November 5, 1989

State of New Mexico
Energy & Mineral Department
Oil Conservation Division
P.O. Box 2088
Sante Fe, NM 87501

ZMS. 11/9/89

Gentlemen:

In the matter of Case 9823 to be heard 11-15-89 at 8:15 AM.

As you can see by the attached papers, we are somewhat confused by the actual date of hearing, but our letter (certified article P567-646-635) still applies.

Due to ill health, none of the Doyal Family will be present.

If Yates Drilling & Associates believe they must have the Doyal fee land for waterflooding, we are prepared to make one final firm offer which is good through 11-30-89.

It is our understanding that an equal amount of oil (in this case more) will be recovered from waterflooding than the original pumping. Therefore, we are prepared to accept a one time payment equal to the barrels already pumped since completion of Doyal #1-2-3-4. This will be as of Navajo Refining records. Price per barrel will be paid as quoted by Navajo Refining as of 12-7-89.

In return, Yates Drilling Co. & Associates will have free hand to waterflood any well or wells as they see fit on the Doyal fee land. This does not apply to NW $\frac{1}{4}$ of SW $\frac{1}{4}$ of Section 26 T12 SR31E or SE $\frac{1}{4}$ of SW $\frac{1}{4}$ of section 26 T12 SR31E. Any drilling on these will be treated as the original lease.

This means the Doyal Family will draw no money - not even RI checks for a period of two years. This amount will be divided by the Yates Drilling Co. & Associates as they may see fit.

This agreement will last for a period of two years - 12-16-89 to 12-15-91 inclusive.

Page Two

All paper work and agreements to be drawn by Yates Drilling Co. and approved by Louis C. Doyal.

All this pertains to the 3200 foot level.

If Yates Drilling Co. cannot accept this, than we, the Doyal Family, strongly oppose any waterflooding on the Doyal fee land or within 1320 feet of any Doyal fee land. We look forward to the Commission to give us a favorable hearing.

Just so there will be no misunderstanding - the price will be:

Number of barrels pumped since completion of Doyal #1-2-3-4 X's price per barrel as quoted by Navajo Refining as of 12-7-89. Only the number of barrels paid to the Doyal Family by Navajo Refining as R1 will apply. Not hearing from Yates Drilling Co. by 11-30-89 makes this offer null and void.

Louis C. Doyal
810 Meadow Place
Roswell, NM 88201
(full power of attorney in this matter for the Allen Doyal heirs, as registered in Chaves County Courthouse in Roswell, NM)

LD:mw

CASE 9809: (Continued from November 1, 1989, Examiner Hearing.)

Application of Yates Drilling Company for statutory unitization, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of establishing a secondary recovery project, all mineral interests in the Southeast Chaves Queen Gas Area Associated Pool, underlying 560 acres, more or less, of Federal, State and Fee lands in portions of Sections 26, 27, 34, and 35, Township 12 South, Range 31 East. Said unit is to be designated the Cactus Queen Unit. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a provision for carrying any non-consenting working interest owner within the unit area upon such terms and conditions to be determined by the Division as just and reasonable. Said Unit Area is centered approximately 12 miles southwest by south of Caprock, New Mexico.

CASE 9810: (Continued from November 1, 1989, Examiner Hearing.)

Application of Yates Drilling Company for a waterflood project, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Southeast Chaves Queen Gas Area Associated Pool in its proposed Cactus Queen Unit Area (Division Case No. 9809), underlying portions of Sections 26, 27, 34 and 35, Township 12 South, Range 31 East. Said area is centered approximately 12 miles southwest by south of Caprock, New Mexico.

CASE 9823: Application of Yates Drilling Company for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Cactus Queen Unit for an area comprising 560 acres, more or less, of Federal, State and Fee lands in all or portions of Sections 26, 27, 34 and 35, Township 12 South, Range 31 East. Unit Area is centered approximately 12 miles southwest by south of Caprock, New Mexico.

Examiner Hearing - Wednesday, November 15, 1989

- CASE 9818: Application of Blackwood & Nichols Co., Ltd. for an unorthodox coal gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox coal gas well location for its Northeast Blanco Unit Well No. 440 to be drilled 530 feet from the North line and 2135 feet from the East line (Unit B) of Section 11, Township 31 North, Range 7 West, Basin-Fruitland Coal Gas Pool, the N/2 of said Section 11 to be dedicated to said well forming a standard 320-acre gas spacing and proration unit for said pool. This well location is approximately 5.5 miles south of Mile Post No. 247.5 located on the New Mexico/Colorado Stateline.
- CASE 9819: Application of Blackwood & Nichols Co., Ltd. for compulsory pooling and an unorthodox gas well location, San Juan and Rio Arriba Counties, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Fruitland formation underlying Lots 7 and 8, the S/2 NW/4, and the SW/4 of Section 4, Township 30 North, Range 7 West, in both San Juan and Rio Arriba Counties, forming a 319.38-acre gas spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 320-acre spacing, which presently includes the Basin-Fruitland Coal Gas Pool, to be dedicated to its Northeast Blanco Unit Well No. 424, to be drilled at an unorthodox coal gas well location 2075 feet from the North line and 1330 feet from the West line (Unit F) of said Section 4. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is approximately 3.5 miles north-northeast of the Navajo Reservoir Dam.
- CASE 9820: Application of Blackwood & Nichols Co., Ltd. for compulsory pooling and a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Fruitland formation underlying the E/2 equivalent of Irregular Section 13, Township 30 North, Range 8 West, for any and all formations and/or pools within said vertical extent of this tract developed on 320-acre spacing (which presently includes but is not necessarily limited to the Basin-Fruitland Coal Gas Pool). Said unit is to be dedicated to its Northeast Blanco Unit Well No. 469, to be drilled at a previously approved (NSL-2685) unorthodox coal gas well location 1315 feet from the North line and 645 feet from the East line (Unit M) of said Section 13. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is approximately 1 mile northwest of the Navajo Reservoir Dam.
- CASE 9821: Application of Nearburg Producing Company for amendment of Division Order No. R-8991, Lea County, New Mexico. Applicant, in the above-styled cause, seeks to amend Division Order No. R-8991, dated August 31, 1989, which order authorized an unorthodox oil well location in the South Humble City-Strawn Pool for its Boy's Ranch Well No. 1 to be drilled 1100 feet from the North line and 880 feet from the East line (Unit A) of Section 13, Township 17 South, Range 37 East, by including provisions to test the Devonian formation whereby the NE/4 NE/4 of said Section 13 is to be dedicated to form a standard statewide 40-acre oil spacing and proration unit for said zone. Said well site is located approximately 3 miles north by east of Humble City, New Mexico.
- CASE 9791: (Continued from October 18, 1989, Examiner Hearing.)
- Application of Bannon Energy Incorporated for extension and contraction of certain pools in Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks to contract the Lybrook-Gallup Oil Pool by the deletion of the NE/4 SW/4, S/2 SW/4, and SW/4 SE/4 of Section 31, Township 24 North, Range 6 West, to contract the Counselors Gallup-Dakota Oil Pool by the deletion of the NE/4 of Section 6 and N/2 of Section 5, both in Township 23 North, Range 6 West, and to extend the Escrito-Gallup Associated Pool to include therein the E/2 NE/4, NW/4, and S/2 of Section 31, Township 24 North, Range 6 West, and the NE/4 of Section 6 and N/2 of Section 5, both in Township 23 North, Range 6 West. This area is located approximately 3 miles northeast of the Southern Union Gas Company Lybrook Plant.
- CASE 9822: Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Bone Spring formation underlying the NE/4 SW/4 of Section 12, Township 18 South, Range 32 East, forming a standard statewide 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre oil spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Corbin-San Andres, Undesignated South Maljamar-Yates, Undesignated West Corbin-Delaware, Undesignated Querecho Plains-Upper Bone Spring, and Undesignated North Young-Bone Spring Pools. Said unit is to be dedicated to a well to be drilled at a standard oil well location 2310 feet from the South and West lines (Unit L) of said Section 12. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said well location is approximately 7 miles south-southeast of Maljamar, New Mexico.

