

CASE NO.

7031

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

Unit Name MESA LEON UNIT- EXPLORATORY
Operator CORONADO EXPLORATION CORPORATION
County GUADALUPE COUNTY, NEW MEXICO

DATE	OCC CASE NO.	EFFECTIVE	TOTAL	STATE	FEDERAL	INDIAN-FEE	SEGREGATION	TERM
APPROVED	OCC ORDER NO.	DATE	ACREAGE				CLAUSE	
COMMISSIONER	COMMISSION	9-30-80	15,681.60	3,842.80	11,038.80	800.00	Yes	5yrs
	10-20-80							

UNIT AREA

TOWNSHIP 6 NORTH, RANGE 17 EAST, N.M.P.M.

Sec. 1, W/2, SE/4	Secs. 19, 20, 21, 22, 23; All
Secs 2, 3; All	Sec 24; W/2
Sec 4; S/2	Sec 26; N/2, SW/4
Sec 8; E/2, SW/4	Secs 27, 28, 29; All
Secs. 9, 10, 11, 12, 13,	Sec. 30; E/2
14, 15, 16, 17; All	Sec. 32; N/2
Sec 18; E/2	Sec. 33; N/2
	Sec 34; NW/4

TERMINATED

APP: 7/9/82 EFF: 6-24-82

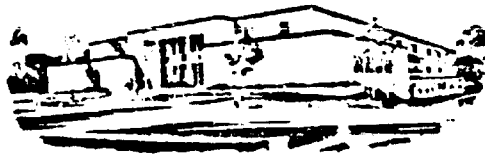
Unit Name MESA LEON UNIT-EXPLORATORY
 Operator CORONADO EXPLORATION CORPORATION
 County GUADALUPE COUNTY, NEW MEXICO

STATE TRACT NO.	LEASE NO.	INSTI- TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
17	L-6457	C.S.	2 3	6N 6N	17E 17E	A11 A11	9-25-80	1,282.80	-0-	Southwest Ventures, Inc.
18	L-6458	C.S.	10 11 16	6N 6N 6N	17E 17E 17E	N/2 N/2 A11	9-25-80	1,280.00	-0-	Southwest Ventures, Inc.
19	L-6459	C.S.	20 21 28	6N 6N 6N	17E 17E 17E	N/2, SW/4 NW/4 E/2	9-25-80	960.00	-0-	Southwest Ventures, Inc.
20	L-6460	C.S.	32	6N	17E	N/2	9-25-80	320.00	-0-	Southwest Ventures, Inc.

TERMINATED

APP: 7/1/82 EFF: 6-24-82

State of New Mexico



Commissioner of Public Lands

ALEX J. ARMIJO
COMMISSIONER

July 9, 1982

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

Cibola Energy Corporation
P.O. Box 1668
Albuquerque, New Mexico 87103

Re: Mesa Leon Unit Agreement
Guadalupe County, New Mexico
Termination

ATTENTION: Ms. Elizabeth T. La Croix

Gentlemen:

The Mesa Leon Unit Agreement, Chaves 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 Mesa Leon Unit Agreement after the Unit Well No. 1 was plugged and abandoned December 24, 1981. Inasmuch as you have not begun drilling a fourth well within the required six month period pursuant to section 9 of the Unit Agreement, the Mesa Leon Unit Agreement has been terminated effective as of June 24, 1982.

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/mw
encls.
cc:

OCD-Santa Fe, New Mexico
USMMS-Albuquerque, New Mexico
Administration

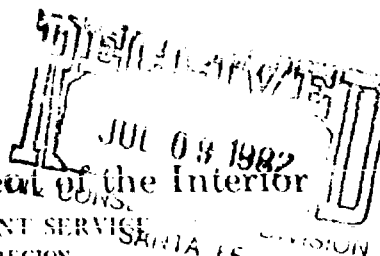
7031



IN REPLY
REFER TO

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
SOUTH CENTRAL REGION
505 MARQUETTE AVENUE, N.W., SUITE 815
ALBUQUERQUE, NEW MEXICO 87102



JUL 8 1982

Cibola Energy Corporation
Attention: Elizabeth T. La Croix
P. O. Box 1668
Albuquerque, New Mexico 87103

Gentlemen:

The Mesa Leon Unit Agreement, No. 14-08-0001-18441, Guadalupe County, New Mexico, was approved September 30, 1980, effective as of that date. 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.

The Mesa Leon #1 well was plugged and abandoned December 24, 1981, making the commencement of drilling operations on the second well due by June 24, 1982.

Inasmuch as the second unit test well was not commenced, the Mesa Leon Unit Agreement is considered to have terminated automatically as of June 24, 1982, pursuant to Section 9 of the unit agreement.

Sincerely yours,

(ORIG. SGD.) JAMES W. SHELTON

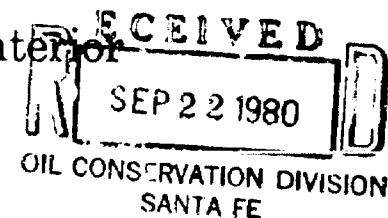
FOR Gene F. Daniel
Deputy Minerals Manager
Oil and Gas

cc:
BLM, Santa Fe
Comm. of Public Lands
NMOC



United States Department of the Interior

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



19 SEP 1980

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

Gentlemen:

Your application of September 10, 1980, filed with the Deputy Conservation Manager, Albuquerque, New Mexico with Coronado Exploration Corp. as unit operator, requests the designation of the Mesa Leon unit area, embracing 15,681.60 acres, more or less, Guadalupe County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act as amended.

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

The unit agreement submitted for the area designated should provide for a well to test the Basement Granite Formation, or to a depth of 4,500 feet. Your proposed use of the Form of Agreement for Unproved Areas will be accepted with the modifications requested in your application.

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

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

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

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

Sincerely yours,

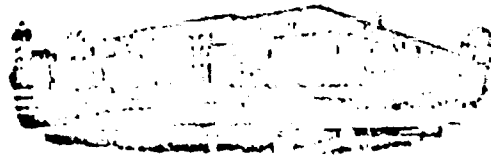
ORIGINAL SIGNED BY:

James W. Sutherland
Conservation Manager
For The Director

cc:- NMOCD, Santa Fe (ltr only)
Com. of Pub. Lands, Santa Fe (ltr only)

AAALopez: gem 9-18-60

State of New Mexico



Commissioner of Public Lands

September 25, 1980

ALEX J. ARMIJO
COMMISSIONER

P. O. Box 1148
SANTA FE, NEW MEXICO

Coronado Exploration Corporation
1005 Marquette N.W.
Albuquerque, New Mexico 87102

Re: Mesa Leon Unit
Guadalupe County, New Mexico

ATTENTION: Mr. Harvey E. Yates, Jr.

Gentlemen:

The Commissioner of Public Lands has this date approved the Mesa Leon Unit, Guadalupe County, New Mexico. Our approval is subject to like approval by the United States Geological Survey.

Enclosed are Five (5) Certificates of Approval.

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

This Certificate is issued with the understanding that you will obtain approval from the New Mexico Oil Conservation Division on this unit on or before November 1, 1980.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

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

AJA/RDC/s
encls.
cc:

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

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Coronado Exploration
Corporation for a unit agreement,
Guadalupe County, New Mexico.

CASE
7031

BEFORE: Daniel S. Nutter

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:

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

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 435-7409

I N D E X

PAMELA BACON

Direct Examination by Mr. Carr	3
Cross Examination by Mr. Nutter	8

E X H I B I T S

Applicant Exhibit One, Unit Agreement	5
Applicant Exhibit Two, Letter	5
Applicant Exhibit Three, Geological Report	6

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 MR. NUTTER: We'll call Case Number 7031.

2 MR. PADILLA: Application of Coronado
3 Exploration Corp. for a unit agreement, Guadalupe County,
4 New Mexico.

5 MR. CARR: Mr. Examiner, I am William F.
6 Carr, Campbell and Black, P. A., Santa Fe, appearing on behalf
7 of the applicant. I have one witness who needs to be sworn.

8
9 (Witness sworn.)

10
11 PAMELA BACON

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

14
15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q Will you state your name and place of resi-
18 dence?

19 A Pamela Bacon. I live in Albuquerque, New
20 Mexico.

21 Q By whom are you employed and in what capa-
22 city?

23 A I'm employed as a geologist by Coronado Ex-
24 ploration Corporation.

25 Q Have you previously testified before this

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Commission, had your credentials accepted and made a matter
2 of record?

3 A No.

4 Q Will you briefly summarize for the Examiner
5 your educational background and your work experience?

6 A I earned a Bachelor of Science degree in
7 geological sciences, geophysics option, from the University
8 of Texas at Austin. I worked four months as a seismologist
9 for Geophysical Services, Incorporated, in Dallas, and am cur-
10 rently employed as a geologist for Coronado.

11 Q And when did you graduate from the University
12 of Texas?

13 A In August, 1979.

14 Q Are you familiar with the application in
15 this case?

16 A Yes, I am.

17 Q Are you familiar with the lands that consti-
18 tute the subject matter of this application?

19 A Yes, I am.

20 MR. CARR: Are the witness qualifications
21 as a geologist acceptable?

22 MR. NUTTER: Yes, they are.

23 Q Will you briefly state what Coronado Explor-
24 ation Corporation is seeking with this application?

25 A Approval of an exploratory unit in Guadalupe

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1 County, New Mexico.

2 Q Have you prepared or had prepared under
3 your direction, certain exhibits for introduction in this
4 case?

5 A Yes.

6 Q Will you refer to what has been marked
7 for identification as Applicant's Exhibit Number One and ex-
8 plain what this is?

9 A Exhibit One is the unit agreement for the
10 Mesa Leon Unit.

11 Q Has this agreement been approved as to
12 form by the State Land Office?

13 A Yes, it has.

14 Q And is a copy of their letter giving such
15 approval marked Applicant's Exhibit Number Two?

16 A Yes, this is a letter containing approval.

17 Q Has the Mesa Leon Unit Area been designated
18 by the USGS as an area logically suited for unit development?

19 A Yes.

20 Q And when was that approval received?

21 A Yesterday; it was confirmed by telephone.

22 Q What is the percentage of commitment of
23 acreage to the Mesa Leon Unit agreement?

24 A 87 -- or 85-1/2 percent.

25 Q Is that working interest or royalty?

1 A Oh, 85-1/2 percent working interest and
2 85-1/2 percent royalty interest, and there's no overriding
3 royalty.

4 Q Is this sufficient acreage to afford ef-
5 fective control of unit operations?

6 A Yes.

7 Q And is it the desire of Coronado Explora-
8 tion Corporation to be designated unit operator?

9 A Yes.

10 Q Will you now refer to what has been marked
11 for identification as Coronado Exhibit Number Three and review
12 the material contained therein for Mr. Nutter?

