

UNIT AGREEMENT
BUTLER SPRINGS UNIT
CHAVES COUNTY, NEW MEXICO

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BEFORE EXAMINER NUTTER

OIL CONSERVATION COMMISSION

Cypel EXHIBIT NO. 1

CASE NO. 5470

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1 UNIT AGREEMENT 1

2 FOR THE DEVELOPMENT AND OPERATION 2

3 OF THE 3

4 BUTLER SPRINGS UNIT AREA 4

5 COUNTY OF CHAVES 5

6 STATE OF NEW MEXICO 6

7 NO. _____ 7

8 THIS AGREEMENT, entered into as of the 1st day of May, 8
9 1975 by and between the parties subscribing, ratifying, or consenting hereto, 9
10 and herein referred to as the "parties hereto," 10

11 W I T N E S S E T H : 11

12 WHEREAS, the parties hereto are the owners of working royalty, or other 12
13 oil and gas interests in the unit area subject to this agreement; and 13

14 WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as 14
15 amended, 30 U. S. C. Secs. 181 et seq., authorizes Federal lessees and their 15
16 representatives to unite with each other, or jointly or separately with others, 16
17 in collectively adopting and operating a cooperative or unit plan of develop- 17
18 ment or operation of any oil or gas pool, field, or like area, or any part thereof 18
19 for the purpose of more properly conserving the natural resources thereof when- 19
20 ever determined and certified by the Secretary of the Interior to be necessary 20
21 or advisable in the public interest; and 21

22 WHEREAS, the Commissioner of Public Lands of the State of New Mexico 22
23 is authorized by an Act of the Legislature (Sec. 7-11-29 N.M. Statutes 1953 23
24 Annotated) to consent to or approve this agreement on behalf of the State of 24
25 New Mexico, insofar as it covers and includes lands and mineral interest of the 25
26 State of New Mexico; and, 26

27 WHEREAS, the Oil Conservation Commission of the State of New Mexico is 27
28 authorized by an Act of the Legislature (Chapter 72, Laws of 1935, as amended 28
29 by Chapter 193, Laws of 1937; Chapter 166, Laws of 1941; and Chapter 168, Laws 29
30 of 1949) to approve this agreement and the conservation provisions hereof; and, 30

31 WHEREAS, the parties hereto hold sufficient interests in the Butler 31
32 Springs Unit Area covering the land hereinafter described to give 32
33 reasonably effective control of operations therein; and 33

34 WHEREAS, it is the purpose of the parties hereto to conserve natural 34

1 resources, prevent waste, and secure other benefits obtainable through develop- 1
2 ment and operation of the area subject to this agreement under the terms, 2
3 conditions, and limitations herein set forth; 3

4 NOW, THEREFORE, in consideration of the premises and the promises herein 4
5 contained, the parties hereto commit to this agreement their respective interests 5
6 in the below-defined unit area, and agree severally among themselves as follows: 6

7 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 7
8 1920, as amended, supra, and all valid pertinent regulations, including operating 8
9 and unit plan regulations, heretofore issued thereunder or valid, pertinent, and 9
10 reasonable regulations hereafter issued thereunder are accepted and made a part of 10
11 this agreement as to Federal lands, provided such regulations are not inconsistent 11
12 with the terms of this agreement; and as to non-Federal lands, the oil and gas 12
13 operating regulations in effect as of the effective date hereof governing, drilling 13
14 and producing operations, not inconsistent with the terms hereof or the laws of the 14
15 State in which the non-Federal land is located, are hereby accepted and made a part 15
16 of this agreement. 16

17 2. UNIT AREA. The following described land is hereby designated and recog- 17
18 nized as constituting the unit area: 18

19 TOWNSHIP 14 SOUTH, RANGE 28 EAST, N.M.P.M. 19

20 Section 35: S/2 Section 36: S/2 20

21 TOWNSHIP 15 SOUTH, RANGE 28 EAST, N.M.P.M. 21

22 Section 1: All Section 12: All 22

Section 2: All Section 13: N/2

Section 11: All Section 14: N/2

23 containing 3,841.32 acres, more or less 23

24 Exhibit "A" attached hereto is a map showing the unit area and the boundaries 24
25 and identity of tracts and leases in said area to the extent known to the Unit 25
26 Operator. Exhibit "B" attached hereto is a schedule showing to the extent 26
27 known to the Unit Operator the acreage, percentage, and kind of ownership of 27
28 oil and gas interests in all land in the unit area. However, nothing herein 28
29 or in said schedule or map shall be construed as a representation by any party 29
30 hereto as to the ownership of any interest other than such interest or interests 30
31 as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" 31
32 shall be revised by the Unit Operator whenever changes in the unit area render 32
33 such revision necessary when requested by the Oil and Gas Supervisor, hereinafter 33
34 referred to as "Supervisor", or when requested by the Commissioner of Public 34
35 Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner," 35

