

CASE 6780: YATES PETROLEUM CORPORATION
FOR APPROVAL OF THE SERPENTINE BENDS UNIT
AREA, EDDY COUNTY, NEW MEXICO

CASE NO.

6780

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

OCD

Unit Name SERPENTINE BENDS UNIT- EXPLORATORY
 Operator YATES PETROLEUM CORPORATION
 County EDDY

| DATE | OCC CASE NO. | EFFECTIVE | TOTAL | STATE | FEDERAL | INDIAN-FEE | SEGREGATION | TERM |
|--------------|---------------|-----------|----------|----------|----------|------------|-------------|------|
| APPROVED | OCC ORDER NO. | DATE | ACREAGE | | | | CLAUSE | |
| COMMISSIONER | COMMISSION | 7-31-80 | 4,801.78 | 1,280.00 | 3,521.78 | -0- | Yes | 5 |
| 9-25-80 | 1-16-80 | | | | | | | |

UNIT AREA

TOWNSHIP 24 SOUTH, RANGE 23 EAST NMPH

Sections 24:through 27: A11
 Section 34: A11
 Section 35: N/2

TOWNSHIP 24 SOUTH, RANGE 24 EAST, NMPH

Section 19: A11
 Section 30: A11

TERMINATED
 APP: 6/3/82 EFF: 4/14/82
 FOR FAILURE TO DRILL THEIR
 2ND WELL ON TIME

Unit Name SERPENTINE BENDS UNIT-EXPLORATORY
 Operator YATES PETROLEUM CORPORATION
 County Eddy

| STATE TRACT NO. | LEASE NO. | INSTI- TUTION | SEC. | TWP. | RGE. | SUBSECTION | RATIFIED DATE | ACRES | ACREAGE NOT RATIFIED | LESSEE |
|--------------------|--------------|------------------|------|------|------|------------|------------------|--------|----------------------------|------------------------|
| 5 | LG-251-1 | D D & B | 27 | 24S | 23E | All | 12-17-79 | 640.00 | | Texas O&G Corporation |
| 6 | LG-2988 | D D & B | 26 | 24S | 23E | All | 12-17-79 | 640.00 | | Yates Pet. Corporation |

TERMINATED
 APP 6/3/82 - EFF. 4/1/82
 for FAILURE TO DRILL THEIR
 2ND WELL ON TIME

State of New Mexico



ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands

June 3, 1982

P. O. BOX 1148
SANTA FE, NEW MEXICO 87504
87504-1148

Yates Petroleum Corporation
207 South Fourth Street
Artesia, New Mexico 88210

Re: Serpentine Bends Unit
Eddy County, New Mexico

6780

Gentlemen:

The Serpentine Bends Unit Agreement, Eddy County, New Mexico, was approved effective as of September 30, 1980. The term of such agreement is contingent upon the unit operator drilling one well at a time, allowing not more than six months time between the completion of one well and the beginning of the next, until a well capable of producing unitized substances in paying quantities is completed.

Our records show that no further drilling has occurred within the boundaries of the Serpentine Bends Unit after the Initial test well was "Dry Plugged and Abandoned", as per your completion report filed October 14, 1981. In view of the above the Serpentine Bends Unit Agreement has this date been terminated pursuant to Section 9 of the unit agreement.

We are this date advising the United States Minerals Management Service and the New Mexico Oil Conservation Division.

Please advise all other interested parties of this action.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

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

AJA/FOP/pm
encls.
cc:

OCD-Santa Fe, New Mexico
USMMS-Albuquerque, New Mexico
Inexco Oil Company
Suite 201, 211 Highland Cross
Houston, Texas 77073
Administration

RANDOLPH M. RICHARDSON

OIL AND GAS LAND AND UNIT CONSULTANT

FEDERAL - STATE - FEE

P. O. BOX 819

ROSWELL, NEW MEXICO 88201

October 1, 1980

OFFICE 505 622-8801

HOME 505 622-7385

In Re: Yates Petroleum Corporation
Serpentine Bends Unit Area
Eddy County, New Mexico

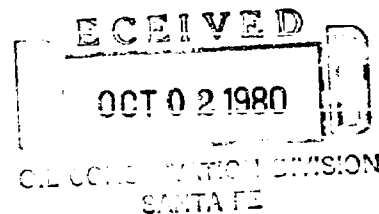
Oil Conservation Division
Energy and Minerals Department
P. O. Box 2088
Santa Fe, New Mexico 87501

Gentlemen,

Pursuant to Order R-6251, entered in Case No. 6780, approval of the captioned Unit Agreement, I am now enclosing copy of Unit Agreement to which is attached Certification executed by the Commissioner of Public Lands, Certification-Determination executed by the U.S. Geological Survey, and copy of letter from the U. S. G. S.

Please note that the Division approved this Unit January 16, 1980, but that it was not approved, and not effective, until September 30, 1980.

Please advise if you need more at this time.



Yours very truly,

R. M. Richardson
R. M. Richardson

Xerox: Yates Pet. Corp.



United States Department of the Interior

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

30 SEP 1980

Randolph M. Richardson
P. O. Box 819
Roswell, New Mexico 88201

Gentlemen:

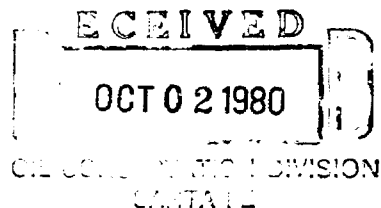
One approved copy of the Serpentine Bends unit agreement filed on behalf of Yates Petroleum Corporation, Eddy County, New Mexico, is enclosed. Such agreement has been assigned No. 11-08-0001-18440 and is effective on the date above, the same date as approved.

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

Sincerely yours,

Jack Willock
Jack Willock
Acting Deputy Conservation
Manager, Oil and Gas

Enclosure



CERTIFICATION--DETERMINATION

Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Oil and Gas Supervisors of the Geological Survey (33F.R. 5812), I do hereby:

A. Approve the attached agreement for the development and operation of the Serpentine Bends Unit Area, State of New Mexico, County of Eddy.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated 30 SEP 1980

RECEIVED

OCT 02 1980

CHIEF OF DIVISION
SANTA FE

Jack Willock
ACTING Deputy Conservation Manager
United States Geological Survey

Contract Number 14-08-0001-18440



NEW MEXICO STATE LAND OFFICE

OCT 02 1980

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO
SERPENTINE BENDS UNIT
EDDY COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated December 1, 1979, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, and 7-11-48, New Mexico Statutes Annotated, 1953 Compilation, I, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and, further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions and requirements of the afore-said statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 25th. day of September, 19 80.

THE APPROVAL OF THIS UNIT IS GIVEN WITH THE UNDERSTANDING THAT ARTICLE 33, "CONFLICT OF SUPERVISION" MUST BE LEFT OUT OF THE AGREEMENT.



Alex Q. Arriaga
COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6780
Order No. R-6251

APPLICATION OF YATES PETROLEUM
CORPORATION FOR APPROVAL OF THE
SERPENTINE BENDS UNIT AGREEMENT,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on January 3, 1980,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 16th day of January, 1980, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

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

(2) That the applicant, Yates Petroleum Corporation, seeks
approval of the Serpentine Bends Unit Agreement covering 4801.78
acres, more or less, of State and Federal lands described as
follows:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 24 SOUTH, RANGE 23 EAST, NMPM
Sections 24 through 27: All
Section 34: All
Section 35: N/2

TOWNSHIP 24 SOUTH, RANGE 24 EAST, NMPM
Section 19: All
Section 30: All

(3) That all plans of development and operation and creations, expansions, or contractions of participating areas or expansions or contractions of the unit area, should be submitted to the Director of the Division for approval.

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

IT IS THEREFORE ORDERED:

(1) That the Serpentine Bends Unit Agreement is hereby approved.

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

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

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

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

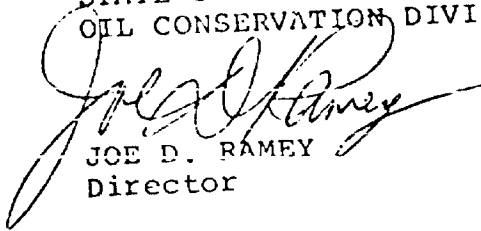
-3-

Case No. 6780
Order No. R-6251

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

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director

S E A L

fd/

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SERPENTINE BENDS UNIT AREA
COUNTY OF BIRDY
STATE OF NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 1st day of December,
1979, by and between the parties subscribing, ratifying, or consenting hereto,
and herein referred to as the "parties hereto,"

W I T N E S S E T H :

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

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as
amended, 30 U. S. C. Secs. 181 et seq., authorizes Federal lessees and their re-
presentatives 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 ad-
visable 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 (Secs. 19-10-45, 46, 47 N.M. Statutes
1978 Annotated) to consent to or approve this agreement on behalf of the State
of New Mexico, insofar as it covers and includes lands and mineral interest of
the State of New Mexico; and,

WHEREAS the Oil Conservation Division of the State of New Mexico Energy and
Minerals Department is authorized by an Act of the Legislature (Chapters 70 and 71,
New Mexico Statutes 1978, Annotated) to approve this agreement and the conservation
provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the _____
Serpentine Bends Unit Area covering the land hereinafter
described to give reasonably effective control of operations therein;

WHEREAS, it is the purpose of the parties hereto to conserve natural re-
sources, prevent waste, and secure other benefits obtainable through development
and operation of the area subject to this agreement under the terms, conditions,

and limitations herein set forth;

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

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

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

T-24-S, R-23-E, N.M.P.M.
Secs. 24, 25, 26, 27: All
Sec. 34: All
Sec. 35: N½

T-24-S, R-24-E, N.M.P.M.
Sec. 19: All
Sec. 30: All

Containing 4,801.78 acres, more or less
Eddy County, New Mexico

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

hereinafter referred to as "Land Commissioner," and not less than five (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division."

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

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

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

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, the Land Commissioner, and State Division, evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction and with appropriate joinders.

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

(e) All legal subdivisions of land (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands

shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said tenth anniversary, in which event all such lands shall remain subject hereto for as long as such drilling operations are continued diligently, with not more than ninety days time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid five-year period shall become participating in the same manner as during said five-year period. However, when such diligent drilling operations cease, all non-participating lands shall be automatically eliminated effective as of the 91st day thereafter. The unit operator shall within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Supervisor and the Land Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the ten-year period specified in this subsection 2 (e), a single extension of not to exceed two years may be accomplished by consent of the owners of 90% of the working interests in the current non-participating unitized lands and the owners of 60% of the basic royalty interests (exclusive of the basic royalty interests of the United States) in non-participating unitized lands with approval of the Director and Land Commissioner, provided such extension application is submitted to the Director and the Land Commissioner not later than 60 days prior to the expiration of said ten-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2 (e) shall not be considered automatic commitment or recommitment of such lands.