CASE 9808: (Continued from November 1, 1989, Examiner Hearing.)

Application of TXO Production Corporation for compulsory pooling, directional drilling, and an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Undesignated East Burton Flat-Strawn Gas Pool underlying the W/2 of Section 14, Township 20 South, Range 29 East, forming a standard 320-acre gas spacing and proration unit for said pool. Said unit is to be dedicated to a well to be directionally drilled from a surface location 900 feet from the South line and 1815 feet from the West line (Unit N) of Section 11, Township 20 South, Range 29 East, to a non-standard bottomhole gas well location within 50 feet of a point 825 feet from the North line and 1815 feet from the West line (Unit C) of said Section 14. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said location is approximately 4 miles north-northwest of the junction of U.S. Highway 62/180 and New Mexico State Highway 31.

CASE 9814: Application of Mewbourne Oil Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location 660 feet from the South and West lines. (Unit M) of Section 14, Township 17 South, Range 26 East, Undesignated Kennedy Farms-Morrow Gas Pool, the S/2 of said Section 14 to be dedicated to said well forming a standard 320-acre gas spacing and proration unit for said pool. The proposed well site is located approximately 3 miles east-southeast of Artesia, New Mexico.

CASE 9815: Application of Santa Fe Energy Operating Partners, L.P., for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the W/2 of Section 16, Township 21 South, Range 35 East, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing, which presently includes but is not necessarily limited to the Undesignated Osudo-Morrow Gas Pool and Undesignated South Osudo-Morrow Gas Pool. Said unit is to be dedicated to a well to be drilled at a standard gas well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 13 miles west by north of Eunice, New Mexico.

CASE 9816: Application of Santa Fe Energy Operating Partners, L.P., for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the N/2 of Section 32, Township 23 South, Range 29 East, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing, which includes but is not necessarily limited to the Undesignated Laguna Salado-Atoka Gas Pool, Undesignated Cedar Canyon-Morrow Gas Pool, and Undesignated Laguna Grande-Morrow Gas Pool. Said unit is to be dedicated to a well to be drilled at a standard gas well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 1 mile northeast of Harroun, New Mexico.

CASE 9796: (Continued from November 1, 1989, Examiner Hearing.)

Application of Santa Fe Energy Operating Partners, L.P. for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 22, Township 19 South, Range 33 East, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools being developed on 320-acre spacing (which presently includes but is not necessarily limited to the Undesignated Gem-Morrow Gas Pool and the Undesignated East Gem-Morrow Gas Pool). Said unit is to be dedicated to a well to be drilled at an unorthodox gas well location 660 feet from the North and East lines (Unit A) of said Section 22. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said well location is approximately 4.5 miles north of Mile Post No. 73 located on U.S. Highway 62/180.

CASE 9789: (Continued from November 1, 1989, Examiner Hearing.)

Application of Mobil Producing Texas and New Mexico Inc. for pool creation and special pool rules, or in the alternative for pool extension, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new pool for the production of oil from the Mancos formation comprising all of Section 15, Township 23 North, Range 1 West, and for the promulgation of special rules and regulations therefor including provisions for 640-acre spacing and proration units, designated well location requirements, and the assignment of a special depth bracket allowable. IN THE ALTERNATIVE, the applicant seeks to extend the West Puerto Chiquito-Mancos Oil Pool to include all of Sections 3, 10 and 15, Township 23 North, Range 1 West. Applicant further requests that the effective date of any order issued in this case be the date of this hearing. Said area is located approximately 3 miles north-northeast of Regina, New Mexico.

CASE 9817: Application of Tom Brown, Inc. for an unorthodox gas well location and non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location for its Peregrine State "36" Well No. 1 to be drilled either 1310 or 1330 feet from the North line and either 1310 or 1330 feet from the East line of Irregular Section 36, Township 26 South, Range 34 East, to a depth sufficient to test the Atoka formation, all said Section 36 to be dedicated to said well forming a non-standard 299.28-acre gas spacing and proration unit for said zone. Said unit is bounded to the south by the Texas/New Mexico stateline at Mile Corner No. 21.

Dockets Nos. 34-89 and 35-89 are tentatively set for November 29 and December 13, 1989. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - NOVEMBER 15, 1989
8:15 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

The following cases will be heard before David R. Catanach, Examiner, or Michael E. Stogner or Victor T. Lyon, Alternate Examiners:

- ALLOWABLE: (1) Consideration of the allowable production of gas for January 1990, from fourteen prorated gas pools in Lea, Eddy, and Chaves Counties, New Mexico.
- (2) Consideration of the allowable production of gas for January, 1990, from four prorated gas pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 9798: (Continued from November 1, 1989, Examiner Hearing.)

Application of El Paso Natural Gas Company for amendment of Division Order No. R-6175, as amended, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks to amend Division Order No. R-6175, which order authorized the Washington Ranch Gas Storage Project, by allowing the measurement of the total volume of input gas into the storage area through a single meter and to meter only the total volume of gas being withdrawn from the storage area through a second single meter. Said project area is located in an area 5 miles south of the Carlsbad Caverns National Park.

CASE 9800: (Continued from November 1, 1989, Examiner Hearing.)

Application of W. E. Jeffers for an unorthodox oil well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox oil well location for a well to be drilled 2310 feet from the South line and 2452 feet from the West line (Unit K) of Section 2, Township 18 South, Range 28 East, Artesia Queen-Grayburg-San Andres Pool, the NE/4 SW/4 of said Section 2 to be dedicated to said well and the existing Featherstone State Well No. 4 located at a standard oil well location 1650 feet from the South and West lines of said Section 2. Said unit is located approximately 2 miles southeast of the junction of U.S. Highway 82 and N.M. State Highway No. 360.

CASE 9788: (Continued from November 1, 1989, Examiner Hearing.)

Application of Yates Petroleum Corporation for directional drilling and an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authorization to directionally drill a well from a surface location of 563 feet from the South line and 2125 feet from the East line (Unit O) of Section 11, Township 20 South, Range 29 East, to an unorthodox bottomhole gas well location in the Morrow formation within 50 feet of a point 2480 feet from the North line and 1980 feet from the East line (Unit G) of Section 14, Township 20 South, Range 29 East, the E/2 of said Section 14 to be dedicated to said well forming a standard 320-acre gas spacing and proration unit for the Undesignated East Burton Flat-Morrow Gas Pool. This well location is approximately 4 miles north-northwest of the junction of U.S. Highway 62/180 and New Mexico State Highway 31.

CASE 9811: Application of Southland Royalty Company for seven non-standard gas proration units, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks to establish seven non-standard gas spacing and proration units for Basin-Fruitland Coal Gas Pool production in the northern tier of Sections, being Sections 7 through 12, of Township 32 North, Range 8 West. Said area is bounded on the north by the Colorado/New Mexico stateline between Mile Post Nos. 252 and 258.

CASE 9812: Application of Meridian Oil Inc., on behalf of El Paso Natural Gas Company, for an unorthodox coal gas well location, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox coal gas well location for its San Juan 30-6 Unit Well No. 479 to be drilled 1310 feet from the South line and 2300 feet from the West line (Unit N) of Section 29, Township 30 North, Range 6 West, Basin-Fruitland Coal Gas Pool, the W/2 of said Section 29 to form a standard 320-acre gas spacing and proration unit for said pool. Said unit is located approximately 7 miles east by south of the Navajo Reservoir Dam.

CASE 9813: Application of Meridian Oil Inc., on behalf of El Paso Natural Gas Company, for an unorthodox coal gas well location, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox coal gas well location for its San Juan 30-6 Unit Well No. 482 to be drilled 835 feet from the South line and 2440 feet from the West line (Unit N) of Section 31, Township 30 North, Range 6 West, Basin-Fruitland Coal Gas Pool, the W/2 of said Section 31 to form a standard 320-acre gas spacing and proration unit for said pool. Said unit is located approximately 6.25 miles east-southeast of the Navajo Reservoir Dam.

CASE 9801: (Continued from November 1, 1989, Examiner Hearing.)

