

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
ROUND MOUNTAIN UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO

*Just
1972
1972*

NO. 4729

THIS AGREEMENT, entered into as of the 15th day of May 1972, 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 (Sec. 7-11-29 N.M. Statutes 1953 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,

100-241

EXHIBIT NO
NO 4729
Filed by _____
Filing Date _____

1 WHEREAS, the Oil Conservation Commission of the State of New 1
2 Mexico is authorized by an Act of the Legislature (Chapter 72, Laws 2
3 of 1935, as amended by Chapter 193, Laws of 1937, Chapter 166, Laws 3
4 of 1941, and Chapter 168, Laws of 1949) to approve this agreement 4
5 and the conservation provisions hereof; and, 5

6 WHEREAS, the parties hereto hold sufficient interests in the 6
7 Round Mountain Unit Area covering the land hereinafter described 7
8 to give reasonably effective control of operations therein; and 8

9 WHEREAS, it is the purpose of the parties hereto to conserve 9
10 natural resources, prevent waste, and secure other benefits obtain- 10
11 able through development and operation of the area subject to this 11
12 agreement under the terms, conditions, and limitations herein set 12
13 forth; 13

14 NOW, THEREFORE, in consideration of the premises and the 14
15 promises herein contained, the parties hereto commit to this agree- 15
16 ment their respective interests in the below-defined unit area, and 16
17 agree severally among themselves as follows: 17

18 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 18
19 February 25, 1920, as amended, supra, and all valid pertinent regu- 19
20 lations, including operating and unit plan regulations, heretofore 20
21 issued thereunder or valid, pertinent, and reasonable regulations 21
22 hereafter issued thereunder are accepted and made a part of this 22
23 agreement as to Federal lands, provided such regulations are not in- 23
24 consistent with the terms of this agreement; and as to non-Federal 24
25 lands, the oil and gas operating regulations in effect as of the 25
26 effective date hereof governing drilling and producing operations, 26
27 not inconsistent with the terms hereof or the laws of the State in 27
28 which the non-Federal land is located, are hereby accepted and made 28
29 a part of this agreement. 29

30 2. UNIT AREA. The following described land is hereby desig- 30
31 nated and recognized as constituting the unit area: 31

Township 21 South, Range 25 East, NMPM

Section 19: All

Section 20: All

Section 21: All

Section 28: All

Section 29: All

Section 30: All

Section 31: All

Section 32: All

Section 33: All

Containing 5,757.25 acres, more or less.

1
2
3
4
5
6
7
8
9
10
11
12
13
14

1
2
3
4
5
6
7
8
9
10
11
12
13
14

15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33

15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentivity 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 New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission".

1 The above-described unit area shall when practicable be ex- 1
2 panded to include therein any additional lands or shall be con- 2
3 tracted to exclude lands whenever such expansion or contraction is 3
4 deemed to be necessary or advisable to conform with the purposes 4
5 of this agreement. Such expansion or contraction shall be effected 5
6 in the following manner: 6

7 (a) Unit Operator, on its own motion or on demand of the 7
8 Director of the Geological Survey, hereinafter referred to as 8
9 "Director", or on demand of the Land Commissioner, after preliminary 9
10 concurrence by the Director, shall prepare a notice of proposed 10
11 expansion or contraction describing the contemplated changes in the 11
12 boundaries of the unit area, the reasons therefor, and the proposed 12
13 effective date thereof, preferably, the first day of a month subse- 13
14 quent to the date of notice. 14

15 (b) Said notice shall be delivered to the Supervisor, the 15
16 Land Commissioner and the State Commission, and copies thereof mailed 16
17 to the last known address of each working interest owner, lessee, 17
18 and lessor whose interests are affected, advising that thirty (30) 18
19 days will be allowed for submission to the Unit Operator of any ob- 19
20 jections. 20

21 (c) Upon expiration of the 30-day period provided in the 21
22 preceding item (b) hereof, Unit Operator shall file with the Super- 22
23 visor, the Land Commissioner and the State Commission, evidence of 23
24 mailing of the notice of expansion or contraction and a copy of any 24
25 objections thereto which have been filed with the Unit Operator, to- 25
26 gether with an application in sufficient number, for approval of 26
27 such expansion or contraction and with appropriate joinders. 27

28 (d) After due consideration of all pertinent information, 28
29 the expansion or contraction shall, upon approval by the Supervisor, 29
30 the Land Commissioner, become effective as of the date prescribed in 30
31 the notice thereof. 31

1 (e) All legal subdivisions of lands (i.e., 40 acres by 1
2 Government survey or its nearest lot or tract equivalent; in instan- 2
3 ces of irregular surveys unusually large lots or tracts shall be 3
4 considered in multiples of 40 acres or the nearest aliquot equiva- 4
5 lent thereof), no parts of which are entitled to be in a partici- 5
6 pating area on or before the fifth anniversary of the effective date 6
7 of the first initial participating area established under this unit 7
8 agreement, shall be eliminated automatically from this agreement, 8
9 effective as of said fifth anniversary, and such lands shall no 9
10 longer be a part of the unit area and shall no longer be subject to 10
11 this agreement, unless diligent drilling operations are in progress 11
12 on unitized lands not entitled to participation on said fifth anni- 12
13 versary, in which event all such lands shall remain subject hereto 13
14 for so long as such drilling operations are continued diligently, 14
15 with not more than 90 days' time elapsing between the completion of 15
16 one such well and the commencement of the next such well. All legal 16
17 subdivisions of lands not entitled to be in a participating area 17
18 within 10 years after the effective date of the first initial par- 18
19 ticipating area approved under this agreement shall be automatically 19
20 eliminated from this agreement as of said tenth anniversary. All 20
21 lands proved productive by diligent drilling operations after the 21
22 aforesaid 5-year period shall become participating in the same 22
23 manner as during said 5-year period. However, when such diligent 23
24 drilling operations cease, all nonparticipating lands shall be auto- 24
25 matically eliminated effective as of the 91st day thereafter. The 25
26 unit operator shall within 90 days after the effective date of any 26
27 elimination hereunder, describe the area so eliminated to the satis- 27
28 faction of the Supervisor and the Land Commissioner and promptly 28
29 notify all parties in interest. 29