13 A Okay. This is the geological report, Ex-
14 hibit Number Three. Within the report is contained a structure
15 map on the Glorieta Sandstone, the shallow horizon, made from
16 gamma ray logs taken in windmill holes in the area; control
17 points are marked in orange.

18 Two cross sections were made across that
19 area; one basically north/south and one basically east/west.
20 This happens to be the north/south cross section, showing the
21 structure again.

22 From the shallow structure deeper struc-
23 ture was extrapolated and a structure map on that -- on the
24 Pennsylvanian horizon is included.

25 Using the potentiometric (sic) surface map

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1 in the area on the Yeso formation and as well as the estimated
2 potentiometric surface. I've drawn a cross section across
3 the Pennsylvanian structure and from the estimated potentia-
4 metric surface I got a gas/water surface, and from there --

5 Q Now you were referring at that point to
6 what is marked cross section C-C'?

7 A C-C', right.

8 Q All right.

9 A And from there I drew a map indicating
10 location of pay.

11 Q And that indication of pay is marked in
12 your exhibit as Figure No. 7.

13 A As Figure 7, In addition to the figures
14 there is a report which you may peruse.

15 Q Which is the initial document in this
16 exhibit?

17 A Uh-huh.

18 Q Is there also a plat in this exhibit
19 showing the area which you propose to have included within
20 the Mesa Leon Unit area?

21 A Yes. Figure 11 is an outline of the unit
22 and it's indicated where it is by township and range in
23 Guadalupe County.

24 Q And what is your primary objective in
25 developing this unit?

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 A. Primary objective is Pennsylvanian.

2 Q And what are the plans of Coronado Explor-

3 ation Corporation for development of this unit?

4 A. We intend to drill a test well immediately

5 and within six months of completion of that well, to drill

6 another.

7 Q In your opinion will approval of this

8 unit be in the interest of conservation, the prevention of

9 waste, and the protection of correlative rights?

10 A. Yes.

11 Q Was Exhibit Number Three prepared by you?

12 A. Yes.

13 Q Have you reviewed Exhibits One and Two

14 and are they accurate?

15 A. Yes.

16 MR. CARR: At this time, Mr. Examiner, we

17 would offer into evidence Applicant's Exhibits One through

18 Three.

19 MR. NUTTER: Applicant's Exhibits One

20 through Three will be admitted.

21 MR. CARR: I have nothing further on

22 direct.

23

24 CROSS EXAMINATION

25 BY MR. NUTTER:

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Q Ms. Bacon, what does the unit agreement
2 call for as far as drilling to discovery is concerned?

3 A Calls for drilling to 4500 feet or dis-
4 covery of paying -- unitized substances in paying quantities,
5 and testing younger beds.

6 Q Or until granite has been --

7 A Or until granite has been found, uh-huh .

8 Q But 4500 feet is the maximum depth re-
9 quired under the unit --

10 A Yes.

11 Q -- agreement? Where will the initial
12 well be drilled?

13 A It will be drilled in Section 22 of 6
14 North, 17 East, in Guadalupe County. Let me make sure on
15 this. Okay, 660 feet from the north line and 650 feet from
16 the west line.

17 Q That would put it on your Figure 11 in
18 the section below the word "Bond State" in the northwest
19 northwest corner of that, would it not?

20 A Not directly below but one section to the
21 east, in Section 22.

22 Q Okay, that puts it beneath the word --
23 beneath the period following development incorporation, I
24 guess, in the section below that.

25 A Okay, I'm sorry. No, you -- you had it

1 right originally. It's one section to the east and one section
2 below that section where the Bond State well is located.

3 Q Right, below the word "bond".

4 A So below the word "bond."

5 Q Okay.

6 A Also, the drilling site is noted on the --
7 on the Mylar, which shows the location of Pennsylvanian pay.
8 That's marked as Figure 7.

9 Q And if that were inlaid on this other map
10 it would --

11 A It would show the same.

12 Q That would be where it would be. Okay.

13 MR. NUTTER: Are there any further ques-
14 tions of the witness? She may be excused.

15 Do you have anything further, Mr. Carr?

16 MR. CARR: Nothing further, Mr. Nutter.

17 MR. NUTTER: Does anyone have anything
18 they wish to offer in Case Number 7031?

19 We'll take the case under advisement.

20
21 (Hearing concluded.)
22
23
24
25

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREPY CERTIFY that
the foregoing Transcript of Hearing before the Oil Conserva-
tion 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.

Sally W. Boyd C.S.R.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is
a correct and true copy of the transcript in
the hearing held on 10/1 1980
heard by 10/1 1980
[Signature], Examiner
Oil Conservation Division



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
MEMORANDUM

LARRY KERFOE
SECRETARY

October 23, 1980

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-3434

Mr. William F. Carr
Campbell and Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico

Re: CASE NO. 7031
ORDER NO. R-6490

Applicant:

~~Coronado Exploration Corp.~~

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/fd

Copy of order also sent to:

Hobbs OCD _____ x
Artesia OCD _____ x
Aztec OCD _____ x

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. 7031
Order No. R-6490

APPLICATION OF CORONADO EXPLORATION
CORP. FOR APPROVAL OF THE MESA LEON
UNIT AGREEMENT, GUADALUPE COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 1, 1980, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 20th day of October, 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, Coronado Exploration Corp., seeks approval of the Mesa Leon Unit Agreement covering 15,681.60 acres, more or less, of State, Federal and fee lands described as follows:

GUADALUPE COUNTY, NEW MEXICO
TOWNSHIP 6 NORTH, RANGE 17 EAST, NMPM
Section 1: NW/4 and S/2
Sections 2 and 3: All
Section 4: S/2
Section 8: NE/4 and S/2
Sections 9 through 17: All
Section 18: E/2
Sections 19 through 23: All
Section 24: W/2
Section 26: N/2 and SW/4
Sections 27, 28, and 29: All

TOWNSHIP 6 NORTH, RANGE 17 EAST, NMPM con'd

Section 30: E/2
Section 32: N/2
Section 33: N/2
Section 34: NW/4

(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 Mesa Leon 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

-3-

Case No. 7031
Order No. R-6490

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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



Joe D. Ramey
JOE D. RAMEY,
Director

SEAL

dr/

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Coronado Exploration
Corporation for a unit agreement,
Guadalupe County, New Mexico.

CASE
7031

BEFORE: Daniel S. Nutter

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:

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

SALLY W. BOYD, C.S.R.

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Phone (505) 435-7409

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I N D E X

PAMELA BACON

Direct Examination by Mr. Carr	3
Cross Examination by Mr. Nutter	8

E X H I B I T S

Applicant Exhibit One, Unit Agreement	5
Applicant Exhibit Two, Letter	5
Applicant Exhibit Three, Geological Report	6

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 MR. NOTTER: We'll call Case Number 7031.

2 MR. PADILLA: Application of Coronado
3 Exploration Corp. for a mill agreement, Guadalupe County,
4 New Mexico.

5 MR. CARR: Mr. Examiner, I am William F.
6 Carr, Campbell and Black, P. A., Santa Fe, appearing on behalf
7 of the applicant. I have one witness who needs to be sworn.

8
9 (Witness sworn.)

10
11 PAMELA BACON

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

14
15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q Will you state your name and place of resi-
18 dence?

19 A Pamela Bacon. I live in Albuquerque, New
20 Mexico.

21 Q By whom are you employed and in what capa-
22 city?

23 A I'm employed as a geologist by Coronado Ex-
24 ploration Corporation.

25 Q Have you previously testified before this

SALLY W. BOYD, C.S.R.

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Phone (505) 455-7409

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1 Commission, had your credentials accepted and made a matter
2 of record?

3 A. No.

4 Q. Will you briefly summarize for the Examiner
5 your educational background and your work experience?

6 A. I earned a Bachelor of Science degree in
7 geological sciences, geophysics option, from the University
8 of Texas at Austin. I worked four months as a seismologist
9 for Geophysical Services, Incorporated, in Dallas, and am cur-
10 rently employed as a geologist for Coronado.

11 Q. And when did you graduate from the University
12 of Texas?

13 A. In August, 1979.

14 Q. Are you familiar with the application in
15 this case?

16 A. Yes, I am.

17 Q. Are you familiar with the lands that consti-
18 tute the subject matter of this application?

19 A. Yes, I am.

20 MR. CARR: Are the witness qualifications
21 as a geologist acceptable?

22 MR. NUTTER: Yes, they are.

23 Q. Will you briefly state what Coronado Explor-
24 ation Corporation is seeking with this application?

25 A. Approval of an exploratory unit in Guadalupe

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1 County, New Mexico.

2 Q Have you prepared or had prepared under
3 your direction, certain exhibits for introduction in this
4 case?

5 A Yes.

6 Q Will you refer to what has been marked
7 for identification as Applicant's Exhibit Number One and ex-
8 plain what this is?

9 A Exhibit One is the unit agreement for the
10 Mesa Leon Unit.

11 Q Has this agreement been approved as to
12 form by the State Land Office?

13 A Yes, it has.

14 Q And is a copy of their letter giving such
15 approval marked Applicant's Exhibit Number Two?

16 A Yes, this is a letter containing approval.

17 Q Has the Mesa Leon Unit Area been designated
18 by the USGS as an area logically suited for unit development?

19 A Yes.

20 Q And when was that approval received?

21 A Yesterday; it was confirmed by telephone.

22 Q What is the percentage of commitment of
23 acreage to the Mesa Leon Unit agreement?

24 A 87 -- or 85-1/2 percent.

25 Q Is that working interest or royalty?

1 A Oh, 85-1/2 percent working interest and
2 85-1/2 percent royalty interest, and there's no overriding
3 royalty.

4 Q Is this sufficient acreage to afford ef-
5 fective control of unit operations?

6 A Yes.

7 Q And is it the desire of Coronado Explora-
8 tion Corporation to be designated unit operator?

9 A Yes.

10 Q Will you now refer to what has been marked
11 for identification as Coronado Exhibit Number Three and review
12 the material contained therein for Mr. Nutter?

13 A Okay. This is the geological report, Ex-
14 hibit Number Three. Within the report is contained a structure
15 map on the Glorieta Sandstone, the shallow horizon, made from
16 gamma ray logs taken in windmill holes in the area; control
17 points are marked in orange.

18 Two cross sections were made across that
19 area; one basically north/south and one basically east/west.
20 This happens to be the north/south cross section, showing the
21 structure again.

