

CASE 7181: READ & STEVENS, INC. FOR
APPROVAL OF THE HERRARDEZ DRAW UNIT
AREA, CHAVES COUNTY, NEW MEXICO

Cont. & reader
Chaves Co Paper
in (Burling 3.25)
(for)

Case No.

7181

Application

Transcripts

Small Exhibits

ETC



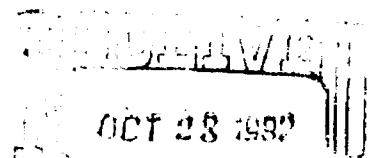
IN REPLY
REFER TO

United States Department of the Interior

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

OCT 27 1982

Read & Stevens
P. O. Box 1518
Roswell, New Mexico 88201



Gentlemen:

The Hernandez Draw Unit Agreement, No. 14-08-0001-19560, Chaves County, New Mexico, was approved on April 28, 1981, effective as of the date of approval. The term of this agreement is contingent upon the unit operator drilling one well at a time, allowing not more than six months 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 the initial test well was completed as plugged and abandoned on May 4, 1981, making the second unit test well due by November 4, 1981. Extensions granted for the purpose of evaluating new seismic and geologic data made the second well due by May 4, 1982. Inasmuch as the second test well was not commenced, the ~~Unit Agreement is considered to have terminated as of May 4, 1982,~~ pursuant to Section 9 of the unit agreement. The appropriate Federal offices will be notified of this termination.

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, Santa Fe
NMOC, Santa Fe

380

Unit Name HERNANDEZ DRAM UNIT- EXPLORATORY
 Operator READ AND STEVENS, INC.
 County CHAVES

DECL 13
 07/20/84

DATE	OCC CASE NO. 7181	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. R-6639	4-28-81	2,571.51	1,649.43	842.08	80.00	Yes	5 yrs
Commissioner	Commission							
April 24, 1981	April 7, 1981							

UNIT AREA

TOWNSHIP 4 SOUTH, RANGE 26 EAST, NMPM
 Section 35: All

TOWNSHIP 4 SOUTH, RANGE 27 EAST, NMPM
 Section 30: S/2
 Section 31: All

TOWNSHIP 5 SOUTH, RANGE 26 EAST, NMPM
 Section 1: All

TOWNSHIP 5 SOUTH, RANGE 27 EAST, NMPM
 Section 6: W/2

TERMINATED
 4-27-82
 5-4-82

Unit Name
Operator
County

HERNANDEZ DIAZ UNIT- EXPLORATORY
READ & STEVENS, INC.
CHAVES

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
3	L-5029	C.S.	31	4S	27E ✓	Lot 1, NE/4	4-22-81	201.82		Marathon Oil Co.
4	L-5247 ✓	C.S.	36	4S	26E ✓	E/2W/2, E/2	4-22-81	480.00		Marathon Oil Co.
5	L-5639-1	C.S.	30	4S	27E ✓	Lots 3, 4, NE/4SE/4	4-23-81	124.25		Read & Stevens, Inc
6	L-6270	C.S.	31	4S	27E ✓	Lot 2, E/2SW/4, E/2SE/4	4-23-81	201.47		Read & Stevens, Inc
7	LG-3372-1	C.S.	31	4S	27E ✓	Lots 3, 4, E/2NW/4, W/2SE/4	4-21-81	241.89		Colorado Interstate Gas
8	LG-7678	C.S.	36	4S	26E ✓	W/2W/2	NOT COMMITTED		160.00	Inexco Oil Company
9	LG-9258	M...	30	4S	27E ✓	E/2SW/3, W/2SE/4, SE/4SE/4	4-24-81	200.00		Ed Phillips
10	OPEN		1	5S	26E	SW/4SE/4	NOT COMMITTED		40.00	OPEN.....

TERMINATED
4-27-82
EOL 5-4-82

State of New Mexico



ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands

April 27, 1982

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501
87504-1148

Read & Stevens, Inc.
P. O. Box 1518
Roswell, New Mexico 88201

7181

Re: Hernandez Draw Unit
Chaves County, New Mexico

ATTENTION: Mr. Randall Fort

Gentlemen:

The Hernandez Draw Unit Agreement, Chaves County, New Mexico, was approved effective as of April 28, 1981. 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 the initial test well was completed on May 4, 1981 as a Plugged and abandoned well, thus making the second unit test well due to be commenced by November 4, 1981. Your request for two extensions were granted by this office making the second test well due May 4, 1982. By your letter of April 20, 1982 you advise that you do not wish to drill the second test well, therefore, the Hernandez Draw Unit Agreement is considered to have terminated automatically as of May 4, 1982, pursuant to Section 9 of the unit agreement.

We are this date advising the USGS/MMS of our termination.

Please advise all other interested parties of this action.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

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

AJA/RDG/s
cc:

OCD-Santa Fe, New Mexico ✓
USGS/MMS Albuquerque, New Mexico

State of New Mexico



ALEX J. ARMIJO
COMMISSIONER



Commissioner of Public Lands

November 2, 1981

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

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

7181

Re: Hernandez Draw Unit Area
Chaves County, New Mexico

Dear Mr. Richardson,

We are in receipt of your letter dated October 20, 1981 requesting a six month extension within which to complete evaluation and arrange for the drilling of a Second Test well.

Please be advised that the Commissioner of Public Lands has this date granted you a six month extension from November 4, 1981 to May 4, 1982, in which to comply with Section 9 of the Unit Agreement. This approval is subject to like approval by the United States Geological Survey.

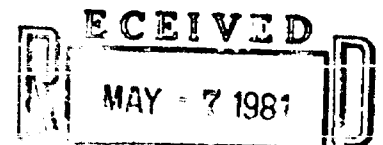
Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

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

AJA/RDG/pm
encls.

cc: OCD-Santa Fe, New Mexico
USGS-Roswell, New Mexico



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

OIL CONSERVATION DIVISION
SANTA FE

May 5, 1981

OFFICE 505 622-8601
HOME 505 622-7905

In Re: Hernandez Draw Unit Agreement
Chaves County, New Mexico

Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

Pursuant to your Case No. 7181, Order No. R-6639, I am enclosing one copy of Unit Agreement showing Approval by the United States Geological Survey and Approval by the Commissioner of Public Lands.

This should complete your file, however, if you need anything additional, please advise.

Yours truly,

R. M. Richardson

RMR/sr
xc: Read & Stevens, Inc.
Enclosures



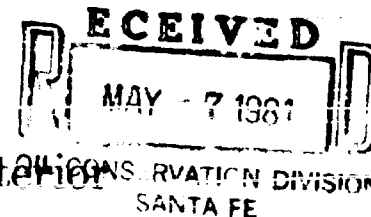
United States Department of the Interior

GEOLOGICAL SURVEY

South Central Region

P. O. Box 26124

Albuquerque, New Mexico 87125



28 APR 1981

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

Dear Mr. Richardson:

One approved copy of the Hernandez Draw Unit Agreement Chaves County, New Mexico, with Read and Stevens, Inc., as operator is enclosed. Such agreement has been assigned No. 14-08-0001-19560 and is effective on the date above, the same date as approved.

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

Sincerely yours,

Gene F. Daniel
Deputy Conservation Manager
Oil and Gas

Enclosure

CERTIFICATION--DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, 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, I do hereby:

A. Approve the attached agreement for the development and operation of the Hernandez Draw

Unit Area, State of New Mexico, County of Chaves.

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.

Gene H. Daniel
Deputy Conservation Manager, SCR
United States Geological Survey

28 APR 1981

Dated

14-08-0001-19560

Contract Number



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

BERNARDEZ DRAW UNIT
CRAVES COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated February 13, 1981, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

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

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, 1, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and, further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions and requirements of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 27th day of April, 19 81.



Alex J. Amis
COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7181
Order No. R-6639

APPLICATION OF READ & STEVENS, INC.
FOR APPROVAL OF THE HERNANDEZ DRAW
UNIT AGREEMENT, CHAVES COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 25, 1981,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 7th day of April, 1981, 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, Read & Stevens, Inc., seeks ap-
proval of the Hernandez Draw Unit Agreement covering 2571.51
acres, more or less, of State, Federal and Fee lands described
as follows:

CHAVES COUNTY, NEW MEXICO
TOWNSHIP 4 SOUTH, RANGE 26 EAST, NMPM
Section 36: All

TOWNSHIP 4 SOUTH, RANGE 27 EAST, NMPM
Section 30: 5/2
Section 31: All

TOWNSHIP 5 SOUTH, RANGE 26 EAST, NMPM
Section 1: All

TOWNSHIP 5 SOUTH, RANGE 27 EAST, NMPM
Section 6: 1/2

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Case No. 7181

Order No. R-6659

(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 Hernandez Draw Unit Agreement is hereby approved.

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

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

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

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

-3-

Case No. 7181
Order No. R-6639

(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. Rahey
JOE D. RAHEY
Director

S E A L

fd/

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

HERNANDEZ DRAW UNIT AREA

COUNTY OF CHAVES

STATE OF NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 15th day of February, 1981, 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 representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (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 _____
Hernandez Draw _____ 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 resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions,

and limitations herein set forth;

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

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

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

T-4-S, R-26-E, NMPM
Sec. 36: All

T-4-S, R-27-E, NMPM
Sec. 30: S $\frac{1}{2}$
Sec. 31: All

T-5-S, R-26-E, NMPM
Sec. 1: All

T-5-S, R-27-E, N
Sec. 6: W $\frac{1}{2}$

Chaves County, New Mexico

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 as long as such drilling operations are continued diligently, with not more than a year's 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.

READ & STEVENS, INC.

is hereby designated as the operator and is hereby designated 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 condition 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 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 6,600 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 lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as if 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

(d) it is terminated as heretofor 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 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 here 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 signed this agreement to be executed and have set opposite their respective names the date of execution.

ATTEST:

HEAD & STEVENS, INC.