30 If conditions warrant extension of the 10-year period speci- 30
31 fied in this subsection 2(e), a single extension of not to exceed 2 31

1 years may be accomplished by consent of the owners of 90% of the 1
2 working interests in the current nonparticipating unitized lands and 2
3 the owners of 60% of the basic royalty interests (exclusive of the 3
4 basic royalty interests of the United States) in nonparticipating 4
5 unitized lands with approval of the Director and Land Commissioner, 5
6 provided such extension application is submitted to the Director 6
7 and the Land Commissioner not later than 60 days prior to the ex- 7
8 piration of said 10-year period. 8

9 Any expansion of the unit area pursuant to this section which 9
10 embraces lands theretofore eliminated pursuant to this subsection 10
11 2(e) shall not be considered automatic commitment or recommitment 11
12 of such lands. 12

13 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land com- 13
14 mitted to this agreement shall constitute land referred to herein 14
15 as "unitized land" or "land subject to this agreement". All oil 15
16 and gas in any and all formations of the unitized land are unitized 16
17 under the terms of this agreement and herein are called "unitized 17
18 substances". 18

19 4. UNIT OPERATOR. American Trading and Production Corporation is hereby 19
20 designated as Unit Operator and by signature hereto as Unit Operator 20
21 agrees and consents to accept the duties and obligations of Unit 21
22 Operator for the discovery, development, and production of unitized 22
23 substances as herein provided. Whenever reference is made herein 23
24 to the Unit Operator, such reference means the Unit Operator acting 24
25 in that capacity and not as an owner of interest in unitized sub- 25
26 stances, and the term "working interest owner" when used shall 26
27 include or 27

1 refer to Unit Operator as the owner of a working interest when such 1
2 an interest is owned by it. 2

3 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator 3
4 shall have the right to resign at any time prior to the establish- 4
5 ment of a participating area or areas hereunder, but such resigna- 5
6 tion shall not become effective so as to release Unit Operator from 6
7 the duties and obligations of Unit Operator and terminate Unit 7
8 Operator's rights as such for a period of 6 months after notice of 8
9 intention to resign has been served by Unit Operator on all working 9
10 interest owners and the Supervisor and the Land Commissioner, and 10
11 until all wells then drilled hereunder are placed in a satisfactory 11
12 condition for suspension or abandonment whichever is required by the 12
13 Supervisor as to Federal lands and the State Commission as to State 13
14 lands, unless a new Unit Operator shall have been selected and 14
15 approved and shall have taken over and assumed the duties and obli- 15
16 gations of Unit Operator prior to the expiration of said period. 16

17 Unit Operator shall have the right to resign in like manner 17
18 and subject to like limitations as above provided at any time a par- 18
19 ticipating area established hereunder is in existence, but, in all 19
20 instances of resignation or removal, until a successor unit operator 20
21 is selected and approved as hereinafter provided, the working inter- 21
22 est owners shall be jointly responsible for performance of the duties 22
23 of unit operator, and shall not later than 30 days before such resig- 23
24 nation or removal becomes effective appoint a common agent to repre- 24
25 sent them in any action to be taken hereunder. 25

26 The resignation of Unit Operator shall not release Unit Oper- 26
27 ator from any liability for any default by it hereunder occurring 27
28 prior to the effective date of its resignation. 28

29 The Unit Operator may, upon default or failure in the perfor- 29
30 mance of its duties or obligations hereunder, be subject to removal 30
31 by the same percentage vote of the owners of working interests as 31

1 herein provided for the selection of a new Unit Operator. Such re-
2 moval shall be effective upon notice thereof to the Supervisor and
3 the Land Commissioner.

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

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

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

31 (b) the selection shall have been approved by the Supervisor

1 and approved by the Land Commissioner.

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

5 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. IF
6 the Unit Operator is not the sole owner of working interests, costs
7 and expenses incurred by Unit Operator in conducting unit operations
8 hereunder shall be paid and apportioned among and borne by the
9 owners of working interests, all in accordance with the agreement
10 or agreements entered into by and between the Unit Operator and the
11 owners of working interests, whether one or more, separately or
12 collectively. Any agreement or agreements entered into between the
13 working interest owners and the Unit Operator as provided in this
14 section, whether one or more, are herein referred to as the "unit
15 operating agreement." Such unit operating agreement shall also
16 provide the manner in which the working interest owners shall be
17 entitled to receive their respective proportionate and allocated
18 share of the benefits accruing hereto in conformity with their
19 underlying operating agreements, leases, or other independent con-
20 tracts, and such other rights and obligations as between Unit
21 Operator and the working interest owners as may be agreed upon by
22 Unit Operator and the working interest owners; however, no such
23 unit operating agreement shall be deemed either to modify any of
24 the terms and conditions of this unit agreement or to relieve the
25 Unit Operator of any right or obligation established under this
26 unit agreement, and in case of any inconsistency or conflict be-
27 tween this unit agreement and the unit operating agreement, this
28 unit agreement shall govern. Three true copies of any unit opera-
29 ting agreement executed pursuant to this section should be filed
30 with the Supervisor and one true copy with the Land Commissioner,
31 prior to approval of this unit agreement.