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

4. UNIT OPERATOR. YATES PETROLEUM CORPORATION

is hereby designated as Unit Operator and by signature hereto as Unit Operator

agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

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

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

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

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

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

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs, and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working-interest owners and the

Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working-interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working-interest owners as may be agreed upon by Unit Operator and the working-interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this unit agreement and the unit operating agreement, this unit agreement shall govern. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor and one true copy with the Land Commissioner, prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, or by the Division if on fee land unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the MISSISSIPPIAN (CHESTER) FORMATION HAS BEEN PENETRATED AND ALL BEDS OF PENNSYLVANIAN AGE HAVE BEEN TESTED, or until at a lesser depth unitized substances shall be discovered which can be produced in paying

quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, or the Division if on Fee land that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 10,000 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or the Division if on fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

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

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor, the Land Commissioner, and State Division an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Land Commissioner, and State Division, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter from time to time before the expiration of any existing plan, the Unit Operator shall

submit for the approval of the Supervisor, the Land Commissioner, and State Division a plan for an additional specified period for the development and operation of the unitized land.

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

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

(b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor, the Land Commissioner, and State Division.

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

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

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

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

In the absence of agreement at any time between the Unit Operator and the Supervisor, the Land Commissioner, and State Division as to the proper definition or redefinition of a participating area, or until a participating area has, or areas

have, been established as provided herein, the portion of all payments affected thereby shall be impounded in a manner mutually acceptable to the owners of working interests and the Supervisor and the Land Commissioner. Royalties due the United States shall be determined by the Supervisor for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, and directed by the Supervisor and the Land Commissioner, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty of the basis of such approved participating area.

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp, and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, Land Commissioner, and State Division, or unavoidable lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working-interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby

agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part of tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OF FORMATIONS. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the Supervisor and the Land Commissioner, and the Division as to privately owned land, at such party's sole risk, costs, and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

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

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

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and the Unit Operator, or the working-interest owner in case

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

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

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working-interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall

operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases.

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

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

17. DRAINAGE. The Unit Operator shall take such measures as the Supervisor and Land Commissioner deem appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement.

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

all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

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

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

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

accordance with the provisions of the Mineral Leasing Act Revision of 1960.

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

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

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

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

remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas; said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

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

(a) such date of expiration is extended by the Director and the Land Commissioner, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Supervisor and the Land Commissioner, or

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced as to federal lands, and are being produced as to State lands in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered are produced as aforesaid, or

may be terminated at any time by not less than 75 per centum, on an acreage basis, of the working-interest owners signatory hereto, with the approval of the Supervisor and the Land Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any statewide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico, as to the rate of prospecting and developing in the absence of the specific written approval thereof by the Commissioner and 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.

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

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

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in

writing and personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

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

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

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

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery or account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of

funds due the United States or the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Supervisor and such funds of the State of New Mexico shall be deposited as directed by the Land Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor, the Land Commissioner, the State Division, and the Unit Operator prior to the approval of this agreement by the Supervisor. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor, the Land Commissioner, and the State Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor, or the State Division; provided, however, that as to State lands all subsequent joinders must be approved by the Commissioner.

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

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

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

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

- (1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or
- (2) Lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement.
- (3) Provide for the independent operation of any part of such land that are not then included within a participating area established hereunder.

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

stances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

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

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

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

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

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

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

ATTEST:

YATES PETROLEUM CORPORATION

By: *Randy H. Pittman*
Assistant Secretary

BY: *S. P. Yates* President
Address: 207 South 4th Street
Artesia, New Mexico 88210

UNIT OPERATOR

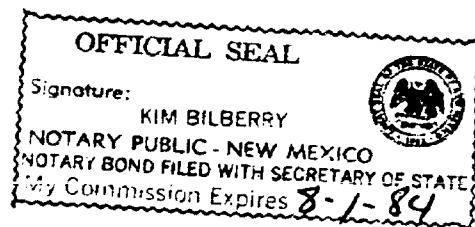
STATE OF New Mexico)
COUNTY OF Eddy) SS.

The foregoing instrument was acknowledged before me this 26th day of September, 1980, by S. P. Yates who is President of YATES PETROLEUM (State of Incorp.) corporation, for and on behalf of said Corporation.

My Commission Expires:

August 1, 1984

Kim Bicherry
Notary Public



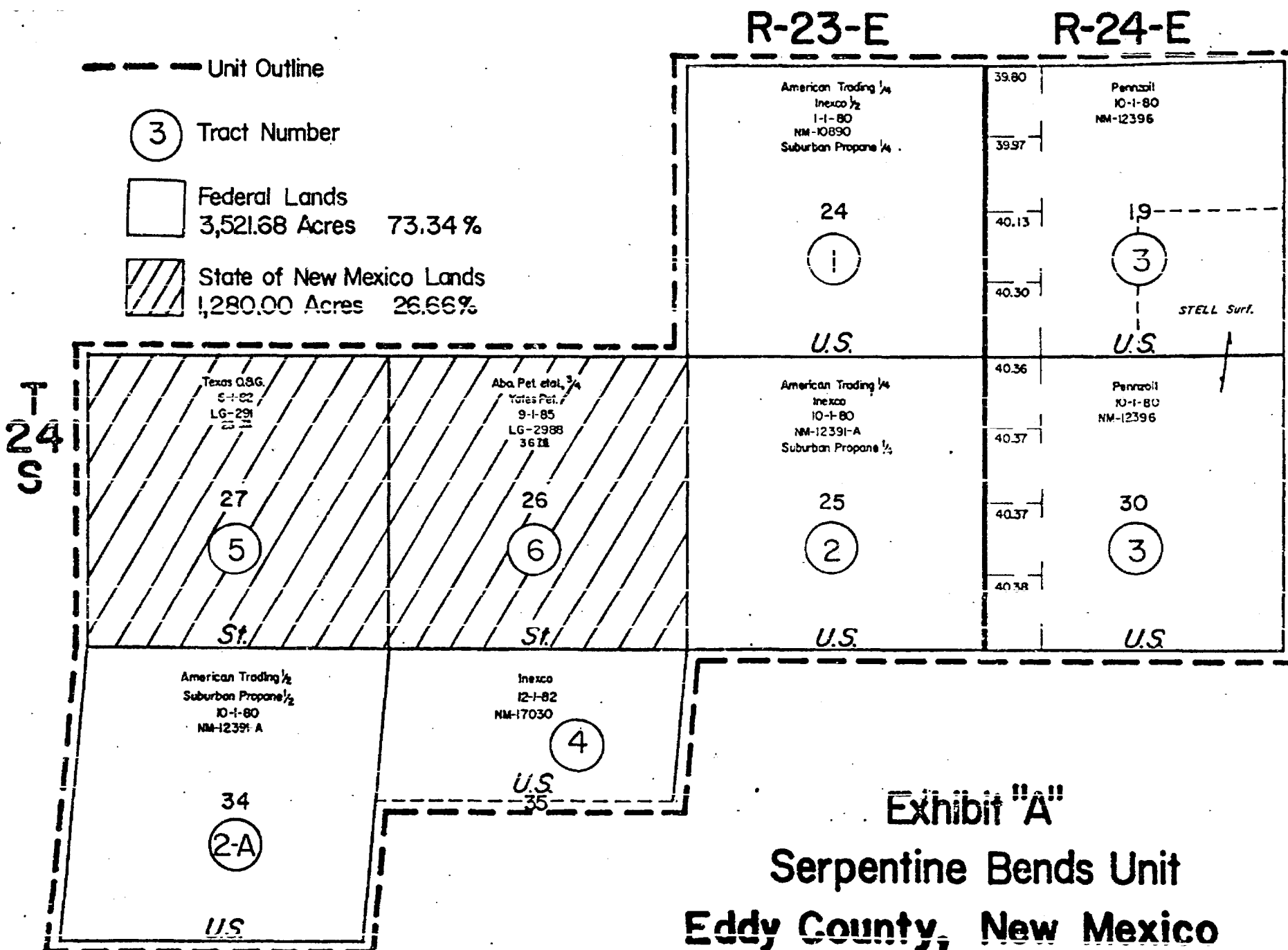


Exhibit "A"
Serpentine Bends Unit
Eddy County, New Mexico

EXHIBIT "B", PART I
 SCHEDULE SHOWING ALL LAND AND LEASES
 WITHIN THE SERPENTINE BENDS UNIT AREA
 EDDY COUNTY, NEW MEXICO

| TRACT NO. | DESCRIPTION OF LAND | NUMBER OF ACRES | SERIAL NO. & EXP. DATE | BASIC ROYALTY | LESSEE OF RECORD AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE |
|--|--------------------------------|-----------------|------------------------|---------------|--|---|
| <u>Federal Lands</u> | | | | | | |
| 1. | T-24-S, R-23-E Sec 24: All | 640.00 | NM-10890 12-31-79 | USA 12.5 | Inexco Oil Co. 50.0 American Trading & Production Corp. 25.0 Suburban Propane Gas Co. 25.0 | Robert Kunkel 3.0 Chapparral Prod. 1.6 Ed. R. Kennedy 1.0 |
| 2. | T-24-S, R-23-E Sec. 25: All | 640.00 | NM-12391-A 9-30-80 | USA 12.5 | Inexco Oil Co. American Trading & Production Corp. Suburban Propane Gas Co. | Charles Johnson 3.0 Chapparral Prod. 1.6 Ed. R. Kennedy 1.0 |
| *Kennedy override out of Interest of American Trading and S Gas Co. | | | | | | |
| 2A. | T-24-S, R-23-E Sec. 34: All | 640.00 | NM-12391-A 9-30-80 | USA 12.5 | Suburban Propane Gas Co. 50.0 American Trading & Production Corp. 50.0 | Charles Johnson 3.0 Chapparral Prod. 1.6 Ed. R. Kennedy 1.0 |