By:

Joe Wigley, Secretary

By:

Norman L. Stevens, Jr., Vice-President

Address: P.O. Box 1518

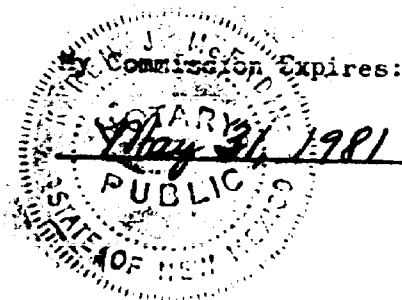
Roswell, New Mexico 88201

T-5-6-9-11

UNIT OPERATOR

STATE OF New Mexico)
COUNTY OF Chaves)

The foregoing instrument was acknowledged before me this 23rd day of April, 1981, by Norman L. Stevens, Jr. who is Vice-President of Head & Stevens, Inc. a New Mexico corporation, for and on behalf of said Corporation. (State of Incorp.)



Karen J. McAdams
Notary Public

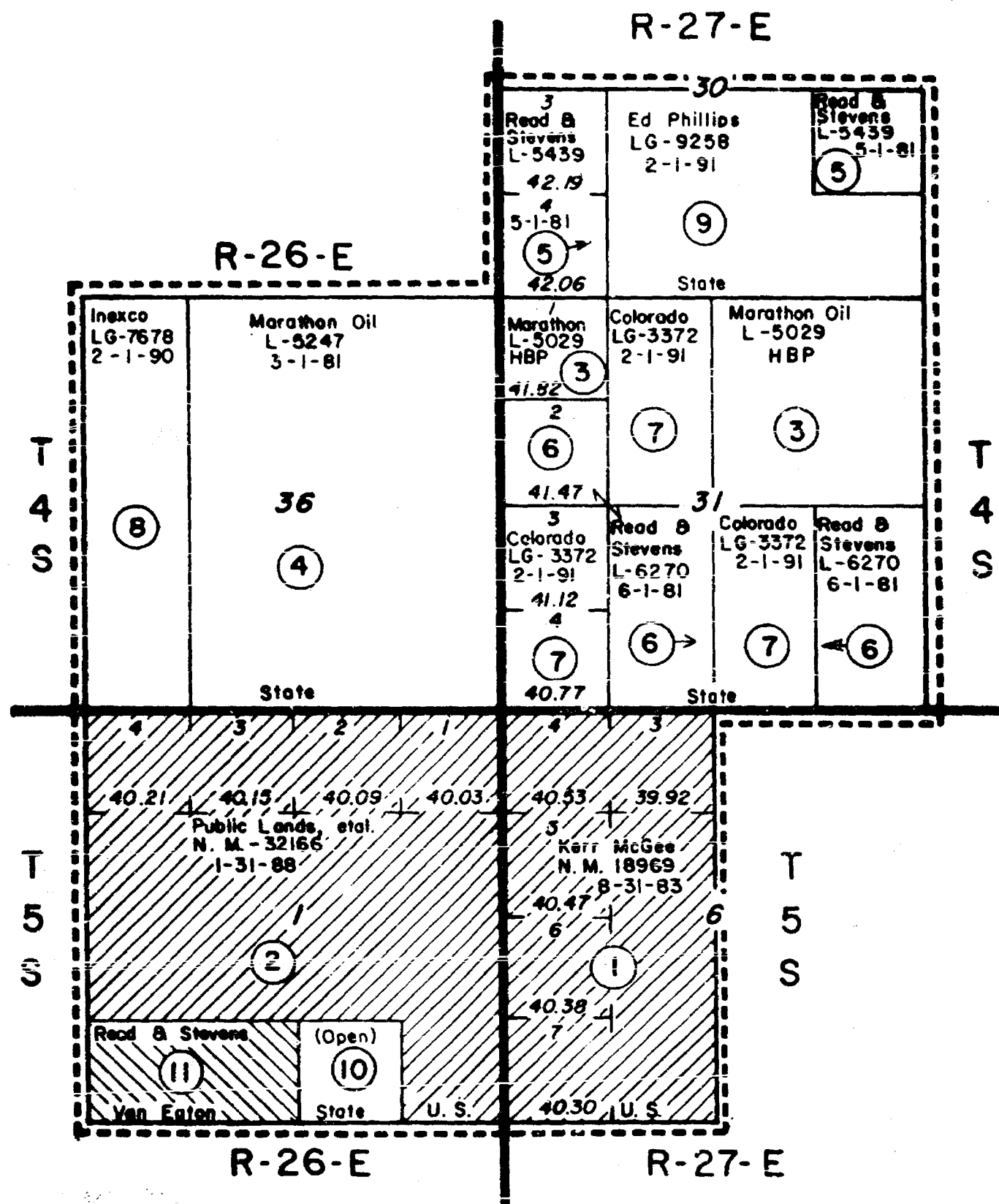


EXHIBIT "A"

Hernandez Draw Unit
Chaves County, New Mexico

**SCHEDULE SHOWING ALL LANDS AND OWNERSHIP
WITHIN THE UNIT AREA
HERNANDEZ DRAW UNIT - CHAVES COUNTY, NEW MEXICO**

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & LEASE EXPIRATION DATE	BASIC ROYALTY & PERCENT	LESSEE OF RECORD AND PERCENT	OVERRIDING ROYALTY AND PERCENT	WORKING INTEREST AND PERCENT
FEDERAL LANDS							
1. T-4-S, R-27-E, NMPM Sec. 3: Lots 3, 4, 5, 6, 7, NE1/4, NW1/4		321.60	NM-18969 8-31-83	USA 12.5	Kerr-McGee Corp.	Billie Robinson Irene H. Fellis	2.5 2.5 Kerr-McGee Corp. All
2. T-4-S, R-26-E, NMPM Sec. 1: Lots 1, 2, 3, 4, SW1/4, NW1/4, SE1/4		520.48	NM-32166 1-31-88	USA 12.5	Mesa Petroleum Co.* Public Lands Expl. 50.0	50.0 Richard L. Goodman 5.0	Mesa Pet. Co.* Public Lands Expl. 50.0
Total		842.08	*Assignment from Mesa Petroleum Co. to NMC Limited Partnership, 10/20/83				
STATE OF NEW MEXICO LANDS							
3. T-4-S, R-27-E, NMPM Sec. 31: Lot 1, NE1/4		201.82	L-5029 HBP	State 12.5	Marathon Oil Co.	All	None Marathon Oil Co. All
4. T-4-S, R-26-E, NMPM Sec. 36: E1/2, E1/4		480.00	L-5247 3-1-81	State 12.5	Marathon Oil Co.	All	None Marathon Oil Co. All
5. T-4-S, R-27-E, NMPM Sec. 30: Lots 3, 4, NE1/4		124.25	L-5439-1 5-1-81	State 12.5	Read & Stevens, Inc.	All	None Read & Stevens Inc. All

6. T-4-S, R-27-E, N/4PM Sec. 31: Lot 2, E1/4SW1, E1/4SE1	201.47	L-6270 6-1-81	State 12.5	Read & Stevens, Inc. All	None	Read & Stevens, Inc All
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7. T-4-S, R-27-E, N/4PM Sec. 31: Lots 3, 4, E1/4NW1, W1/4SE1	241.89	LC-3372-1 2-1-86	State 12.5	Colorado Interstate Gas* All	Colorado Interstate Gas 6.25 Leo Lammers 1.0	Colorado Interstate Gas All
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8. T-4-S, R-26-E, N/4PM Sec. 36: W1/4N1/2	160.00	LC-7678 2-1-90	State 12.5	Inexco Oil Co. All	None	Inexco Oil Co. All
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9. T-4-S, R-26-E, N/4PM Sec. 36: E1/4NW1, N1/4SE1, W1/4SE1	200.00	LC-9258 2-1-91	State 12.5	Ed Phillips All	None	Ed Phillips All
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10. T-5-S, R-26-E, N/4PM Sec. 1: S1/4SE1/4	40.00	Open	State- Unleased			
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Total 1,649.43 Acres State Land

Patented (Fee) Land

11. T-5-S, R-26-E, N/4PM Sec. 12: S1/4SE1/4	80.00	Fee 1-4-86	Fred Van Eaton, Jr. Louise A. Van Eaton Hazel A. Van Eaton Gertrude L. Van Eaton Annette Threeweek Ira T. Van Eaton Miller Ray Van Eaton	2.34375 2.34375 4.68750 2.34375 2.34375 2.34375 2.34375	Read & Stevens, Inc.	All	None	Read & Stevens, Inc. All
--	-------	---------------	--	---	-------------------------	-----	------	-----------------------------

Recapitulation

842.08 Acres Federal Lands;	32.75%
1,649.43 Acres State Lands;	64.14%
80.00 Acres Fee Lands;	3.11%
2,571.51 Acres Total	100.00%

*Colorado Interstate Gas is to convey 100%
to Lawbar Petroleum, Inc., reserving a 6.25% override.

CONSENT AND RATIFICATION
HERNANDEZ DRAW UNIT AGREEMENT
CHAVES 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 Hernandez Draw Unit Area embracing lands situated in Chaves County, New Mexico, which said Agreement is dated the 15th day of February, 1981, 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.

KERR-McGEE CORPORATION

By: RG Horner

R. G. Horner, Jr.

Attorney-in-Fact

INDIVIDUAL

STATE OF _____)
COUNTY OF _____) SS.

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

My Commission Expires:

Notary Public

CORPORATE

STATE OF OKLAHOMA)
COUNTY OF OKLAHOMA)

The foregoing instrument was acknowledged before me this 20th day of April, 1981, by E. G. Horner, Jr., Attorney-in-Fact, ~~XXXXXXXXXXXX~~ for Kerr-McGee Corporation a Delaware corporation, on behalf of said corporation.