Application of Conoco, Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Cisco Canyon formation underlying the SW/4 of Section 36, Township 19 South, Range 24 East, forming a standard 160-acre spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 160-acre spacing (which includes but is not necessarily limited to the Undesignated Dagger Draw-Wolfcamp Gas Pool and North Dagger Draw-Upper Pennsylvanian Pool). Said unit is to be dedicated to a well to be drilled at a standard location 660 feet from the South line and 990 feet from the West line (Unit M) of said Section 36. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant an operator of the well and a charge for risk involved in drilling said well. Said well location is approximately 15 miles west by south of Lakewood, New Mexico.

Case No. 9823 Application of Yates Drilling Company for statutory unitization or, in the alternative, a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of establishing a secondary recovery project, all mineral interests in the Queen formation, Southeast Chaves Queen Field, underlying 560 acres, more or less, of Federal, State and Fee lands in Unit M (SW/4 SW/4) of Section 26, Units I, J, K, M, N, O, P, (SE/4, E/2 SW/4, SW/4 SW/4) of Section 27, Units A, B, C, D, H, (N/2 NE/4, SE/4 NE/4, N/2 NW/4) of Section 34 and Unit D (NW/4 NW/4) of Section 35, Township 12 South, Range 31 East. Said unit is to be designated the Cactus Queen Unit. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit

operations. Applicant also requests that any such order issued in this case include a provision for carrying any nonconsenting working interest owner maintain the unit area upon such terms and conditions to be determined by the Division as just and reasonable. In the alternative, Applicant seeks approval of the Cactus Queen Unit Area, comprising 320 acres, more or less, of Federal and State lands underlying Units J, K, M, N and O, (W/2 SE/4, E/2 SW/4, SW/4 SW/4) of Section 27, and Units B, C and D (NW/4 NE/4, N/2 NW/4) of Section 34, Township 12 South, Range 31 East. Said Unit Area is centered approximately ___ miles ____ of _____, New Mexico.

Case No. 9823 Application of Yates Drilling Company for a waterflood project, Chaves County, New Mexico. Applicant, in the above styled cause, seeks authority to institute a waterflood project by injection of water into the Queen formation, Southeast Chaves Queen Field (Division Case _____) underlying portions of Sections 26, 27, 34 and 35, Township 12 South, Range 31 East. Said area is located approximately ___ miles _____ of _____, New Mexico.

Case No. 9823 Application of Yates Drilling Company for statutory unitization or, in the alternative, a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of establishing a secondary recovery project, all mineral interests in the Queen formation, Southeast Chaves Queen Field, underlying 560 acres, more or less, of Federal, State and Fee lands in Unit M (SW/4 SW/4) of Section 26, Units I, J, K, M, N, O, P, (SE/4, E/2 SW/4, SW/4 SW/4) of Section 27, Units A, B, C, D, H, (N/2 NE/4, SE/4 NE/4, N/2 NW/4) of Section 34 and Unit D (NW/4 NW/4) of Section 35, Township 12 South, Range 31 East. Said unit is to be designated the Cactus Queen Unit. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit

operations. Applicant also requests that any such order issued in this case include a provision for carrying any nonconsenting working interest owner maintain the unit area upon such terms and conditions to be determined by the Division as just and reasonable. In the alternative, Applicant seeks approval of the Cactus Queen Unit Area, comprising 320 acres, more or less, of Federal and State lands underlying Units J, K, M, N and O, (W/2 SE/4, E/2 SW/4, SW/4 SW/4) of Section 27, and Units B, C and D (NW/4 NE/4, N/2 NW/4) of Section 34, Township 12 South, Range 31 East. Said Unit Area is centered approximately ___ miles ____ of _____, New Mexico.

Case No. 982B Application of Yates Drilling Company for a waterflood project, Chaves County, New Mexico. Applicant, in the above styled cause, seeks authority to institute a waterflood project by injection of water into the Queen formation, Southeast Chaves Queen Field (Division Case _____) underlying portions of Sections 26, 27, 34 and 35, Township 12 South, Range 31 East. Said area is located approximately ___ miles _____ of _____, New Mexico.

3. The vertical limits of the formation to be included within the proposed unit area includes that interval which extends from a point 50 feet above the top of the Queen formation to the base of the Queen formation; said interval occurring in the Doyal No. 1 Well located 660 feet from the North line and 990 feet from the East line of Section 34, Township 12 South, Range 31 East, N.M.P.M., Chaves County, New Mexico, at an indicated depth interval of 2930 feet to 3100 feet, as recorded on the log taken August 7, 1984.

4. The portion of the reservoir involved in this application has been reasonably defined by development.

5. The type of operations being conducted in this Unit is secondary recovery by means of water flooding.

6. Attached to this application as Exhibit B and incorporated herein by reference is a copy of the proposed plan of unitization which Yates considers fair, reasonably and equitable.

7. Attached to this application as Exhibit C and incorporated herein by reference is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

8. Yates further states:

- a. Unitized management, operating and further development of the portion of the Queen formation, Southeast Chaves Queen Field, which is the subject of this application, is reasonably necessary in order to

effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil from the unitized area.

- b. Unitized methods of operations applied to this portion of the Southeast Chaves Queen Pool are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil from the pool than would otherwise be recovered.
- c. The estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil recovered plus reasonable profit.
- d. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights within this portion of the pool.
- e. Yates Drilling Company, as operator, has made a good faith effort to secure voluntary unitization of all interests in the pool.
- f. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

9. In the alternative, Yates Drilling Company seeks an Order approving the Cactus Queen Unit Agreement which covers 320 acres, more or less, of Federal and State

lands in Chaves County, New Mexico, and is more particularly described on Exhibit A attached hereto and incorporated herein by reference. The Cactus Queen Unit Agreement has been approved by all of the working interest owners holding interests within the proposed voluntary Unit Area and Yates Drilling Company has been designated Unit Operator in said Unit Agreement.

10. Statutory unitization of the Cactus Queen Unit Area, Southeast Chaves Queen Field or, in the alternative, approval of the voluntary Cactus Queen Unit Agreement, is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Yates Drilling Company respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on November 29, 1989, and, that after notice and hearing as required by law and the rules of the Division, the Division enter its order granting this application to statutorily unitize the Cactus Queen Unit, Chaves County, New Mexico or, in the alternative approving the Cactus Queen Unit Agreement.

Respectfully submitted,

CAMPBELL & BLACK, P.A.

By: 

WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR YATES
DRILLING COMPANY

EXHIBIT A

**PROPOSED BOUNDARY FOR
STATUTORY UNITIZATION
OF CACTUS QUEEN UNIT
560 ACRES
TOWNSHIP 12 SOUTH, RANGE 31 EAST, N.M.P.M.**

Section 26: SW/4 SW/4
Section 27: SE/4, E/2 SW/4, SW/4 SW/4
Section 34: N/2 NE/4, SE/4 NE/4, N/2 NW/4
Section 35: NW/4 NW/4

**PROPOSED BOUNDARY FOR
VOLUNTARY UNITIZATION
OF CACTUS QUEEN UNIT
320 ACRES
TOWNSHIP 12 SOUTH, RANGE 31 EAST, N.M.P.M.**

Section 27: W/2 SE/4, E/2 SW/4, SW/4 SW/4
Section 34: NW/4 NE/4, N/2 NW/4

YATES DRILLING COMPANY

UNIT AGREEMENT

Dated: November 1, 1989

CACTUS (QUEEN) UNIT

Township 12 South, Range 31 East, N.M.P.M.