EXHIBIT "B", PART I
 SCHEDULE SHOWING ALL LAND AND LEASES
 WITHIN THE SERPENTINE BENDS UNIT AREA
 EDDY COUNTY, NEW MEXICO

| EDDY COUNTY, NEW MEXICO | | | | | |
|---|------------------|---|--------------------------------------|---|-----------------------------|
| SERIAL NO. & EXP. DATE | BASIC ROYALTY | LESSSEE OF RECORD AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | |
| | | <u>Federal Lands</u> | | | |
| NM-10890 12-31-79 | USA 12.5 | Inexco Oil Co. American Trading & Production Corp. Suburban Propane Gas Co. | 50.0 25.0 25.0 | Robert Kunkel Chapparral Prod. Ed R. Kennedy 3.000 1.625 1.00* | Same as Lessee of Record |
| NM-12391-A 9-30-80 | USA 12.5 | Inexco Oil Co. American Trading & Production Corp. Suburban Propane Gas Co. | | Charles Johnson Chapparral Prod. Ed. R. Kennedy 3.000 1.625 1.000* | Same as Lessee of Record |
| *Kennedy override out of Interest of American Trading and Suburban Propane Gas Co. | | | | | |
| NM-12391-A 9-30-80 | USA 12.5 | Suburban Propane Gas Co. American Trading & Production Corp. | 50.0 50.0 | Charles Johnson Chapparral Prod. Ed. R. Kennedy 3.000 1.625 1.000* | Same as Lessee of Record |

| | | | | | | | | |
|----|---|----------|----------------------|-------------|----------------|-----|------------------------|------------------|
| 3. | <u>T-24-S, R-24-E</u> Sec. 19: All Sec. 30: All | 1,281.68 | NM-12396 9-30-80 | USA 12.5 | Pennzoil Co. | All | Arlene Lansdale | 5.0 |
| 4. | <u>T-24-S, R-23-E</u> Sec. 35: N½ | 320.00 | NM-17030 10-31-82 | USA 12.5 | Inexco Oil Co. | All | E. H. Leede Unknown | 4.6875 1.5625 |

Total 3,521.68 Acres Federal Lands

State of New Mexico Lands

| | | | | | | | |
|----|---------------------------------------|--------|--------------------|---------------|-----------------------|-----|------|
| 5. | <u>T-24-S, R-23-E</u> Sec. 27: All | 640.00 | LG-291 5-31-82 | State 12.5 | Texas Oil & Gas Corp. | All | None |
| 6. | <u>T-24-S, R-23-E</u> Sec. 26: All | 640.00 | LG-2988 8-31-85 | State 12.5 | Yates Petroleum Corp. | All | None |

Total 1,280.00 Acres State of New Mexico Lands

Recapitulation

| | |
|----------|----------------------------|
| 3,521.68 | Acres Federal Land, 73.34% |
| 1,280.00 | Acres State Land, 26.66% |
| 4,801.68 | 100.00% |

| | | | | | | | | |
|------|----------------------|-------------|----------------|-----|------------------------|------------------|----------------|-----|
| 1.68 | NM-12396 9-30-80 | USA 12.5 | Pennzoil Co. | All | Arlene Lansdale | 5.0 | Pennzoil Co. | All |
| 0.00 | NM-17030 10-31-82 | USA 12.5 | Inexco Oil Co. | All | E. H. Leede Unknown | 4.6875 1.5625 | Inexco Oil Co. | All |

Total 3,521.68 Acres Federal Lands

State of New Mexico Lands

| | | | | | | | | |
|------|--------------------|---------------|-----------------------|-----|------|--|------------------|------|
| 0.00 | LG-291 5-31-82 | State 12.5 | Texas Oil & Gas Corp. | All | None | | Texas Oil & Gas | All |
| 0.00 | LG-2988 8-31-85 | State 12.5 | Yates Petroleum Corp. | All | None | | Yates Pet. Corp. | 25.0 |
| | | | | | | | Yates Drilling | 25.0 |
| | | | | | | | MYCO Ind., Inc. | 25.0 |
| | | | | | | | ABO Pet. Corp. | 25.0 |

Total 1,280.00 Acres State of New Mexico Lands

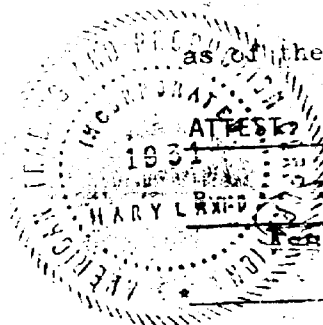
| | |
|---------------|----------------|
| Federal Land, | 73.34% |
| State Land, | 26.66% |
| | <u>100.00%</u> |

CONSENT AND RATIFICATION
SERPENTINE BONDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bonds Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned

as of the date set forth in their respective acknowledgments.



Assistant Secretary

American Trading and Production Corporation

By:

E. R. Kemp, Vice-President
Oil & Gas Division

INDIVIDUAL

1-2-2A

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF TEXAS)
COUNTY OF HARRIS) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by E. R. KEMP, Vice-President,
Oil & Gas Division, ~~President~~ of American Trading and Prod. Corp., a Maryland
corporation, on behalf of said corporation.

My Commission Expires:

Harris County, Texas

CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Ally M. Norton By J.C. Eldred
Sandra K. Burton J.C. Eldred, Agent & Attorney-in-Fact

INDIVIDUAL

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____.

My Commission Expires:

Notary Public

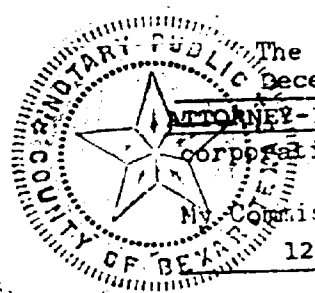
CORPORATE

STATE OF TEXAS)
COUNTY OF BEXAR) SS.

The foregoing instrument was acknowledged before me this 12th day of December, 1979, by J.C. ELDRD, AGENT & ATTORNEY-IN-FACT OF SUBURBAN PROPANE GAS CORPORATION a New Jersey corporation, on behalf of said corporation.

My Commission Expires:
12-7-81

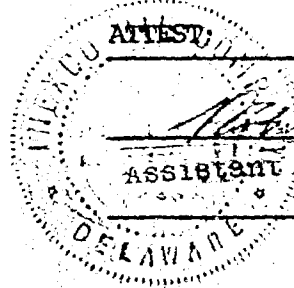
Sandra K. Burton
Notary Public Sandra K. Burton
in and for Bexar County, Texas



CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.



ATTEST:

Assistant Secretary

INEXCO OIL COMPANY

by

Executive Vice-President

INDIVIDUAL

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____

My Commission Expires:

Notary Public

CORPORATE

STATE OF Texas)
COUNTY OF Harris) SS.

The foregoing instrument was acknowledged before me this 13 day of December, 1979, by Coles S. Tinkler, Executive Vice-President of Inexco Oil Company, a corporation, on behalf of said corporation.

My Commission Expires:

JUDY A. DOBBS

Notary Public in and for Harris County, Texas
My Commission Expires November 20, 1980

Notary Public

CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

PENNZOIL COMPANY

By:

H. W. Hollingshead, Jr.
Agent and Attorney-in-Fact



INDIVIDUAL

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF TEXAS)
COUNTY OF MIDLAND) SS.

The foregoing instrument was acknowledged before me this 10th day of December, 1979, by H. W. Hollingshead, Jr., Agent and Attorney In Fact of PENNZOIL COMPANY, Delaware corporation, on behalf of said corporation.

My Commission Expires:
December 31, 1980

Notary Public

MARJORIE L. MATTHEWS

CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

TEXAS OIL & GAS CORP.

By: _____

Charles L. Canfield
Vice President

INDIVIDUAL

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF TEXAS)
COUNTY OF MIDLAND) SS.

The foregoing instrument was acknowledged before me this 17th day of December, 1979, by Charles L. Canfield, Vice, President of Texas Oil & Gas, a Delaware corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

Assistant Secretary

YATES DRILLING COMPANY

By:

J. P. Yates
V. President

INDIVIDUAL

6

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF NEW MEXICO)
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 14th day of December, 1979, by J. P. Yates, President of YATES DRILLING COMPANY, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

Assistant Secretary

ABO PETROLEUM CORPORATION

By: President

INDIVIDUAL

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF NEW MEXICO)
COUNTY OF EDDY) SS.

The foregoing instrument was acknowledged before me this 14th day of December, 1979, by Philip A. Yates, President of ABO PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

8-23-81

Kathy Collier
Notary Public

CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

MYCO INDUSTRIES, INC.

Sharon Shewden
Assistant Secretary

By: Frank Yates
President

INDIVIDUAL

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF NEW MEXICO)
COUNTY OF EDDY) SS.

The foregoing instrument was acknowledged before me this 14th day of December, 1979, by Frank Yates, President of MYCO INDUSTRIES, INC., a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

Kathy Colbert
Notary Public

CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Edward R. Kennedy

INDIVIDUAL

STATE OF Texas)
COUNTY OF Midland) SS.

The foregoing instrument was acknowledged before me this 12th day of December, 1979, by Edward R. Kennedy, Jr.

My Commission Expires: 2-5-82

Datay Bostwick
Notary Public

STATE OF _____)
COUNTY OF _____) SS.

CORPORATE

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____, a _____, President of _____, corporation, on behalf of said corporation.

My Commission Expires: _____

Notary Public

CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

A. Lansdale
A. LANSDALE)

INDIVIDUAL

STATE OF CALIFORNIA)
COUNTY OF ORANGE) SS.

3
ORR

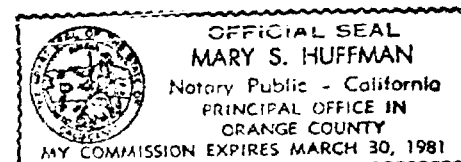
The foregoing instrument was acknowledged before me this 18 day of December, 1979, by A. LANSDALE.

My Commission Expires:

Mary S. Huffman
Notary Public

CORPORATE

STATE OF _____)
COUNTY OF _____) SS.



The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____, President of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

A. Lansdale
A. LANSDALE

INDIVIDUAL

3 ORR

STATE OF CALIFORNIA)
COUNTY OF ORANGE) SS.

The foregoing instrument was acknowledged before me this 18, day of December, 1979, by A. LANSDALE.

My Commission Expires:

Mary S. Huffman
Notary Public

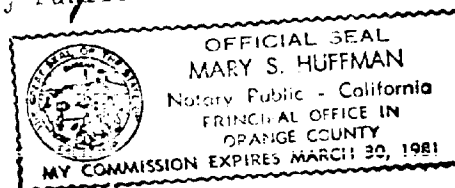
CORPORATE

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____, a _____, President of _____, corporation, on behalf of said corporation.

My Commission Expires:

Notary Public



CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

A. Lansdale
A. LANSDALE

INDIVIDUAL

3 ORR

STATE OF CALIFORNIA)
) SS.
COUNTY OF ORANGE)

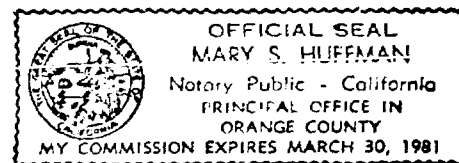
The foregoing instrument was acknowledged before me this 18 day of December, 1979, by A. LANSDALE.