My Commission Expires:

My Commission Expires:
August 18, 1984

Notary Public

EVIDENCE OF AUTHORITY OF OFFICERS AND
DULY AUTHORIZED AGENTS AND/OR ATTORNEYS-IN-FACT
TO EXECUTE INSTRUMENTS AND DOCUMENTS IN CONNECTION
WITH LEASING AND OPERATION OF FEDERAL LANDS

I, CARTER G. DUDLEY, Assistant Secretary of KERR-McGEE CORPORATION, hereby solemnly swear that as of the date hereof the following persons are duly elected officers of Kerr-McGee Corporation, a corporation organized under the laws of the State of Delaware, and hold the office set opposite their respective names:

D. A. McGee	Chairman of the Board and Chief Executive Officer
J. W. McKenny	Vice Chairman of the Board
F. A. McPherson	President
C. F. Miller	Vice-President
William E. Heimann	Vice President, General Counsel and Secretary
R. D. Robins	Vice President, Treasurer and Assistant Secretary
Carter G. Dudley	Assistant Secretary

and that as of the date hereof the following persons are duly authorized attorneys-in-fact for said corporation, to-wit:

R. G. Horner, Jr.	Attorney-in-Fact
G. A. Ratcliff	Attorney-in-Fact

THAT the above Chairman of the Board, Vice Chairman of the Board, President and Vice Presidents are, in accordance with the Bylaws of Kerr-McGee Corporation, fully empowered to execute all instruments and papers for, and in behalf of said Corporation, in connection with the leasing and operation of U. S. Government Lands for oil and gas purposes, and the Secretary or Assistant Secretary is authorized to affix the seal of this Corporation to said instruments and when so affixed, to attest the same, for and in behalf of said Corporation and that their actions to executing same will bind said Corporation to full performance of all obligations thereunder.

THAT the above Attorneys-in-Fact are, in accordance with the Powers of Attorney, duly authorized and fully empowered to enter into, execute, deliver, file and accept in the usual course of the Corporation's business those certain instruments and documents relating to properties and interests of the Corporation or as may be acquired by the Corporation located in any State of the United States where the Corporation is registered or qualified to conduct business, including but not limited to Public Domain Lands and Acquired Lands of the United States of America,

but excluding Outer Continental Shelf lands of the United States of America, all of which said certain instruments and documents are more particularly identified or described in the aforesaid Powers of Attorney.



Carter G. Dudley
Carter G. Dudley
Assistant Secretary

Subscribed and sworn to before me this 1st day of April, 1981.

Rebecca J. Rigg
Notary Public
In and For Oklahoma County
State of Oklahoma

My Commission Expires:

March 1, 1982



POWER OF ATTORNEY

Kerr-McGee Corporation, a Delaware corporation, with an office at Oklahoma City, Oklahoma, hereinafter sometimes referred to as the "Company", acting by and through the undersigned officer hereunto duly authorized by Resolution adopted by its Board of Directors on the 8th day of May, 1978, by these presents does make, constitute and appoint R. G. HORNBER, JR. with the full authority hereinafter provided, its true and lawful agent and Attorney-in-Fact, authorized and empowered on behalf of the Company and in the Company's name, place and stead, and for the sole and exclusive benefit of the Company and not in behalf of any other person, corporation or association, in whole or in part, to enter into, execute, deliver, file and accept in the usual course of its business the following described instruments and documents relating to properties and interests of the Company or as may hereafter be acquired by the Company located in any State of the United States of America where the Company is registered or qualified to conduct business, including but not limited to Public Domain Lands and Acquired Lands of the United States of America but excluding Outer Continental Shelf Lands of the United States of America:

(1) Any and all instruments relating to the acquisition, purchase or ownership of oil and gas interests and other mineral interests, including but not by way of limitation, permits, offers, applications and bids to lease oil and gas interests, and leases for oil and gas interests, and permits, offers, applications and bids to lease other mineral interests, and leases of other mineral interests, and instruments for the acceptance of assignments to the Company of oil and gas leases and other mineral leases or interests therein (including assignments of working and operating rights, royalty interests and subleases) covering said lands and, without limitation, contracts, option agreements and farmout agreements for conveyances, transfers or assignments of oil and gas interests or other mineral interests to the Company together with applications for approval thereof by the appropriate governmental authority;

(2) Stipulation concerning the use of the surface of any such lands under oil and gas leases or leases for other minerals and any and all other stipulations concerning operations under said leases.

(3) All statements of interests and holdings and all other statements and declarations required or which may be required of an offeror lessee or assignee by governmental statutes, rules, regulations or proclamations, and the Company hereby agrees to be bound by such representations and declarations of said Attorney-in-Fact and waives any and all defenses which may be available to the Company to contest, negate, or disaffirm the acts of the Attorney-in-Fact under this Power of Attorney;

(4) Applications for extensions and renewals of oil and gas and other mineral leases and applications for exchange leases, modifications of leases and acceptances thereof;

(5) Any and all instruments relating to the transfer, sale, conveyance, assignment, release or disposal of oil and gas leases or other mineral leases or applications or offers therefor or any interests therein covering any of said lands, including but not limited to: farmouts or agreements for farmout of leases in whole or in part; assignments, transfers or conveyances of leases (including assignments of working or operating rights as well as the record title) in whole or in part; subleases, releases, surrenders, forfeitures, or relinquishment of leases in whole or in part; withdrawals of applications or offers for leases; instruments creating, assigning or otherwise pertaining to royalties, overriding royalty interests, production payments, carried interest, net profits interest or any of same;

(6) Any and all instruments relating to the pooling or unitization of leasehold, royalty or other interests in oil and gas and other minerals in any of said lands, including but not limited to: unitization agreements; communitization agreements; unit agreements; unit operating agreements; pooling agreements; agreements or declarations expanding, contracting or terminating units; agreements or declarations designating unit operators and successors thereto or suboperators; ratifications and joinders to unit

agreements and unit operating agreements and consents to such ratifications and joinders; applications for approval of unit areas and all other instruments submitted to or filed with governmental authorities pursuant to the statutes, rules and regulations pertaining to pooling and unitization;

(7) Any and all other instruments relating to exploration, development and operations under an oil and gas or other mineral lease covering any of said lands, including but not limited to: operating agreements, designation of operator or agent; acreage contribution agreements; dry hole contribution agreements; bottom hole contribution agreements; surface leases and applications for and acceptances of surface leases, easements, rights-of-way, special use permits, and seismographic and geophysical or geological exploration permits or licenses; salt water disposal agreements; subordination agreements; compensatory royalty agreements; bonds and indemnities of lessee, licensee, permittee, or operator; applications, reports, exhibits and other instruments or documents required or permitted by governmental authorities in connection with the conduct of the business of the Company; storage agreements; and notices;

(8) Instruments modifying, supplementing, amending, renewing, extending, ratifying, releasing, surrendering, canceling or terminating any and all of the aforementioned types of instruments and documents;

with such terms and conditions as said Attorney-in-Fact shall deem proper and advisable, giving and granting unto said Attorney-in-Fact full and complete power and authority to do and perform any and all acts and things whatsoever necessary and requisite to be done as may be necessary and proper in the premise.

Kerr-McGee Corporation hereby declares that each and every act, matter and thing which shall be given, made and done by such Attorney-in-Fact in pursuance of these presents shall be binding upon the Company as fully and amply, to all intents and purposes, as if such instruments had been duly executed and delivered by an executive officer of the Company; Kerr-McGee Corporation hereby ratifying and confirming all that the said Attorney-in-Fact shall lawfully do or cause to be done by virtue hereof.

Revocation of this Power of Attorney, in order to be effective, must be in writing, executed by an officer of the Company and filed or registered in the respective governmental office or agency where the Power of Attorney is filed.

In Witness Whereof, Kerr-McGee Corporation has caused its name to be subscribed and its corporate seal to be affixed this 5th day of May, 1978.

ATTEST:

KERR-McGEE CORPORATION

Gail S. Duff
Assistant Secretary

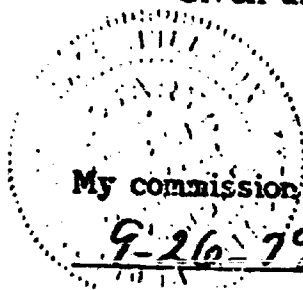
By [Signature]
Vice Chairman of the Board

ACKNOWLEDGMENT

STATE OF OKLAHOMA)
COUNTY OF OKLAHOMA) SS

On this 5th day of May, 1978, before me, the undersigned, a Notary Public in and for the County and State aforesaid, personally appeared W. H. H. H. H. H. to me known to be the identical person who signed the name of the maker thereof to the within and foregoing instrument as its Vice Chairman of the Board and acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of said Corporation, for the uses and purposes therein set forth.

Given under my hand and seal the day and year last above written.



Mary Kate Bullen
Notary Public

CONSENT AND RATIFICATION
HERNANDEZ DRAW UNIT AGREEMENT
CHAVES 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 Hernandez Draw Unit Area embracing lands situated in Chaves County, New Mexico, which said Agreement is dated the 15th day of February, 1981, 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.

MTS LIMITED PARTNERSHIP

By: Marion E. Causey
Marion E. Causey, Attorney in Fact for
Mesa Petroleum Co., General Partner

INDIVIDUAL

2

STATE OF _____)
COUNTY OF _____) SS.

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

My Commission Expires:

Notary Public

CORPORATE

STATE OF TEXAS)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this 24th day of April, 1981, by MARION E. CAUSEY, Attorney in Fact, for Mesa Petroleum Co., a Texas corporation, in the capacity therein stated.

My Commission Expires:

May 19, 1981

Notary Public

CONSENT AND RATIFICATION
HERNANDEZ DRAW UNIT AGREEMENT
CHAVES 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 Hernandez Draw Unit Area embracing lands situated in Chaves County, New Mexico, which said Agreement is dated the 15th day of February, 1981, 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.

PUBLIC LANDS EXPLORATION, INC.

By: _____

Don E. Williams, Vice President

INDIVIDUAL

STATE OF _____)
COUNTY OF _____) SS.

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

My Commission Expires:

Notary Public

CORPORATE

STATE OF TEXAS)
COUNTY OF DALLAS) SS.