22 From the shallow structure deeper struc-
23 ture was extrapolated and a structure map on that -- on the
24 Pennsylvanian horizon is included.

25 Using the potentiometric (sic) surface map

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1 in the area on the Yaso formation and as well as the estimated
2 potentiometric surface. I've drawn a cross section across
3 the Pennsylvanian structure and from the estimated potentia-
4 metric surface I got a gas/water surface, and from there --

5 Q Now you were referring at that point to
6 what is marked cross section C-C'?

7 A C-C', right.

8 Q All right.

9 A And from there I drew a map indicating
10 location of pay.

11 Q And that indication of pay is marked in
12 your exhibit as Figure No. 7.

13 A As Figure 7. In addition to the figures
14 there is a report which you may peruse.

15 Q Which is the initial document in this
16 exhibit?

17 A Uh-huh.

18 Q Is there also a plat in this exhibit
19 showing the area which you propose to have included within
20 the Mesa Leon Unit area?

21 A Yes. Figure 11 is an outline of the unit
22 and it's indicated where it is by township and range in
23 Guadalupe County.

24 Q And what is your primary objective in
25 developing this unit?

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1 A Primary objective is Pennsylvanian.
2 Q And what are the plans of Coronado Explor-
3 ation Corporation for development of this unit?
4 A We intend to drill a test well immediately
5 and within six months of completion of that well, to drill
6 another.
7 Q In your opinion will approval of this
8 unit be in the interest of conservation, the prevention of
9 waste, and the protection of correlative rights?
10 A Yes.
11 Q Was Exhibit Number Three prepared by you?
12 A Yes.
13 Q Have you reviewed Exhibits One and Two
14 and are they accurate?
15 A Yes.
16 MR. CARR: At this time, Mr. Examiner, we
17 would offer into evidence Applicant's Exhibits One through
18 Three.
19 MR. NUTTER: Applicant's Exhibits One
20 through Three will be admitted.
21 MR. CARR: I have nothing further on
22 direct.
23
24 CROSS EXAMINATION
25 BY MR. NUTTER:

1 Q Ms. Bacon, what does the unit agreement
2 call for as far as drilling to discovery is concerned?

3 A Calls for drilling to 4500 feet or dis-
4 covery of paying -- unitized substances in paying quantities,
5 and testing younger beds.

6 Q Or until granite has been --

7 A Or until granite has been found, uh-huh.

8 Q But 4500 feet is the maximum depth re-
9 quired under the unit --

10 A Yes.

11 Q -- agreement? Where will the initial
12 well be drilled?

13 A It will be drilled in Section 22 of 6
14 North, 17 East, in Guadalupe County. Let me make sure on
15 this. Okay, 660 feet from the north line and 650 feet from
16 the west line.

17 Q That would put it on your Figure 11 in
18 the section below the word "Bond State" in the northwest
19 northwest corner of that, would it not?

20 A Not directly below but one section to the
21 east, in Section 22.

22 Q Okay, that puts it beneath the word --
23 beneath the period following development incorporation, I
24 guess, in the section below that.

25 A Okay, I'm sorry. No, you -- you had it

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1 right originally. It's one section to the east and one section
 2 below that section where the Bond State well is located.

3 Q Right, below the word "Bond".

4 A So below the word "Bond."

5 Q Okay.

6 A Also, the drilling site is noted on the --
 7 on the Mylar, which shows the location of Pennsylvanian pay.
 8 That's marked as Figure 7.

9 Q And if that were inlaid on this other map
 10 it would --

11 A It would show the same.

12 Q That would be where it would be. Okay.

13 MR. NUTTER: Are there any further ques-
 14 tions of the witness? She may be excused.

15 Do you have anything further, Mr. Carr?

16 MR. CARR: Nothing further, Mr. Nutter.

17 MR. NUTTER: Does anyone have anything
 18 they wish to offer in Case Number 7031?

19 We'll take the case under advisement.

20

21 (Hearing concluded.)

22

23

24

25

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREPY CERTIFY that
the foregoing Transcript of Hearing before the Oil Conserva-
tion 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.

SALLY W. BOYD, C.S.R.
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Santa Fe, New Mexico 87501
Phone (505) 433-7409

I do hereby certify that the foregoing is
a complete and correct transcript of the hearing
heard by me on 10/1 1981
80
[Signature], Examiner
Oil Conservation Division

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 Mesa Leon Unit Area, State of New Mexico, County of Guadalupe.

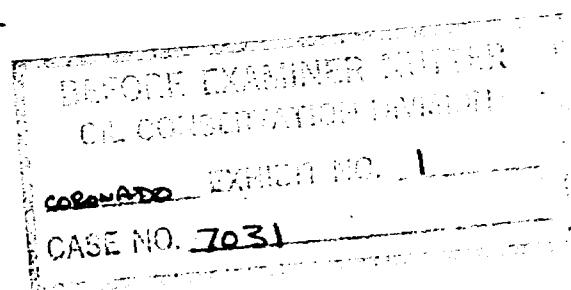
B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

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
MESA LEON UNIT AREA
GUADALUPE COUNTY
STATE OF NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 1st day of September,
1980, 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 _____
_____ Mesa Leon _____ 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 promises 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:

<u>Township Six North, Range Seventeen East, N. M. P. M.</u>	
Sec. 1; W $\frac{1}{2}$, SE $\frac{1}{4}$	Secs. 19, 20, 21, 22, 23; All
Secs. 2, 3; All	Sec. 24; W $\frac{1}{2}$
Sec. 4; S $\frac{1}{2}$	Sec. 26; N $\frac{1}{2}$, SW $\frac{1}{4}$
Sec. 8; E $\frac{1}{2}$, SW $\frac{1}{4}$	Secs. 27, 28, 29; All
Secs. 9, 10, 11, 12, 13,	Sec. 30; E $\frac{1}{2}$
14, 15, 16, 17; All	Sec. 32; N $\frac{1}{2}$
Sec. 18; E $\frac{1}{2}$	Sec. 33; N $\frac{1}{2}$
	Sec. 34; NW $\frac{1}{4}$

Guadalupe County, New Mexico
Containing 15,680.00 acres,
more or less.

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 as 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. Coronado Exploration Corp.

is hereby designated as Unit Operator and by operation 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 in 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." Each 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 BASEMENT GRANITE HAS BEEN PENETRATED AND ALL BEDS OF YOUNGER 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 4,500 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 substance 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 lessors 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

ment may be terminated at any time by not more 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.

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 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:

By: Donald R. Hoff Coronado Exploration Corp
Secretary BY: Harvey C. Yates, Jr.
Address:

UNIT OPERATOR

STATE OF New Mexico)
COUNTY OF Bernalillo) SS.

The foregoing instrument was acknowledged before me this 25th day of September, 1980, by Harvey C. Yates, Jr. who is President of Coronado Exploration (State of Incorp.) corporation, for and on behalf of said Corporation.

My Commission Expires:

April 22, 1984

Catherine Robinson
Notary Public

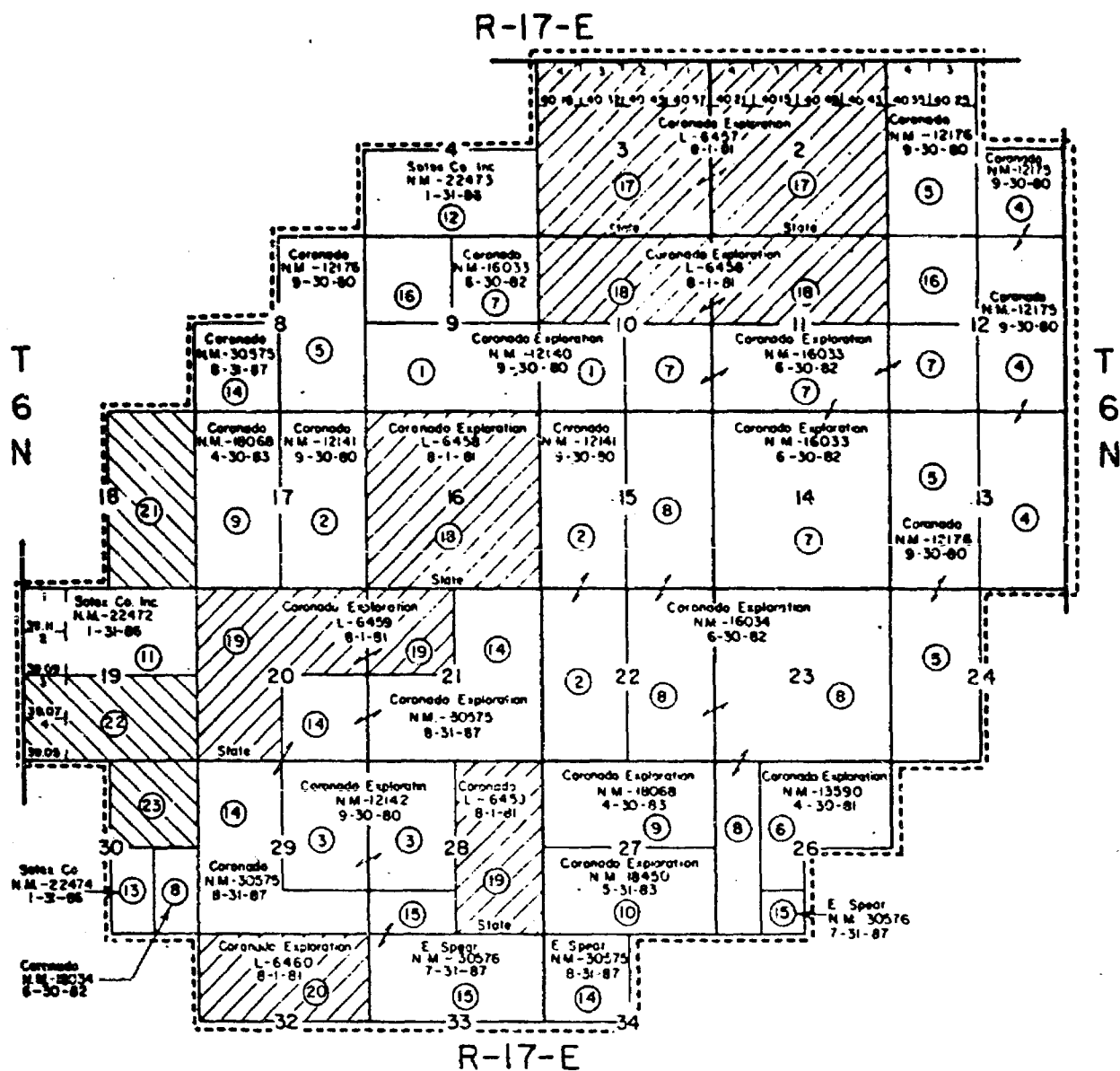


EXHIBIT "A"
MESA LEON UNIT AREA
GUADALUPE COUNTY, NEW MEXICO

----- Unit Outline

○ Track Number

□ Federal Lands
 11,038.80 Acres, 70.39%

▨ State of New Mexico Lands
 3,842.80 Acres, 24.51%

▩ Fee Lands
 800.00 Acres, 5.10%

EXHIBIT "B"