My Commission Expires:

Mary S. Huffman
Notary Public

CORPORATE

STATE OF _____)
) SS.
COUNTY OF _____)



The foregoing instrument was acknowledged before me this _____ day of _____, 197____, by _____, President of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

The undersigned, (whether one or more) hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Serpentine Bends Unit Area embracing lands situated in Eddy County, New Mexico, which said Agreement is dated the 1st day of December, 1979, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

_____ Robert P. Kunkel

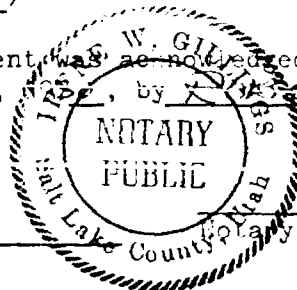
INDIVIDUAL

STATE OF UTAH)
) SS.
COUNTY OF SALT LAKE)

The foregoing instrument was acknowledged before me this 10 day of JAN, 1980, by ROBERT P. KUNKEL

My Commission Expires:

5-12-80



W. Gilbert

CORPORATE

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 197__, by _____, President of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

State of New Mexico



ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands

September 25, 1980

P. O. Box 1148
SANTA FE, NEW MEXICO

Randolph M. Richardson, III
Attorney At Law
P. O. Box 819
Roswell, New Mexico 88201

6780

Re: Serpentine Bends Unit
Eddy County, New Mexico

Dear Mr. Richardson,

The Commissioner of Public Lands has this date approved the Serpentine Bends Unit, Eddy County, New Mexico, which you submitted on behalf of Yates Petroleum Corporation. Our approval is subject to like approval by the United States Geological Survey. Also this approval is given with the understanding that Section 33, "CONFLICT OF SUPERVISION" must be left out of the agreement. Our Certificates of Approval have been amended to reflect this particular Article will be eliminated from the agreement.

On your Exhibit "B" please make the following changes:

TRACT 5, please show the assignment number right after the lease no. (LG-291-1). The Lessee of Record is Texas Oil and Gas Corp instead of Yates Petroleum Corp.

TRACT 6, the Lessee of Record is Yates Petroleum Corp. and not Texas Oil & Gas Corp.

Enclosed are Five (5) Certificates of Approval. Please notify this office when the USGS gives their approval so that we may finish processing same and establish the effective date.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

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

AJA/RDG/s
encls.
cc:

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

OCL

Unit Name SERPENTINE BENDS UNIT- EXPLORATORY
Operator YATES PETROLEUM CORPORATION
County EDDY

| DATE | OCC CASE NO. | 6780 | EFFECTIVE | TOTAL | | | | SEGR |
|--------------|---------------|--------|----------------|----------|----------|----------|------------|------|
| APPROVED | OCC ORDER NO. | B-6251 | DATE | ACREAGE | STATE | FEDERAL | INDIAN-FEE | CL |
| COMMISSIONER | COMMISSION | | 7-30-80 | 4,801.78 | 1,280.00 | 3,521.78 | -0- | |
| 9-25-80 | 1-16-60 | | | | | | | |

UNIT AREA

TOWNSHIP 24 SOUTH, RANGE 23 EAST NMPM

Sections 24:through 27: A11
Section 34: A11
Section 35: N/2

TOWNSHIP 24 SOUTH, RANGE 24 EAST, NMPM

Section 19: A11
Section 30: A11

Unit Name SERPENTINE BENDS UNIT- EXPLORATORY
Operator YATES PETROLEUM CORPORATION
County EDDY

QCL

| LEASE NO. | 6780 | EFFECTIVE DATE | TOTAL ACREAGE | STATE | FEDERAL | INDIAN-FEE | SEGREGATION CLAUSE | TERM |
|-----------|--------|----------------|---------------|----------|----------|------------|--------------------|-------|
| ORDER NO. | R-6251 | 7-30-80 | 4,801.78 | 1,280.00 | 3,521.78 | -0- | Yes | 5yrs. |

AST NMPM

A11
A11
N/2

AST, NMPM

A11
A11

| | |
|-----------|------------------------------------|
| Unit Name | SERPENTINE BENDS UNIT-EXPLORATORY |
| Operator | <u>YATES PETROLEUM CORPORATION</u> |
| County | <u>Eddy</u> |

| STATE TRACT NO. | LEASE NO. | INSTI- TUTION | SEC. | TWP. | RGE. | SUBSECTION | RATIFIED DATE | ACRES | ACREAGE NOT RATIFIED | |
|--------------------|--------------|------------------|------|------|------|------------|------------------|--------|----------------------------|-----|
| 5 | LG-291-1 | D D & B | 27 | 24S | 23E | A11 | 12-17-79 | 640.00 | | Tex |
| 6 | LG-2988 | D D & B | 26 | 24S | 23E | A11 | 12-17-79 | 640.00 | | Yat |

Unit Name SERPENTINE BENDS UNIT-EXPLORATORY
 Operator YATES PETROLEUM CORPORATION
 County Eddy

| TI- ION | SEC. | TWP. | RGE. | SUBSECTION | RATIFIED DATE | ACRES | ACREAGE NOT RATIFIED | LESSEE |
|------------|------|------|------|------------|------------------|--------|----------------------------|------------------------|
| &B | 27 | 24S | 23E | A11 | 12-17-79 | 640.00 | | Texas O&G Corporation |
| &B | 26 | 24S | 23E | A11 | 12-17-79 | 640.00 | | Yates Pet. Corporation |

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 January 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Yates Petroleum Cor-
poration for a unit agreement, Eddy
County, New Mexico.

CASE
6780

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Randolph M. Richardson, Esq.
Roswell, New Mexico 88201

I N D E X

JAMES T. MASON

Direct Examination by Mr. Richardson 3

E X H I B I T S

| | |
|--|---|
| Applicant Exhibit One, Map | 5 |
| Applicant Exhibit Two, Plat | 6 |
| Applicant Exhibit Three, Map | 6 |
| Applicant Exhibit Four, Written Report | 6 |

MR. STAMETS: We'll call next Case 6780.

MR. PADILLA: Application of Yates Petroleum Corporation for a unit agreement, Eddy County, New Mexico.

MR. RICHARDSON: Randolph M. Richardson, Roswell, New Mexico, appearing on behalf of applicant.

MR. STAMETS: Do you have the same witness?

MR. RICHARDSON: Same witness.

MR. STAMETS: The record will show that this witness is sworn and qualified in this case.

MR. RICHARDSON: And here again, a copy of the unit agreement, which is identical to the prior case, Number 6779, has been submitted, and there is one paragraph on page 17 which Graham requested be changed, which has not been changed in your copy, but you will be furnished an executed copy with the change in it. Somewhere towards the bottom it states something will be approved by the supervisor, and it was changed to insert that if on fee land it will be approved by the Division.

MR. STAMETS: Check.

JAMES T. MASON

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

DIRECT EXAMINATION

BY MR. RICHARDSON:

Q Mr. Mason, are you familiar with the Serpentine Bends Unit Area and the matters contained in the application to the Examiner for approval of the unit agreement?

A Yes, sir.

Q Is the form of unit agreement prescribed by Federal regulations and as recently approved by the Commissioner of Public Lands?

A Yes, sir.

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

A Yes, sir.

Q Pardon me, let me back up. I didn't hand you a geological report.

MR. STAMETS: All right.

MR. RICHARDSON: I have now handed the Examiner the geological report.

Q Let's see. Could you please tell the Examiner the total number of acres within the unit area and the number and percentages of acreage of Federal, State, and patented lands?

A The total acreage within this unit is

4,801.68 acres. Percentage Federal lands is 73.34 percent, or 3,521.68 acres. The State lands comprise 26.66 percent of the unit, or 1,280 acres.

Q Would you please tell the Examiner the township and the range in which the unit is located and the approximate distance in location with reference to the nearest town?

A The unit is located in Township 24 South, Ranges 23 East and 24 East. We're approximately 24 miles southwest of Carlsbad.

Q Would you please refer to the geological report, which has been introduced in this case as Exhibits One through Four, bound under one cover?

Was this report prepared by you?

A Yes, sir, it was.

Q Would you please review the report referring to the maps by name and number and indicating the significance of such maps?

A Exhibit One is a regional index map showing the location of the Serpentine Bends Unit relative to regional features.

Exhibit Two -- oh, something I should note on Exhibit One is that this shows the southeastern outline to be Carlsbad Caverns National Park boundary.

Exhibit Number Two is the land plat of the Serpentine Bends Unit.

Exhibit Three is again a combination structure and Isopach on the Lower Morrow and shows what we believe to be a prominent northerly trending nose, north-easterly trending nose, in this area.

Exhibit Four is the context of the geological report, and outlines the geological conditions in the area and the reasons for forming the unit.

Q Could you please tell the Examiner your conclusions as to the formations likely to be encountered and considered prospective for production?

A We believe that there may be some potential in the Permian-Bone Springs-Victorio Peak lime, which may reef up in the area.

In the Pennsylvanian we believe there may be a possibility for Strawn or Atoka production, but again, the primary objective of the unit will be the Morrow Clastic section.

Q Would you please tell the Division the projected depth and location of the initial test well?

A Our initial test well we will drill to 10,500 feet, penetrating the Morrow section in Township 24 -- I mean in Section 24, 1600 feet from the east line and 1320 feet from the south line.

Q Township and Range?

A 23 South -- I mean 23 East, I'm sorry,
24 South, 23 East.

Q Have the other working interest owners
within the unit area been contacted?

A Yes, sir.

Q In your opinion what percentage of the
working interest will be committed and what percentage of
the royalty will be committed?

A 100 percent of each.

Q In your opinion will the operation of
this area under the proposed unit plan of operation be in
the interest of conservation and prevention of waste?

A Yes, sir.

Q Will the different institutions of
the State, if any, receive their fair share of production,
if established?

A Yes, sir.

Q In the event of production will the
correlative rights of all parties to the unit agreement
be protected?

A Yes, sir.

MR. RICHARDSON: Now I'd like to move
that the geological report, Exhibits One through Four, be

entered.

MR. STAMETS: The exhibits will be admitted.

Any questions of the witness? He may --

MR. RICHARDSON: I have a statement I'd like to make.

MR. STAMETS: The witness may be excused and you may make your statement.

MR. RICHARDSON: This unit is a real, real questionable thing. Yates made application for their initial test well location in Section 4, and the BLM rejected it -- well, back up.

Our original drilling date was December 31st, and Yates made application to the BLM to drill and it turned out that this was in a wilderness area, one of the rare two, supposedly withdrawn, wilderness area, and the BLM would not approve the location.