1 and not less than five (5) copies of the revised Exhibits shall be filed with 1
2 the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, 2
3 and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter 3
4 referred to as "State Commission." 4

5 The above-described unit area shall, when practicable, be expanded to 5
6 include therein any additional lands or shall be contracted to exclude lands 6
7 whenever such expansion or contraction is deemed to be necessary or advisable 7
8 to conform with the purposes of this agreement. Such expansion or contraction 8
9 shall be effected in the following manner: 9

10 (a) Unit Operator, on its own motion or on demand of the Director of the 10
11 Geological Survey, hereinafter referred to as "Director," or on demand of the 11
12 Land Commissioner, after preliminary concurrence by the Director, shall prepare 12
13 a notice of proposed expansion or contraction describing the contemplated changes 13
14 in the boundaries of the unit area, the reasons therefor, and the proposed 14
15 effective date thereof, preferably, the first day of a month subsequent to the 15
16 date of notice. 16

17 (b) Said notice shall be delivered to the Supervisor, the Land Commissioner 17
18 and the State Commission, and copies thereof mailed to the last known address 18
19 of each working-interest owner, lessee, and lessor whose interests are affected, 19
20 advising that thirty (30) days will be allowed for submission to the Unit 20
21 Operator of any objections. 21

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

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

31 (e) All legal subdivisions of lands (i.e., 40 acres by Government survey 31
32 or its nearest lot or tract equivalent; in instances of irregular surveys 32
33 unusually large lots or tracts shall be considered in multiples of 40 acres or 33
34 the nearest aliquot equivalent thereof), no parts of which are entitled to be 34
35 in a participating area on or before the fifth anniversary of the effective 35
36 date of the first initial participating area established under this unit 36
37 agreement, shall be eliminated automatically from this agreement, effective as 37

1 of said fifth anniversary, and such lands shall no longer be a part of the 1
2 unit area and shall no longer be subject to this agreement, unless diligent 2
3 drilling operations are in progress on unitized lands not entitled to partici- 3
4 pation on said fifth anniversary, in which event all such lands shall remain 4
5 subject hereto for so long as such drilling operations are continued diligently, 5
6 with not more than 90 days' time elapsing between the completion of one such 6
7 well and the commencement of the next such well. All legal subdivisions of 7
8 lands not entitled to be in a participating area within 10 years after the 8
9 effective date of the first initial participating area approved under this 9
10 agreement shall be automatically eliminated from this agreement as of said 10
11 tenth anniversary. All lands proved productive by diligent drilling operations 11
12 after the aforesaid five-year period shall become participating in the same 12
13 manner as during said five-year period. However, when such diligent drilling 13
14 operations cease, all non-participating lands shall be automatically eliminated 14
15 effective as of the 91st day thereafter. The unit operator shall within 90 days 15
16 after the effective date of any elimination hereunder, describe the area so 16
17 eliminated to the satisfaction of the Supervisor and the Land Commissioner and 17
18 promptly notify all parties in interest. 18

19 If conditions warrant extension of the ten-year period specified in this 19
20 subsection 2 (e), a single extension of not to exceed two years may be accom- 20
21 plished by consent of the owners of 90% of the working interests in the current 21
22 non-participating unitized lands and the owners of 60% of the basic royalty 22
23 interests (exclusive of the basic royalty interests of the United States) in non- 23
24 participating unitized lands with approval of the Director and Land Commissioner, 24
25 provided such extension application is submitted to the Director and the Land 25
26 Commissioner not later than 60 days prior to the expiration of said ten-year 26
27 period. 27

28 Any expansion of the unit area pursuant to this section which embraces 28
29 lands theretofore eliminated pursuant to this subsection 2 (e) shall not be 29
30 considered automatic commitment or recommitment of such lands. 30