SCHEDULE SHOWING ALL LAND AND LEASES WITHIN THE MESA LEON UNIT AREA GUADALUPE COUNTY, NEW MEXICO

FEDERAL LANDS

All Lands are in T-6-N, R-17-E, NMPM

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD AND PERCENTAGE	OVERRIDE ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
Sec. 9: SW Sec. 10: SW		480.00	NM-12140 9-30-80	U.S.A. 12.5	Phil H. Weldon	All	
Sec. 15: NW Sec. 17: E/4 Sec. 22: NW		960.00	NM-12141 9-30-80	U.S.A. 12.5	Phil H. Weldon	All	
Sec. 28: NW, N/4SW, NW Sec. 29: NW, NW/4SW		480.00	NM-12142 9-30-80	U.S.A. 12.5	Phil H. Weldon	All	
Sec. 1: SW Sec. 12: SW Sec. 13: SW		800.00	NM-12175 9-30-80	U.S.A. 12.5	Eugene Perez, Jr.	All	

Sec. 1: Lots 3,4, SWK	1280.60	NM-12176	U.S.A.	Eugene Perez, Jr.	All
Sec. 3: SWK		9-30-80	12.5		
Sec. 13: W3					
Sec. 24: W3					
Sec. 26: NEA, E3SWK, NEASW	280.00	NM-13590	U.S.A.	Jack D. Dillon	All
		4-30-81	12.5		
Sec. 3: NEA	1440.00	NM-16035	U.S.A.	Phil H. Weldon	All
Sec. 10: SE7		6-30-82	12.5		
Sec. 11: SW					
Sec. 11: ALL					
Sec. 12: SW					
Sec. 15: E4	1520.00	NM-16034	U.S.A.	Phil H. Weldon	All
Sec. 22: E4		6-30-82	12.5		
Sec. 23: ALL					
Sec. 26: W3SW					
Sec. 30: E3SEK					
Sec. 17: W3	640.00	NM-18068	U.S.A.	Phil H. Weldon	All
Sec. 27: W3		4-30-83	12.5		
Sec. 27: SW	320.00	NM-18450	U.S.A.	Phil H. Weldon	All
		5-31-83	12.5		
Sec. 19: Lots 1,2, E3SWK, NEK	318.20	NM-22472	U.S.A.	Sotexco, Inc.	All
		1-31-86	12.5		

Sec. 4: SY	320.00	NM-22473 1-31-86	U.S.A. 12.5	Sotexco, Inc.	All
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Sec. 33: WISEX	80.00	NM-22474 1-31-86	U.S.A. 12.5	Sotexco, Inc.	All
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Sec. 3: SMX	360.00	NM-30575 8-31-87	U.S.A. 12.5	Margaret J. Perez Bob H. Byrd E. L. Chilton, Jr. Phil H. Weldon	25.0 25.0 25.0 25.0
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Sec. 33: SEEX	420.00	NM-30576 7-31-87	U.S.A. 12.5	Ellie Spear	All
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Sec. 12: NMX	320.00	Open			
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Total 11,038.80 Acres Federal Lands

State of New Mexico Lands

Sec. 2: All	1282.80	L-6457 8-1-81	State 12.5	Southwest Ventures, Inc.	All
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Sec. 10: NMX	1280.00	L-6458 8-1-81	State 12.5	Southwest Ventures, Inc.	All
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Sec. 20: N¹/₂ SW¹/₄ 960.00

L-6459
8-1-81

State
12.5

Southwest Ventures,
Inc.

All

Sec. 32: NW 320.00

L-6460
8-1-81

State
12.5

Southwest Ventures,
Inc.

All

Total 3,842.80 Acres State of New Mexico Lands

Patented (Fee) Lands

Sec. 13: SE 320.00

Sec. 19: SW 320.00

Sec. 30: NW 160.00

Total 800.00 Acres Fee Lands

Recapitulation

11,038.80 Acres Federal Lands	70.39%
3,842.80 Acres State Lands	24.51%
800.00 Acres Fee Lands	5.10%
<u>15,681.60</u>	<u>100.00%</u>

CONSENT AND RATIFICATION
MESA LEON UNIT AGREEMENT
GUADALUPE 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 Mesa Leon Unit Area embracing lands situated in Guadalupe County, New Mexico, which said Agreement is dated the 1st day of September, 1980, 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.

Southwest Venture, Inc. 17, 18, 19, 20
By
Robert H. Byrd, Secretary

INDIVIDUAL

STATE OF New Mexico)
COUNTY OF Bernalillo) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this 25th day of September, 1980, by Stephen Lee, President of Southwest Venture, Inc. a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

April 22 1982

Notary Public

CONSENT AND RATIFICATION

MESA LEON UNIT AGREEMENT

GUADALUPE 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 Mesa Leon Unit Area embracing lands situated in Guadalupe County, New Mexico, which said Agreement is dated the 1st day of September, 1980, 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.

Jack J. Dillon 6
Robert L. Byrd 14

INDIVIDUAL

STATE OF New Mexico)
COUNTY OF Brewster) SS.

The foregoing instrument was acknowledged before me this 25 day of September, 1980, by Jack Dillon.

My Commission Expires:

April 22, 1982 Paul R. A. Gentry
Notary Public

CORPORATE

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, President of _____ a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico)

County of Bernalillo)

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Bob Byed

Lawrence A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____)

County of _____)

The foregoing instrument was acknowledged before me this

_____ day of _____, 19__ by _____

Notary Public

My Commission expires _____, 19__.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____)

County of _____)

The foregoing instrument was acknowledged before me this

_____ day of _____, 19__ by _____

Notary Public

My Commission expires _____, 19__.

CONSENT AND RATIFICATION
MESA LEON UNIT AGREEMENT
GUADALUPE 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 Mesa Leon Unit Area embracing lands situated in Guadalupe County, New Mexico, which said Agreement is dated the 1st day of September, 1980, 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.

<u>Paul H. Shella</u> 1,2,3,7,8,9,10,14	<u>[Signature]</u> 4,5,14,22
<u>[Signature]</u> 1,2,3,7,8,9,10,14	<u>Margaret D. Perry</u> 4,5,14,22
<u>E. L. Chilton Jr</u> 14	<u>Douglas L. Byrd</u> 14

INDIVIDUAL

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, President of _____ a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Phil V. Weldon

Laurie A. Gullerby
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Koretta A. Weldon

Laurie A. Gullerby
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by E. A. Chilton, Jr

Laurie A. Gullerby
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Eugene Perry

Raunio A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Margaret A. Perry

Raunio A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

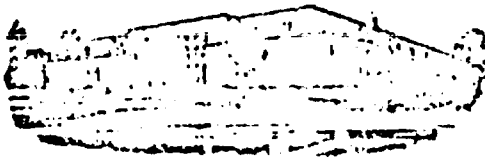
The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Dixie L. Byrd

Raunio A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

State of New Mexico



Commissioner of Public Lands

September 25, 1980

ALEX J. ARMIJO
COMMISSIONER

P. O. Box 1148
SANTA FE, NEW MEXICO

Coronado Exploration Corporation
1005 Marquette N.W.
Albuquerque, New Mexico 87102

Re: Mesa Leon Unit
Guadalupe County, New Mexico

ATTENTION: Mr. Harvey E. Yates, Jr.

Gentlemen:

The Commissioner of Public Lands has this date approved the Mesa Leon Unit, Guadalupe County, New Mexico. Our approval is subject to like approval by the United States Geological Survey.

Enclosed are Five (5) Certificates of Approval.

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

This Certificate is issued with the understanding that you will obtain approval from the New Mexico Oil Conservation Division on this unit on or before November 1, 1980.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

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

AJA/RDG/s
encls.
cc:

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

BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
CORONADO	EXHIBIT NO. <u>2</u>
CASE NO. <u>7031</u>	

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 Mesa Leon Unit Area, State of New Mexico, County of Guadalupe.

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 _____

BEFORE EXAMINER HUTCHER	
OIL CONSERVATION DIVISION	
Coronado	EXHIBIT NO. 1
CASE NO. 7031	

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
MESA LEON UNIT AREA
GUADALUPE COUNTY
STATE OF NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 1st day of September,
1980, 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 _____
Mesa Leon 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 promises 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:

<u>Township Six North, Range Seventeen East, N. M. P. M.</u>	
Sec. 1; W $\frac{1}{2}$, SE $\frac{1}{4}$	Secs. 19, 20, 21, 22, 23; All
Secs. 2, 3; All	Sec. 24; W $\frac{1}{2}$
Sec. 4; S $\frac{1}{2}$	Sec. 26; N $\frac{1}{2}$, SW $\frac{1}{4}$
Sec. 8; E $\frac{1}{2}$, SW $\frac{1}{4}$	Secs. 27, 28, 29; All
Secs. 9, 10, 11, 12, 13,	Sec. 30; E $\frac{1}{2}$
14, 15, 16, 17; All	Sec. 32; N $\frac{1}{2}$
Sec. 18; E $\frac{1}{2}$	Sec. 33; N $\frac{1}{2}$
	Sec. 34; NW $\frac{1}{4}$

Guadalupe County, New Mexico
Containing 15,680.00 acres,
more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentities of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all 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 as 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. Coronado Exploration Corp.

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 in 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." Each 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 BASEMENT GRANITE HAS BEEN PENETRATED AND ALL BEDS OF YOUNGER 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 4,500 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 substance 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. Thereaft 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. 731-734): "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

ment 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.

37. 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:

By: [Signature] Coronado Exploration Corp
Secretary BY: [Signature]
Address:

UNIT OPERATOR

STATE OF New Mexico)
COUNTY OF Bernalillo) SS.

The foregoing instrument was acknowledged before me this 25th day of September, 1980, by Harvey C. Yates, Jr. who is President of Coronado Exploration (State of Incorp.) corporation, for and on behalf of said Corporation.