So Yates has made application to the BLM through the USGS for a suspension of the lease terms. The lease was due to expire December 31st, Federal lease, and it is hoped that the area will not be included in the wilderness when they finally make their decision. But the lease will be suspended for, we hope, a short time, and apparently, within the next, oh, I'd say a month or so, the BLM should

finish their examination or whatnot to determine if it is wilderness, but there's a real good chance, and all the information we have is that the thing will not be declared wilderness because it really does not fit any of their standards. I mean even back in '64 law, so we do very much want to go ahead and get the unit approved and be ready to go when they make a decision as to what they're going to do.

MR. STAMETS: Very good.

If there is nothing further, the case will be taken under advisement.

(Hearing concluded.)

REPORTER'S CERTIFICATE

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

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

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 6789
heard by me on 5-3 1980.
Richard A. Stamm Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 January 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Yates Petroleum Cor-
poration for a unit agreement, Eddy
County, New Mexico.

CASE
6780

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

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For the Oil Conservation
Division:

Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Randolph M. Richardson, Esq.
Roswell, New Mexico 88201

I N D E X

JAMES T. MASON

Direct Examination by Mr. Richardson

3

E X H I B I T S

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A Yes, sir.

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

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MR. SEYMOUR: Very good.

If there is nothing further, the case will be taken under advisement.

(Hearing concluded.)

REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a Certified Shorthand Reporter,
DO HEREBY CERTIFY that the foregoing and attached Transcript
of Hearing before the Oil Conservation Division was reported
by me; that the said transcript is a full, true, and correct
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ability from my notes taken at the time of the hearing.

Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

January 18, 1980

Mr. Randolph Richardson
Attorney at Law
P. O. Box 219
Roswell, New Mexico 88201

Re: CASE NO. 6780
ORDER NO. R-6251

Applicant:

Yates Petroleum Corporation

Dear Sir:

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Yours very truly,

JOE D. RAMEY
Director

JDR/fâ

JDR/ra
Copy of order also sent to:

Hobbs OCD X
Artesia OCD X
Aztec OCD

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6780
Order No. R-6251

APPLICATION OF YATES PETROLEUM
CORPORATION FOR APPROVAL OF THE
SERPENTINE BENDS UNIT AGREEMENT,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on January 3, 1980,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 16th day of January, 1980, the Division
director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

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

(2) That the applicant, Yates Petroleum Corporation, seeks
approval of the Serpentine Bends Unit Agreement covering 4801.78
acres, more or less, of State and Federal lands described as
follows:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 24 SOUTH, RANGE 23 EAST, NMPM
Sections 24 through 27: All
Section 34: All
Section 35: N/2

TOWNSHIP 24 SOUTH, RANGE 24 EAST, NMPM
Section 19: All
Section 30: All

-2-

Case No. 6780

Order No. R-6251

(3) That all plans of development and operation and creations, expansions, or contractions of participating areas or expansions or contractions of the unit area, should be submitted to the Director of the Division for approval.

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

IT IS THEREFORE ORDERED:

(1) That the Serpentine Bends Unit Agreement is hereby approved.

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

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

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

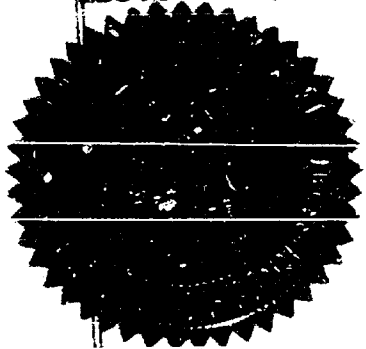
(5) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that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

-3-
Case No. 6780
Order No. R-6251

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

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



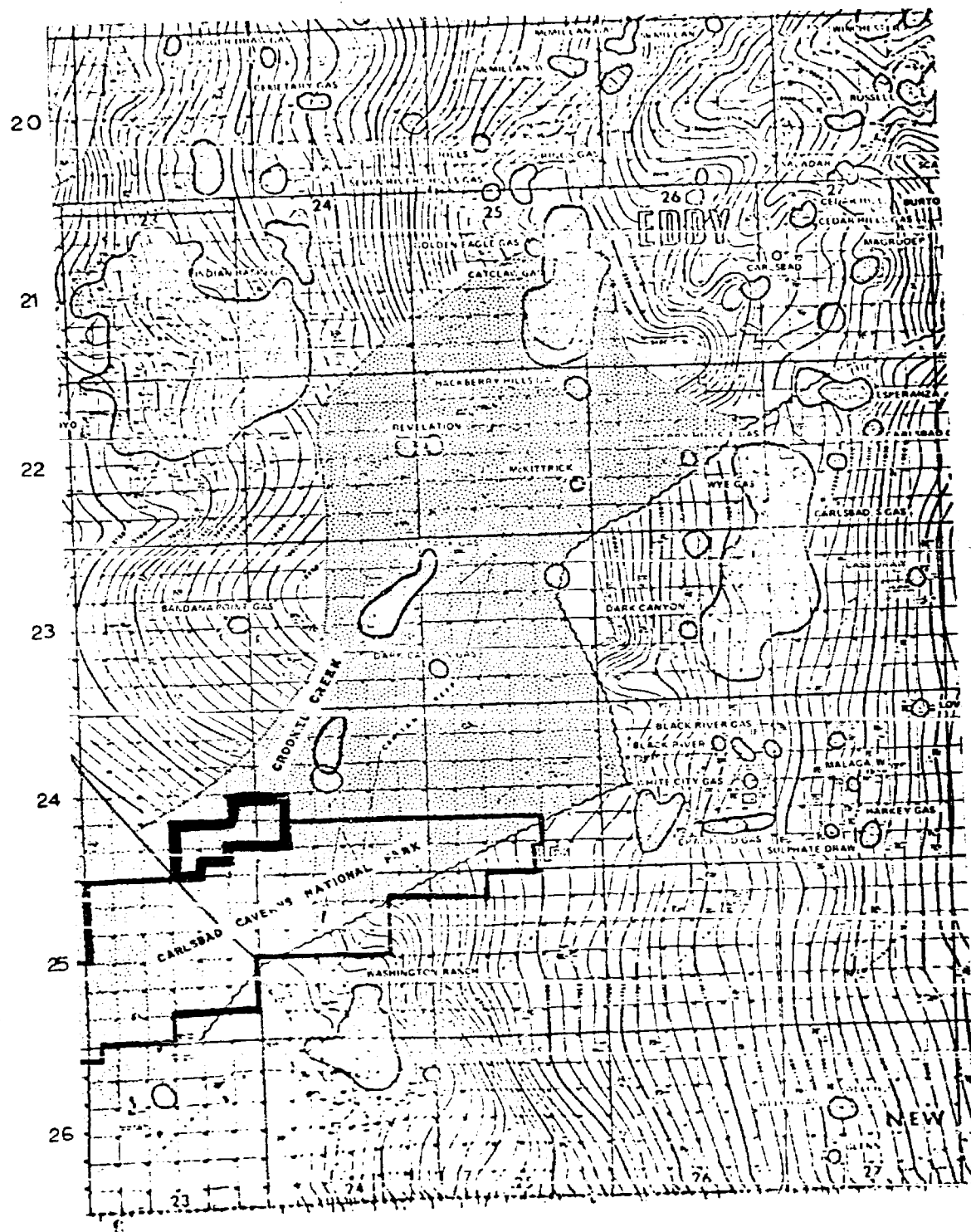
Joe D. Ramey
JOE D. RAMEY
Director

PA/

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| Exhibit 1 | Regional Index Map |
| Exhibit 2 | Land Plat |
| GEOLOGICAL REPORT - <i>Exhibit H</i> | |
| Exhibit 3 | Net Sand and Structure Map (pocket) |

*Appl Ex 1 thru 4
Cs 6780*



DEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

EXHIBIT NO. 1
CASE NO. 6780
Submitted by Yates Pet. Corp.
Hearing Date 1-2-80

EXHIBIT # 1

REGIONAL INDEX MAP

SERPENTINE BENDS UNIT

EDDY COUNTY, NEW MEXICO

R-23-E

R-24-E

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

EXHIBIT NO. 2CASE NO. 6780Submitted by Yates Pet. Corp.Hearing Date 1-3-80T
24
S

Texas O.S.G.
6-1-82
LG-291

27

St.

Abc. Pet. stat. $\frac{3}{4}$
Yates Pet.
9-1-85
LG-2988

26

◆ Inesco
Dark Canyon St
TD 10380
D/A 7-1-74

St.

American Trading $\frac{1}{4}$
Inesco $\frac{1}{2}$
1-1-80
10890
Suburban Propane $\frac{1}{4}$

24

U.S.

American Trading $\frac{1}{4}$
Inesco
10-1-80
12391
Suburban Propane $\frac{1}{4}$

25

U.S.

39.80

39.97

40.23

40.30

40.36

40.37

40.37

40.38

Pennzell
10-1-80
12396

19

J.M. Stett, Jr.

U.S.

Pennzell
10-1-80
12396

30

U.S.

American Trading $\frac{1}{2}$
Suburban Propane $\frac{1}{2}$
10-1-80
12391

34

U.S.

Inesco
12-1-82
17030

U.S.

35

Exhibit ²2

Serpentine Bends Unit

--- Unit Outline



YATES BUILDING - 207 SOUTH 4TH ST.
ARTESIA, NEW MEXICO - 88210

December 3, 1979

S. P. YATES
PRESIDENT
MARTIN YATES, III
VICE PRESIDENT
JOHN A. YATES
VICE PRESIDENT
B. W. HARPER
SEC. - TREAS.

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

EXHIBIT NO. 4
CASE NO. 6780
Submitted by Yates Pet. Corp.
Hearing Date 1-3-80

GEOLOGICAL REPORT
PROPOSED SERPENTINE BENDS
EDDY COUNTY, NEW MEXICO

PURPOSE

The purpose of this report is to briefly summarize the geological reasons for forming a seven and one-half section Federal unit. A proposed wilocat well in Section 25-T24S-R23E, will be drilled to 10,500 feet to test the Morrow.

LOCATION AND LAND

The proposed Serpentine Bends unit (Exhibit 1) is located about 24 miles southwest of the city of Carlsbad, in Eddy County, New Mexico. The unit takes its name from the deeply entrenched meanders of the Serpentine Bends section of Dark Canyon which runs northeasterly through the outlined unit. The unit is located in the rugged foothills of the Guadalupe Mountains, just east of the Huapache Monocline. Elevations within the unit area range from 4255 to 5408. Access to the area will be gained via the Dark Canyon Road which swings southwest from State Highway 137.