31 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this 31
32 agreement shall constitute land referred to herein as "unitized land" or "land 32
33 subject to this agreement." All oil and gas in any and all formations of the 33
34 unitized land are unitized under the terms of this agreement and herein are 34
35 called "unitized substances." 35

36 4. UNIT OPERATOR. _____ MARALO, INC. 36
37 is hereby designated as Unit Operator and by signature hereto as Unit Operator 37

1 agrees and consents to accept the duties and obligations of Unit Operator for 1
2 the discovery, development, and production of unitized substances as herein 2
3 provided. Whenever reference is made herein to the Unit Operator, such reference 3
4 means the Unit Operator acting in the capacity and not as an owner of interest 4
5 in unitized substances, and the term "working-interest owner" when used shall 5
6 include or refer to Unit Operator as the owner of a working interest when such 6
7 an interest is owned by it. 7

8 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the 8
9 right to resign at any time prior to the establishment of a participating area 9
10 or areas hereunder, but such resignation shall not become effective so as to 10
11 release Unit Operator from the duties and obligations of Unit Operator and 11
12 terminate Unit Operator's rights as such for a period of six (6) months after 12
13 notice of intention to resign has been served by Unit Operator on all working- 13
14 interest owners and the Supervisor and the Land Commissioner, and until all wells 14
15 then drilled hereunder are placed in a satisfactory condition for suspension or 15
16 abandonment whichever is required by the Supervisor as to Federal lands and the 16
17 State Commission as to State lands, unless a new Unit Operator shall have been 17
18 selected and approved and shall have taken over and assumed the duties and 18
19 obligations of Unit Operator prior to the expiration of said period. 19

20 Unit Operator shall have the right to resign in like manner and subject to 20
21 like limitations as above provided at any time a participating area established 21
22 hereunder is in existence, but, in all instances of resignation or removal, until 22
23 a successor unit operator is selected and approved as hereinafter provided, the 23
24 working-interest owners shall be jointly responsible for performance of the 24
25 duties of unit operator, and shall not later than 30 days before such resigna- 25
26 tion or removal becomes effective appoint a common agent to represent them in any 26
27 action to be taken hereunder. 27

28 The resignation of Unit Operator shall not release Unit Operator from any 28
29 liability for any default by it hereunder occurring prior to the effective date 29
30 of its resignation. 30

31 The Unit Operator may, upon default or failure in the performance of its 31
32 duties or obligations hereunder, be subject to removal by the same percentage 32
33 vote of the owners of working interests as herein provided for the selection 33
34 of a new Unit Operator. Such removal shall be effective upon notice thereof 34
35 to the Supervisor and the Land Commissioner. 35

1 The resignation or removal of Unit Operator under this agreement shall 1
2 not terminate its right, title, or interest as the owner of a working interest 2
3 or other interest in unitized substances, but upon the resignation or removal 3
4 of Unit Operator becoming effective, such Unit Operator shall deliver possession 4
5 of all wells, equipment, materials, and appurtenances used in conducting the 5
6 unit operations to the new duly qualified successor Unit Operator or to the 6
7 common agent, if no such new Unit Operator is elected, to be used for the purpose 7
8 of conducting unit operations hereunder. Nothing herein shall be construed as 8
9 authorizing removal of any material, equipment, and appurtenances needed for 9
10 the preservation of any wells. 10

11 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his 11
12 or its resignation as Unit Operator or shall be removed as hereinabove provided, 12
13 or a change of Unit Operator is negotiated by working-interest owners, the owners 13
14 of the working interests in the participating area or areas according to their 14
15 respective acreage interests in such participating area or areas, or until a 15
16 participating area shall have been established, the owners of the working 16
17 interests according to their respective acreage interests in all unitized land, 17
18 shall by majority vote select a successor Unit Operator: Provided, That, if a 18
19 majority but less than 75 per cent of the working interests qualified to vote 19
20 are owned by one party to this agreement, a concurring vote of one or more 20
21 additional working interest owners shall be required to select a new operator. 21
22 Such selection shall not become effective until 22

23 (a) a Unit Operator so selected shall accept in writing the duties and 23
24 responsibilities of Unit Operator, and 24

25 (b) the selection shall have been approved by the Supervisor and approved 25
26 by the Land Commissioner. 26

27 If no successor Unit Operator is selected and qualified as herein provided, 27
28 the Director and the Land Commissioner, at their election, may declare this 28
29 unit agreement terminated. 29