My Commission Expires:

April 22, 1984

[Signature]
Notary Public

----- Unit Outline

○ Track Number

□ Federal Lands
11,038.80 Acres, 70.39%

▨ State of New Mexico Lands
3,842.80 Acres, 24.51%

▨ Fee Lands
800.00 Acres, 5.10%

EXHIBIT "B"

SCHEDULE SHOWING ALL LAND AND LEASES WITHIN THE MESA LEON UNIT AREA GUADALUPE COUNTY, NEW MEXICO

FEDERAL LANDS

All lands are in T-6-N, R-17-E, NMPM

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
Sec. 9: SW Sec. 10: SW		480.00	NM-12140 9-30-80	U.S.A. 12.5	Phil H. Weldon	All	
Sec. 15: NW Sec. 17: E/2 Sec. 22: NW		960.00	NM-12141 9-30-80	U.S.A. 12.5	Phil H. Weldon	All	
Sec. 28: NW/4, N/4SW/4 Sec. 29: NE/4, N/4SE/4		480.00	NM-12142 9-30-80	U.S.A. 12.5	Phil H. Weldon	All	
Sec. 1: SE/4 Sec. 12: E/2 Sec. 13: E/2		800.00	NM-12175 9-30-80	U.S.A. 12.5	Eugene Perez, Jr.	All	

Sec. 1: Lots 3,4,SVX SVXSVX	1280.60	NM-12176 9-30-80	U.S.A. 12.5	Eugene Perez, Jr.	All
Sec. 3: EVX					
Sec. 13: WY					
Sec. 24: WY					
Sec. 26: NEA, E/SVX, NEXSVX	280.00	NM-13590 4-30-81	U.S.A. 12.5	Jack D. Dillon	All
Sec. 8: NEA	1440.00	NM-16033 6-30-82	U.S.A. 12.5	Phil H. Weldon	All
Sec. 10: SEV					
Sec. 11: SVX					
Sec. 14: ALL					
Sec. 12: SVX					
Sec. 15: EV	1520.00	NM-16034 6-30-82	U.S.A. 12.5	Phil H. Weldon	All
Sec. 23: ALL					
Sec. 25: WY					
Sec. 28: WY					
Sec. 30: EVSEV					
Sec. 7: WY	640.00	NM-18068 4-30-83	U.S.A. 12.5	Phil H. Weldon	All
Sec. 27: WY					
Sec. 27: SVX	320.00	NM-18450 5-31-83	U.S.A. 12.5	Phil H. Weldon	All
Sec. 19: Lots 1,2,E/SVX, NEX	318.20	NM-22472 1-31-86	U.S.A. 12.5	Sotexco, Inc.	All

Sec. 4: S½ 320.00 NM-22473 U.S.A. 12.5 Sotexco, Inc. All

Sec. 20: W½ 80.00 NM-22474 U.S.A. 12.5 Sotexco, Inc. All

Sec. 2: SW¼ 360.00 NM-30575 U.S.A. 12.5 Margaret J. Perez 25.0
Sec. 20: SE¼ 25.0 Bob H. Byrd 25.0
Sec. 21: E½, SW¼ 25.0 E. L. Chilton, Jr. 25.0
Sec. 22: NW¼, S½SE¼ 25.0 Phil H. Weldon 25.0
Sec. 24: NW¼

Sec. 2: SE¼ 420.00 NM-30576 U.S.A. 12.5 Eddie Spear All
Sec. 20: SE¼ 25.0
Sec. 21: SE¼ 25.0
Sec. 22: NW¼

Sec. 2: NW¼ 320.00 Open

Total 11,038.80 Acres Federal Lands

State of New Mexico Lands

Sec. 2: All 1282.80 L-6457 State 12.5 Southwest Ventures, Inc. All
Sec. 3: All

Sec. 10: M½ 1280.00 L-6458 State 12.5 Southwest Ventures, Inc. All
Sec. 11: M½
Sec. 16: All

Sec. 20: N¹/₄ SW¹/₄
 Sec. 21: N¹/₄ SW¹/₄
 Sec. 22: SW¹/₄

960.00

L-6459
 8-1-81

State
 12.5

Southwest Ventures,
 Inc.

All

Sec. 32: N¹/₄

320.00

L-6460
 8-1-81

State
 12.5

Southwest Ventures,
 Inc.

All

Sec. 13: E¹/₄

320.00

Patented (Fee) Lands

Sec. 19: SW¹/₄

320.00

Sec. 30: NEX

160.00

Total 3,842.80 Acres State of New Mexico Lands

Total 800.00 Acres Fee Lands

Recapitulation

11,038.80 Acres Federal Lands	70.39%
3,842.80 Acres State Lands	24.51%
800.00 Acres Fee Lands	5.10%
<u>15,681.60</u>	<u>100.00%</u>

CONSENT AND RATIFICATION
MESA LEON UNIT AGREEMENT
GUADALUPE 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 Mesa Leon Unit Area embracing lands situated in Guadalupe County, New Mexico, which said Agreement is dated the 1st day of September, 1980, 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.

_____ Southern Venture, Inc. 17, 18, 19, 20
By [Signature]
_____ Bob H. Byrd, Secy.

INDIVIDUAL

STATE OF New Mexico)
COUNTY OF Bernalillo) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this 25th day of September, 1980, by Ernest Perez, President of Southern Venture, Inc. a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

April 22, 1982

Notary Public

CONSENT AND RATIFICATION
MESA LEON UNIT AGREEMENT
GUADALUPE 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 Mesa Leon Unit Area embracing lands situated in Guadalupe County, New Mexico, which said Agreement is dated the 1st day of September, 1980, 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.

Jack J. Dillon 6
Edith H. Byrd 14

INDIVIDUAL

STATE OF New Mexico)
COUNTY OF Bernalillo) SS.

The foregoing instrument was acknowledged before me this 25 day of September, 1980, by Jack Dillon

My Commission Expires:

April 22, 1982

Amir A. Gutierrez
Notary Public

CORPORATE

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, President of _____ a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico)

County of Bernalillo)

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Bob Byrd

Amelio A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____)

County of _____)

The foregoing instrument was acknowledged before me this

_____ day of _____, 19__ by _____

Notary Public

My Commission expires _____, 19__.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____)

County of _____)

The foregoing instrument was acknowledged before me this

_____ day of _____, 19__ by _____

Notary Public

My Commission expires _____, 19__.

CONSENT AND RATIFICATION

MESA LEON UNIT AGREEMENT

GUADALUPE 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 Mesa Leon Unit Area embracing lands situated in Guadalupe County, New Mexico, which said Agreement is dated the 1st day of September, 1980, 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.

<u>[Signature]</u> 1,2,3,7,8,9,10,14	<u>[Signature]</u> 4,5,14,22
<u>[Signature]</u> 1,2,3,7,8,9,10,14	<u>[Signature]</u> 4,5,14,22
<u>[Signature]</u> 14	<u>[Signature]</u> 14

INDIVIDUAL

STATE OF _____)
) SS.
 COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____.

My Commission Expires:

 Notary Public

CORPORATE

STATE OF _____)
) SS.
 COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, President of _____ a _____ corporation, on behalf of said corporation.

My Commission Expires:

 Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Eugene Peery

Laurie A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Margaret A. Peery

Laurie A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Dixie L. Byrd

Laurie A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Phil W. Weldon

Laurie A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Rosetta A. Weldon

Laurie A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by E. A. Chilton, Jr

Laurie A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

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 Mesa Leon Unit Area, State of New Mexico, County of Guadalupe.

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 _____

85.5%
WT
85.5%
Rty.
committed

RECEIVED BY AMERICAN PETROLEUM INSTITUTE
DATE RECEIVED _____
CASE NO. <u>7031</u>

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
MESA LEON UNIT AREA
GUADALUPE COUNTY
STATE OF NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 1st day of September,
1980, 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 _____
_____ Mesa Leon _____ 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 Lensing 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:

<u>Township Six North, Range Seventeen East, N. M. P. M.</u>	
Sec. 1; W $\frac{1}{2}$, SE $\frac{1}{4}$	Secs. 19, 20, 21, 22, 23; All
Secs. 2, 3; All	Sec. 24; W $\frac{1}{2}$
Sec. 4; S $\frac{1}{2}$	Sec. 26; N $\frac{1}{2}$, SW $\frac{1}{4}$
Sec. 8; E $\frac{1}{2}$, SW $\frac{1}{4}$	Secs. 27, 28, 29; All
Secs. 9, 10, 11, 12, 13,	Sec. 30; E $\frac{1}{2}$
14, 15, 16, 17; All	Sec. 32; N $\frac{1}{2}$
Sec. 18; E $\frac{1}{2}$	Sec. 33; N $\frac{1}{2}$
	Sec. 34; NW $\frac{1}{4}$

Guadalupe County, New Mexico
Containing 15,680.00 acres,
more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentities of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all 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. Coronado Exploration Corp.

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 in 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." Each 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 BASEMENT GRANITE HAS BEEN PENETRATED AND ALL BEDS OF YOUNGER 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 4,500 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 substance 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 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

ment 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 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:

By: [Signature] Coronado Explorations Corp
Secretary BY: [Signature]
Address:

UNIT OPERATOR

STATE OF New Mexico)
COUNTY OF Bernalillo) SS.

The foregoing instrument was acknowledged before me this 25th day of September, 1980, by Harvey E. Yates, Jr. who is President of Coronado Explorations (State of Incorp.) corporation, for and on behalf of said Corporation.