Section 26: SW $\frac{1}{4}$ SW $\frac{1}{4}$
Section 27: SE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$
Section 34: N $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, N $\frac{1}{2}$ NW $\frac{1}{4}$
Section 35: NW $\frac{1}{4}$ NW $\frac{1}{4}$

Chaves County, New Mexico

UNIT AGREEMENT
 CACTUS (QUEEN) UNIT
 CHAVES COUNTY, NEW MEXICO
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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
CACTUS (QUEEN) UNIT
CHAVES COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of November 1989 by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil and gas interests in the Unit Area subject to this Agreement; and

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

WHEREAS, THE Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1 of Chapter 176, Laws of 1961) Chapter 19, Article 10, Section 45, New Mexico Statutes 1978 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 (Section 1, Chapter 88, Laws 1943, as amended by Section 1, Chapter 162, Laws of 1951) (Chapter 19, Article 10, Section 47, New Mexico Statutes 1978 Annotated) 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 State of New Mexico (hereinafter referred to as the "Division") is authorized by an Act of the Legislature (Chapter 72, Laws of 1935 as amended) (Chapter 70, Article 2, Section 2 et seq., New Mexico Statutes 1978 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chapter 65, Article 3 and Article 14, N.M.S. 1953 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interest in the 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 interest in the below-defined Unit Area, and agree severally among themselves as follows:

SECTION 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.

SECTION 2. UNIT AREA AND DEFINITIONS. The area described by Tracts in Exhibit "B" and depicted on Exhibit "A" attached hereto is 560.00 acres, more or less, in Chaves County, New Mexico. Said land is described as follows:

Township 12 South, Range 31 East, N.M.P.M.
Section 26: SW $\frac{1}{4}$ SW $\frac{1}{4}$
Section 27: SE $\frac{1}{4}$, E $\frac{1}{4}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$
Section 34: N $\frac{1}{4}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, N $\frac{1}{4}$ NW $\frac{1}{4}$
Section 35: NW $\frac{1}{4}$ NW $\frac{1}{4}$

For the purpose of the Agreement, the following terms and expressions as used herein shall mean:

(a) "Land Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(b) "Division" is defined as the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico.

(c) "Authorized Officer" or "A.O." is any employee of the Bureau of Land Management who has been delegated the required authority to act on behalf of the BLM.

(d) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate.

(e) "Department" is defined as the Department of the Interior of the United States of America.

(f) "Proper BLM Office" is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area.

(g) "Unitized Formation" shall mean that interval underlying the Unit Area, the vertical limits of which extend from an upper limit described as 50' above the top of the Queen formation to a lower limit as the base of the Queen formation; said limits having been previously found to occur at 2930 feet and 3100 feet, respectively in Yates Drilling Company's Doyal #1, located 660' FNL and 990' FEL of Section 34, Township 12 South, Range 31 East.

(h) "Unitized Substances" are all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons, other than outside substances, within and produced from the Unitized Formation.

(i) "Tract" is each parcel of land described as such and given a Tract number in Exhibit "B"

(j) "Tract Participation" is defined as the percentage of participation shown on Exhibit "B" for allocating Unitized Substances to a Tract under this Agreement.

(k) "Unit Participation" is the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract by the Tract Participation of such Tract.

(l) "Working Interest" is the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, operating agreement, or otherwise held, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and operations thereof hereunder. Provided that any royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of the working interest shall continue to be subject to such working interest burdens and obligations.

(m) "Working Interest Owner" is any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise. The owner of oil and gas rights that are free of lease or other instrument creating a Working Interest in another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

(n) "Royalty Interest" or "Royalty" is an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor or by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce unitized substances.

(o) "Royalty Owner" is the owner of a Royalty Interest.

(p) "Unit Operating Agreement" is the agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, *infra*, and shall be styled "Unit Operating Agreement, Chaves County, New Mexico".

(q) "Oil and Gas Rights" is the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

(r) "Outside Substances" is any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.

(s) "Unit Manager" is any person or corporation appointed by Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 7 hereof.

(t) "Unit Operator" is the party designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations.

(u) "Unit Operations" is any operation conducted pursuant to this Agreement and the Unit Operating Agreement.

(v) "Unit Equipment" is all personal property, lease and well equipment, plants and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

(w) "Unit Expense" is all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

(x) "Effective Date" is the date determined in accordance with Section 24, or as redetermined in accordance with Section 39.

(y) "Unit Cumulative Production" is defined as the total number of barrels produced through July 31, 1989, from all tracts within the unit area which are qualified under the terms of this agreement, as officially reported to the Commission.

SECTION 3. EXHIBITS. Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and indentivity of tracts and leases in said Unit 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 comprising each Tract, percentages and kind of ownership of oil and gas interest in all land in the Unit Area. Exhibit "C" attached hereto shows the Tract Participation of each Tract in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. There is no Exhibit "D". Exhibits "A", "B" and "C" shall be revised by the Unit Operator whenever changes in the Unit Area render such revision necessary or when requested by the Deputy, or the Land Commissioner, and not less than five copies shall be filed with the Deputy, and three copies with the Land Commissioner.

SECTION 4. EXPANSION. The above described Unit Area may, with the approval of the A.O. and Land Commissioner, when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement provided however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof. Pursuant to Subsection (b), the Working Interest Owners may agree upon an adjustment of investment by reason of the expansion. Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into this unit, shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit Area and in the Tract proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if at least three Working Interest Owners having in the aggregate seventy-five percent (75%) of the Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

(1) After obtaining preliminary concurrence by the A.O. and Land Commissioner, prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof; and

(2) Deliver copies of said notice to Land Commissioner, the A.O. at the Proper BLM Office, each Working Interest Owner and to the last known address of each lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above, with the Land Commissioner and A.O., the following:

- (i) Evidence of mailing said notice of expansion
- (ii) An application for such expansion in sufficient number, appropriate approval and distribution; and
- (iii) An instrument containing the appropriate joinders in compliance with the participation requirements of Section 14 (TRACTS QUALIFIED FOR PARTICIPATION) and Section 32 (NON-JOINDER AND SUBSEQUENT JOINDER), infra; and
- (iv) a copy of any objections received.

The expansion shall, after due consideration of all pertinent information and approval by the Land Commissioner and the A.O., become effective as of the date prescribed in the notice thereof, preferably the first day of the month subsequent to the date of notice. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain the same ratio one to another.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land Subject to this Agreement". All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons produced from the Unitized Formation underlying Unitized Land are unitized under the term of this Agreement and herein are called "Unitized Substances."

SECTION 6. UNIT OPERATOR. Yates Drilling Company, a New Mexico corporation, is hereby designated as Unit Operator, and, by signing this instrument as Unit Operator, it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development, and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

Unit Operator shall have a lien upon the interest of the owners of Working Interests in the Unitized Land to the extent provided in the Unit Operating Agreement.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, 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 written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Deputy, and until all wells are placed in a condition satisfactory for suspension or abandonment, or operations, whichever is required by the Deputy, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall, upon default or failure to the performance of its duties or obligations hereunder, be subject to removal of not less than eighty percent (80%) of the committed Working Interest (on the basis of Unit Participation) exclusive of any Working Interest owned by the Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the A.O.

In all instances of resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

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, books and records, materials, appurtenances and any other assets used in conducting the Unit Operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unitized Land) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder for any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. 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 Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or the A.O., at their election, may declare this Agreement terminated.

In selecting a successor Unit Operator, the affirmative vote of three or more Working Interest Owners having a total of sixty-five percent (65%) or more of the total Unit Participation shall prevail; provided that if any one Working Interest Owner has a Unit Participation of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one or more other Working Interest Owners having a total Unit Participation of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of the owners of at least seventy-five percent (75%) of the Unit Participation remaining after excluding the Unit Participation of Unit Operator so removed.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among, and borne by the Working Interest Owners in accordance with the Unit Operating Agreement; 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 Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Land Commissioner and with the A.O. at the Proper BLM Office as required prior to approval of this Agreement.

SECTION 10. 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. The parties hereto, to the extent they have the right to do so, grant to Unit Operator the use of brine or water or both from any formation in and under the Unitized Land for injection into the Unitized Formation. Upon request, acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this Agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. EASEMENTS OR USE OF SURFACE.

(a) The parties hereto, to the extent of their rights and interests, hereby grant to Working Interest Owners the right to use as much of the surface of the Unitized Land as may reasonably be necessary for Unit Operations and removal of Unitized Substances therefrom; provided that nothing herein shall be construed as leasing or otherwise conveying to Working Interest Owners a site for a water, gas injection, processing or other plant, or campsite.