The foregoing instrument was acknowledged before me this 23 day of April, 1981, by Don E. Williams, Vice President of Public Lands Exploration, Inc. a Texas corporation, on behalf of said corporation.

My Commission Expires:

8-9-84

Notary Public

CONSENT AND RATIFICATION
HERNANDEZ DRAW UNIT AGREEMENT
CHAVES 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 Hernandez Draw Unit Area embracing lands situated in Chaves County, New Mexico, which said Agreement is dated the 15th day of February, 1981, 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.

MARATHON OIL COMPANY

By: E. W. Vind *wsb*
E. W. Vind, Attorney-in-Fact and
Division Exploration Manager

INDIVIDUAL

TR-3-4

STATE OF _____)
COUNTY OF _____) SS.

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

My Commission Expires:

Notary Public

CORPORATE

STATE OF TEXAS I
COUNTY OF MIDLAND I

The foregoing instrument was acknowledged before me this 22nd day of April, 1981, by E. W. VIND, ATTORNEY-IN-FACT AND DIVISION EXPLORATION MANAGER of MARATHON OIL COMPANY, an Ohio corporation, on behalf of said corporation.

My Commission Expires:

2-28-85

Donald K. Reese
Notary Public in and for
Midland County, Texas

LIMITED POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT MARATHON OIL COMPANY, an Ohio corporation has made, constituted and appointed and by these presents does make, constitute and appoint E. W. Vind, Houston Division Exploration Manager, its true and lawful attorney, giving and granting unto its said attorney full power and authority to execute for it and in its name, place and stead, and for its sole and exclusive benefit, and not on behalf of any other person in whole or in part:

- (a) Offers to Lease and Leases for Oil and Gas under the provisions of the Act of February 25, 1920 (41 Stat. 437; 30 U.S.C. 181), as amended, and the Act of August 7, 1947 (61 Stat. 913; 30 U.S.C. 351-359), as amended;
- (b) Assignments thereof;
- (c) Applications for Approval of Assignments thereof;
- (d) any other instruments in connection therewith including - but not limited to - all statements of interest and of holdings on behalf of Marathon Oil Company; and
- (e) all other statements permitted or required by said Acts and regulations promulgated pursuant thereto;

covering lands and/or mineral rights therein owned by the United States.

Marathon Oil Company agrees to be bound by such representations of the aforementioned E. W. Vind and waives any and all defenses which may be available to Marathon Oil Company to contest, negate or disaffirm the actions of said E. W. Vind as its attorney-in-fact, under this power of attorney.

This Limited Power of Attorney shall remain in full force and effect until a duly executed instrument of revocation is furnished the Area Land Office of the Bureau of Land Management wherein said Power is being utilized.

Dated: September 1, 1979

WITNESSES:

MARATHON OIL COMPANY

Beverly G. Binnage

By R.R. Burke
VICE PRESIDENT

Dorothy A. Fisher

Attest: F.H. Jones
Asst. Secretary

STATE OF OHIO)
) SS:
COUNTY OF HANCOCK)

Before me, a Notary Public in and for said county and state, on this day personally appeared R. R. Burke and F. H. Jones known to me to be the persons whose names are subscribed to the foregoing instrument and known to me to be Vice President and Assistant Secretary, respectively of MARATHON OIL COMPANY, an Ohio Corporation, which executed the foregoing instrument, and who, being first duly sworn, acknowledged to me the execution of the foregoing instrument in the name of and upon behalf of said corporation as such officers respectively; that the same is their free act and deed as such officers respectively and the free and corporate act and deed of said corporation for the uses and purposes therein expressed; that they were authorized thereto by its Board of Directors; and that the seal affixed to said instrument is the corporate seal of such corporation.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name and affixed my official seal at Findlay, Ohio, this September 1, 1979.


Dorothy A. Fisher (Seal)
Notary Public
Findlay, Ohio
Hancock County

CONSENT AND RATIFICATION
HERNANDEZ DRAW UNIT AGREEMENT
CHAVES 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 Hernandez Draw Unit Area embracing lands situated in Chaves County, New Mexico, which said Agreement is dated the 15th day of February, 1981, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

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

ATTEST

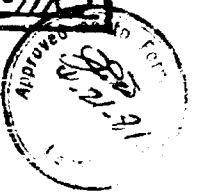
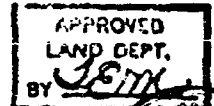

John C. Givens
Assistant Secretary

COLORADO INTERSTATE GAS COMPANY

By *W. E. Spencer*
Vice President

INDIVIDUAL

TR-1



STATE OF _____)
COUNTY OF _____) SS.

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

My Commission Expires:

Notary Public

CORPORATE

STATE OF Texas)
COUNTY OF Harris) SS.

The foregoing instrument was acknowledged before me this 21st day of April, 1981, by W. E. Spencer, Vice President of Colorado Interstate Gas Company, a Delaware corporation, on behalf of said corporation.

My Commission Expires:

7-30-81

M. Dawn Brown
Notary Public

M. DAWN BROWN
Notary Public in and for Harris County, Texas
My Commission Expires

CONSENT AND RATIFICATION
HERNANDEZ DRAW UNIT AGREEMENT
CHAVES 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 Hernandez Draw Unit Area embracing lands situated in Chaves County, New Mexico, which said Agreement is dated the 15th day of February, 1981, and acknowledged that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

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

ATTEST

By

Secretary

LAWBAR PETROLEUM, INC.

By

President

INDIVIDUAL

STATE OF _____)
COUNTY OF _____) SS.

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

My Commission Expires:

Notary Public

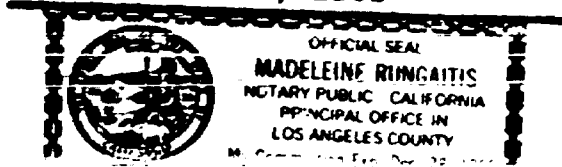
CORPORATE

STATE OF California)
COUNTY OF Los Angeles) SS.

The foregoing instrument was acknowledged before me this 22nd day of April, 1981, by Lawrence E. Scott, President of Lawbar Petroleum, Inc. a Delaware corporation, on behalf of said corporation.

My Commission Expires:

December 28, 1982



Madeleine Ringaitis
Notary Public

CONSENT AND RATIFICATION
HERNANDEZ DRAW UNIT AGREEMENT
CHAVES 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 Hernandez Draw Unit Area embracing lands situated in Chaves County, New Mexico, which said Agreement is dated the 15th day of February, 1981, 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.

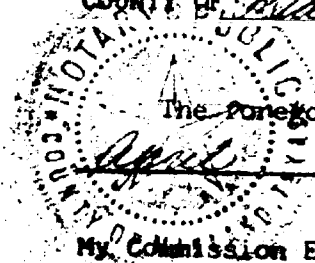
IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Ed Phillips

INDIVIDUAL

9

STATE OF Nebraska)
COUNTY OF Madison) SS.



The foregoing instrument was acknowledged before me this 24th day of April, 1981, by Ed Phillips.

My Commission Expires:

7-27-81

Teresa A. Rogers
Notary Public

CORPORATE

STATE OF _____)
COUNTY OF _____) SS.

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

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
HERNANDEZ DRAW UNIT AGREEMENT
CHAVES 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 Hernandez Draw Unit Area embracing lands situated in Chaves County, New Mexico, which said Agreement is dated the 15th day of February, 1981, 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.

Leo J. Lammers

INDIVIDUAL

STATE OF New Mexico)
COUNTY OF Chaves) SS.

The foregoing instrument was acknowledged before me this 20th day of April, 1981, by Leo J. Lammers.

My Commission Expires:

Notary Public

CORPORATE

STATE OF _____)
COUNTY OF _____) SS.

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

My Commission Expires:

Notary Public



RECEIVED
United States Department of the Interior

OIL CONSERVATION DIVISION
SANTA FE

GEOLOGICAL SURVEY

South Central Region

P. O. Box 26124

Albuquerque, New Mexico 87125

7181
28 APR 1981

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

Dear Mr. Richardson:

One approved copy of the Hernandez Draw Unit Agreement Chaves County, New Mexico, with Read and Stevens, Inc., as operator is enclosed. Such agreement has been assigned No. 14-08-0001-19560 and is effective on the date above, the same date as approved.

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

Sincerely yours,

(ORIG. S&D.) GENE F. DANIEL

Gene F. Daniel
Deputy Conservation Manager
Oil and Gas

Enclosure

cc:

Commissioner of Public Lands, Santa Fe (letter only)

NM/CGL, Santa Fe (letter only)

BLM, Santa Fe (w/cy. agree.)

Roswell District (w/cy. agree. & operat. agree.)



RECEIVED

MAY 1 1981

CONSERVATION DIVISION
SANTA FE

State of New Mexico

Commissioner of Public Lands

April 27, 1981

ALEX J. ARMIJO
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

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

Re: Hernandez Draw Unit
Chaves County, New Mexico

Dear Mr. Richardson:

The Commissioner of Public Lands has this date given final approval to the Hernandez Draw Unit, which you submitted on behalf of Read and Stevens, Inc. Our approval is subject to like approval by the United States Geological Survey.

Our approval is given with the understanding that tracts 8 and 10 are not being committed to the unit.

Enclosed are Five (5) Certificates of Approval.

The filing fee of Fifty (\$50.00) Dollars was received in this office with your letter of February 16, 1981.

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/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

25 March 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Read & Stevens, Inc.,
for a unit agreement, Chaves County,
New Mexico.

CASE
7181

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:

MR. NUTTER: We'll call now Case Number 7181, application of Read & Stevens for a unit agreement, Chaves County, New Mexico.

This case was heard on March the 11th, 1981; however, there was an error in the Chaves County newspaper and the legal notice for the case.

We will now reopen the case and call for any -- it has been correctly readvertised. We'll now reopen Case Number 7181. Are there any appearances in Case 7181?

If not, we will take the case under advisement and issue an order based on the previous record.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

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 complete record of the proceedings in the Examiner hearing of Case No. 7184 heard by me on 3/25 1981.