1 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as other- 1
2 wise specifically provided herein, the exclusive right, privilege 2
3 and duty of exercising any and all rights of the parties hereto 3
4 which are necessary or convenient for prospecting for, producing, 4
5 storing, allocating, and distributing the unitized substances are 5
6 hereby delegated to and shall be exercised by the Unit Operator as 6
7 herein provided. Acceptable evidence of title to said rights shall 7
8 be deposited with said Unit Operator and, together with this agree- 8
9 ment, shall constitute and define the rights, privileges, and obli- 9
10 gations of Unit Operator. Nothing herein, however, shall be con- 10
11 strued to transfer title to any land or to any lease or operating 11
12 agreement, it being understood that under this agreement the Unit 12
13 Operator, in its capacity as Unit Operator, shall exercise the rights 13
14 of possession and use vested in the parties hereto only for the pur- 14
15 poses herein specified. 15

16 9. DRILLING TO DISCOVERY. Within six (6) months after the 16
17 effective date hereof, the Unit Operator shall begin to drill an 17
18 adequate test well at a location approved by the Supervisor, if on 18
19 Federal land, or by the Land Commissioner, if on State land, unless 19
20 on such effective date a well is being drilled conformably with the 20
21 terms hereof, and thereafter continue such drilling diligently until 21
22 the base of the Morrow formation has been penetrated 22
23 and all formations of the Pennsylvanian age have been tested, or un- 23
24 til at a lesser depth unitized substances shall be discovered which 24
25 can be produced in paying quantities (to-wit: quantities sufficient 25
26 to repay the costs of drilling, completing and producing operations, 26
27 with a reasonable profit) or the Unit Operator shall at any time es- 27
28 tablish to the satisfaction of the Supervisor if on Federal land, or 28
29 the Land Commissioner if on State land, that further drilling of said 29
30 well would be unwarranted or impracticable; provided, however, that 30
31 Unit Operator shall not in any event be required to drill said well 31
32 to a depth in excess of 10,500 feet. Until the discovery 32
33 of a deposit of unitized sub- 33

1 stances capable of being produced in paying quantities, the Unit 1
2 Operator shall continue drilling diligently one well at a time, 2
3 allowing not more than six (6) months between the completion of one 3
4 well and the beginning of the next well, until a well capable of 4
5 producing unitized substances in paying quantities is completed to 5
6 the satisfaction of said Supervisor if it be on Federal land or of 6
7 the Land Commissioner if on State land, or until it is reasonably 7
8 proved that the unitized land is incapable of producing unitized 8
9 substances in paying quantities in the formations drilled hereunder. 9
10 Nothing in this section shall be deemed to limit the right of the 10
11 Unit Operator to resign as provided in Section 5 hereof, or as re- 11
12 quiring Unit Operator to commence or continue any drilling during 12
13 the period pending such resignation becoming effective in order to 13
14 comply with the requirements of this section. The Director and 14
15 Land Commissioner may modify the drilling requirements of this sec- 15
16 tion by granting reasonable extensions of time when, in their opin- 16
17 ion, such action is warranted. 17

18 Upon failure to commence any well provided for in this section 18
19 within the time allowed, including any extension of time granted by 19
20 the Supervisor and the Land Commissioner, this agreement will auto- 20
21 matically terminate; upon failure to continue drilling diligently 21
22 any well commenced hereunder, the Supervisor and the Land Commission- 22
23 er may, after 15-days notice to the Unit Operator, declare this unit 23
24 agreement terminated. 24

25 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 25
26 months after completion of a well capable of producing unitized sub- 26
27 stances in paying quantities, the Unit Operator shall submit for the 27
28 approval of the Supervisor and the Land Commissioner an acceptable 28
29 plan of development and operation for the unitized land which, when 29
30 approved by the Supervisor and the Land Commissioner, shall con- 30
31 stitute the further drilling and operating obligations of the Unit 31

1 Operator under this agreement for the period specified therein. 1
2 Thereafter, from time to time before the expiration of any existing 2
3 plan, the Unit Operator shall submit for the approval of the Super- 3
4 visor and the Land Commissioner a plan for an additional specified 4
5 period for the development and operation of the unitized land. 5

6 Any plan submitted pursuant to this section shall provide for 6
7 the exploration of the unitized area and for the diligent drilling 7
8 necessary for determination of the area or areas thereof capable of 8
9 producing unitized substances in paying quantities in each and every 9
10 productive formation and shall be as complete and adequate as the 10
11 Supervisor and the Land Commissioner may determine to be necessary 11
12 for timely development and proper conservation of the oil and gas 12
13 resources of the unitized area and shall: 13

14 (a) specify the number and locations of any wells to be 14
15 drilled and the proposed order and time for such drilling; and 15

16 (b) to the extent practicable specify the operating practices 16
17 regarded as necessary and advisable for proper conservation of 17
18 natural resources. 18

19 Separate plans may be submitted for separate productive zones, sub- 19
20 ject to the approval of the Supervisor and the Land Commissioner. 20

21 Plans shall be modified or supplemented when necessary to meet 21
22 changed conditions or to protect the interests of all parties to 22
23 this agreement. Reasonable diligence shall be exercised in comply- 23
24 ing with the obligations of the approved plan of development. The 24
25 Supervisor and the Land Commissioner are authorized to grant a 25
26 reasonable extension of the 6-month period herein prescribed for 26
27 submission of an initial plan of development where such action is 27
28 justified because of unusual conditions or circumstances. After com- 28
29 pletion hereunder of a well capable of producing any unitized sub- 29
30 stance in paying quantities, no further wells, except such as may 30
31 be necessary to afford protection against operations not under this 31

1 agreement and such as may be specifically approved by the Supervisor 1
2 and the Land Commissioner, shall be drilled except in accordance 2
3 with a plan of development approved as herein provided. 3

4 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well 4
5 capable of producing unitized substances in paying quantities or as 5
6 soon thereafter as required by the Supervisor or the Land Commission- 6
7 er, the Unit Operator shall submit for approval by the Supervisor 7
8 and the Land Commissioner a schedule, based on subdivisions of the 8
9 public-land survey or aliquot parts thereof, of all land then re- 9
10 garded as reasonably proved to be productive in paying quantities; 10
11 all lands in said schedule on approval of the Supervisor and the Land 11
12 Commissioner to constitute a participating area, effective as of the 12
13 date of completion of such well or the effective date of this unit 13
14 agreement, whichever is later. The acreages of both Federal and non- 14
15 Federal lands shall be based upon appropriate computations from the 15
16 courses and distances shown on the last approved public-land survey 16
17 as of the effective date of each initial participating area. Said 17
18 schedule shall also set forth the percentage of unitized substances 18
19 to be allocated as herein provided to each tract in the participating 19
20 area so established, and shall govern the allocation of production 20
21 commencing with the effective date of the participating area. A 21
22 separate participating area shall be established for each separate 22
23 pool or deposit of unitized substances or for any group thereof which 23
24 is produced as a single pool or zone, and any two or more partici- 24
25 pating areas so established may be combined into one, on approval of 25
26 the Supervisor and the Land Commissioner. When production from two 26
27 or more participating areas, so established, is subsequently found 27
28 to be from a common pool or deposit said participating areas shall 28
29 be combined into one effective as of such appropriate date as may be 29
30 approved or prescribed by the Supervisor and the Land Commissioner. 30
31 The participating area or areas so established shall be revised from 31