(b) Working Interest Owners shall have and are hereby granted free use of water from the Unitized Land for Unit Operations, except water from any well, lake, pond, or irrigation ditch of a Royalty Owner.

(c) Working Interest Owners shall pay the owner for damages to growing crops, timber, fences, improvements, and structures on the Unit Area that result from Unit Operations.

SECTION 12. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or enhanced recovery purposes in accordance with a plan of operation approved by the Working Interest Owners, the A.O., the Land Commissioner and the Division, including the right to drill and maintain injection wells on the Unitized Land and completed in the Unitized Formation, and to use abandoned well or wells producing from the Unitized Formation for said purpose. Subject to like approval, the Plan of Operation may be revised as conditions may warrant.

The initial Plan of Operation shall be filed with the A.O., the Land Commissioner and the Division concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operations and all revisions thereof shall be as complete and adequate as the A.O., the Land Commissioner and the Division may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement and the initial plan by the A.O. and Commissioner, said plan, and all subsequently approved plans, shall constitute the operating obligations of the Unit Operator under this Agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operations. After such operations are commenced, reasonable diligence shall be exercised by the Unit Operator in complying with the obligations of the approved Plan of Operation.

Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within eighteen (18) months after the effective date of this Agreement, or any extension thereof approved by the A.O., this Agreement shall terminate automatically as of the date of default.

SECTION 13. TRACT PARTICIPATION. In Exhibit "B" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation, during Unit Operations if all Tracts in the Unit Area qualify as provided herein. The Tract Participation of each Tract as shown in Exhibit "B" was determined in accordance with the following formula:

Tract Participation =	Cumulative Primary Production	- 70%
	Original Oil in Place	- 25%
	Past Three Months Production	- 5%
		<u>100%</u>

In the event less than all Tracts are qualified on the Effective Date hereof, the Tract Participation shall be calculated on the basis of all such qualified Tracts rather than all Tracts in the Unit Area.

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances shall be those Tracts more particularly described in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public road or a railroad right-of-way shall be considered to have a common boundary), and that otherwise qualify as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have become parties to this Agreement.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owners owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract have joined in a request for the inclusion of such Tract, and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the combined Unit Participation in all Tracts that meet the requirements of Section 14(a) above have voted in favor of the inclusion of such tract.

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owner owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract, and have executed and delivered, or obligated themselves to execute and deliver an indemnity agreement indemnifying and agreeing to hold harmless the other owners of committed Working Interests, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such Tract who are not parties to this Agreement, and which arise out of the inclusion of the Tract; and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the Unit Participation in all Tracts that meet the requirements of Section 14(a) and 14(b) have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. Upon the inclusion of such a Tract, the Tract Participations which would have been attributed to the nonsubscribing owners of Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreement, and joined in the indemnity agreement, in proportion to their respective Working Interests in the Tract.

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Land Commissioner and the A.O., file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in Unitized Substances. Said schedule shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such tract which shall be computed according to the participation formula set forth in Section 13 (Tract Participation) above. This schedule of participation shall be revised Exhibit "B" and upon approval thereof by the Land Commissioner and the A.O., shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Land Commissioner and A.O.

SECTION 15.A. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for injection or unavoidable loss in accordance with a Plan of Operation approved by the A.O. and Land Commissioner) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B". The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for, to the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tracts, or in the proceeds thereof, had this Agreement not been entered into; and with the same legal force and effect.

No Tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances.

If the Working Interest and/or the Royalty Interest in any Tract are divided with respect to separate parcels or portions of such Tract and owned now or hereafter in severalty by different persons, the Tract Participation shall in the absence of a recordable instrument executed by all owners in such Tract and furnish to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

SECTION 15.B. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unitized Area, provided the same are so constructed, maintained and operated as not to interfere with Unit Operations. Subject to Section 17 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party taking delivery. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation, then so long as such condition continues, Unit Operator, for the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may, but shall not be required to, sell or otherwise dispose of such production to itself or to others, provided that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no

event shall any such contract be for a period in excess of one year, and at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all royalty, overriding royalty and production payments due thereon, and each such party shall hold each other Working Interest Owner harmless against all claims, demands and causes of action by owners of such royalty, overriding royalty and production payments.

If, after the Effective Date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the Effective Date hereof but which are subsequently committed hereto under the provisions of Section 14 (Tracts Qualified for Participation) and Section 32 (Nonjoinder and Subsequent Joinder); or if any Tract is excluded from this Agreement as provided for in Section 21 (Loss of Title), the schedule of participation as shown in Exhibit "B" shall be revised by the Unit Operator; and the revised Exhibit "B", upon approval by the Land Commissioner and the A.O., shall govern the allocation of production on and after the effective date thereof until a revised schedule is approved as hereinabove provided.

SECTION 16. OUTSIDE SUBSTANCES. If gas obtained from formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulating of production or increasing ultimate recovery which shall be in conformity with a Plan of Operation first approved by the Land Commissioner and the A.O., a like amount of gas with appropriate deduction for loss or depletion from any cause may be withdrawn from unit wells completed in the Unitized Formation royalty free as to dry gas, but not royalty free as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved Plan of Operator or as otherwise may be consented to or prescribed by the Land Commissioner and the A.O. as conforming to good petroleum engineering practices and provided further that such right of withdrawal shall terminate on the termination date of this Agreement.

SECTION 17. ROYALTY SETTLEMENT. The State of New Mexico and United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement

for Royalty not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under the leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Agreement. With respect to Federal leases committed hereto on which the royalty rate depends upon the daily average production per well, such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline runs per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the Effective Date hereof, provided that any Tract not having any well so capable of producing Unitized Substances on the Effective Date hereof shall be considered as having one such well for the purpose of this provision.

All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts committed hereto, in lieu of actual production from such Tract or Tracts.

With the exception of Federal and State requirement to the contrary, Working Interest Owners may use or consume Unitized Substances for Unit Operations and no Royalty, overriding royalty, production or other payments shall be payable on account of Unitized Substances used, lost, or consumed in Unit Operations.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract of Tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interests of all parties shall be adjusted accordingly.

SECTION 18. RENTAL SETTLEMENT. Rentals or minimum Royalties due on the leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum Royalty in lieu thereof, due under their leases. Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico. Rental or minimum Royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless such rental or minimum Royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 19. 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 Federal and State laws and regulations.

SECTION 20. DRAINAGE. The Unit Operator shall take all reasonable and prudent measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

The Unit Operator, upon approval by the Working Interest Owners, the A.O. and the Land Commissioner, is hereby empowered to enter into a borderline agreement or agreements with working interest owners of adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum economic recovery, conservation purposes and proper protection of the parties and interest affected.

SECTION 21. 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 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 State or Federal lands or leases, no payments of funds due the United States or the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the A.O. or Land Commissioner (as the case may be) 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.

If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the direction of Working Interest Owners shall either:

(a) require that the party to whom such Unitized Substances are delivered to or whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds as impounded shall be paid to the party rightfully entitled thereto.

Each Working Interest Owner shall indemnify, hold harmless, and defend all other Working Interest Owners against any and all claims by any party against the interest attributed to such Working Interest Owner on Exhibit "B".

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

SECTION 22: 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 heret hereby consent that the Secretary and the Land Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement

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 Tract subject to this Agreement, regardless of whether there is any development of any Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing or improved recovery operations performed hereunder shall be deemed to be performed upon and for the benefit of each Tract, 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 within the Unit Area pursuant to direction or consent of the Land Commissioner and the A.O., or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract within the Unitized Area.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil and gas which by its terms might expire prior to the termination of this Agreement, 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 this Agreement.

(e) Any lease embracing lands of the State of New Mexico which is made subject to this Agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(f) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the Effective Date hereof. Provided, however, that notwithstanding any of the provisions of this Agreement to the contrary, such lease (including both segregated portions) 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, or has heretofore been discovered in paying quantities on some part of the lands embraced in such

lease committed to this Agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the leases or the Unit Operator is then engaged in bona fide drilling, reworking, or improved recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to gas in paying quantities is being produced from any portion of said lands.

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

SECTION 23. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer.

SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective on the first day of the calendar month next following the approval of this Agreement by the A.O., the Land Commissioner and the Commission.

If this Agreement does not become effective on or before January 1, 1989 it shall ipso facto expire on said date (hereinafter called "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Participation of at least seventy-five percent (75%); and at least seventy-five percent (75%) of such Working Interest Owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one(1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

Unit Operator shall file for record within thirty (30) days after the Effective Date of this Agreement, in the office of the County Clerk of Chaves County, New Mexico, where a counterpart of this Agreement has become effective according to its terms and stating further the effective date.

The terms of this Agreement shall be for and during the time that Unitized Substances are produced from the unitized land and so long thereafter as drilling, reworking or other operations (including improved recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days unless sooner terminated as herein provided.

This Agreement may be terminated with the approval of the Land Commission and the A.O. by Working Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable, or in the interest of conservation. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Chaves County, New Mexico, within thirty (30) days of the effective date of termination.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement had never been entered into.

Notwithstanding any other provision in the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 25. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State status. The A.O. is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Division to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided further, that no such alteration or modification shall be effective as to any lands of the State of New Mexico as to the rate of prospecting and development in absence of the specific written approval thereof by the Land Commissioner as to any lands of the State of New Mexico or privately-owned Lands subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

Powers in this Section vested in the A.O. shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.

SECTION 26. NONDISCRIMINATION. Unit Operator in connection with the performance of work under this Agreement relating to leases of the United States, agrees to comply with all of the provisions of Section 202(1) to (7) inclusive of Executive Order 11246, (30 F.R. 12319), which are hereby incorporated by reference in this Agreement.

SECTION 27. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Land Commissioner, the Department, and the Division, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department or the Division, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner, the Department or the Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 28. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified or registered mail, addressed to such party or parties at their last known address set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 29. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or 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; provided, however, each party hereto covenants that it will not resort to any action to partition the unitized land or the Unit Equipment.

SECTION 30. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this Agreement various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized Land as now or hereafter constituted. Therefore, for all purposes to this Agreement, any such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement, and it is agreed that any such equipment and personal property shall be and remain personal property of the Working Interest Owners for all purposes.

SECTION 31. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue improved recovery operations 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, acts of God, Federal, State or municipal law or agency, unavoidable accident, 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.

SECTION 32. NONJOINER AND SUBSEQUENT JOINER. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to this Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Agreement.

Any oil or gas interest in the Unitized Formations not committed hereto prior to submission of this Agreement to the Land Commissioner and the A.O. for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereo, at any time up to the Effective Date hereof on the same basis of Tract Participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement, and if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after the Effective Date hereof the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners owning not less than sixty-five percent (65%) of the Unit Participation then in effect, and approved by the Land Commissioner and A.O. Such subsequent joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement and, where State or Federal land is involved, such joinder must be approved by the Land Commissioner or A.O. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective as of the first day of the month following the filing with the Land Commissioner and A.O. of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Land Commissioner or the A.O., is duly made sixty (60) days after such filing.

SECTION 33. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and 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 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 land within the described Unit Area. Furthermore, this Agreement shall extend to and be binding on the parties hereto, their successors, heirs and assigns.

SECTION 34. JOINER IN DUAL CAPACITY. Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such party; provided, that if the party is the owner of a Working Interest, he must also execute the Unit Operating Agreement.

SECTION 35. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 36. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligation as herein provided.

SECTION 37. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all leases and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection, in such tanks as of 7.00 a.m. on the Effective Date hereof. All such oil which has then been produced in accordance with established allowables shall be and remain the property of the Working Interest Owner entitled thereto, the same as if the unit had not been formed; and the responsible Working Interest Owner shall promptly remove said oil from the unitized land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms hereof. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after Effective Date hereof.

If, as of the Effective Date hereof, any Tract is over-produced with respect to the allowable of the wells on that Tract and the amount of over-production has been sold or otherwise disposed of, such over-production shall be regarded as a part of the Unitized Substances produced after the Effective Date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

SECTION 38. NO SHARING OF MARKET. This Agreement is not intended to provide and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale or marketing of Unitized Substances.

SECTION 39. STATUTORY UNITIZATION. If and when Working Interest Owners owning at least seventy-five percent (75%) Unit Participation and Royalty Owners owning at least seventy-five percent (75%) Royalty Interest have become parties to this Agreement or have approved this Agreement in writing and such Working Interest Owners have also become parties to the Unit Operating Agreement, Unit Operator may make application to the Division for statutory unitization of the uncommitted interests pursuant to the Statutory Unitization

Act (Chapter 65, Article 14, N.M.S. 1953 Annotated). If such application is made and statutory unitization is approved by the Division, then effective as of the date of the Division's order approving statutory unitization, this Agreement and/or the Unit Operating Agreement shall automatically be revised and/or amended in accordance with the following:

(1) Section 14 of this Agreement shall be revised by substituting for the entire said section the following:

"SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, all Tracts within the Unit Area shall be entitled to participation in the production of Unitized Substances."

(2) Section 24 of this Agreement shall be revised by substituting for the first three paragraphs of said section the following:

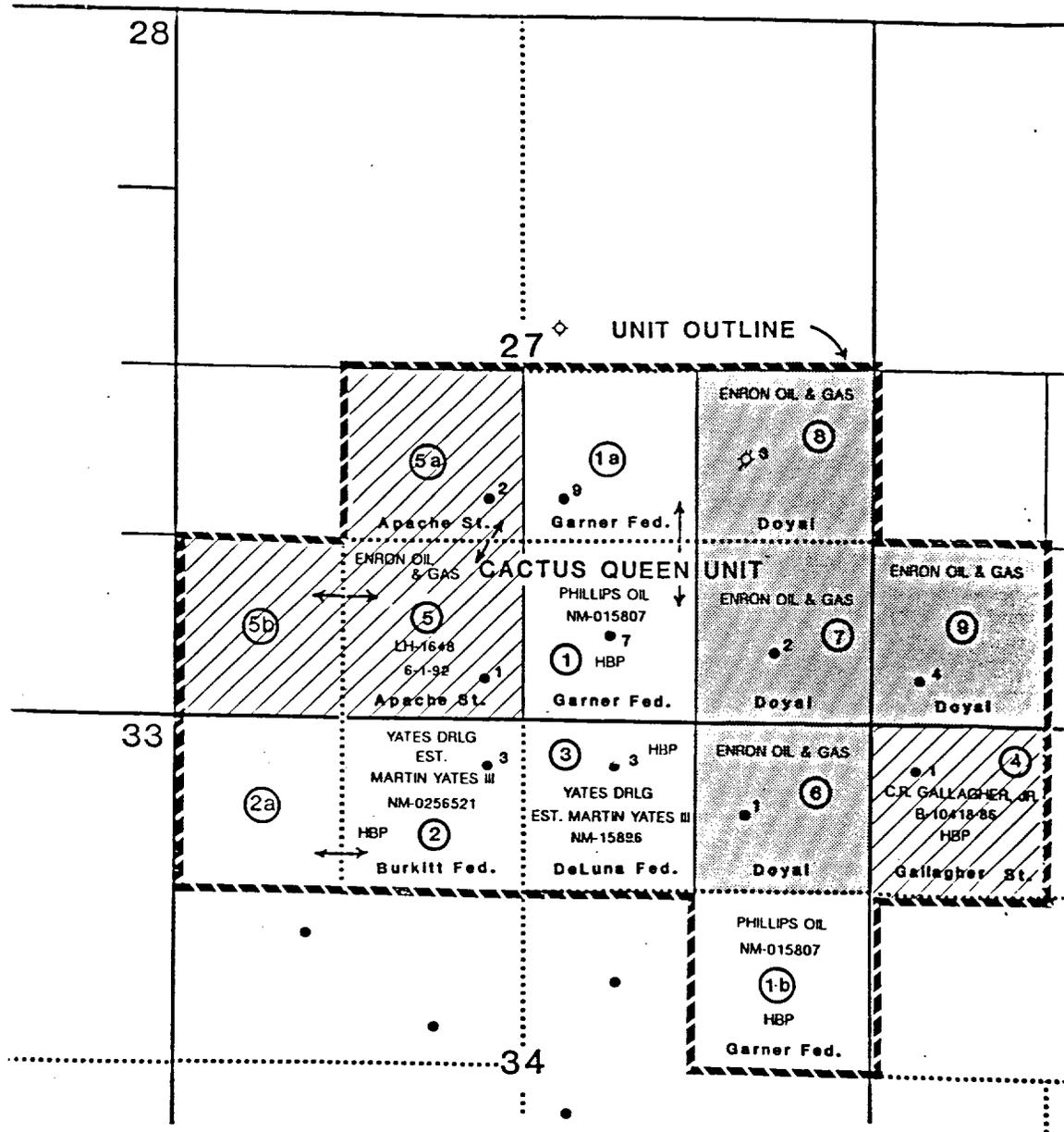
"SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement, as amended (if any amendment is necessary) to conform to the Division's order; approval of this Agreement, as so amended, by the Land Commissioner; and the A.O. and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of Chaves County, New Mexico. Unit Operator shall not file this Agreement or notice thereof for record, and hence this Agreement shall not become effective, unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied, such filing is approved by Working Interest Owners owning a combined Unit Participation of at least seventy-five (75%) as to all Tracts within the Unit Area.