[Signature] Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
25 March 1981

EXAMINER HEARING

IN THE MATTER OF:

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for a unit agreement, Chaves County,
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BEFORE: Daniel S. Nutter

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Sally W. Boyd C.S.R.

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[Signature], Examiner
Oil Conservation Division

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



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

April 9, 1991

Re: Mr. Randolph H. Richardson, III
Attorney at Law
P. O. Box 819
Roswell, New Mexico 88201

Re: CASE NO. 7181
ORDER NO. R-6639

Applicant:

Read & Stevens, Inc.

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 OGD	X
Artesia OGD	X
Aztec OGD	

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. 7181
Order No. R-6639

APPLICATION OF READ & STEVENS, INC.
FOR APPROVAL OF THE HERNANDEZ DRAW
UNIT AGREEMENT, CHAVES COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 25, 1981,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 7th day of April, 1981, 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, Read & Stevens, Inc., seeks ap-
proval of the Hernandez Draw Unit Agreement covering 2571.51
acres, more or less, of State, Federal and Fee lands described
as follows:

CHAVES COUNTY, NEW MEXICO
TOWNSHIP 4 SOUTH, RANGE 26 EAST, NMPM
Section 36: All

TOWNSHIP 4 SOUTH, RANGE 27 EAST, NMPM
Section 30: S/2
Section 31: All

TOWNSHIP 5 SOUTH, RANGE 26 EAST, NMPM
Section 1: All

TOWNSHIP 5 SOUTH, RANGE 27 EAST, NMPM
Section 6: W/2

-2-

Case No. 7181
Order No. R-6639

(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 Hernandez Draw Unit Agreement is hereby approved.

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

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

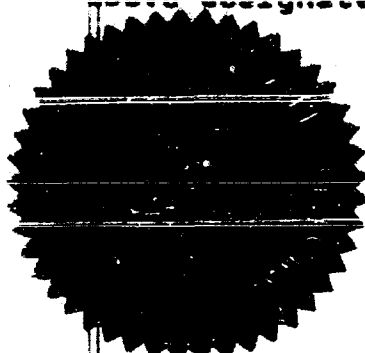
(4) That all plans of development and operation, all unit participating areas and expansions and contractions thereof, and all expansions or contractions of the unit area, shall be submitted to the Director of the Oil Conservation Division for approval.

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

-3-
Case No. 7181
Order No. R-6639

(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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY
Director

rd/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
11 March 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Read & Stevens, Inc.,
for a unit agreement, Chaves County,
New Mexico.

CASE
7181

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant:

Randolph Richardson, Esq.
Roswell, New Mexico

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I N D E X

DAVID HARLE

Direct Examination by Mr. Richardson

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E X H I B I T S

Applicant Exhibit A, Geologic Report

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2 MR. STAMETS: Call next Case 7181, which
3 is the application of Read & Stevens, Inc., for a unit agree-
4 ment, Chaves County, New Mexico.

5 Call for appearances in this case.

6 MR. RICHARDSON: Randolph M. Richardson,
7 Roswell, New Mexico, appearing on behalf of applicant, and
8 I have one witness to be sworn.

9
10 (Witness sworn.)

11
12 DAVID HARLE
13 being called as a witness and being duly sworn upon his oath
14 testified as follows, to wit:

15
16 DIRECT EXAMINATION

17 BY MR. RICHARDSON:

18 Q Mr. Harle, would you please state your
19 name and present occupation?

20 A My name is David Harle. I work for
21 Read & Stevens, Incorporated, as a geologist.

22 Q And that last name is spelled --

23 A H-A-R-L-E.

24 Q H-A-R-L-E. And have you ever testified
25 before the Commission before, Mr. Harle?

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2 A Yes, I have, approximately seven months
3 ago.

4 Q And did you qualify as an expert wit-
5 ness, a geologist, at that time?

6 A Yes, I did.

7 MR. RICHARDSON: Is that good or do you
8 want to go back through --

9 MR. STAMETS: The witness is considered
10 qualified.

11 MR. RICHARDSON: Real fine.

12 Q Are you familiar with the Hernandez
13 Draw Unit area and the matters contained in the application
14 to the Commission, or Division, for approval of the unit
15 agreement?

16 A Yes, I am.

17 Q Is the form of unit agreement described
18 by Federal regulations and as recently approved by the
19 Division, the Commissioner of Public Lands?

20 A Yes.

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

24 A Yes.

25 Q Could you please tell the Division the

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total number of acres within the unit area and the number and percentages of acres of Federal, State, and fee lands?

A The total number of acres is 2571.51.

The portion of that that is State of New Mexico lands is 1649.43 acres, which is 64.14 percent.

Federal lands are 842.08 acres, which is 32.75 percent.

Fee lands are 80 acres, which is 3.11 percent.

Q Could you please tell the Division the townships and ranges in which this unit is located and the approximate location with reference to the nearest town?

A The unit is located in Townships 4 and 5 South, Ranges 26 and 27 East, and it's approximately thirteen miles north of Elkins, New Mexico.

Q I have -- Mr. Harle just handed the Division a geological report and also a revised Exhibit A, the plat. The copy of the unit agreement that you have is just a rough draft of the Exhibit A, and that's the final.

The geological report, which I handed to the Examiner, was that report prepared by you or under your supervision?

A Yes, it was.

Q Could you please refer to the report,

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referring to the maps by name, indicating the significance of such maps, and this geological report consists of Exhibits One through Five. Exhibit Five is actually a supplemental plat, and it is marked Supplemental One, which is in the folder back here, but it should be Exhibit Five. It's the same map, it was supplemented.

So, Mr. Harle, go ahead with the report.

A Okay. Beginning with Exhibit One, it's a regional map that shows the Hernandez Draw Unit outlined in black, and its location with reference to Elkins, New Mexico.

Exhibit Two, which is closer to the front of the brochure, is a land plat showing some of the ownership within the unit. Also, the unit outline is shown in black.

Exhibit Three is the geological report, and I'll just briefly summarize that now. The Hernandez Draw Unit is located on the northwestern shelf of the Greater Permian Basin of west Texas and southeastern New Mexico.

We expect to encounter approximately 6600 feet of Paleozoic sedimentary rocks, and the test is scheduled for 6800 feet to penetrate and bottom in the granite or Granite Wash.

1
2 The location of the initial well will be
3 in the southeast quarter of Section 36, 4 South, 26 East.

4 There are four pay objectives that we
5 expect to encounter, the San Andres, which will be at approx-
6 imately 1400 feet; the Abo sandstone, which will be -- the
7 top of which is at 4400 feet; the Pennsylvanian carbonates
8 and sandstones, the top of which is at 6000 feet; and the
9 Montoya dolomite, which will be at about 6500 feet.

10 Exhibit Four is an explanation or is
11 meant to clarify the Abo sand distribution in the area of
12 the proposed unit and shows sands as they are distributed
13 from the Pedernal Uplift on the west side of Exhibit Four in
14 an easterly direction across the unit.

15 Exhibit Five is a structure map on the
16 top of the Montoya dolomite. This map shows the Montoya sub-
17 crop. The dotted lines indicate the Montoya porosity trend
18 that parallels the Montoya sub-crop, and within this trend
19 there is designated the Montoya producer. This Montoya
20 porosity trend is defined by approximately 60 to 90 feet of
21 dolomite.

22 The arrow indicates the proposed location
23 within the Hernandez Draw Unit.

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

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A. Yes.

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

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A 93.78 percent working interest will be committed and 96 percent royalty interest.

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

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A. Yes.

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

A. Yes.

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

A. Yes.

MR. RICHARDSON: I'd like to enter the geological report into evidence.

MR. STAMETS: This report will be accepted.

MR. RICHARDSON: I have nothing further of the witness except that I would like to say that this

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2 well is already drilling. We had a March 1st expiration, and
3 it is a Federal form and if the well gets to total depth be-
4 fore the unit, well, then we're kind of shot before the unit
5 is approved.

6 So we're not in a real big hurry, but
7 kind of a hurry.

8 MR. STAMETS: When do you expect the
9 well to be drilled?

10 MR. RICHARDSON: As soon as we get a big
11 rig it will take, what, 45 days after that?

12 A Yes, approximately 30 days. It will
13 probably be April the 20th or shortly after.

14 MR. STAMETS: I would hope we can get this
15 order out by then, that time.

16 MR. RICHARDSON: We have to put up with
17 the Feds, then, after we get your order.

18 MR. STAMETS: Anything further in this
19 case?

20 This case must be readvertised in the
21 Roswell paper due to an error in the advertisement. This
22 was shown to be heard on March 1st instead of March the 11th.
23 It is being readvertised for the March 25th Examiner Hearing.

24
25 (Hearing concluded.)

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-
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is a full, true, and correct record of the hearing, prepared
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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 complete and correct transcript of the proceedings in
the Examination of the Oil Conservation Division
heard by me on 3-11 1981.
Richard L. Stum, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
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11 March 1981

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8 MR. STAMETS: When do you expect the
9 well to be drilled?

10 MR. RICHARDSON: As soon as we get a big
11 rig it will take, what, 45 days after that?

12 A Yes, approximately 30 days. It will
13 probably be April the 20th or shortly after.

14 MR. STAMETS: I would hope we can get this
15 order out by then, that time.

16 MR. RICHARDSON: We have to put up with
17 the Feds, then, after we get your order.

18 MR. STAMETS: Anything further in this
19 case?

20 This case must be readvertised in the
21 Roswell paper due to an error in the advertisement. This
22 was shown to be heard on March 1st instead of March the 11th.
23 It is being readvertised for the March 25th Examiner Hearing.

24
25 (Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete and correct transcript of the proceedings in the Examination of the Oil Conservation Division heard by me on 19__.

_____, Examiner
Oil Conservation Division

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

PROPOSED HERNANDEZ DRAW UNIT

CHAVES COUNTY, NEW MEXICO

READ & STEVENS, INC.