1 time to time, subject to like approval, to include additional land 1
2 then regarded as reasonably proved to be productive in paying quan- 2
3 tities or necessary for unit operations, or to exclude land then 3
4 regarded as reasonably proved not to be productive in paying quan- 4
5 tities and the schedule of allocation percentages shall be revised 5
6 accordingly. The effective date of any revision shall be the first 6
7 of the month in which is obtained the knowledge or information on 7
8 which such revision is predicated, provided, however, that a more 8
9 appropriate effective date may be used if justified by the Unit 9
10 Operator and approved by the Supervisor and the Land Commissioner. 10
11 No land shall be excluded from a participating area on account of 11
12 depletion of the unitized substances, except that any participating 12
13 area established under the provisions of this unit agreement shall 13
14 terminate automatically whenever all completions in the formation on 14
15 which the participating area is based are abandoned. 15

16 It is the intent of this section that a participating area 16
17 shall represent the area known or reasonably estimated to be produc- 17
18 tive in paying quantities; but, regardless of any revision of the 18
19 participating area, nothing herein contained shall be construed as 19
20 requiring any retroactive adjustment for production obtained prior 20
21 to the effective date of the revision of the participating area. 21

22 In the absence of agreement at any time between the Unit 22
23 Operator and the Supervisor and the Land Commissioner as to the 23
24 proper definition or redefinition of a participating area, or until 24
25 a participating area has, or areas have, been established as pro- 25
26 vided herein, the portion of all payments affected thereby shall be 26
27 impounded in a manner mutually acceptable to the owners of working 27
28 interests and the Supervisor and the Land Commissioner. Royalties 28
29 due the United States shall be determined by the Supervisor for 29
30 Federal lands and the Land Commissioner for State lands and the 30
31 amount thereof shall be deposited, as directed by the Supervisor and 31

1 the Land Commissioner, to be held as unearned money until a partici- 1
2 pating area is finally approved and then applied as earned or re- 2
3 turned in accordance with a determination of the sum due as Federal 3
4 and State royalty on the basis of such approved participating area. 4

5 Whenever it is determined, subject to the approval of the 5
6 Supervisor and the Land Commissioner, that a well drilled under this 6
7 agreement is not capable of production in paying quantities and in- 7
8 clusion of the land on which it is situated in a participating area 8
9 is unwarranted, production from such well shall, for the purposes of 9
10 settlement among all parties other than working interest owners, be 10
11 allocated to the land on which the well is located unless such land 11
12 is already within the participating area established for the pool 12
13 or deposit from which such production is obtained. Settlement for 13
14 working interest benefits from such a well shall be made as provided 14
15 in the unit operating agreement. 15

16 12. ALLOCATION OF PRODUCTION. All unitized substances pro- 16
17 duced from each participating area established under this agreement, 17
18 except any part thereof used in conformity with good operating prac- 18
19 tices within the unitized area for drilling, operating, camp and 19
20 other production or development purposes, for repressuring or re- 20
21 cycling in accordance with a plan of development approved by the 21
22 Supervisor and Land Commissioner, or unavoidably lost, shall be 22
23 deemed to be produced equally on an acreage basis from the several 23
24 tracts of unitized land of the participating area established for 24
25 such production and, for the purpose of determining any benefits 25
26 accruing under this agreement, each such tract of unitized land shall 26
27 have allocated to it such percentage of said production as the num- 27
28 ber of acres of such tract included in said participating area bears 28
29 to the total acres of unitized land in said participating area, ex- 29
30 cept that allocation of production hereunder for purposes other than 30
31 for settlement of the royalty, overriding royalty, or payment out of 31

1 production obligations of the respective working interest owners, 1
2 shall be on the basis prescribed in the unit operating agreement 2
3 whether in conformity with the basis of allocation herein set forth 3
4 or otherwise. It is hereby agreed that production of unitized sub- 4
5 stances from a participating area shall be allocated as provided 5
6 herein regardless of whether any wells are drilled on any particular 6
7 part or tract of said participating area. If any gas produced from 7
8 one participating area is used for repressuring or recycling pur- 8
9 poses in another participating area, the first gas withdrawn from 9
10 such last-mentioned participating area for sale during the life of 10
11 this agreement shall be considered to be the gas so transferred un- 11
12 til an amount equal to that transferred shall be so produced for 12
13 sale and such gas shall be allocated to the participating area from 13
14 which initially produced as such area was last defined at the time 14
15 of such final production. 15

16 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR 16
17 FORMATIONS. Any party hereto owning or controlling the working 17
18 interest in any unitized land having thereon a regular well location 18
19 may with the approval of the Supervisor and the Land Commissioner, 19
20 at such party's sole risk, costs, and expense, drill a well to test 20
21 any formation for which a participating area has not been established 21
22 or to test any formation for which a participating area has been 22
23 established if such location is not within said participating area, 23
24 unless within 90 days of receipt of notice from said party of his 24
25 intention to drill the well the Unit Operator elects and commences 25
26 to drill such a well in like manner as other wells are drilled by 26
27 the Unit Operator under this agreement. 27

28 If any well drilled as aforesaid by a working interest owner 28
29 results in production such that the land upon which it is situated 29
30 may properly be included in a participating area, such participating 30
31 area shall be established or enlarged as provided in this agreement 31

1 leases from the United States unless such rental or minimum royalty 1
2 is waived, suspended, or reduced by law or by approval of the Secre- 2
3 tary or his duly authorized representative. 3