My Commission Expires:

April 22, 1984

[Signature]
Notary Public

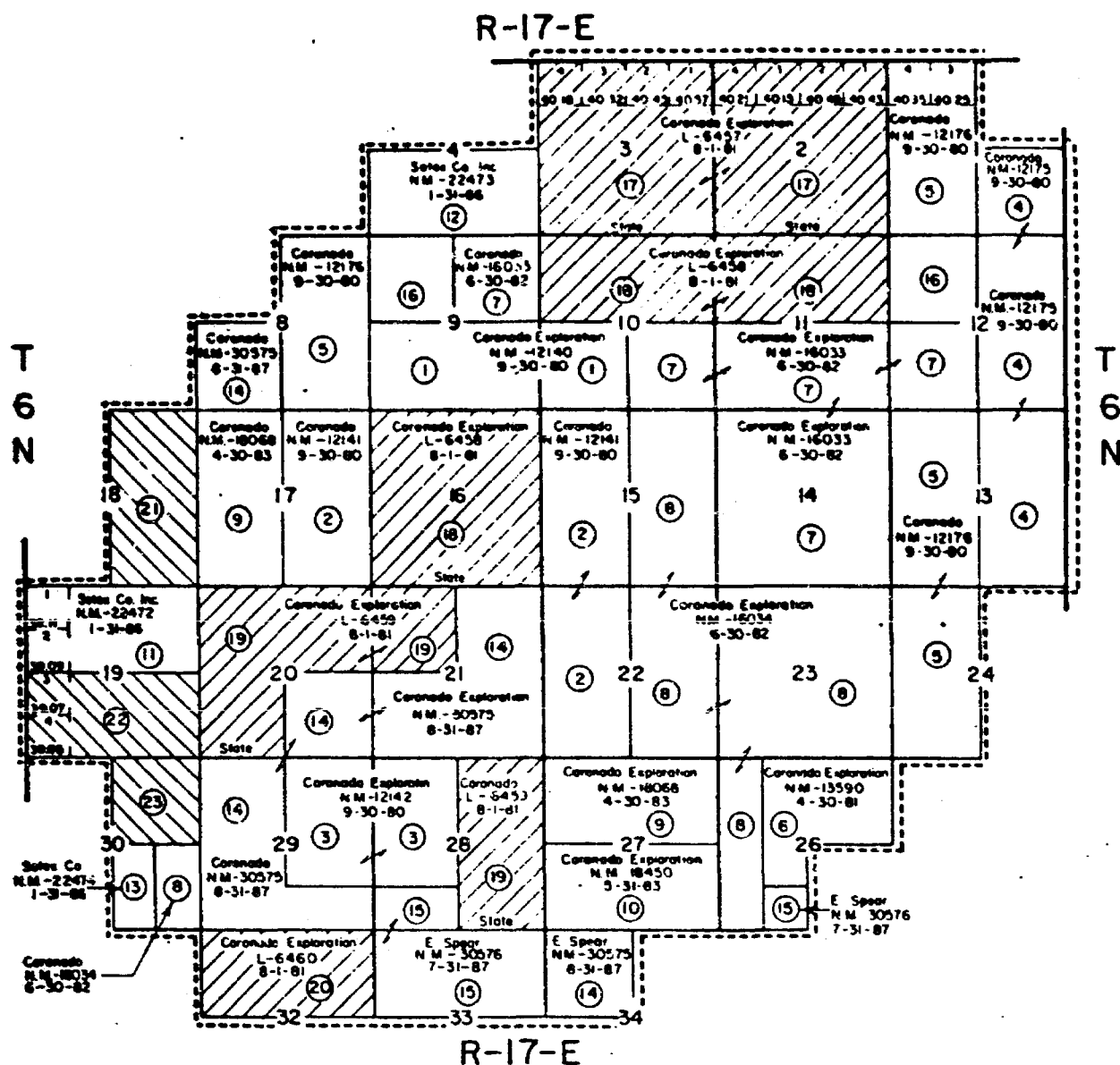


EXHIBIT "A"
MESA LEON UNIT AREA
GUADALUPE COUNTY, NEW MEXICO

- Unit Outline
- Track Number
- Federal Lands
11,038.80 Acres, 70.39%
- ▨ State of New Mexico Lands
3,842.80 Acres, 24.51%
- ▩ Fee Lands
800.00 Acres, 5.10%

EXHIBIT "B"

SCHEDULE SHOWING ALL LAND AND LEASES
WITHIN THE MESA LEON UNIT AREA
GUADALUPE COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD AND PERCENTAGE	OVERRIDE ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
<u>FEDERAL LANDS</u>							
<u>All Lands are in T-6-N, R-17-E, NMPM</u>							
Sec. 9: SW Sec. 10: SE		480.00	NM-12140 9-30-80	U.S.A. 12.5	Phil H. Weldon		All
Sec. 15: NW Sec. 17: E Sec. 22: W		960.00	NM-12141 9-30-80	U.S.A. 12.5	Phil H. Weldon		All
Sec. 28: NW, N/4SW Sec. 29: NE, N/4SE		480.00	NM-12142 9-30-80	U.S.A. 12.5	Phil H. Weldon		All
Sec. 1: SE Sec. 12: E Sec. 13: E		800.00	NM-12175 9-30-80	U.S.A. 12.5	Eugene Perez, Jr.		All

Sec. 1: Lots 3,4,5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20,21,22,23,24,25,26,27,28,29,30,31,32,33,34,35,36,37,38,39,40,41,42,43,44,45,46,47,48,49,50,51,52,53,54,55,56,57,58,59,60,61,62,63,64,65,66,67,68,69,70,71,72,73,74,75,76,77,78,79,80,81,82,83,84,85,86,87,88,89,90,91,92,93,94,95,96,97,98,99,100	1280.60	NM-12176 9-30-80	U.S.A. 12.5	Eugene Perez, Jr.	All
Sec. 3: 5/8					
Sec. 13: 1/2					
Sec. 24: 1/2					
Sec. 26: NEA, E/ANX, NEKEX	280.00	NM-13590 4-30-81	U.S.A. 12.5	Jack D. Dillon	All
Sec. 5: NEA					
Sec. 10: SEV					
Sec. 11: S/8					
Sec. 11: ALL					
Sec. 12: S/8					
Sec. 15: E/8	1440.00	NM-16033 6-30-82	U.S.A. 12.5	Phil H. Weldon	All
Sec. 22: E/8					
Sec. 23: ALL					
Sec. 26: E/ANX					
Sec. 30: E/SEV					
Sec. 17: 1/2	640.00	NM-18068 4-30-83	U.S.A. 12.5	Phil H. Weldon	All
Sec. 27: 1/2					
Sec. 27: S/8	320.00	NM-18450 5-31-83	U.S.A. 12.5	Phil H. Weldon	All
Sec. 19: Lots 1,2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20,21,22,23,24,25,26,27,28,29,30,31,32,33,34,35,36,37,38,39,40,41,42,43,44,45,46,47,48,49,50,51,52,53,54,55,56,57,58,59,60,61,62,63,64,65,66,67,68,69,70,71,72,73,74,75,76,77,78,79,80,81,82,83,84,85,86,87,88,89,90,91,92,93,94,95,96,97,98,99,100	318.20	NM-22472 1-31-86	U.S.A. 12.5	Sotexco, Inc.	All

Sec. 4: S½ 320.00 NM-22473 U.S.A. 12.5 Sotexco, Inc. All

Sec. 30: W½SE¼ 80.00 NM-22474 U.S.A. 12.5 Sotexco, Inc. All

Sec. 6: SW¼ 360.00 NM-30575 U.S.A. 12.5 Margaret J. Perez 25.0
Sec. 20: SE¼ 25.0 Bob H. Byrd 25.0
Sec. 21: E½, SW¼ 25.0 E. L. Chilton, Jr. 25.0
Sec. 29: NW¼, SWSE¼ 25.0 Phil H. Weldon 25.0
Sec. 34: NW¼

Sec. 33: SESE¼ 440.00 NM-30576 U.S.A. 12.5 Ellie Spear All
Sec. 33: SESE¼ 12.5

Sec. 12: NW¼ 320.00 Open

Total 11,038.80 Acres Federal Lands

State of New Mexico Lands

Sec. 2: All 1282.80 L-6457 State 12.5 Southwest Ventures, Inc. All
Sec. 3: All

Sec. 10: NW¼ 1280.00 L-6458 State 12.5 Southwest Ventures, Inc. All
Sec. 11: NW¼
Sec. 16: All

19. Sec. 20: N1/4 SW1/4	960.00	L-6459 8-1-81	State 12.5	Southwest Ventures, Inc.	ALL
Sec. 21: N1/4					
Sec. 28: SW1/4					

20. Sec. 32: N1/4	320.00	L-6460 8-1-81	State 12.5	Southwest Ventures, Inc.	ALL
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Total 3,842.80 Acres State of New Mexico Lands

Patented (Fee) Lands

1. Sec. 12: E1/4	320.00
2. Sec. 15: SW1/4	320.00
3. Sec. 30: NW1/4	160.00

Total 800.00 Acres Fee Lands

Recapitulation

11,038.80 Acres Federal Lands	70.39%
3,842.80 Acres State Lands	24.51%
800.00 Acres Fee Lands	5.10%
<u>15,681.60</u>	<u>100.00%</u>

CONSENT AND RATIFICATION
MESA LEON UNIT AGREEMENT
GUADALUPE 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 Mesa Leon Unit Area embracing lands situated in Guadalupe County, New Mexico, which said Agreement is dated the 1st day of September, 1980, 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.

Southern Venture, Inc. 17, 18, 19, 20
B. J. [Signature]
Bolton Byrd, Secy.

INDIVIDUAL

STATE OF New Mexico)
COUNTY OF Bernalillo)SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF _____)
COUNTY OF _____)SS.

The foregoing instrument was acknowledged before me this 25th day of September, 1980, by Stephen Perez, President of Southern Venture, Inc. a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

April 22 1982
Stephen A. Gutierrez
Notary Public

CONSENT AND RATIFICATION
MESA LEON UNIT AGREEMENT
GUADALUPE 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 Mesa Leon Unit Area embracing lands situated in Guadalupe County, New Mexico, which said Agreement is dated the 1st day of September, 1980, 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.

Jack J. Dillon 6
L. B. Byrd 14

INDIVIDUAL

STATE OF New Mexico)
COUNTY OF Bernillo) SS.

The foregoing instrument was acknowledged before me this 25 day of September, 1980, by Jack Dillon.

My Commission Expires:

April 22, 1982 Harold A. Gentry
Notary Public

CORPORATE

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, President of _____ a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico)
County of Bernalillo)

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Bob Byed

Antonio A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____)
County of _____)

The foregoing instrument was acknowledged before me this

_____ day of _____, 19____ by _____

Notary Public

My Commission expires _____, 19____.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____)
County of _____)

The foregoing instrument was acknowledged before me this

_____ day of _____, 19____ by _____

Notary Public

My Commission expires _____, 19____.

CONSENT AND RATIFICATION
MESA LEON UNIT AGREEMENT
GUADALUPE 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 Mesa Leon Unit Area embracing lands situated in Guadalupe County, New Mexico, which said Agreement is dated the 1st day of September, 1980, 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.

<u>Paul W. Shulla</u> 1,2,3,7,8,9,10,14	<u>[Signature]</u> 4,5,14,22
<u>Leatrice L. Shulla</u> 1,2,3,7,8,9,10,14	<u>Margaret Shulla</u> 4,5,14,22
<u>E. L. Shulla Jr</u> 14	<u>Douglas L. Byrd</u> 14

INDIVIDUAL

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____.