ROSWELL, NEW MEXICO

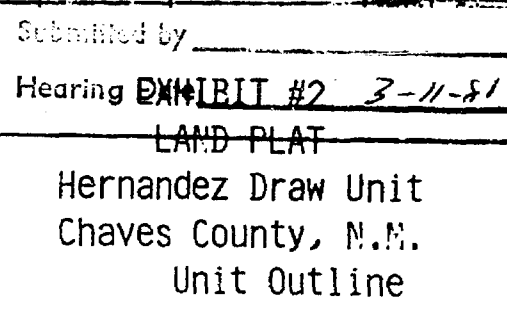
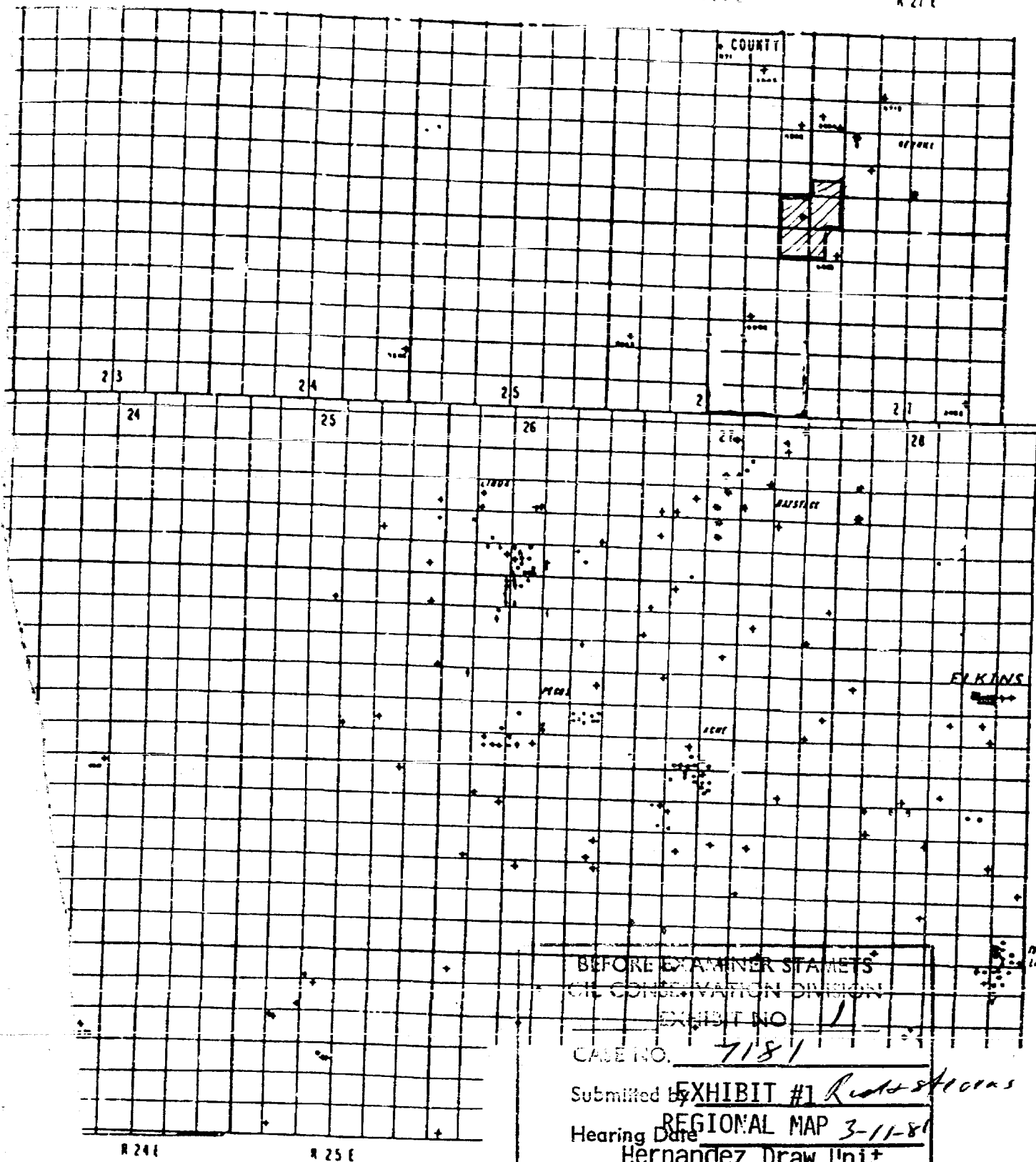


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EXHIBIT 2.....	Land Plat
EXHIBIT 3.....	Geological Report
EXHIBIT 4.....	Abo Sand Map
EXHIBIT 5.....	Montoya Trend & Structure Map

R 27 E



BEFORE EXAMINER STARTS
OIL CONSERVATION DIVISION
EXHIBIT NO. 1

CASE NO. 7181

Submitted by EXHIBIT #1 *Rent & Storage*

Hearing Date REGIONAL MAP 3-11-81

Hernandez Draw Unit
Chaves County, N.M.
Unit Outline

EXHIBIT 3

PROPOSED HERNANDEZ DRAW UNIT

CHAVES COUNTY, NEW MEXICO

BEFORE EXAMINER STAMETS
OIL COMMISSION DIVISION

EXHIBIT NO. 3

CASE NO. 7181

Submitted by Read & Stevens

Hearing Date 3-11-81

PURPOSE

The purpose of this report is to briefly summarize the geological reasons for forming a four section Federal, State and Fee Unit. A 6800 foot granite wildcat test will be drilled within this unit.

LOCATION AND LAND

The proposed Hernandez Draw Unit is located 13 miles north of Elkins, New Mexico, near a prominent erosional scarp that marks an eastern boundary to the Pecos River flood plain.

The proposed unit contains 4 sections or 2560 acres of which 840 is Federal, 1640 is State and 80 is Fee owned. The unit includes section 36-T4S, R26E, S $\frac{1}{2}$ section 30 and all of section 31-T4S, R27E, Section 1-T5S-26E, W $\frac{1}{2}$ of section 6-T5S, R27E.

GENERAL GEOLOGICAL DISCUSSION

The Hernandez Draw Unit is located on the Northwestern shelf of the Greater Permian Basin of West Texas and South-eastern New Mexico. Approximately 6600 feet of paleozoic sedimentary rocks are present. A 6800 foot test in the unit should penetrate all of the prospective pay zones and bottom in the granite or granite wash. Expected tops are as follows:

San Andres	1400'
Glorieta	3100'
Abo	4400'
Wolfcamp	5350'

Pennsylvanian

6000'

Granite

6600'

The proposed unit has four pay objectives; San Andres, Abo Sandstone, Pennsylvanian carbonates and sandstones, and the Montoya Dolomite.

San Andres

The Linda - Leslie Springs - Acme fields to the southwest of the proposed unit are productive from the San Andres. The hydrocarbon trap is primarily stratigraphic. Since this type of trap is difficult to predict, the zone will be tested when the well is drilled.

Abo Sandstone

The Abo sandstone play in Chaves County began in 1978 and still has many unknown parameters. Additional drilling is the key to the exact distribution of these gas bearing, stratigraphic traps in the Abo section.

Exhibit 4 shows a general overview of the Abo sandstone accumulations in drainage channels and along shallow water shorelines. The sands were derived from the uplifted Pedernal Mass to the east with strong east-west trends. Recent Abo completions in T5S, R24E and R25E make the proposed unit highly prospective because it lies directly to the east of the discoveries. Wells in T4S, R26E and R27E show the presence of a fluvial system over the unit.

Pennsylvanian Carbonates and Sandstones

The Haystack Cisco gas field, southwest of the proposed unit produces from a limestone buildup over a north-south trending anticline. The proposed unit is believed to have an

anticlinal closure over which a limestone could develop. The Phillips Van A #1 Well in 6-5S-27E showed porous limestone development in the Cisco.

The Newmill South field produces from a sandstone immediately above the Mississippian limestone. It is believed the sand could extend over the unit.

Montoya Dolomite

The Montoya Dolomite is believed to be productive where porosity is preserved as an erosional remnant. This occurs where the overall dolomite thickness is between 60 and 90 feet. Exhibit #5 shows the structure on the Montoya and the porosity trend where possible production could occur.

The Phillips well in Section 6-5S-27E is a dry hole. The -2700' contour is the bounding contour for the proposed unit. By drilling structurally high to the Phillips well, better porosity and permeability is expected to be encountered.

CONCLUSION

The Hernandez Draw Unit has geologic merit that warrants a granite test on the proposed location.

The unit size and shape is dictated by:

- a. Abo Sand distribution
- b. A Montoya structural high
- c. Reasonable economics
- d. Risk distribution among participants

Fort Sumner

D E B A C A

UPLIFT

WAL

ABO SANDS

-2000

-1000

Sea Level

-1000

-2000

-3000

ABO SANDS

Roswell

BEFORE EXAMINER STATES
OIL CONSERVATION DIVISION

EXHIBIT NO. 4

CR. NO. 7181

Submitted by Read & Stroms

Hearing Date 3-11-81

EXHIBIT #4

ABO SAND MAP

Hernandez Draw Unit
Chaves County, N.M.