30 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator 30
31 is not the sole owner of working interest, costs and expenses incurred by Unit 31
32 Operator in conducting unit operations hereunder shall be paid and apportioned 32
33 among and borne by the owners of working interests, all in accordance with the 33
34 agreement or agreements entered into by and between the Unit Operator and the 34
35 owners of working interests, whether one or more, separately or collectively. 35

1 Any agreement or agreements entered into between the working-interest owners 1
2 and the Unit Operator as provided in this section, whether one or more, are 2
3 herein referred to as the "unit operating agreement." Such unit operating 3
4 agreement shall also provide the manner in which the working-interest owners 4
5 shall be entitled to receive their respective proportionate and allocated share 5
6 of the benefits accruing hereto in conformity with their underlying operating 6
7 agreements, leases, or other independent contracts, and such other rights and 7
8 obligations as between Unit Operator and the working-interest owners as may be 8
9 agreed upon by Unit Operator and the working-interest owners; however, no such 9
10 unit operating agreement shall be deemed either to modify any of the terms and 10
11 conditions of this unit agreement or to relieve the Unit Operator of any right, 11
12 or obligation established under this unit agreement, and in case of any incon- 12
13 sistency or conflict between this unit agreement and the unit operating agreement, 13
14 this unit agreement shall govern. Three true copies of any unit operating agree- 14
15 ment executed pursuant to this section should be filed with the Supervisor and 15
16 one true copy with the Land Commissioner, prior to approval of this unit agree- 16
17 ment. 17

18 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifi- 18
19 cally provided herein, the exclusive right, privilege and duty of exercising 19
20 any and all rights of the parties hereto which are necessary or convenient for 20
21 prospecting for, producing, storing, allocating, and distributing the unitized 21
22 substances are hereby delegated to and shall be exercised by the Unit Operator 22
23 as herein provided. Acceptable evidence of title to said rights shall be 23
24 deposited with said Unit Operator and, together with this agreement, shall 24
25 constitute and define the rights, privileges, and obligations of Unit Operator. 25
26 Nothing herein, however, shall be construed to transfer title to any land or to 26
27 any lease or operating agreement, it being understood that under this agreement 27
28 the Unit Operator, in its capacity as Unit Operator, shall exercise the rights 28
29 of possession and use vested in the parties hereto only for the purposes herein 29
30 specified. 30

31 9. DRILLING TO DISCOVERY. Within six (6) months after the effective date 31
32 hereof, the Unit Operator shall begin to drill an adequate test well at a 32
33 location approved by the Supervisor, if on Federal land, or by the Land 33
34 Commissioner, if on State land, unless on such effective date a well is being 34
35 drilled conformably with the terms hereof, and thereafter continue such drilling 35

1 diligently until the Mississippian (Barnett Shale) formation has been penetrated 1
2 and all formations of the Pennsylvanian age have been tested, or until at a 2
3 lesser depth unitized substances shall be discovered which can be produced in 3
4 paying quantities (to-wit: quantities sufficient to repay the costs of drilling, 4
5 completing and producing operations, with a reasonable profit) or the Unit 5
6 Operator shall, at any time, establish to the satisfaction of the Supervisor 6
7 if on Federal land, or the Land Commissioner if on State land, that further 7
8 drilling of said well would be unwarranted or impracticable; provided, however, 8
9 that Unit Operator shall not, in any event, be required to drill said well to a 9
10 depth in excess of 9,500 feet. Until the discovery of a deposit of unitized 10
11 substances capable of being produced in paying quantities, the Unit Operator 11
12 shall continue drilling diligently one well at a time, allowing not more than 12
13 six (6) months between the completion of one well and the beginning of the next 13
14 well, until a well capable of producing unitized substances in paying quantities 14
15 is completed to the satisfaction of said Supervisor if it be on Federal land or 15
16 of the Land Commissioner if on State land, or until it is reasonably proved that 16
17 the unitized land is incapable of producing unitized substances in paying 17
18 quantities in the formations drilled hereunder. Nothing in this section shall 18
19 be deemed to limit the right of the Unit Operator to resign as provided in 19
20 Section 5 hereof, or as requiring Unit Operator to commence or continue any 20
21 drilling during the period pending such resignation becoming effective in 21
22 order to comply with the requirements of this section. The Supervisor and Land 22
23 Commissioner may modify the drilling requirements of this section by granting 23
24 reasonable extensions of time when, in their opinion, such action is warranted. 24
25 Upon failure to commence any well provided for in this section within the 25
26 time allowed, including any extension of time granted by the Supervisor and the 26
27 Land Commissioner, this agreement will automatically terminate; upon failure to 27
28 continue drilling diligently any well commenced hereunder, the Supervisor and 28
29 the Land Commissioner may, after 15-days notice to the Unit Operator, declare 29
30 this unit agreement terminated. 30
31 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months 31
32 after completion of a well capable of producing unitized substances in paying 32
33 quantities, the Unit Operator shall submit for the approval of the Supervisor and 33
34 the Land Commissioner an acceptable plan of development and operation for the 34
35 unitized land which, when approved by the Supervisor and the Land Commissioner, 35
36 shall constitute the further drilling and operating obligations of the Unit 36