4 Rentals on State of New Mexico lands subject to this agree- 4
5 ment shall be paid at the rates specified in the respective leases. 5

6 With respect to any lease on non-Federal land containing pro- 6
7 visions which would terminate such lease unless drilling operations 7
8 are commenced upon the land covered thereby within the time therein 8
9 specified or rentals are paid for the privilege of deferring such 9
10 drilling operations, the rentals required thereby shall, notwith- 10
11 standing any other provision of this agreement, be deemed to accrue 11
12 and become payable during the term thereof as extended by this agree- 12
13 ment and until the required drilling operations are commenced upon 13
14 the land covered thereby or until some portion of such land is in- 14
15 cluded within a participating area. 15

16 16. CONSERVATION. Operations hereunder and production of 16
17 unitized substances shall be conducted to provide for the most econ- 17
18 omical and efficient recovery of said substances without waste, as 18
19 defined by or pursuant to State or Federal law or regulation. 19

20 17. DRAINAGE. The Unit Operator shall take such measures 20
21 as the Supervisor and Land Commissioner deem appropriate and ade- 21
22 quate to prevent drainage of unitized substances from unitized land 22
23 by wells on land not subject to this agreement. 23

24 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, 24
25 conditions, and provisions of all leases, subleases, and other con- 25
26 tracts relating to exploration, drilling, development, or operation 26
27 for oil or gas on lands committed to this agreement are hereby ex- 27
28 pressly modified and amended to the extent necessary to make the 28
29 same conform to the provisions hereof, but otherwise to remain in 29
30 full force and effect; and the parties hereto hereby consent that 30
31 the Secretary, as to Federal leases and the Land Commissioner, as to 31

1 State leases, shall and each by his approval hereof, or by the 1
2 approval hereof by his duly authorized representative, does hereby 2
3 establish, alter, change, or revoke the drilling, producing, rental, 3
4 minimum royalty, and royalty requirements of Federal and State 4
5 leases committed hereto and the regulations in respect thereto to 5
6 conform said requirements to the provisions of this agreement, and, 6
7 without limiting the generality of the foregoing, all leases, sub- 7
8 leases, and contracts are particularly modified in accordance with 8
9 the following: 9

10 (a) The development and operation of lands subject to this 10
11 agreement under the terms hereof shall be deemed full performance of 11
12 all obligations for development and operation with respect to each 12
13 and every separately owned tract subject to this agreement, regard- 13
14 less of whether there is any development of any particular tract of 14
15 the unit area. 15

16 (b) Drilling and producing operations performed hereunder 16
17 upon any tract of unitized lands will be accepted and deemed to be 17
18 performed upon and for the benefit of each and every tract of uni- 18
19 tized land, and no lease shall be deemed to expire by reason of 19
20 failure to drill or produce wells situated on the land therein em- 20
21 braced. 21

22 (c) Suspension of drilling or producing operations on all 22
23 unitized lands pursuant to direction or consent of the Secretary and 23
24 the Land Commissioner, or his duly authorized representative, shall 24
25 be deemed to constitute such suspension pursuant to such direction 25
26 or consent as to each and every tract of unitized land. A suspension 26
27 of drilling or producing operations limited to specified lands shall 27
28 be applicable only to such lands. 28

29 (d) Each lease, sublease or contract relating to the ex- 29
30 ploration, drilling, development or operation for oil or gas of 30
31 lands other than those of the United States and State of New Mexico 31

1 committed to this agreement, which, by its terms might expire prior 1
2 to the termination of this agreement, is hereby extended beyond any 2
3 such terms so provided therein so that it shall be continued in full 3
4 force and effect for and during the term of this agreement. 4

5 (e) Any Federal lease for a fixed term of twenty (20) years 5
6 or any renewal thereof or any part of such lease which is made sub- 6
7 ject to this agreement shall continue in force beyond the term pro- 7
8 vided therein until the termination hereof. Any other Federal lease 8
9 committed hereto shall continue in force beyond the term so provided 9
10 therein or by law as to the land committed so long as such lease re- 10
11 mains subject hereto, provided that production is had in paying quan- 11
12 tities under this unit agreement prior to the expiration date of 12
13 the term of such lease, or in the event actual drilling operations 13
14 are commenced on unitized land, in accordance with the provisions 14
15 of this agreement, prior to the end of the primary term of such 15
16 lease and are being diligently prosecuted at that time, such lease 16
17 shall be extended for two years and so long thereafter as oil or gas 17
18 is produced in paying quantities in accordance with the provisions 18
19 of the Mineral Leasing Act Revision of 1960. 19

20 (f) Each sublease or contract relating to the operation 20
21 and development of unitized substances from lands of the United 21
22 States committed to this agreement, which by its terms would expire 22
23 prior to the time at which the underlying lease, as extended by the 23
24 immediately preceding paragraph, will expire, is hereby extended 24
25 beyond any such term so provided therein so that it shall be con- 25
26 tinued in full force and effect for and during the term of the under- 26
27 lying lease as such term is herein extended. 27

28 (g) The segregation of any Federal lease committed to this 28
29 agreement is governed by the following provision in the fourth para- 29
30 graph of Sec. 17(j) of the Mineral Leasing Act, as amended by the 30
31 Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease 31

1 heretofore or hereafter committed to any such (unit) plan embracing 1
2 lands that are in part within and in part outside of the area 2
3 covered by any such plan shall be segregated into separate leases 3
4 as to the lands committed and the lands not committed as of the 4
5 effective date of unitization: Provided, however, That any such 5
6 lease as to the nonunitized portion shall continue in force and 6
7 effect for the term thereof but for not less than two years from 7
8 the date of such segregation and so long thereafter as oil or gas is 8
9 produced in paying quantities." 9

10 (h) Any lease embracing lands of the State of New Mexico 10
11 which is made subject to this agreement, shall continue in force 11
12 beyond the term provided therein as to the lands committed hereto 12
13 until the termination hereof. 13