The proposed unit area comprises seven and one-half sections (4801.78 acres). The unit (Exhibit 2) includes sections 24, 25, 26, 27, 34, and the north half of 35 in T24S-R23E and sections 19 and 30 of T24S-R24E. Carlsbad Caverns National Park outlines the south and eastern boundaries of the unit; Section 36-T24S-R23E has been proposed for inclusion into the National Park.

GENERAL GEOLOGIC DISCUSSION

The Serpentine Bends Unit is located along the eastern front of the Huapache Monocline, which makes up the western margin of the Permian Basin in Southeastern New Mexico. The Permian Grayburg and Queen Formations, outcrop in the unit area and approximately 12,800 feet of sedimentary rocks of Permian, Pennsylvanian, Mississippian, Devonian, Silurian, Ordovician, and Cambrian ages are present. A 10,500 foot wildcat in the unit should entirely penetrate the Morrow section and bottom in Mississippian strata, thereby testing the most prospective part of the stratigraphic column. Expected tops are as follows:

| | |
|-------------------------------|--------|
| Delaware Limestone | 1505' |
| Bone Spring Limestone | 2953' |
| Third Bone Spring Sand | 7186' |
| Wolfcamp | 7505' |
| Strawn | 8540' |
| Atoka | 9090' |
| Morrow | 9749' |
| Chester Shale (Mississippian) | 10327' |

The primary location in the northeast corner of Section 25-T24S-R23E is within the boundaries of a proposed wilderness area. Should the primary location be denied, an alternate drillable location is available on patented surface in the southeast quarter of Section 19-T24S-R24E. The alternate location is about 400 feet structurally low to the primary location and may not be quite as desirable for this reason. Drilling depths are about the same for both locations as structural differences are nearly offset by differences in elevation.

The primary objective is the Morrow Clastics interval. Secondary objectives, include Pennsylvanian carbonates, Strawn and Atoka Clastics, and a possible development of reefal facies of the lower Permian Victorio Peak carbonate, equivalent to the Upper Bone Spring limestone.

The unit area is located along the crest and southeast flank of a prominent northeasterly trending nose (Exhibit 3). Thick, clean beach sands are well developed along the southeast side of this nose at Crooked Creek and Rock Tank gas fields. Shale-rich facies dominate the northwest flank of the nose at Crooked Creek and Rock Tank and a similar depositional model is suggested for the Serpentine Bends area. This model involves wave and current systems which favored the accumulation of sand on the basinward side of the nose, similar to accumulations of wind-blown sand along the leeward side of hills today.

GEOLOGICAL DISCUSSION OF UNIT AREA

Only one Morrow test has been drilled in the unit area; the Inexco Dark Canyon State #1, Section 26-T24S-R23E, was drilled to the Ordovician Fusselman (TD 10,380') and abandoned in 1974. This well was located in the low permeability facies developed along the crest of the nose as discussed above. Our Reservoir Engineering Department has evaluated this well and concluded that skin damage was present due to formation water-drill fluid incompatibility and that the sands encountered by this well were low permeability, but had favorable water saturations, and might have been productive with proper stimulation.

LOG ANALYSIS OF POTENTIALLY
PRODUCTIVE, LOW PERMEABILITY MORROW
SANDS IN THE INEXCO #1 DARK CANYON STATE WELL

| <u>DEPTH</u> | <u>PRORSITY</u> | <u>SATURATION</u> WATER | <u>REMARKS</u> |
|--------------|-----------------|----------------------------|--|
| 9140-48 | 4.5 | 24 | Low permeability, but potentially Hydrocarbon bearing |
| 9186-90 | 2 | 30 | |
| 9223-31 | 5.5 | 39 | |
| 9284-97 | 4 | 66 | Lower Morrow Sands, wet, but may have potential elsewhere in unit area |
| 9318-26 | 4 | 54 | |
| 9348-52 | 2 | ? | |
| 9367-70 | 3 | ? | |

A net sand insopach has been constructed for the Morrow based on available well log data and analogy between this area and the crooked creek and rock tank fields. The map (Exhibit 3) shows an increase in clean sand within the unit outline.

SUMMARY AND CONCLUSIONS

The geological map, Exhibit "3", (in pocket), is a combined map showing Lower Morrow structure and total Morrow thickness. In order to highlight, and clearly distinguish between the two sets of contours, the interval between 40' and 50' on the Morrow sand insopach was colored yellow. The yellow coloration should enable the viewer to more easily follow the Morrow isopach contours. Such yellow coloration also shows, to some extent, the northeast-southwest trending nose between this Serpentine Bends Unit Area and the Crooked Creek and Rock Tank gas fields.

The unit area is located on trend with the Crooked Creek and Rock Tank gas fields and is believed to be geologically analogous to these fields.

The depositional model for the unit area involves the accumulation of clean sands along the southeast side of the Crooked Creek - Rock Tank Nose.

In conclusion, the seven and one-half section unit outline includes all drillable, prospective locations exclusive of National Park lands and proposed Park lands; and geologic reasons appear to justify the formation of the Serpentine Bends Unit as proposed. The Unit outline, includes all full sections of land, (640.00 acres), as are cut by the 80' Morrow isopach contour, with the exception, as mentioned, of those lands lying within the Carlsbad Caverns National Park.

RANDOLPH M. RICHARDSON
OIL AND GAS LAND AND UNIT CONSULTANT
FEDERAL - STATE - FEE
P. O. BOX 819
ROSWELL, NEW MEXICO 88201
December 3, 1979

OFFICE 505 622-8801
HOME 505 622-7985

In Re: Serpentine Bends Unit and
Pronghorn Unit, Eddy and Lea
Counties, N. M.

Oil Conservation Division
Dept. Energy & Minerals
P. O. Box 2088
Santa Fe, New Mexico 87501

Case 6780

Gentlemen,

On behalf of Yates Petroleum Corporation I am enclosing
Application for Approval and request for hearing on two different
Units.

Serpentine Bends Unit is in Eddy County, whereas Pronghorn Unit
is in Lea County.

My secretary had already typed the Application for the
Serpentine Bends Unit when I discovered that she had corrected
the heading with reference to the "Conservation Division", but
had not corrected all of the body of the instrument and you will
find reference to the "Commission".

If you should consider this as a fatal error, please advise
and I shall have the Application retyped and corrected.

The Unit Agreement has been changed at the request of the
Land Office to refer to the Division, and the current statutes.
The Division was granted certain additional powers in accordance with
the 1978 Statutes.

We would appreciate both these units appearing on the same
Docket as such would save considerable time and money.

Thank you, and please advise if you need anything more or if
all is set in order.

I understand that the first hearing date will be during
the first week of January, 1980.

Yours very truly,

R. M. Richardson

cc: Yates Pet.

RECEIVED
DEC 04 1979
OIL CONSERVATION DIVISION
SANTA FE

Docket No. 1-80

Dockets Nos. 2-80 and 3-80 are tentatively set for January 16 and 30, 1930. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - JANUARY 3, 1980

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

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

CASE 6770: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit National Petroleum Company and all other interested parties to appear and show cause why its Well No. 1 located 905 feet from the North line and 1155 feet from the West line of Section 22, Township 29 North, Range 11 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6786: In the matter of the hearing called by the Oil Conservation Division on its own motion to consider the amendment of its administrative procedure for the approval of infill drilling on existing gas proration units as promulgated by Order No. R-6013 to permit the approval of infill wells as new onshore production wells pursuant to the Natural Gas Policy Act of 1978 without notice and hearing even though such wells have been spudded prior to receiving such approval.

CASE 6771: Application of Getty Oil Company for a non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard gas proration unit comprising the E/2 SW/4 of Section 31, Township 24 South, Range 37 East, and the NW/4 NE/4 and NE/4 NW/4 of Section 6, Township 25 South, Range 37 East, Jalmat Gas Pool, to be dedicated to a well to be drilled at a standard location thereon.

CASE 6772: Application of Reading & Bates Petroleum Co. for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the SE/4 of Section 17, Township 24 North, Range 3 West, Chacon-Dakota Pool, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6773: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 20, Township 19 South, Range 27 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6774: Application of Doyle Hartman for an unorthodox location, non-standard proration unit, and approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 120-acre non-standard proration unit comprising the NW/4 NW/4 of Section 6, Township 25 South, Range 37 East, and the W/2 SW/4 of Section 31, Township 24 South, Range 37 East, to be dedicated to his Federal Jalmat Com Well No. 1 at an unorthodox location 590 feet from the North line and 660 feet from the West line of said Section 6; applicant further seeks a finding that the drilling of said well is necessary to effectively and efficiently drain that portion of an existing proration unit which cannot be so drained by the existing well.

CASE 6768: (Continued and Readvertised)

Application of Alpha Twenty-One Production Company for two non-standard gas proration units, compulsory pooling, unorthodox well location, and approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 40-acre non-standard gas proration unit comprising the SW/4 SE/4 of Section 21, Township 24 South, Range 37 East, Jalmat Gas Pool, to be dedicated to the El Paso Natural Gas Company Shell Black Well No. 2. Applicant also seeks an order pooling all mineral interests in the Jalmat Gas Pool underlying the E/2 SW/4 and NW/4 SE/4 of said Section 21 to form a 120-acre non-standard gas proration unit to be dedicated to a well to be drilled at an unorthodox location 990 feet from the South line and 1650 feet from the West line of said Section 21. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well. Applicant further seeks a finding that the drilling of said well is necessary to effectively and efficiently drain that portion of the existing proration unit which cannot be so drained by the existing well.

CASE 6767: (Continued from December 12, 1979, Examiner Hearing)

Application of Alpha Twenty-One Production Company for two non-standard gas proration units, unorthodox well location, and approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 40-acre non-standard proration unit comprising the NW/4 NW/4 of Section 27, Township 25 South, Range 37 East, Jalmat Gas Pool, to be dedicated to El Paso Natural Gas Company's Harrison Well No. 2, and also a 200-acre unit comprising the S/2 N/2 and NE/4 NW/4 of said Section 27 to be dedicated to a well to be drilled at an unorthodox location 1980 feet from the North line and 560 feet from the West line of Section 27. Applicant further seeks a finding that the drilling of the latter well is necessary to effectively and efficiently drain that portion of an existing proration unit which cannot be so drained by the existing well.

CASE 6487: (Continued from October 17, 1979, Examiner Hearing)

Application of El Paso Natural Gas Company for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a waiver of existing well-spacing requirements and a finding that the drilling of its Shell E State Com Well No. 2 located in Unit N of Section 6, Township 21 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well.

CASE 6732: (Continued from November 28, 1979, Examiner Hearing)

Application of Dorchester Exploration, Inc. for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Morton Solid State Unit Well No. 1 located 2156 feet from the North line and 990 feet from the West line of Section 4, Township 15 South, Range 34 East, Tres Papalotes-Pennsylvanian Pool.