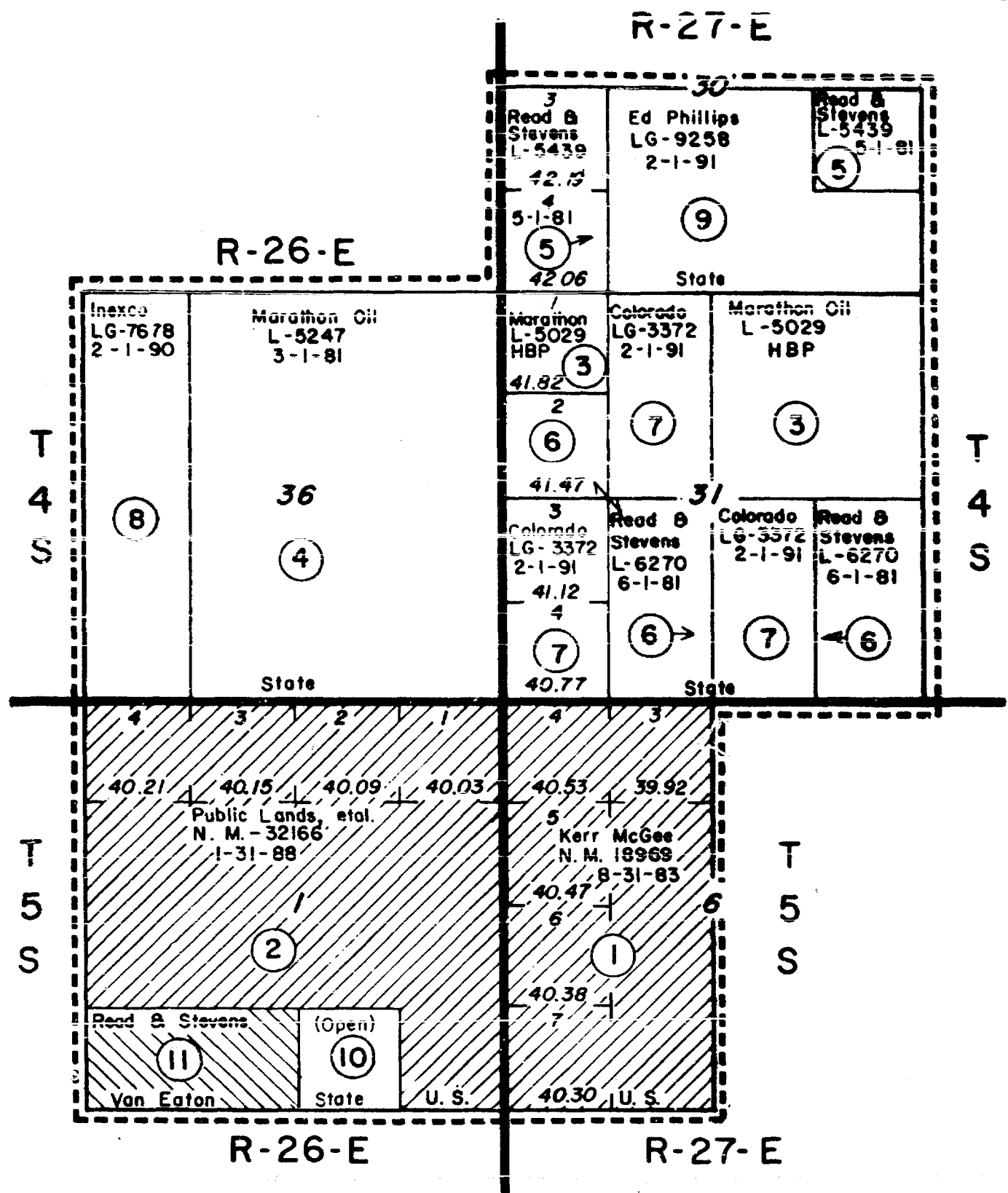


EXHIBIT "A"

Hernandez Draw Unit
Chaves County, New Mexico

----- UNIT OUTLINE



TRACT NUMBER



STATE OF NEW MEXICO LANDS
1,649.43 ACRES - 64.14 %



FEDERAL LANDS
842.08 ACRES - 32.75 %

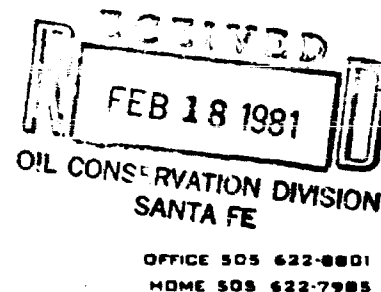


FEE LANDS
80.00 ACRES - 3.11 %

TOTAL : 2,571.51 ACRES - 100 %

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

February 13, 1981



In Re: Hernandez Draw Unit Area
T-4-5-S, R-26-27-E
Chaves County, New Mexico

Mr. R. L. Stamets
Oil Conservation Division
Department of Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Case 7181

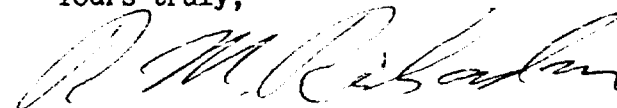
Dear Mr. Stamets:

On behalf of Read & Stevens, Inc., I am enclosing three copies of Application for Approval of the Hernandez Draw Unit Agreement, and Request for Hearing, together with one copy of the proposed Unit Agreement.

As normal, Exhibits "A" and "B" to the unit are not complete, however, you will be furnished a completed copy.

From talking with Florine, the first available date that this case can be heard will be March 11, 1981. We would very much appreciate your placing this case on the March 11 docket, if at all possible. Thank you.

Yours truly,



R. M. Richardson

RMR/sr
Enclosures
xc: Read & Stevens, Inc.

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

APPLICATION FOR APPROVAL OF
THE HERNANDEZ DRAW UNIT AGREEMENT
CHAVES COUNTY, NEW MEXICO

New Mexico Oil Conservation Division
Santa Fe, New Mexico 87501

Case 7181

940
1640
80
2560

Comes the undersigned Read & Stevens, Inc., with offices at Roswell, New Mexico, and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Hernandez Draw Unit Area, Chaves 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 2,560.00 acres of land, more or less, more particularly described as follows:

<u>T-4-S, R-26-E, NMPM</u>	<u>T-4-S, R-27-E, NMPM</u>	<u>T-5-S, R-26-E, NMPM</u>	<u>T-5-S, R-27-E, N</u>
Sec. 36: All	Sec. 30: S ₂	Sec. 1: All	Sec. 6: W ₂
	Sec. 31: All		

Chaves County, New Mexico

2. That of the lands embraced within the proposed Unit, 840.00 acres are lands of the United States, being 32.81% of the Area, 1,640.00 acres are State of New Mexico lands being 64.06% of the Area, and 80.00 acres are Fee lands being 3.13% 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. That Read & Stevens, Inc., 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 6,600 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 11th day of February, 1981.

READ & STEVENS, INC.

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 HERNANDEZ DRAW UNIT AGREEMENT
CHAVES COUNTY, NEW MEXICO

Case 7181

New Mexico Oil Conservation Division
Santa Fe, New Mexico 87501

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Sec. 36: All	Sec. 30: S ₂	Sec. 1: All	Sec. 6: W ₂
	Sec. 31: All		

Chaves County, New Mexico

2. That of the lands embraced within the proposed Unit, 840.00 acres are lands of the United States, being 32.81% of the Area, 1,640.00 acres are State of New Mexico lands being 64.06% of the Area, and 80.00 acres are Fee lands being 3.13% of the Unit Area.

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DATED THIS 11th day of February, 1981.

READ & STEVENS, INC.

By Carl G. 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 HERNANDEZ DRAW UNIT AGREEMENT
CHAVES COUNTY, NEW MEXICO

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Sec. 36: All	Sec. 30: S ₁	Sec. 1: All	Sec. 6: W ₁
	Sec. 31: All		

Chaves County, New Mexico

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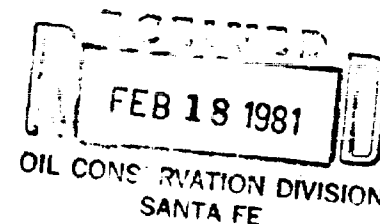
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DATED THIS 11th day of February, 1931.

READ & STEVENS, INC.

By

Randolph M. Richardson, III
Randolph M. Richardson, III
Attorney At Law
P. O. Box 819
Roswell, New Mexico 38201



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 Hernandez Draw Unit Area, State of New Mexico, County of Chaves.

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
HERNANDEZ DRAW UNIT AREA
COUNTY OF CHAVES
STATE OF NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 15th day of February, 1981, 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 representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (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 _____
Hernandez Draw _____ 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 resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions,

and limitations herein set forth;

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

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

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

T-4-S, R-26-E, NMPM
Sec. 36: All

T-4-S, R-27-E, NMPM
Sec. 30: S₂
Sec. 31: All

T-5-S, R-26-E, NMPM
Sec. 1: All

T-5-S, R-27-E, N
Sec. 6: W₂

Chaves County, New Mexico

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

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

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

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

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

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

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

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

shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said tenth anniversary, in which event all such lands shall remain subject hereto until such diligent drilling operations are continued diligently, without more than a brief 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 95% of the working interests in the current non-participating unitized lands and the owners of 80% 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.

READ & STEVENS, INC.

is hereby designated as Unit Operator and is authorized to act 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

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.