14 (i) Any lease embracing lands of the State of New Mexico 14
15 having only a portion of its lands committed hereto, shall be segre- 15
16 gated as to the portion committed and the portion not committed, 16
17 and the terms of such lease shall apply separately to such segre- 17
18 gated portions commencing as of the effective date hereof; provided, 18
19 however, notwithstanding any of the provisions of this agreement to 19
20 the contrary any lease embracing lands of the State of New Mexico 20
21 having only a portion of its lands committed hereto shall continue 21
22 in full force and effect beyond the term provided therein as to all 22
23 lands embraced in such lease, if oil or gas is discovered and is 23
24 capable of being produced in paying quantities from some part of 24
25 the lands embraced in such lease at the expiration of the secondary 25
26 term of such lease; or if, at the expiration of the secondary term, 26
27 the lessee or the Unit Operator is then engaged in bona fide drill- 27
28 ing or reworking operations on some part of the lands embraced in 28
29 such lease, the same, as to all lands embraced therein, shall re- 29
30 main in full force and effect so long as such operations are being 30
31 diligently prosecuted, and if they result in the production of oil 31

1 or gas; said lease shall continue in full force and effect as to all
2 of the lands embraced therein, so long thereafter as oil or gas in
3 paying quantities is being produced from any portion of said lands.

4 19. COVENANTS RUN WITH LAND. The covenants herein shall
5 be construed to be covenants running with the land with respect to
6 the interest of the parties hereto and their successors in interest
7 until this agreement terminates, and any grant, transfer, or convey-
8 ance, of interest in land or leases subject hereto shall be and here-
9 by is conditioned upon the assumption of all privileges and obli-
10 gations hereunder by the grantee, transferee, or other successor in
11 interest. No assignment or transfer of any working interest, roy-
12 alty, or other interest subject hereto shall be binding upon Unit
13 Operator until the first day of the calendar month after Unit Opera-
14 tor is furnished with the original, photostatic, or certified copy
15 of the instrument of transfer.

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

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

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

30 (c) a valuable discovery of unitized substances has been
31 made or accepted on unitized land during said initial term or any

1 extension thereof, in which event the agreement shall remain in
2 effect for such term and so long as unitized substances can be pro-
3 duced in quantities sufficient to pay for the cost of producing
4 same from wells on unitized land within any participating area es-
5 tablished hereunder and, should production cease, so long thereafter
6 as diligent operations are in progress for the restoration of pro-
7 duction or discovery of new production and so long thereafter as
8 unitized substances so discovered can be produced as aforesaid, or

9 (d) it is terminated as heretofore provided in this agree-
10 ment. This agreement may be terminated at any time by not less than
11 75 per centum, on an acreage basis, of the working interest owners
12 signatory hereto, with the approval of the Supervisor and the Land
13 Commissioner; notice of any such approval to be given by the Unit
14 Operator to all parties hereto.

15 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The
16 Director is hereby vested with authority to alter or modify from
17 time to time in his discretion the quantity and rate of production
18 under this agreement when such quantity and rate is not fixed pur-
19 suant to Federal or State law or does not conform to any state-wide
20 voluntary conservation or allocation program, which is established,
21 recognized, and generally adhered to by the majority of operators
22 in such State, such authority being hereby limited to alteration or
23 modification in the public interest, the purpose thereof and the
24 public interest to be served thereby to be stated in the order of
25 alteration or modification. Without regard to the foregoing, the
26 Director is also hereby vested with authority to alter or modify
27 from time to time in his discretion the rate of prospecting and
28 development and the quantity and rate of production under this
29 agreement when such alteration or modification is in the interest
30 of attaining the conservation objectives stated in this agreement
31 and is not in violation of any applicable Federal or State law.

1 Powers in this section vested in the Director shall only be 1
2 exercised after notice to Unit Operator and opportunity for hearing 2
3 to be held not less than 15 days from notice. 3

4 22. APPEARANCES. Unit Operator shall, after notice to other 4
5 parties affected, have the right to appear for and on behalf of any 5
6 and all interests affected hereby before the Department of the 6
7 Interior and the Commissioner of Public Lands and to appeal from 7
8 orders issued under the regulations of said Department or Land 8
9 Commissioner or to apply for relief from any of said regulations or 9
10 in any proceedings relative to operations before the Department of 10
11 the Interior or the Land Commissioner or any other legally consti- 11
12 tuted authority; provided, however, that any other interested party 12
13 shall also have the right at his own expense to be heard in any such 13
14 proceeding. 14

15 23. NOTICES. All notices, demands or statements required 15
16 hereunder to be given or rendered to the parties hereto shall be 16
17 deemed fully given if given in writing and personally delivered to 17
18 the party or sent by postpaid registered or certified mail, addressed 18
19 to such party or parties at their respective addresses set forth in 19
20 connection with the signatures hereto or to the ratification or con- 20
21 sent hereof or to such other address as any such party may have fur- 21
22 nished in writing to party sending the notice, demand or statement. 22

23 24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement 23
24 contained shall be construed as a waiver by any party hereto of the 24
25 right to assert any legal or constitutional right or defense as to 25
26 the validity or invalidity of any law of the State wherein said uni- 26
27 tized lands are located, or of the United States, or regulations 27
28 issued thereunder in any way affecting such party, or as a waiver by 28
29 any such party of any right beyond his or its authority to waive. 29

30 25. UNAVOIDABLE DELAY. All obligations under this agree- 30
31 ment requiring the Unit Operator to commence or continue drilling or 31

1 to operate on or produce unitized substances from any of the lands 1
2 covered by this agreement shall be suspended while the Unit Operator 2
3 despite the exercise of due care and diligence, is prevented from 3
4 complying with such obligations, in whole or in part, by strikes, 4
5 acts of God, Federal, State, or municipal law or agencies, unavail- 5
6 able accidents, uncontrollable delays in transportation, inability 6
7 to obtain necessary materials in open market, or other matters be- 7
8 yond the reasonable control of the Unit Operator whether similar to 8
9 matters herein enumerated or not. No unit obligation which is sus- 9
10 pended under this section shall become due less than thirty (30) 10
11 days after it has been determined that the suspension is no longer 11
12 applicable. Determination of creditable "Unavoidable Delay" time 12
13 shall be made by the unit operator subject to approval of the Super- 13
14 visor and the Land Commissioner. 14