CASE 6775: Application of Harvey E. Yates Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Young Deep Unit Area, comprising 2242 acres, more or less, of Federal lands in Township 18 South, Range 32 East.

CASE 6776: Application of Harvey E. Yates Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Young Deep Unit Well No. 1, a Morrow test to be drilled 660 feet from the North and West lines of Section 10, Township 18 South, Range 32 East, the W/2 of said Section 10 to be dedicated to the well.

CASE 6777: Application of Harvey E. Yates Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its Amoco 22 State Well No. 2 located in Unit G of Section 22, Township 23 South, Range 27 East.

CASE 6778: Application of Harvey E. Yates Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its loco Hills Welch Well No. 2 located in Unit N of Section 4, Township 18 South, Range 29 East.

CASE 6745: (Continued from November 28, 1979, Examiner Hearing)

Application of Harvey E. Yates Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp-Pennsylvanian formations underlying the W/2 of Section 28, Township 23 South, Range 24 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6779: Application of Yates Petroleum Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Pronghorn Unit Area, comprising 5,120 acres, more or less, of State and Federal lands in Townships 22 and 23 South, Range 33 East.

CASE 6780: Application of Yates Petroleum Corporation for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Serpentine Bends Unit Area, comprising 4,802 acres, more or less, of State and Federal lands in Township 24 South, Ranges 23 and 24 East.

CASE 6781: Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Morrow test well to be drilled 660 feet from the South line and 1980 feet from the East line of Section 1, Township 20 South, Range 28 East, the E/2 of said Section 1 to be dedicated to the well.

CASE 6782: Application of Inexco Oil Company for an exception to Order No. R-3221, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221 to permit disposal of produced brine into an unlined surface pit located in Unit H of Section 7, Township 19 South, Range 33 East.

CASE 6783: Application of McClellan Oil Corporation for an unorthodox oil well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Marlise State Well No. 6 located 1155 feet from the North line and 2475 feet from the West line of Section 24, Township 14 South, Range 29 East, Double "L" Queen Associated Pool, the NE/4 NW/4 of said Section 24 to be dedicated to the well.

CASE 6784: Application of Merrion & Bayless for a non-standard proration unit and an unorthodox gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 640-acre non-standard gas proration unit comprising the W/2 of Section 18 and the W/2 of Section 19, Township 32 North, Range 14 West, Barker Creek-Paradox Pool, to be dedicated to its Ute Well No. 7 at an unorthodox location 1685 feet from the South line and 3335 feet from the East line of said Section 19.

In the alternative, applicant seeks an order force pooling all of said Section 19 to form a standard 640-acre unit.

CASE 6785: Application of The Harlow Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the SW/4 SW/4 of Section 18, Township 8 South, Range 29 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

BEFORE THE OIL CONSERVATION DIVISION
ENERGY AND MINERALS DEPARTMENT
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
THE SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

Case 6780

New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

Comes the undersigned Yates Petroleum Corporation, with offices at Artesia, New Mexico and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Serpentine Bends Unit Area, Eddy County, New Mexico and hereby makes application for approval of said Unit Agreement as provided by law, and in support thereof states:

1. That the proposed Unit Area covered by said Agreement embraces 4,801.78 acres of land, more or less, more particularly described as follows:

T-24-S, R-23-E, N.M.P.M.
Secs. 24, 25, 26, 27; All
Sec. 34; All
Sec. 35; N $\frac{1}{2}$

T-24-S, R-24-E, N.M.P.M.
Sec. 19; All
Sec. 30; All

3521.78
1280.00
4801.78

Eddy County, New Mexico

2. That of the lands embraced within the proposed Unit, 3,521.78 acres are lands of the United States, being 73.34% of the Area and 1,280.00 acres are State of New Mexico lands being 26.66% of the Area.

3. That Applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological feature involved, and that in the event of a discovery of oil and gas thereon, that said Unit Agreement will permit the producing area to be developed or operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That Yates Petroleum Corporation is designated as the Unit Operator in said Unit Agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the drilling of an Initial Test Well to a depth sufficient to penetrate the Mississippian Formation, but applicant is not obligated to drill said well in any event to a depth in excess of 10,000 feet.

5. That the applicant believes that in the event oil or gas is discovered in paying quantities on lands within the Unit Area, that the field or area can be developed more economically and efficiently under the terms of said Unit Agreement, to the end that maximum recovery will be obtained of unitized substances and that said Unit Agreement is in the interest of conservation of prevention of waste as contemplated by the New Mexico Oil Conservation rules and regulations.

6. That Application for Approval of said Unit Agreement has been filed with the Commissioner of Public Lands.

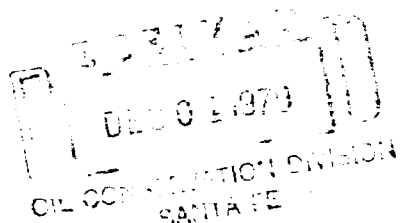
7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said Unit Agreement, and after approval by the United States Department of Interior, an approved copy will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner on the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Division as being in the interest of conservation and the prevention of waste. Applicant respectfully requests that this matter be heard at the first available hearing following this date.

DATED this 29th day of November, 1979.

YATES PETROLEUM CORPORATION

By Randolph M. Richardson III
Randolph M. Richardson, III
Attorney At Law
P. O. Box 819
Roswell, New Mexico 88201



BEFORE THE OIL CONSERVATION DIVISION
ENERGY AND MINERALS DEPARTMENT
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
THE SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

Case 6780

New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

Comes the undersigned Yates Petroleum Corporation, with offices at Artesia, New Mexico and files herewith and (1) copy of the proposed Unit Agreement for the development and operation of the Serpentine Bends Unit Area, Eddy County, New Mexico and hereby makes application for approval of said Unit Agreement as provided by law, and in support thereof states:

1. That the proposed Unit Area covered by said Agreement embraces 4,801.78 acres of land, more or less, more particularly described as follows:

T-24-S, R-23-E, N.M.P.M.
Secs. 24, 25, 26, 27; All
Sec. 34; All
Sec. 35; N $\frac{1}{2}$

T-24-S, R-24-E, N.M.P.M.
Sec. 19; All
Sec. 20; All

Eddy County, New Mexico

2. That of the lands embraced within the proposed Unit, 3,521.78 acres are lands of the United States, being 73.34% of the Area and 1,280.00 acres are State of New Mexico lands being 26.66% of the Area.

3. That Applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological feature involved, and that in the event of a discovery of oil and gas thereon, that said Unit Agreement will permit the producing area to be developed or operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That Yates Petroleum Corporation is designated as the Unit Operator in said Unit Agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the drilling of an Initial Test Well to a depth sufficient to penetrate the Mississippian Formation, but applicant is not obligated to drill said well in any event to a depth in excess of 10,000 feet.

5. That the applicant believes that in the event oil or gas is discovered in paying quantities on lands within the Unit Area, that the field or area can be developed more economically and efficiently under the terms of said Unit Agreement, to the end that maximum recovery will be obtained of unitized substances and that said Unit Agreement is in the interest of conservation of prevention of waste as contemplated by the New Mexico Oil Conservation rules and regulations.

6. That Application for Approval of said Unit Agreement has been filed with the Commissioner of Public Lands.

7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said Unit Agreement, and after approval by the United States Department of Interior, an approved copy will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner on the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Division as being in the interest of conservation and the prevention of waste. Applicant respectfully requests that this matter be heard at the first available hearing following this date.

DATED this 29th day of November, 1979.

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By Randolph M. Richardson, III
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Attorney At Law
P. O. Box 819
Roswell, New Mexico 88201

BEFORE THE OIL CONSERVATION DIVISION
ENERGY AND MINERALS DEPARTMENT
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF
THE SERPENTINE BENDS UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

Case 6780

New Mexico Oil Conservation Commission
Santa Fe, New Mexico 87501

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1. That the proposed Unit Area covered by said Agreement embraces 4,801.78 acres of land, more or less, more particularly described as follows:

T-24-S, R-23-E, N.M.P.M.

Secs. 24, 25, 26, 27; All

Sec. 34; All

Sec. 35; N½

T-24-S, R-24-E, N.M.P.M.

Sec. 19; All

Sec. 30; All

Eddy County, New Mexico

2. That of the lands embraced within the proposed Unit, 3,521.78 acres are lands of the United States, being 73.34% of the Area and 1,280.00 acres are State of New Mexico lands being 26.66% of the Area.

3. That Applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological feature involved, and that in the event of a discovery of oil and gas thereon, that said Unit Agreement will permit the producing area to be developed or operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That Yates Petroleum Corporation is designated as the Unit Operator in said Unit Agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the drilling of an Initial Test Well to a depth sufficient to penetrate the Mississippian Formation, but applicant is not obligated to drill said well in any event to a depth in excess of 10,000 feet.

5. That the applicant believes that in the event oil or gas is discovered in paying quantities on lands within the Unit Area, that the field or area can be developed more economically and efficiently under the terms of said Unit Agreement, to the end that maximum recovery will be obtained of unitized substances and that said Unit Agreement is in the interest of conservation of prevention of waste as contemplated by the New Mexico Oil Conservation rules and regulations.

6. That Application for Approval of said Unit Agreement has been filed with the Commissioner of Public Lands.

7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said Unit Agreement, and after approval by the United States Department of Interior, an approved copy will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner on the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Division as being in the interest of conservation and the prevention of waste. Applicant respectfully requests that this matter be heard at the first available hearing following this date.

DATED this 29th day of November, 1979.

YATES PETROLEUM CORPORATION

By Randolph M. Richardson III

Randolph M. Richardson, III

Attorney At Law

P. O. Box 819

Roswell, New Mexico 88201

CERTIFICATION--DETERMINATION

Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Oil and Gas Supervisors of the Geological Survey (33F.R. 2812), I do hereby:

A. Approve the attached agreement for the development and operation of the Serpentine Bends Unit Area, State of New Mexico, County of Eddy.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated _____.