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quantities (to-wit: quantities sufficient to repay the costs of drilling, c-
ing 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 6,600 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 rea-
sonably 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 exten-
sions 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-
er 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 lessor 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

33. 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: _____ BY: _____

Address: _____

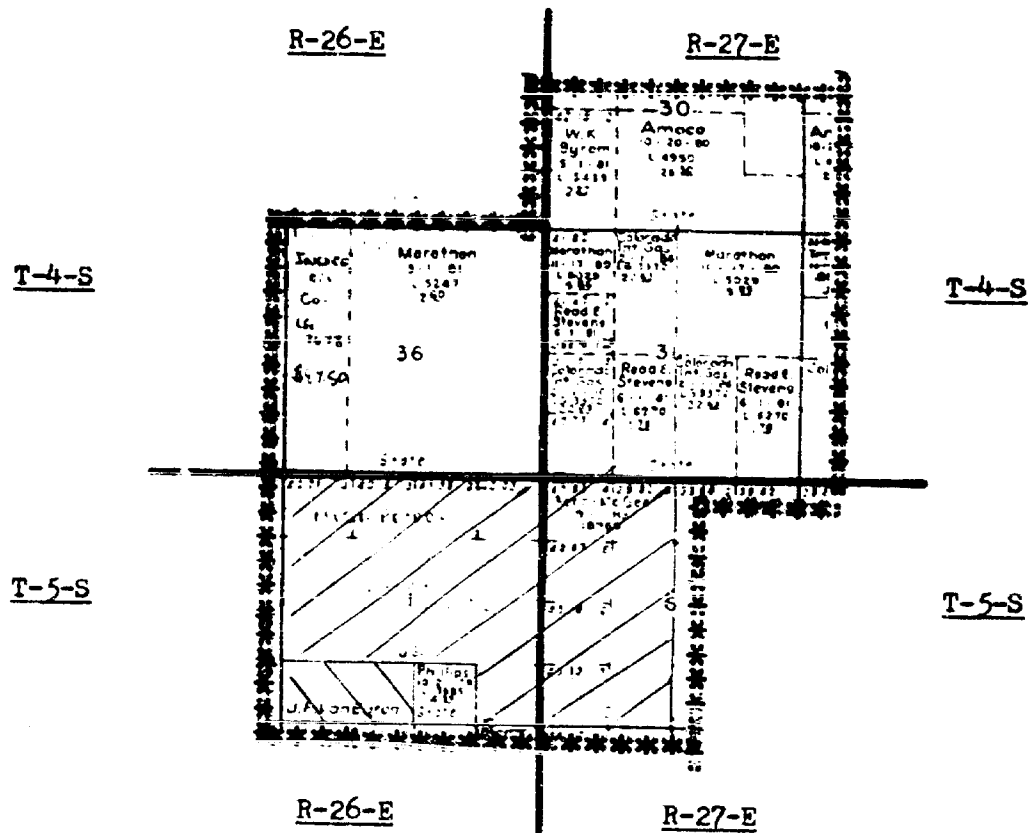
UNIT OPERATOR

STATE OF _____)
COUNTY OF _____) SS.

The foregoing instrument was acknowledged before me this _____ day
of _____, 198____, by _____ who
is _____ of _____
(State of Incorp.)
_____ corporation, for and on behalf of said Corporation.

My Commission Expires:

Notary Public



***** Unit Outline



Federal Lands

State of NM Lands

Fee Lands

Rough Draft

Exhibit "A", Hernandez Draw Unit
Chaves County, New Mex.

EXHIBIT "B"
SCHEDULE SHOWING ALL LANDS AND OWNERSHIP
WITHIN THE UNIT AREA
HERNANDEZ DRAJ UNIT - CHAVES COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & LEASE EXPIRATION DATE	BASIC ROYALTY & PERCENT	LESSEE OF RECORD AND PERCENT	OVERRIDING ROYALTY AND PERCENT	WORKING INTEREST AND PERCENT
FEDERAL LANDS							
1.	<u>1-5-S, R-27-E, NME</u> Sec. 6: Lots 3, 4, 5, 6, 7, SE1/4NW1/4, E1/4SW1/4	321.60	NM-18969 8-31-83	USA 12.5	Kerr McGee Oil Corp.		
2.	<u>1-5-S, R-26-E, NME</u> Sec. 1: Lots 1, 2, 3, 4, S1/4N1/4, N1/4S1/4, SE1/4S1/4	520.48	NM-32166 1-31-88	USA 12.5	Mesa Petroleum Co. Public Lands Expl.	50.0 50.0	
STATE OF NEW MEXICO LANDS							
3.	<u>1-4-S, R-27-E, NMP</u> Sec. 31: Lot 1, NE1/4	201.82	L-5029 HBP	State 12.5	Marathon Oil Co.	All	
4.	<u>1-4-S, R-26-E, NMP</u> Sec. 36: E1/4W1/4, E1/4S1/4	480.00	1-5247 3-1-81	State 12.5	Marathon Oil	All	

T-4-S, R-27-E, NMPM
Sec. 30: Lots 3, 4, NE1/4SE1/4

124.25

L-5439
5-1-81

State
12.5

Read & Stevens, Inc. All

T-4-S, R-27-E, NMPM
Sec. 31: Lot 2, E1/2SW1/4, E1/2SE1/4

201.47

L-6270
6-1-81

State
12.5

Read & Stevens, Inc. All

T-4-S, R-27-E, NMPM
Sec. 31: Lots 3, 4, E1/2NW1/4, W1/2SE1/4

241.89

LG-3372
2-1-86

State
12.5

Colorado Interstate
Gas All

T-4-S, R-26-E, NMPM
Sec. 36: W1/2W1/2

160.00

LG-7678
2-1-90

State
12.5

Inexco Oil Co. All

T-4-S, R-27-E, NMPM
Sec. 30: E1/2SW1/4, W1/2SE1/4, SE1/4SE1/4

200.00

LG-9258
2-1-91

State
12.5

Ed Phillips All

T-5-S, R-26-E, NMPM
Sec. 1: SE1/4SW1/4

40.00

Open

State

PATENTED (FEE) LANDS

T-5-S, R-26-E, NMPM
Sec. 1: S1/2SW1/4

80.00

Fee

Read & Stevens, Inc. All

CASE 7209: Application of Koch Industries, Inc. for designation of a tight formation, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Mesaverde formation underlying portions of Township 32 North, Ranges 8 and 9 West, containing 10,551 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271.701-705.

CASE 7181: (Readvertised)

Application of Read & Stevens, Inc. for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Hernandez Draw Unit Area, comprising 2,560 acres, more or less, of Federal, State, and Fee lands in Townships 4 and 5 South, Ranges 26 and 27 East.

CASE 7197: (Readvertised)

In the matter of the hearing called by the Oil Conservation Division on its own motion for an order extending certain pools in Chaves County, New Mexico:

(g) EXTEND the Bull's Eye-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM
Section 1: SE/4 SW/4

(i) EXTEND the Chaveroo-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 32 EAST, NMPM
Section 10: NE/4

(l) EXTEND the Diablo-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 27 EAST, NMPM
Section 22: W/2 SW/4 and SW/4 NW/4
Section 27: NW/4 NW/4

(m) EXTEND the Diamond Mound-Atoka Gas Pool in Eddy and Chaves Counties, New Mexico, to include therein:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM
Section 34: S/2

TOWNSHIP 16 SOUTH, RANGE 27 EAST, NMPM
Section 15: N/2
Section 16: N/2

(r) EXTEND the L.E. Ranch-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 28 EAST, NMPM
Section 29: S/2 NW/4
Section 30: S/2 NE/4

(s) EXTEND the Linda-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 6 SOUTH, RANGE 26 EAST, NMPM
Section 30: NW/4 SE/4 and SW/4 NE/4

(y) EXTEND the Railroad Mountain-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 7 SOUTH, RANGE 28 EAST, NMPM
Section 35: SW/4 SW/4

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM
Section 2: W/2 NW/4

(z) EXTEND the East Siete-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 31 EAST, NMPM
Section 10: SE/4
Section 11: SW/4

Dockets Nos. 12-81 and 13-81 are tentatively set for March 25 and April 8, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 11, 1981

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

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

- ALLOWABLE: (1) Consideration of the allowable production of gas for April, 1981, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
- (2) Consideration of the allowable production of gas for April, 1981, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.
- CASE 7176: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Marjory M. Grier, U. S. Casualty Company of New York, and all other interested parties to appear and show cause why the Red Mountain Wells Nos. 6, 7, and 10, all located in Unit B of Section 29, Township 20 North, Range 9 West, McKinley County, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 7177: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Henry S. Birdseye and all other interested parties to appear and show cause why the State Well No. 10-2 in Unit C of Section 10, Township 19 North, Range 10 West, McKinley County, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 7178: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Noland and Wells and all other interested parties to appear and show cause why the Reinhardt Well No. 1 in Unit A of Section 21, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 7179: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit "26" Oil Company and all other interested parties to appear and show cause why the Jackson Well No. 1 in Unit A of Section 21, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 7180: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Vincent and Goodrum and all other interested parties to appear and show cause why the Refinery Hare Well No. 1 in Unit A of Section 21, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 7181: Application of Read & Stevens, Inc. for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Hernandez Draw Unit Area, comprising 2,560 acres, more or less, of Federal, State, and Fee lands in Townships 4 and 5 South, Ranges 26 and 27 East.
- CASE 7182: Application of Wiser Oil Company for an unorthodox well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Downes A Well No. 5 to be drilled in the approximate center of the SW/4 of Section 32, Township 21 South, Range 37 East, Penrose Skelly Pool.
- CASE 7183: Application of Flag-Redfern Oil Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill its Osudo St. Com Well No. 2 at an unorthodox location 990 feet from the North and East lines of Section 18, Township 20 South, Range 36 East, North Osudo-Morrow Gas Pool.
- CASE 7147: (Readvertised)
- Application of Yates Petroleum Corporation for an unorthodox gas well location and simultaneous dedication, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to test all Pennsylvanian formations to be drilled 1650 feet from the South line and 660 feet from the East line of Section 35, Township 18 South, Range 25 East, the S/2 of said Section 35 to be dedicated to said well and to applicant's "JX" Well No. 2 located in Unit N.
- CASE 7184: Application of Harvey E. Yates Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 13, Township 17 South, Range 28 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.

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. 7181

Order No. R-6639

APPLICATION OF READ & STEVENS, INC.
FOR APPROVAL OF THE HERNANDEZ DRAW
UNIT AGREEMENT, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 25, 1981, at Santa Fe, New Mexico, before Examiner ~~Richard L. Stenata~~ ^{DSW}

NOW, on this _____ day of March, 1981, 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, Read & Stevens, Inc., seeks approval of the Hernandez Draw Unit Agreement covering ~~2,560~~ 257.51 acres, more or less, of State, Federal and Fee lands described as follows:

CHAVES COUNTY, NEW MEXICO
Township 4 South, Range 26 East, NMPM
Section 36: All
Township 4 South, Range 27 East, NMPM
Section 30: 5/2
Section 31: 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.

Township 5 South, Range 26 East, NMPM
Section 1: All
Township 5 South, Range 27 East, NMPM
Section 6: 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 Hernandez Draw 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.