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

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

13 (a) specify the number and locations of any wells to be drilled and the 13
14 proposed order and time for such drilling; and 14

15 (b) to the extent practicable specify the operating practices regarded as 15
16 necessary and advisable for proper conservation of natural resources. 16

17 Separate plans may be submitted for separate productive zones, subject to the 17
18 approval of the Supervisor and the Land Commissioner. 18

19 Plans shall be modified or supplemented when necessary to meet changed 19
20 conditions or to protect the interests of all parties to this agreement. 20
21 Reasonable diligence shall be exercised in complying with the obligations of the 21
22 approved plan of development. The Supervisor and the Land Commissioner are 22
23 authorized to grant a reasonable extension of the six-month period herein pre- 23
24 scribed for submission of an initial plan of development where such action is 24
25 justified because of unusual conditions or circumstances. After completion here- 25
26 under of a well capable of producing any unitized substance in paying quantities, 26
27 no further wells, except such as may be necessary to afford protection against 27
28 operations not under this agreement and such as may be specifically approved 28
29 by the Supervisor and the Land Commissioner, shall be drilled except in accord- 29
30 ance with a plan of development approved as herein provided. 30

31 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of 31
32 producing unitized substances in paying quantities or as soon thereafter as re- 32
33 quired by the Supervisor or the Land Commissioner, the Unit Operator shall submit 33
34 for approval by the Supervisor and the Land Commissioner a schedule, based on 34
35 subdivisions of the public-land survey or aliquot parts thereof, of all land 35

1 then regarded as reasonably proved to be productive in paying quantities; all 1
2 lands in said schedule on approval of the Supervisor and the Land Commissioner 2
3 to constitute a participating area, effective as of the date of completion of 3
4 such well or the effective date of this unit agreement, whichever is later. 4
5 The acreages of both Federal and non-Federal lands shall be based upon appropri- 5
6 ate computations from the courses and distances shown on the last approved 6
7 public-land survey as of the effective date of each initial participating area. 7
8 Said schedule shall also set forth the percentage of unitized substances to be 8
9 allocated as herein provided to each tract in the participating area so estab- 9
10 lished, and shall govern the allocation of production commencing with the 10
11 effective date of the participating area. A separate participating area shall be 11
12 established for each separate pool or deposit of unitized substances or for any 12
13 group thereof which is produced as a single pool or zone, and any two or more 13
14 participating areas so established may be combined into one, on approval of the 14
15 Supervisor and the Land Commissioner. When production from two or more partici- 15
16 pating areas, so established, is subsequently found to be from a common pool or 16
17 deposit said participating areas shall be combined into one effective as of 17
18 such appropriate date as may be approved or prescribed by the Supervisor and the 18
19 Land Commissioner. The participating area or areas so established shall be 19
20 revised from time to time, subject to like approval, to include additional land 20
21 then regarded as reasonably proved to be productive in paying quantities or 21
22 necessary for unit operations, or to exclude land then regarded as reasonably 22
23 proved not to be productive in paying quantities and the schedule of allocation 23
24 percentages shall be revised accordingly. The effective date of any revision 24
25 shall be the first of the month in which is obtained the knowledge or information 25
26 on which such revision is predicated, provided, however, that a more appropriate 26
27 effective date may be used if justified by the Unit Operator and approved by the 27
28 Supervisor and the Land Commissioner. No land shall be excluded from a 28
29 participating area on account of depletion of the unitized substances, except 29
30 that any participating area established under the provisions of this unit 30
31 agreement shall terminate automatically whenever all completions in the formation 31
32 on which the participating area is based are abandoned. 32