"Unit Operator shall, within thirty (30) days after the Effective Date of this Agreement, file for record in the office of the County Clerk of Chaves County, New Mexico, a certificate to the effect that this Agreement has become effective in accordance with its terms, therein identifying the Division's order approving statutory unitization and stating the Effective Date."

3. This Agreement and/or the Unit Operating Agreement shall be amended in any and all respects necessary to conform to the Division's order approving statutory unitization.

Any and all amendments of this Agreement an/or the Unit Operating Agreement that are necessary to conform said agreements to the Division's order approving statutory unitiation shall be deemed to be hereby approved in writing by the parties hereto without any necessity for further approval by said parties, except as follows:

(a) If any amendment of this Agreement has the effect of reducing any Royalty Owner's participation in the production of Unitized Substances, such Royalty Owner shall not be deemed to have hereby approved the amended agreement without the necessity of further approval in writing by said Royalty Owner; and



YATES DRILLING CO.

CACTUS QUEEN UNIT

T 12S - R 31E

CHAVES COUNTY, NM

EXHIBIT "A"

		ACREAGE	PERCENTAGE
	FEDERAL LAND	240 ACRES	42.86%
	STATE LAND	160 ACRES	28.57%
	FEE LAND	160 ACRES	28.57%
	TRACT NUMBER		

SCALE: 1"=1000'

EXHIBIT "B"
 To Unit Agreement
 CACTUS QUEEN UNIT
 Chaves County, New Mexico

Tract No.	Description	No. of Acres	Serial No. & Date of Lease	Basic		Lessee of Record	Overriding		Working Interest Owner & Percentage
				Royalty Owner & Percentage	Royalty Percentage				
1.	T12S-R31E Sec. 27: SW1SE4	40	NM-015807 HBP	USA	12.5%	Phillips Petroleum Company Successor in Interest to Aminoil USA, Inc. 100%	F. G. Breckenridge .05% (PPI) Estoile M. Bennett .45 (PPI) W. G. Ross 1.3125	G & P Exploration, Inc. 1.3125 Phillips Petroleum Company 3.1250	Yates Drilling Company III - 50% Est. of Martin Yates III - 25 Lillie M. Yates Surface through Queen Formation
1a.	T12S-R31E Sec. 27: NW1SE4	40	NM-015807 HBP	USA	12.5%	Phillips Petroleum Company Successor in Interest to Aminoil USA, Inc. 100%	F. G. Breckenridge .05 (PPI) Estoile M. Bennett .45 (PPI) W. G. Ross 1.3125	G & P Exploration, Inc. 1.3125 Phillips Petroleum Company 3.1250	Yates Drilling Company III - 50% Est. of Martin Yates III - 25 Lillie M. Yates Surface through Queen Formation

Tract No.	Description	No. of Acres	Serial No. & Date of Lease	Basic Royalty Owner & Percentage	Leasee of Record	Overriding		Working Interest	
						Royalty Owner	Percentage	Owner	Percentage
1b.	T12S-R31E Sec. 34: S1/4NE1/4	40	NM-015807 HBP	USA 12.5%	Phillips Petroleum Company Successor in Interest to Aminoil USA, Inc. 100%	F. G. Breckenridge .05% (PPI) Etoile M. Bennett .45 (PPI) W. G. Ross 1.3125 G & P Exploration, Inc. 1.3125 Phillips Petroleum Company 3.1250		Yates Drilling Company Est. of Martin Yates III Lillie M. Yates Surface through Queen Formation	- 50% - 25 - 25
2.	T12S-R31E Sec. 34: NE1/4NW1/4	40	NM-0256521 HBP	USA 12.5	Yates Drlg. Co.50 Est. of Martin Yates III 50	Erlon E. Nowell R.F. Partnership, Ltd. 1.5		Yates Drilling Company Est. of Martin Yates III Lillie M. Yates	- 50 - 25 - 25
2a.	T12S-R31E Sec. 34: NW1/4NW1/4	40	NM-0256521 HBP	USA	Yates Drlg. Co.50 Est. of Martin Yates III 50	Erlon E. Nowell R.F. Partnership, Ltd. 1.5		Yates Drilling Company Est. of Martin Yates III Lillie M. Yates	- 25 - 25 - 25
3.	T12S-R31E Sec. 34: NW1/4NE1/4	40	NM-15896 HBP	USA 12.5	Yates Drlg. Co.50 Est. of Martin Yates III 50	C.E. Strange - George Globe 2.0		Yates Drilling Company Est. of Martin Yates III Lillie M. Yates	- 50 - 25 - 25
4.	T12S-R31E Sec. 35: NW1/4NW1/4	40	TOTAL E-10418-86 HBP	USA 12.5	C.R. Gallagher, Jr. 100	Mary B. Gallagher .00586 C. R. Gallagher, Jr. 1.17363 Gregory J. Gallagher 1.13281 Robin C. Herndon .02344 Raymond Stanley Herndon Charles Bernard Gallagher Susan Gallagher Grey .02343		Yates Drlg. Company Est. of Martin Yates III Lillie M. Yates Marico Exploration, Inc. Richard Yates Peyton Yates Yates Employees 83 Ltd. Surface to 3200'	- 46.0 - 24.5 - 24.5 - 1.0 - 1.0 - 1.0 - 2.0

To Unit Agreement
 CACTUS QUEEN UNIT
 Chaves County, New Mexico

Tract No.	Description	Acres	Serial No. & Expiration Date of Lease	Basic		Percentage of Record	Overriding		Working Interest Owner & Percentage
				Owner & Percentage	Royalty		Owner	Percentage	
4. (Continued)							Veronica Herndon		
								.02344*	
							Christine Gallagher		
							Segar	.02344	
							Mary Herndon	.02344	
							Frances Herndon		
								.02344	
							Peter Gregory Herndon		
							William G. Pope, Jr.	.02343	
							Mary Margaret Pope	.02344	
							Delphine E. Pope	.02344	
							Keller	.02344	
							Natalie Pope	.02344	
							Christopher W. Knieriem	.02343	
							Mary C. Knieriem		
							Taylor	.02344	
							Stephen Lawrence		
							Knieriem	.01172	
							Kathleen M. Gallagher Cooper	.02344	
							Gregory Charles Gallagher	.02344	
							Michael Joseph Gallagher	.02344	
							Marguerite G. Price	.02343	
							Charles Raymond Gallagher III	.02344	
							Mary G. Herndon	1.10937	
							Natalie G. Pope	1.15625	
							Charlecn G. Knieriem	1.19140	