Oil and Gas Supervisor, United States Geological Survey

Contract Number _____

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SERPENTINE BENDS UNIT AREA

COUNTY OF FLOYD
STATE OF NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 1st day of December,
1979, by and between the parties subscribing, ratifying, or consenting hereto,
and herein referred to as the "parties hereto,"

W I T N E S S E T H :

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

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as
amended, 30 U. S. C. Secs. 181 et seq., authorizes Federal lessees and their re-
presentatives 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 ad-
visable 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 (Secs. 19-10-45, 46, 47 N.M. Statutes
1978 Annotated) to consent to or approve this agreement on behalf of the State
of New Mexico, insofar as it covers and includes lands and mineral interest of
the State of New Mexico; and,

WHEREAS the Oil Conservation Division of the State of New Mexico Energy and
Minerals Department is authorized by an Act of the Legislature (Chapters 70 and 71,
New Mexico Statutes 1978, Annotated) to approve this agreement and the conservation
provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the _____
Serpentine Bends Unit Area covering the land hereinafter
described to give reasonably effective control of operations therein;

WHEREAS, it is the purpose of the parties hereto to conserve natural re-
sources, prevent waste, and secure other benefits obtainable through development
and operation of the area subject to this agreement under the terms, conditions,

and limitations herein set forth;

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

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

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

T-24-S, R-23-E, N.M.P.M.
Secs. 24, 25, 26, 27: All
Sec. 34: All
Sec. 35: N½

T-24-S, R-24-E, N.M.P.M.
Sec. 19: All
Sec. 30: All

Containing 4,801.78 acres, more or less

Eddy County, New Mexico

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

hereinafter referred to as "Land Commissioner," and not less than five (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division."

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

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

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

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, the Land Commissioner, and State Division, evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction and with appropriate joinders.

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

(e) All legal subdivisions of land (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands

shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid five-year period shall become participating in the same manner as during said five-year period. However, when such diligent drilling operations cease, all non-participating lands shall be automatically eliminated effective as of the 91st day thereafter. The unit operator shall within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Supervisor and the Land Commissioner and promptly notify all parties in interest.

If conditions warrant extension of the ten-year period specified in this subsection 2 (e), a single extension of not to exceed two years may be accomplished by consent of the owners of 90% of the working interests in the current non-participating unitized lands and the owners of 60% of the basic royalty interests (exclusive of the basic royalty interests of the United States) in non-participating unitized lands with approval of the Director and Land Commissioner, provided such extension application is submitted to the Director and the Land Commissioner not later than 60 days prior to the expiration of said ten-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2 (e) shall not be considered automatic commitment or recommitment of such lands.

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

4. UNIT OPERATOR. YATES PETROLEUM CORPORATION
is hereby designated as Unit Operator and by this agreement hereto as Unit Operator

agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

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

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

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

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

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

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs, and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working-interest owners and the

Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working-interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working-interest owners as may be agreed upon by Unit Operator and the working-interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this unit agreement and the unit operating agreement, this unit agreement shall govern. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor and one true copy with the Land Commissioner, prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, or by the Division if on fee land unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the MISSISSIPPIAN (CHESTER) FORMATION HAS BEEN PENETRATED AND ALL BEDS OF PENNSYLVANIAN AGE HAVE BEEN TESTED, or until at a lesser depth unitized substances shall be discovered which can be produced in paying

quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, or the Division if on Fee land that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 10,000 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or the Division if on fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

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

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor, the Land Commissioner, and State Division an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Land Commissioner, and State Division, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter from time to time before the expiration of any existing plan, the Unit Operator shall

submit for the approval of the Supervisor, the Land Commissioner, and State Division a plan for an additional specified period for the development and operation of the unitized land.

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

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

(b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor, the Land Commissioner, and State Division.

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

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

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

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

In the absence of agreement at any time between the Unit Operator and the Supervisor, the Land Commissioner, and State Division as to the proper definition or redefinition of a participating area, or until a participating area has, or areas

have, been established as provided herein, the portion of all payments affected thereby shall be impounded in a manner mutually acceptable to the owners of working interests and the Supervisor and the Land Commissioner. Royalties due the United States shall be determined by the Supervisor for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, and directed by the Supervisor and the Land Commissioner, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty of the basis of such approved participating area.

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp, and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, Land Commissioner, and State Division, or unavoidable lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working-interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby

agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part of tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the Supervisor and the Land Commissioner, and the Division as to privately owned land, at such party's sole risk, costs, and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

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

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

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and the Unit Operator, or the working-interest owner in case

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

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

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working-interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall

operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases.

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

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

17. DRAINAGE. The Unit Operator shall take such measures as the Supervisor and Land Commissioner deem appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement.

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

all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

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

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

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

accordance with the provisions of the Mineral Leasing Act Revision of 1960.

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

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

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

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

remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas; said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

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

(a) such date of expiration is extended by the Director and the Land Commissioner, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Supervisor and the Land Commissioner, or

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances are produced in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered are produced as aforesaid, or

(d) it is terminated as heretofore provided in this agreement. This agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the working-interest owners signatory hereto, with the approval of the Supervisor and the Land Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico, as to the rate of prospecting and developing in the absence of the specific written approval thereof by the Commissioner and 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 Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

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

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in

writing and personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

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

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

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

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of

funds due the United States or the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Supervisor and such funds of the State of New Mexico shall be deposited as directed by the Land Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor, the Land Commissioner, the State Division, and the Unit Operator prior to the approval of this agreement by the Supervisor. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor, the Land Commissioner, and the State Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor, or the State Division; provided, however, that as to State lands all subsequent joinders must be approved by the Commissioner.

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

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

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

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

- (1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or
- (2) Lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement.
- (3) Provide for the independent operation of any part of such land that are not then included within a participating area established hereunder.

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

stances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

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

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

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

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

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

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

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

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

ATTEST:

YATES PETROLEUM CORPORATION

BY: _____

BY: _____

Address: _____

UNIT OPERATOR

STATE OF New Mexico)
COUNTY OF Chaves) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 197 , by _____ who is _____ of Yates Petroleum Corporation, a New Mexico (State of Incorp.) corporation, for and on behalf of said Corporation.

My Commission Expires: _____

Notary Public

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R-24-E

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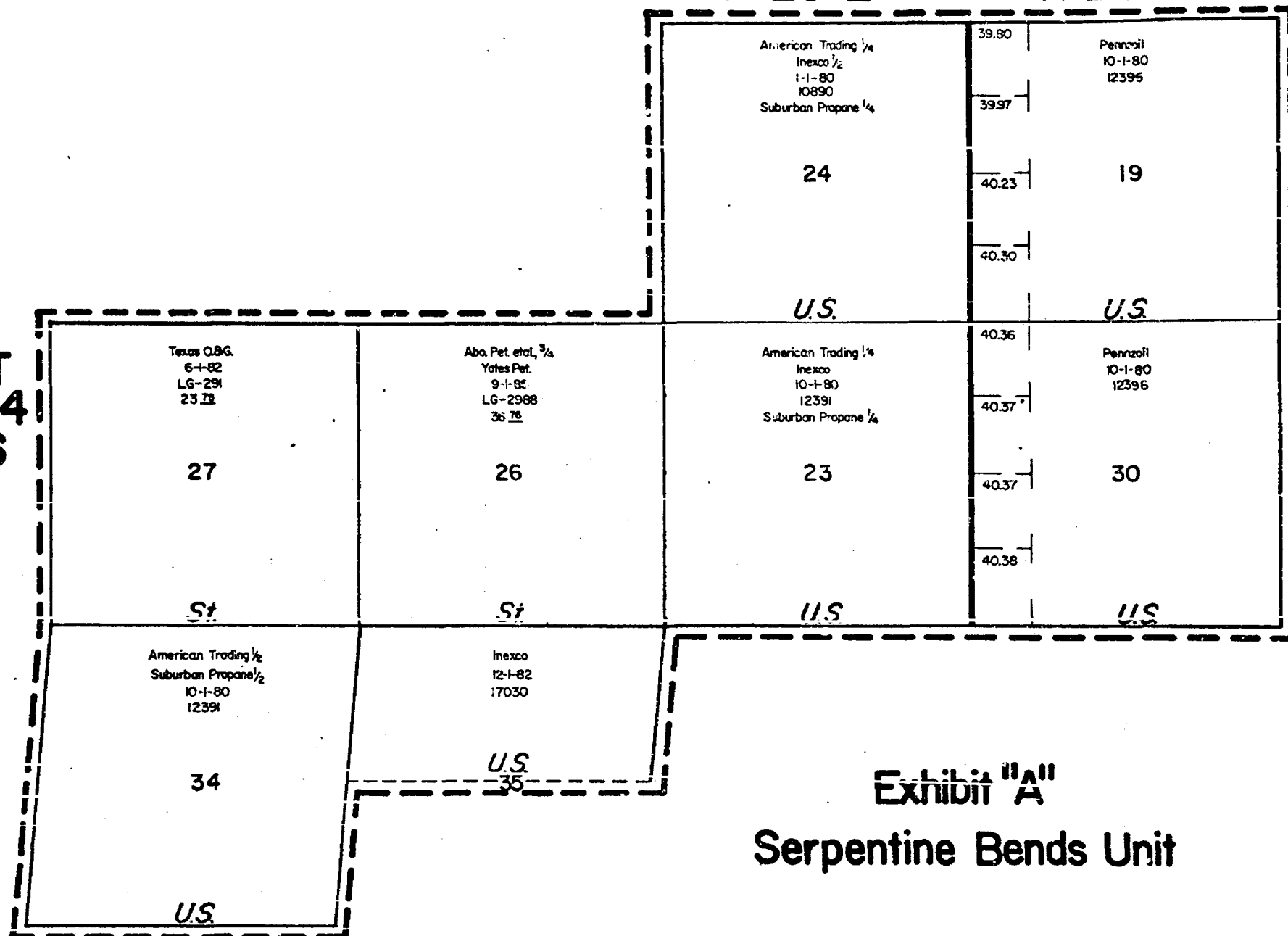


Exhibit "A"
Serpentine Bends Unit

----- Unit Outline

Exhibit "B" being prepared

ROUGH

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6780

Order No. R-6251

APPLICATION OF YATES PETROLEUM CORPORATION
FOR APPROVAL OF THE SERPENTINE BENDS
UNIT AGREEMENT, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on January 3,
19 80, at Santa Fe, New Mexico, before Examiner Richard L. Stamets

NOW, on this day of January, 19 80, the
Division Director, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

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

(2) That the applicant, Yates Petroleum Corporation,
seeks approval of the Serpentine Bends Unit Agreement
covering 4801.78 acres, more or less, of State and
4,802 Federal
and Fee lands described as follows:

EDDY COUNTY, NEW MEXICO
Township 24 South, Range 23 East, NMPH
Sections 24 through 27: All
" 28 : All
" 35 : N/2
Township 24 South, Range 24 East, NMPH
Sections 19: All
" 20: All

(3) That all plans of development and operation and creations,
expansions, or contractions of participating areas or expansions
or contractions of the unit area, should be submitted to the
Director of the Division for approval.

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

IT IS THEREFORE ORDERED:

(1) That the Serpentine Bends Unit Agreement is hereby approved.

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

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

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

(5) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for

State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Division immediately in writing of such termination.

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

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