15 26. NONDISCRIMINATION. In connection with the performance 15
16 of work under this agreement, the operator agrees to comply with 16
17 all the provisions of section 202 (1) to (7) inclusive of Executive 17
18 Order 11246 (30 F.R. 12319), which are hereby incorporated by refer- 18
19 ence in this agreement. 19

20 27. LOSS OF TITLE. In the event title to any tract of 20
21 unitized land shall fail and the true owner cannot be induced to 21
22 join in this unit agreement, such tract shall be automatically re- 22
23 garded as not committed hereto and there shall be such readjustment 23
24 of future costs and benefits as may be required on account of the 24
25 loss of such title. In the event of a dispute as to title as to any 25
26 royalty, working interest, or other interests subject thereto, pay- 26
27 ment or delivery on account thereof may be withheld without liability 27
28 for interest until the dispute is finally settled; provided, that, 28
29 as to Federal and State land or leases, no payments of funds due 29
30 the United States or the State of New Mexico should be withheld, but 30
31 such funds shall be deposited as directed by the Supervisor and such 31

1 funds of the State of New Mexico shall be deposited as directed by 1
2 the Land Commissioner, to be held as unearned money pending final 2
3 settlement of the title dispute, and then applied as earned or re- 3
4 turned in accordance with such final settlement. 4

5 Unit Operator as such is relieved from any responsibility 5
6 for any defect or failure of any title hereunder. 6

7 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of 7
8 any substantial interest in a tract within the unit area fails or 8
9 refuses to subscribe or consent to this agreement, the owner of the 9
10 working interest in that tract may withdraw said tract from this 10
11 agreement by written notice delivered to the Supervisor and the 11
12 Land Commissioner and the Unit Operator prior to the approval of 12
13 this agreement by the Supervisor. Any oil or gas interests in lands 13
14 within the unit area not committed hereto prior to submission of 14
15 this agreement for final approval may thereafter be committed hereto 15
16 by the owner or owners thereof subscribing or consenting to this 16
17 agreement, and, if the interest is a working interest, by the owner 17
18 of such interest also subscribing to the unit operating agreement. 18
19 After operations are commenced hereunder, the right of subsequent 19
20 joinder, as provided in this section, by a working interest owner 20
21 is subject to such requirements or approvals, if any, pertaining to 21
22 such joinder, as may be provided for in the unit operating agree- 22
23 ment. After final approval hereof, joinder by a non-working inter- 23
24 est owner must be consented to in writing by the working interest 24
25 owner committed hereto and responsible for the payment of any bene- 25
26 fits that may accrue hereunder in behalf of such non-working inter- 26
27 est. A non-working interest may not be committed to this unit 27
28 unless the corresponding working interest is committed hereto. 28
29 Joinder to the unit agreement by a working-interest owner, at any 29
30 time, must be accompanied by appropriate joinder to the unit opera- 30
31 ting agreement, if more than one committed working-interest owner 31

1 is involved, in order for the interest to be regarded as committed 1
2 to this unit agreement. Except as may otherwise herein be provided, 2
3 subsequent joinders to this agreement shall be effective as of the 3
4 first day of the month following the filing with the Supervisor and 4
5 the Land Commissioner of duly executed counterparts of all or any 5
6 papers necessary to establish effective commitment of any tract to 6
7 this agreement unless objection to such joinder is duly made within 7
8 60 days by the Supervisor and the Land Commissioner. 8

9 29. COUNTERPARTS. This agreement may be executed in any 9
10 number of counterparts no one of which needs to be executed by all 10
11 parties or may be ratified or consented to by separate instrument in 11
12 writing specifically referring hereto and shall be binding upon all 12
13 those parties who have executed such a counterpart, ratification, 13
14 or consent hereto with the same force and effect as if all such 14
15 parties had signed the same document and regardless of whether or 15
16 not it is executed by all other parties owning or claiming an inter- 16
17 est in the lands within the above-described unit area. 17

18 30. SURRENDER. Nothing in this agreement shall prohibit 18
19 the exercise by any working interest owner of the right to surrender 19
20 vested in such party by any lease, sublease, or operating agreement 20
21 as to all or any part of the lands covered thereby, provided that 21
22 each party who will or might acquire such working interest by such 22
23 surrender or by forfeiture as hereafter set forth, is bound by the 23
24 terms of this agreement. 24

25 If as a result of any such surrender the working interest 25
26 rights as to such lands become vested in any party other than the 26
27 fee owner of the unitized substances, said party may forfeit such 27
28 rights and further benefits from operation hereunder as to said 28
29 land to the party next in the chain of title who shall be and become 29
30 the owner of such working interest. 30

31 If as the result of any such surrender or forfeiture working 31

1 interest rights become vested in the fee owner of the unitized sub- 1
2 stances, such owner may: 2

3 (1) Accept those working interest rights subject to this 3
4 agreement and the unit operating agreement; or 4

5 (2) Lease the portion of such land as is included in a 5
6 participating area established hereunder subject to this agreement 6
7 and the unit operating agreement. 7

8 (3) Provide for the independent operation of any part of 8
9 such land that are not then included within a participating area 9
10 established hereunder. 10

11 If the fee owner of the unitized substances does not accept 11
12 the working interest rights subject to this agreement and the unit 12
13 operating agreement or lease such lands as above provided within 13
14 six (6) months after the surrendered or forfeited working interest 14
15 rights become vested in the fee owner, the benefits and obligations 15
16 of operations accruing to such lands under this agreement and the 16
17 unit operating agreement shall be shared by the remaining owners of 17
18 unitized working interests in accordance with their respective 18
19 working interest ownerships, and such owners of working interests 19
20 shall compensate the fee owner of unitized substances in such lands 20
21 by paying sums equal to the rentals, minimum royalties, and royal- 21
22 ties applicable to such lands under the lease in effect when the 22
23 lands were unitized. 23