My Commission Expires:

Notary Public

CORPORATE

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, President of _____ a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Phil V. Weldon

Laurie A. Gullerby
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Gloria A. Weldon

Laurie A. Gullerby
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico

County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by E. S. Chilton, Jr

Laurie A. Gullerby
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico
County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Engene Perry

Aurilio A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico
County of Bernalillo

The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Margaret A. Perry

Aurilio A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

INDIVIDUAL ACKNOWLEDGMENT

STATE OF New Mexico
County of Bernalillo

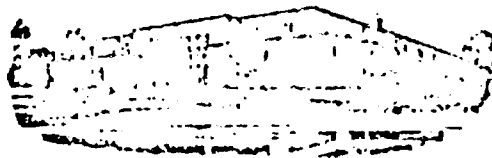
The foregoing instrument was acknowledged before me this

25th day of September, 1980 by Doris L. Byrd

Aurilio A. Gutierrez
Notary Public

My Commission expires April 22, 1982.

State of New Mexico



Commissioner of Public Lands

September 25, 1980

ALEX J. ARMIJO
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO

Coronado Exploration Corporation
1005 Marquette N.W.
Albuquerque, New Mexico 87102

Re: Mesa Leon Unit
Guadalupe County, New Mexico

ATTENTION: Mr. Harvey E. Yates, Jr.

Gentlemen:

The Commissioner of Public Lands has this date approved the Mesa Leon Unit, Guadalupe County, New Mexico. Our approval is subject to like approval by the United States Geological Survey.

Enclosed are Five (5) Certificates of Approval.

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

This Certificate is issued with the understanding that you will obtain approval from the New Mexico Oil Conservation Division on this unit on or before November 1, 1980.

Very truly yours,

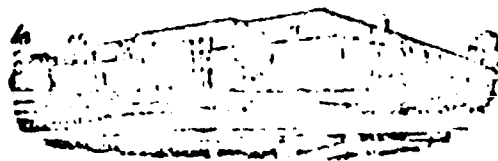
ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

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

AJA/RDG/s
encls.
cc:

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

BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
Coronado	EXHIBIT NO. <u>2</u>
CASE NO. <u>7031</u>	



Commissioner of Public Lands

September 25, 1980

ALEX J. ARMIJO
COMMISSIONER

P. O. Box 1148
SANTA FE, NEW MEXICO

Coronado Exploration Corporation
1005 Marquette N.W.
Albuquerque, New Mexico 87102

Re: Mesa Leon Unit
Guadalupe County, New Mexico

ATTENTION: Mr. Harvey E. Yates, Jr.

Gentlemen:

The Commissioner of Public Lands has this date approved the Mesa Leon Unit, Guadalupe County, New Mexico. Our approval is subject to like approval by the United States Geological Survey.

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

This Certificate is issued with the understanding that you will obtain approval from the New Mexico Oil Conservation Division on this unit on or before November 1, 1980.

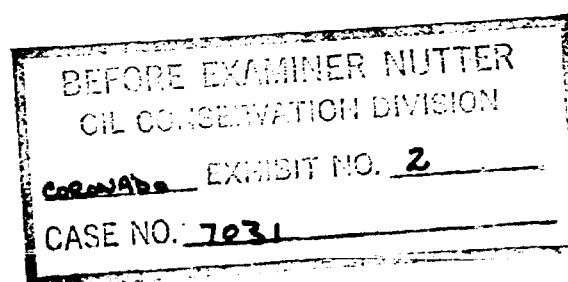
Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

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

AJA/RDG/s
encls.
cc:

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



Dockets Nos. 31-80 and 32-80 are tentatively set for October 15 and 29, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - OCTOBER 1, 1980

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

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

- CASE 7029: In the matter of the hearing called by the Oil Conservation Division on its own motion to consider amendments to its special rules and procedures for the designation of "tight formation", promulgated by Division Order No. R-5388, to comply with FERC Order No. 99, issued August 15, 1980, promulgating final regulations with respect to Section 107 of the NGPA.
- CASE 7030: In the matter of the hearing called by the Oil Conservation Division on its own motion to consider amendments to its SPECIAL RULES FOR APPLICATIONS FOR WELLHEAD PRICE CEILING CATEGORY DETERMINATIONS as promulgated by Division Order No. R-5878, as amended. The proposed amendments relate to individual well filings for price category determination as "tight formation" gas under Section 107 of the NGPA.
- CASE 7031: Application of Coronado Exploration Corp. for a unit agreement, Guadalupe County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Mesa Leon Unit Area, comprising 15,680 acres, more or less, of State, Federal, and fee lands in Township 6 North, Range 17 East.
- CASE 7007: (Continued from September 3, 1980, Examiner Hearing)
Application of Harvey E. Yates Company for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Morrow and Atoka production in the wellbore of its North Travis 12 Deep Well No. 1 located in Unit O of Section 12, Township 18 South, Range 28 East.
- CASE 7023: (Continued from September 17, 1980, Examiner Hearing)
Application of Shell Oil Company for pool creation and temporary special pool rules, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Pennsylvanian oil pool for its Askew Well No. 1 located in Unit L of Section 2, Township 5 South, Range 33 East, and the promulgation of special pool rules therefor, including a provision for 80-acre spacing.
- CASE 7019: (Continued from September 17, 1980, Examiner Hearing)
Application of Amoco Production 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 W/2 of Section 30, Township 23 South, Range 25 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7032: Application of Dalport Oil Corporation for an exception to Order No. R-3221, Chaves 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 between Units L and M of Section 9, Township 15 South, Range 30 East.
- CASE 7033: Application of Adams Exploration Inc. for three non-standard proration units, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of three 80-acre non-standard proration units in the Vada-Pennsylvanian Pool, comprising the following acreage: SE/4 NE/4 and NE/4 SE/4 of Section 12, N/2 NE/4 of Section 12, and S/2 SE/4 of Section 2, all in Township 9 South, Range 34 East.
- CASE 6940: (Continued from August 20, 1980, Examiner Hearing)
Application of Adobe Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Wolfcamp formation underlying the NW/4 SE/4 for oil and the SE/4 for gas, Section 23, Township 20 South, Range 38 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6996: (Continued from September 3, 1980, Examiner Hearing)

Application of John E. Schalk for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Blanco Mesaverde Pool underlying the NE/4 of Section 8, Township 25 North, Range 3 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7034: Application of Merrion & Bayless for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of South Blanco-Pictured Cliffs and Otero-Chacra production in the wellbore of its Atlantic Well No. 1 located in Unit O of Section 32, Township 26 North, Range 6 West.

CASE 7035: Application of Merrion & Bayless for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Gallegos-Gallup and Basin-Dakota production in the wellbore of its Delhi Taylor Well No. 1 located in Unit M of Section 4, Township 26 North, Range 11 West.

CASE 7036: Application of J. Gregory Merrion for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pictured Cliffs formation underlying the SE/4 of Section 34, Township 25 North, Range 6 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7037: Application of Mesa Petroleum Co. for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Chacra and Mesaverde production in the wellbore of its State Com #F Well No. 28 located in Unit I of Section 36, Township 29 North, Range 10 West.

CASE 7020: (Continued from September 3, 1980, Examiner Hearing)

Application of Mesa Petroleum Co. for pool creation, special pool rules and an oil discovery allowable, Rio Arriba and San Juan Counties, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Gallup oil pool for its South Blanco Federal Well No. 1-6 located in Unit A of Section 6, Township 23 North, Range 7 West, and special rules therefor, including a provision for 80-acre spacing units. Applicant further seeks a discovery allowable for the aforesaid well.

CASE 6822: (Continued from September 17, 1980, Examiner Hearing)

In the matter of Case 6822 being reopened pursuant to the provisions of Order No. R-6293 which order created the West Double X-Wolfcamp Gas Pool as a retrograde gas condensate pool and set special production limitations therein. Operator(s) may appear and present evidence to establish the true nature of the reservoir and proper rates of withdrawal therefrom.

CASE 7038: Application of Natura Energy Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the NE/4 NE/4 of Section 6, Township 19 South, Range 39 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7039: Application of Red Mountain & Associates for a waterflood project, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the Chaco Wash-Mesaverde Oil Pool by the injection of water into the Chaco Wash Sand formation through eight wells at various orthodox and unorthodox locations in Section 28 of Township 20 North, Range 9 West.

CASE 7040: Application of Belco Petroleum Corporation for reclassification or a new gas pool and a non-standard proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the reclassification of the Wilson Strawn Pool as a gas pool or, in the alternative, the creation of a new gas pool for its State 12 Well No. 1 located in Unit G of Section 12, Township 21 South, Range 34 East; applicant further seeks approval of a standard gas proration unit for said well comprising the E/2 of said Section 12, or in the alternative, a non-standard unit comprising the NE/4, N/2 SE/4 and SE/4 SE/4 of said Section 12.

CASE 6618: (Reopened and Readvertised)

In the matter of Case 6618 being reopened pursuant to the provisions of Order No. R-6103 which order created the Travis-Yates Gas Pool in Eddy County, New Mexico, with temporary special rules and regulations including a provision for 80-acre spacing units. Operators in said pool may appear and show cause why the pool should not be developed on 160-acre spacing units.

CASE 6648: (Reopened and Readvertised)

In the matter of Case 6648 being reopened pursuant to the provisions of Order No. R-6124 which order promulgated temporary special rules and regulations for the North Caprock-Mississippian Pool in Lea County, New Mexico, including a provision for 160-acre spacing and a 4000 to one gas-oil ratio limitation. Operators in said pool may appear and show cause why the pool should not be developed on 40-acre spacing with a 2000 to one GOR.

RANDOLPH M. RICHARDSON

OIL AND GAS LAND AND UNIT CONSULTANT

FEDERAL - STATE - FEE

P. O. BOX 819

ROSWELL, NEW MEXICO 88201

September 3, 1980

OFFICE 505 622-8801
HOME 505 622-7985

In Re: Mesa Leon Unit Area
T-6-N, R-17-E, NMPM
Guadalupe County, NM

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

*Case 703**

Dear Mr. Stamets,

I am enclosing three copies of Application for Approval of the Mesa Leon Unit located in Guadalupe County, New Mexico.

I called several days ago to be placed on the first Docket available and if I understand correctly, we have been placed on the Docket for the 1st of October.

This Unit contains several thousand acres of Federal leases expiring September 30th, 1980, consequently if there is any way that we can be placed any earlier, it will be appreciated.

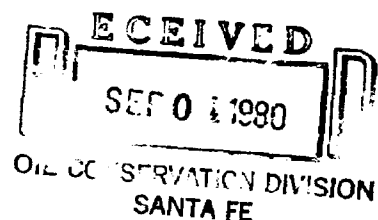
There is also enclosed one copy of Unit Agreement, which does not have Exhibits "A" and "B". These Exhibits are being prepared and you will be furnished copies.