EXHIBIT "B"
 To Unit Agreement
 CACTUS GREEN UNIT
 Chaves County, New Mexico

Tract No.	Description	No. of Acres	Serial No. & Date of Expiration	Basic		Date of Record	Lessees of Record	Overriding		Working Interest Owner & Percentage
				Owner & Percentage	Royalty			Owner	Percentage	
2.	T12S-R31E	40	NM-0256521	USA	12.5		Yates Drdg. Co. 50 Est. of Martin Yates III	Erlon E. Nowell R.F. Partnership, Ltd.	1.5	Yates Drilling Company - 50 Est. of Martin Yates III - 25 Lillie M. Yates - 25
	Sec. 34: NE1/4NW1/4									
2a.	T12S-R31E	40	NM-0256521	USA	12.5		Yates Drdg. Co. 50 Est. of Martin Yates III	Erlon E. Nowell R.F. Partnership, Ltd.	1.5	Yates Drilling Company - 25 Est. of Martin Yates III - 25 Lillie M. Yates - 25
	Sec. 34: NW1/4NW1/4									
3.	T12S-R31E	40	NM-15896	USA	12.5		Yates Drdg. Co. 50 Est. of Martin Yates III	C.E. Strange - George Globe	2.0	Yates Drilling Company - 50 Est. of Martin Yates III - 25 Lillie M. Yates - 25
	Sec. 34: NW1/4NE1/4									
TOTAL 200.00 ACRES OF FEDERAL LANDS										
4.	T12S-31E	40	LH-1648	St. of NM	12.5%		Yates Drilling Company 100%	None		Yates Drilling Company - 100%
	Sec. 27: SE1/4SW1/4									
4a.	T12S-R31E	40	LH-1648	St. of NM	12.5		Yates Drilling Company 100%	None		Yates Drilling Company - 100
	Sec. 27: NE1/4SW1/4									

EXHIBIT "B"
 To Unit Agreement
 CACTUS GORMON UNIT
 Chaves County, New Mexico

Tract No.	Description	No. of Acres	Serial No. & Date of Expiration	Basic		Leasee of Record	Overriding		Working Interest Owner & Percentage
				Royalty Owner & Percentage	St. of NM		Royalty Owner & Percentage	None	
4b.	T12S-R31E Sec. 27: SW1/4SW4	40	LH-1648 6-1-92	12.5	NM	Yates Drilling Company 100	None	Yates Drilling Company - 100%	
<u>TOTAL</u>		<u>120.00</u>	<u>ACRES OF STATE LANDS</u>						

RECAPITULATION

200 acres Federal lands - 62.50% of Unit
 120 acres State lands - 37.50% of Unit
TOTAL: 320 acres 100.00%

EXHIBIT "B"
 To Unit Agreement
 CACTUS QUEEN UNIT
 Chaves County, New Mexico

Tract No.	Description	No. of Acres	Serial No. & Date of Lease	Basic		Overriding		Working Interest		
				Owner & Percentage	Lessee of Record	Royalty Owner Percentage	Owner & Percentage			
5.	T12S-31E	40	LH-1648	St. of NM	Yates Drilling Company	None	Yates Drilling Company - 100%	Yates Drilling Company - 100%		
	Sec. 27: SE1SW1									12.5%
5a.	T12S-R31E	40	LH-1648	St. of NM	Yates Drilling Company	None	Yates Drilling Company - 100	Yates Drilling Company - 100		
	Sec. 27: NE1SW1									12.5
5b.	T12S-R31E	40	LH-1648	St. of NM	Yates Drilling Company	None	Yates Drilling Company - 100	Yates Drilling Company - 100		
	Sec. 27: SW1SW1									12.5
<u>TOTAL 160.00 ACRES OF STATE LANDS</u>										
6.	T12S-R31E	40	Fee	Veda D. Williams	Yates Drilling Company	None	Yates Drilling Co. - 66.00000	Est. of Martin		
	Sec. 34: NE1NE1									1.5625
										Leo Doyal
										1.5625
										Floyd V. Doyal
										1.5625
										Louis C. Doyal
										1.5625
										Clarence Doyal
										1.5625
										Paul J. Doyal
	1.5625									
	Ruth J. Penka									
	1.5625									
	Dorothy Vargus									
	1.5625									
	Surface to 3200'									

EXHIBIT "B"
 To Unit Agreement
 CACTUS QUEEN UNIT
 Chaves County, New Mexico

Tract No.	Description	No. of Acres	Serial No. & Expiration Date of Lease	Basic		Overriding		Working Interest Owner & Percentage
				Owner & Percentage	Lessee of Record	Royalty Owner Percentage		
7.	T12S-R31E Sec. 27: SE4SD1	40	Fee	Veda D. Williams 1.5625%	Yates Drilling Company 100	None		Yates Drilling Co. - 66.000004 Est. of Martin Yates III - 16.33335 Lillie M. Yates - 16.33335 Yates Employees 83 Ltd. - 1.33330
				Leo Doyal 1.5625				
				Floyd V. Doyal Louis C. Doyal 1.5625				Surface to 3200'
				Clarence Doyal 1.5625				
				Paul J. Doyal 1.5625				
				Ruth J. Funke 1.5625				
				Dorothy Vargas 1.5625				

EXHIBIT "g"
 To Unit Agreement
 CACTUS QUEEN UNIT
 Chaves County, New Mexico

Tract No.	Description	No. of Acres	Serial No. & Expiration Date of Lease	Basic Royalty Owner & Percentage	Lessee of Record	Overriding Royalty Owner Percentage	Working Interest Owner & Percentage
8	T12S-R31E Sec. 27: NE1SE1	40		Veda D. Williamson 1.5625%	Yates Drilling Company 100%	None	Yates Drilling Company - 100%
				Leo Doyal 1.5625			
				Floyd V. Doyal 1.5625			
				Louis C. Doyal 1.5625			
				Clarence A. Doyal 1.5625			
				Paul J. Doyal 1.5625			
				Ruth Penka 1.5625			
				Dorothy D. Vargus 1.5625			

EXHIBIT "C"
TO UNIT AGREEMENT

PROPOSED CACTUS QUEEN	=====	=====	=====	=====
STATUTORY UNIT	PARTICIPATION FRACTION	PARTICIPATION FRACTION	PARTICIPATION FRACTION	PARTICIPATION FRACTION
CHAVES CO., NM	=====	=====	=====	=====
	0.700000	0.050000	0.250000	1.000000
	=====	=====	=====	=====

WELLS	CUMULATIVE OIL PROD. THRU JULY 1989 (BBLs)		MAY, JUNE & JULY 1989 PRODUCTION (BBLs)		ORIGINAL OIL IN PLACE (BBLs)		UNIT PARTICIPATION
	AMOUNT	FRACTION	AMOUNT	FRACTION	AMOUNT	FRACTION	
11 Garner Fed. #7	23,829	0.122941	198	0.108791	333,180	0.218569	0.146141
11 a Garner Fed. #9	21,039	0.108547	116	0.063736	27,416	0.017985	0.083666
11 b SE/NE 34-12S-31E	0	0.000000	0	0.000000	20,483	0.013437	0.003359
12 Burkitt Fed. #3	6,105	0.031498	75	0.041209	158,740	0.104135	0.050142
12 a NW/NW 34-12S-31E	0	0.000000	0	0.000000	39,371	0.025828	0.006457
13 DeLuna Fed. #3	12,805	0.066065	102	0.056044	156,188	0.102461	0.074663
14 Gallagner St. #1	19,546	0.100844	194	0.106593	63,018	0.041340	0.086256
15 Apache "27" St. #1	19,618	0.101216	94	0.051648	120,037	0.078745	0.093120
15 a Apache "27" St. #2	6,755	0.034851	56	0.030769	24,152	0.015844	0.029895
15 b SW/SW 27-12S-31E	0	0.000000	0	0.000000	24,547	0.016103	0.004026
16 Doyal #1	45,211	0.233258	538	0.295604	302,899	0.198704	0.227737
17 Doyal #2	33,613	0.173420	407	0.223626	204,277	0.134007	0.165077
18 Doyal #3	0	0.000000	0	0.000000	8,844	0.005802	0.001450
19 Doyal #4	5,303	0.027360	40	0.021978	41,219	0.027040	0.027011
	193,824	1.000000	1,820	1.000000	1,524,371	1.000000	1.000000