24 An appropriate accounting and settlement shall be made, for 24
25 all benefits accruing to or payments and expenditures made or in- 25
26 curred on behalf of such surrendered or forfeited working interest 26
27 subsequent to the date of surrender or forfeiture, and payment of 27
28 any moneys found to be owing by such an accounting shall be made as 28
29 between the parties within thirty (30) days. In the event no unit 29
30 operating agreement is in existence and a mutually acceptable agree- 30
31 ment between the proper parties thereto cannot be consummated, the 31

1 Supervisor may prescribe such reasonable and equitable agreement as 1
2 he deems warranted under the circumstances. 2

3 The exercise of any right vested in a working interest owner 3
4 to reassign such working interest to the party from whom obtained 4
5 shall be subject to the same conditions as set forth in this section 5
6 in regard to the exercise of a right to surrender. 6

7 31. TAXES. The working interest owners shall render and 7
8 pay for their account and the account of the royalty owners all 8
9 valid taxes on or measured by the unitized substances in and under 9
10 or that may be produced, gathered and sold from the land subject to 10
11 this contract after the effective date of this agreement, or upon 11
12 the proceeds derived therefrom. The working interest owners on each 12
13 tract shall and may charge the proper proportion of said taxes to 13
14 the royalty owners having interests in said tract, and may currently 14
15 retain and deduct sufficient of the unitized substances or deriva- 15
16 tive products, or net proceeds thereof from the allocated share of 16
17 each royalty owner to secure reimbursement for the taxes so paid. 17
18 No such taxes shall be charged to the United States or the State of 18
19 New Mexico or to any lessor who has a contract with his lessee which 19
20 requires the lessee to pay such taxes. 20

21 32. NO PARTNERSHIP. It is expressly agreed that the re- 21
22 lation of the parties hereto is that of independent contractors and 22
23 nothing in this agreement contained, expressed or implied, nor any 23
24 operations conducted hereunder, shall create or be deemed to have 24
25 created a partnership or association between the parties hereto or 25
26 any of them. 26

27 33. CONFLICT OF SUPERVISION. Neither the Unit Operator 27
28 nor the working interest owners, nor any of them, shall be subject 28
29 to any forfeiture, termination or expiration of any right hereunder 29
30 or under any leases or contracts subject hereto, or to any penalty 30
31 or liability on account of delay or failure in whole or in part to 31

1 comply with any applicable provisions thereof to the extent that 1
2 the said Unit Operator or the working interest owners, or any of 2
3 them, are hindered, delayed or prevented from complying therewith 3
4 by reason of failure of the Unit Operator to obtain, in the exercise 4
5 of due diligence, the concurrence of proper representatives of the 5
6 United States and proper representatives of the State of New Mexico 6
7 in and about any matters or things concerning which it is required 7
8 herein that such concurrence be obtained. The parties hereto, in- 8
9 cluding the State Commission, agree that all powers and authority 9
10 vested in the State Commission in and by any provisions of this 10
11 agreement are vested in the State Commission and shall be exercised 11
12 by it pursuant to the provisions of the laws of the State of New 12
13 Mexico and subject in any case to appeal or judicial review as may 13
14 now or hereafter be provided by the laws of the State of New Mexico. 14

SURFACE MANAGEMENT STIPULATION. Nothing in this agreement shall modify or change the special Federal Lease Stipulations relating to surface management attached to, and made a part of, Oil and Gas Leases covering lands within the Unit Area.

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

ATTEST:

AMERICAN TRADING AND PRODUCTION CORPORATION

By: _____
Secretary

By: _____
President

Address: _____

UNIT OPERATOR

AMERICAN TRADING AND PRODUCTION CORPORATION

WESTERN UNITED LIFE BUILDING
POST OFFICE DRAWER 992
MIDLAND, TEXAS 79701

A. C. 915
684-4463

May 15, 1972

GEOLOGIC REPORT

PROPOSED ROUND MOUNTAIN UNIT

EDDY COUNTY, NEW MEXICO

Location:

The proposed unit is comprised of Sections 19, 20, 21, 28, 29, 30, 31, 32 and 33, T-21-S, R-25-E, Eddy County, New Mexico, and is located 8 miles west-northwest of Carlsbad.

Geologic Basis for Unit Boundary:

The proposed unit outline is based on a subsurface structural interpretation (Exhibit #1) supported by aeromagnetic tectonic analysis (Exhibit #2) which indicates the existence of an anticlinal closure bounded on the west and north by faulting. The fault analogy is supported by known faulting present on the west side of Indian Basin Field. The proposed unit includes all full sections structurally higher than the -6700-foot contour datum.

Reservoir Objectives:

The primary reservoir objectives in this unit are the Pennsylvanian-Morrow sands. These sands produce 3 miles east in the Catclaw Draw Unit and in Golden Eagle Field 4 miles northeast. The proposed unit is located in an area where a

number of Morrow sands are present (Exhibits #3 & #4). Although Morrow gas accumulation is usually found in stratigraphic traps, it is anticipated that structure will be a dominant factor in entrapment in Round Mountain Unit, as it is in the Rock Tank Field 9 miles south. Support for a structural trap is seen in the Catclaw Draw wells which have several sand pays per well (Exhibit #4), a situation not commonly encountered in the more purely stratigraphic traps; and in the Hanagan #1 State Com., 15-21S-25E (Exhibit #4), which tested gas and water from an Upper Morrow sand. The well is programmed to test the Basal Morrow Sand by drilling into the Mississippian-Barnett Shale, or to a depth not to exceed 10,500 feet.

Anticipated formation tops in the proposed well are as follows:

B/Capitan - T/Delaware Mtn. Group	2,000'
T/Bone Spring	3,800'
T/Wolfcamp	7,300'
T/Pennsylvanian-Cisco	8,000'
T/Lower Morrow	10,000'
T/Mississippian-Barnett	10,400'

A prime secondary objective is the Pennsylvanian-Cisco carbonate which produces in Springs Field 4 miles northeast. Entrapment is in topographic prominences on this shelf-edge carbonate bank which developed along the aforementioned structurally high trend.

Douglas E. Masten
District Manager