Please advise if you need more at this time.

Yours very truly,

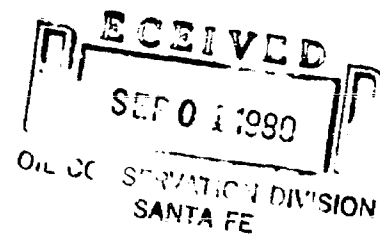
R. M. Richardson
R. M. Richardson

Xerox: Coronado Exploration Corp.
1005 Marquette, NW
Albuquerque, New Mexico 87102



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

APPLICATION FOR APPROVAL OF
THE MESA LEON UNIT AGREEMENT
GUADALUPE COUNTY, NEW MEXICO



New Mexico Oil Conservation Division
Santa Fe, New Mexico 87501

Case 7031

Comes the undersigned Coronado Exploration Corp., with offices at Albuquerque, New Mexico and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Mesa Leon Unit Area, Guadalupe 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 15,680.00 acres of land, more or less, more particularly described as follows:

Township Six North, Range Seventeen East, N.M.P.M.

Sec. 1: W $\frac{1}{2}$, SE $\frac{1}{4}$	Sec. 19,20,21,22,23: All
Sec. 2,3: All	Sec. 24: W $\frac{1}{2}$
Sec. 4: S $\frac{1}{2}$	Sec. 26: N $\frac{1}{2}$, SW $\frac{1}{4}$
Sec. 8: E $\frac{1}{2}$, SW $\frac{1}{4}$	Sec. 27,28,29: All
Sec. 9,10,11,12,13,14,15,16,17: All	Sec. 30: E $\frac{1}{2}$
Sec. 18: E $\frac{1}{2}$	Sec. 32: N $\frac{1}{2}$
	Sec. 33: N $\frac{1}{2}$
	Sec. 34: NW $\frac{1}{4}$

Guadalupe County, New Mexico

2. That of the lands embraced within the proposed Unit, 11,040.00 acres are lands of the United States, being 70.41% of the Area, 3,840.00 acres are State of New Mexico lands being 24.49% of the Area, and 800.00 acres are Fee lands being 5.10% of the Unit 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. The Coronado Exploration, Corp., 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 Basement Granite, but applicant is not obligated to drill said well in any event to a depth in excess of 4,500 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 Division 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 Division 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 Division.

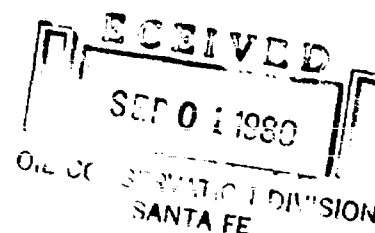
WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner on the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Division as being in the interest of conservation and the prevention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

DATED THIS 2nd day of September, 1980.

CORONADO EXPLORATION CORP.
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 MESA LEON UNIT AGREEMENT
GUADALUPE COUNTY, NEW MEXICO



New Mexico Oil Conservation Division
Santa Fe, New Mexico 87501

Case 7034

Comes the undersigned Coronado Exploration Corp., with offices at Albuquerque, New Mexico and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Mesa Leon Unit Area, Guadalupe 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 15,680.00 acres of land, more or less, more particularly described as follows:

Township Six North, Range Seventeen East, N.M.P.M.

Sec. 1: W $\frac{1}{2}$, SE $\frac{1}{4}$	Sec. 19, 20, 21, 22, 23: All
Sec. 2, 3: All	Sec. 24: W $\frac{1}{2}$
Sec. 4: S $\frac{1}{2}$	Sec. 26: N $\frac{1}{2}$, SW $\frac{1}{4}$
Sec. 8: E $\frac{1}{2}$, SW $\frac{1}{4}$	Sec. 27, 28, 29: All
Sec. 9, 10, 11, 12, 13, 14, 15, 16, 17: All	Sec. 30: E $\frac{1}{2}$
Sec. 18: E $\frac{1}{2}$	Sec. 32: N $\frac{1}{2}$
	Sec. 33: N $\frac{1}{2}$
	Sec. 34: NW $\frac{1}{4}$

Guadalupe County, New Mexico

2. That of the lands embraced within the proposed Unit, 11,040.00 acres are lands of the United States, being 70.41% of the Area, 3,840.00 acres are State of New Mexico lands being 24.49% of the Area, and 800.00 acres are Fee lands being 5.10% of the Unit 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. The Coronado Exploration, Corp., 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 Basement Granite, but applicant is not obligated to drill said well in any event to a depth in excess of 4,500 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 Division 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 Division 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 Division.

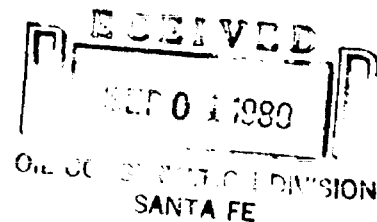
WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner on the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Division as being in the interest of conservation and the prevention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

DATED THIS 2nd day of September, 1980.

CORONADO EXPLORATION CORP.
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 MESA LEON UNIT AGREEMENT
GUADALUPE COUNTY, NEW MEXICO



New Mexico Oil Conservation Division
Santa Fe, New Mexico 87501

Case 7037

Comes the undersigned Coronado Exploration Corp., with offices at Albuquerque, New Mexico and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Mesa Leon Unit Area, Guadalupe 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 15,680.00 acres of land, more or less, more particularly described as follows:

Township Six North, Range Seventeen East, N.M.P.M.

Sec. 1: W $\frac{1}{2}$, SE $\frac{1}{4}$	Sec. 19,20,21,22,23: All
Sec. 2,3: All	Sec. 24: W $\frac{1}{2}$
Sec. 4: S $\frac{1}{2}$	Sec. 26: N $\frac{1}{2}$, SW $\frac{1}{4}$
Sec. 8: E $\frac{1}{2}$, SW $\frac{1}{4}$	Sec. 27,28,29: All
Sec. 9,10,11,12,13,14,15,16,17: All	Sec. 30: E $\frac{1}{2}$
Sec. 18: E $\frac{1}{2}$	Sec. 32: N $\frac{1}{2}$
	Sec. 33: N $\frac{1}{2}$
	Sec. 34: NW $\frac{1}{4}$

Guadalupe County, New Mexico

2. That of the lands embraced within the proposed Unit, 11,040.00 acres are lands of the United States, being 70.41% of the Area, 3,840.00 acres are State of New Mexico lands being 24.49% of the Area, and 800.00 acres are Fee lands being 5.10% of the Unit 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. The Coronado Exploration, Corp., 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 Basement Granite, but applicant is not obligated to drill said well in any event to a depth in excess of 4,500 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 Division rules and regulations.

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

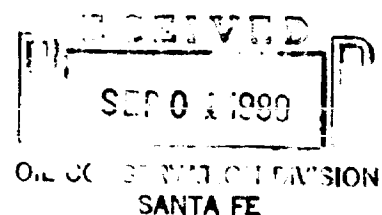
7. That upon an order being entered by the New Mexico Oil Conservation Division approving said Unit Agreement, and after approval by the United States Department of Interior, an approved copy will be filed with the New Mexico Oil Conservation Division.

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 2nd day of September, 1980.

CORONADO EXPLORATION CORP.

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. 5842), I do hereby:

A. Approve the attached agreement for the development and operation of the Mesa Leon Unit Area, State of New Mexico, County of Guadalupe.

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 _____

RECEIVED
SEP 0 1 1980
OIL & GAS DIVISION
SANTA FE

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION

OF THE
MESA LEON UNIT AREA
GUADALUPE COUNTY
STATE OF NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 1st day of September,
1980, 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 _____
_____ Mesa Leon _____ 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 promises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below-defined unit area, and agree severally among themselves as follows:

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

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

Township Six North, Range Seventeen East, N. M. P. M.	
Sec. 1; W $\frac{1}{2}$, SE $\frac{1}{4}$	Secs. 19,20,21,22,23; All
Secs. 2,3; All	Sec. 24; W $\frac{1}{2}$
Sec. 4; S $\frac{1}{2}$	Sec. 26; N $\frac{1}{2}$, SW $\frac{1}{4}$
Sec. 8; E $\frac{1}{2}$, SW $\frac{1}{4}$	Secs. 27,28,29; All
Secs. 9,10,11,12,13, 14,15,16,17; All	Sec. 30; E $\frac{1}{2}$
Sec. 18; E $\frac{1}{2}$	Sec. 32; N $\frac{1}{2}$
	Sec. 33; N $\frac{1}{2}$
	Sec. 34; NW $\frac{1}{4}$

Guadalupe County, New Mexico
Containing 15,680.00 acres,
more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentities of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all 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 such period and such drilling operations are continued diligently, with not more than a defined time lapsing 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. Coronado Exploration Corp.
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 BASEMENT GRANITE HAS BEEN PENETRATED AND ALL BEDS OF YOUNGER 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 4,500 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

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 4,500 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 being produced in paying 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 being 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 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.

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 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. 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 such 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:

BY: _____ BY: _____

Address: _____

UNIT OPERATOR

STATE OF New Mexico)
) ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ who is _____ of _____ (State of Incorp.) _____ corporation, for and on behalf of said Corporation.

My Commission Expires: _____

Notary Public

EXHIBITS "A" AND "B" ARE BEING PREPARED. WILL BE
FURNISHED AT A LATER DATE.

622-8801
Called in by Randy Richardson
8/29/80

Coronado Exploration Corp.

Unit Agreement

Mesa Leon Unit

15,680 acres

Federal, State, and fee

T6N, R17E

Guadalupe County

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. 7031

Order No. R-6490

APPLICATION OF CORONADO EXPLORATION CORP.
FOR APPROVAL OF THE MESA LEON
UNIT AGREEMENT, GUADALUPE COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 1
19 80, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this day of October, 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, Coronado Exploration Corp.,
seeks approval of the Mesa Leon Unit Agreement
covering 15,681.60 acres, more or less, of State, Federal
and Fee lands described as follows:

GUADALUPE COUNTY, NEW MEXICO
TOWNSHIP 6 NORTH, RANGE 17 EAST, NMPM

Section 1: NW 1/4 and S 1/2
Sections 2 and 3: All
Section 4: S 1/2
Section 8: NE 1/4 and S 1/2
Sections 9 through 17: 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.

Section 18: E 1/2
Sections 19 through 23: All
Section 24: NW 1/2
Section 26: NW 1/2 and SW 1/4
Sections 27, 28, and 29: All
Section 30: E 1/2
Section 32: NW 1/2
Section 33: NW 1/2

(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 Mesa Leon 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.