33 It is the intent of this section that a participating area shall represent 33
34 the area known or reasonably estimated to be productive in paying quantities; but 34
35 regardless of any revision of the participating area, nothing herein contained 35

1 shall be construed as requiring any retroactive adjustment for production 1
2 obtained prior to the effective date of the revision of the participating area. 2

3 In the absence of agreement at any time between the Unit Operator and the 3
4 Supervisor and the Land Commissioner as to the proper definition or redefinition 4
5 of a participating area, or until a participating area has, or areas have, been 5
6 established as provided herein, the portion of all payments affected thereby 6
7 shall be impounded in a manner mutually acceptable to the owners of working 7
8 interests and the Supervisor and the Land Commissioner. Royalties due the United 8
9 States shall be determined by the Supervisor for Federal lands and the Land 9
10 Commissioner for the State lands and the amount thereof shall be deposited, as 10
11 directed by the Supervisor and the Land Commissioner, to be held as unearned money 11
12 until a participating area is finally approved and then applied as earned or 12
13 returned in accordance with a determination of the sum due as Federal and State 13
14 royalty on the basis of such approved participating area. 14

15 Whenever it is determined, subject to the approval of the Supervisor and 15
16 the Land Commissioner, that a well drilled under this agreement is not capable of 16
17 production in paying quantities and inclusion of the land on which it is situated 17
18 in a participating area is unwarranted, production from such well shall, for the 18
19 purposes of settlement among all parties other than working-interest owners, be 19
20 allocated to the land on which the well is located unless such land is already 20
21 within the participating area established for the pool or deposit from which such 21
22 production is obtained. Settlement for working interest benefits from such a 22
23 well shall be made as provided in the unit operating agreement. 23

24 12. ALLOCATION OF PRODUCTION. All unitized substances produced from each 24
25 participating area established under this agreement, except any part thereof 25
26 used in conformity with good operating practices within the unitized area for 26
27 drilling, operating, camp, and other production or development purposes, for 27
28 repressuring or recycling in accordance with a plan of development approved by 28
29 the Supervisor and Land Commissioner, or unavoidably lost, shall be deemed to be 29
30 produced equally on an acreage basis from the several tracts of unitized land 30
31 of the participating area established for such production and, for the purpose of 31
32 determining any benefits accruing under this agreement, each such tract of 32
33 unitized land shall have allocated to it such percentage of said production 33
34 as the number of acres of such tract included in said participating area bears 34
35 to the total acres of unitized land in said participating area, except that 35
36 allocation of production hereunder for purposes other than for settlement of 36

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

14 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any 14
15 party hereto owning or controlling the working interest in any unitized land 15
16 having thereon a regular well location may with the approval of the Supervisor 16
17 and the Land Commissioner, at such party's sole risk, costs, and expense, drill 17
18 a well to test any formation for which a participating area has not been estab- 18
19 lished or to test any formation for which a participating area has been estab- 19
20 lished if such location is not within said participating area, unless within 90 20
21 days of receipt of notice from said party of his intention to drill the well 21
22 the Unit Operator elects and commences to drill such a well in like manner as 22
23 other wells are drilled by the Unit Operator under this agreement. 23

24 If any well drilled as aforesaid by a working-interest owner results in 24
25 production such that the land upon which it is situated may properly be included 25
26 in a participating area, such participating area shall be established or enlarged 26
27 as provided in this agreement and the well shall thereafter be operated by the 27
28 Unit Operator in accordance with the terms of this agreement and the unit 28
29 operating agreement. 29

30 If any well drilled as aforesaid by a working-interest owner obtains 30
31 production in quantities insufficient to justify the inclusion of the land upon 31
32 which such well is situated in a participating area, such well may be operated 32
33 and produced by the party drilling the same subject to the conservation require- 33
34 ments of this agreement. The royalties in amount or value of production from 34
35 any such well shall be paid as specified in the underlying lease and agreements 35
36 affected. 36

1 14. ROYALTY SETTLEMENT. The United States and any State and any royalty 1
2 owner who is entitled to take in kind a share of the substances now unitized 2
3 hereunder shall hereafter be entitled to the right to take in kind its share 3
4 of the unitized substances, and the Unit Operator, or the working-interest owner 4
5 in case of the operation of a well by a working-interest owner as herein pro- 5
6 vided for in special cases, shall make deliveries of such royalty share taken 6
7 in kind in conformity with the applicable contracts, laws, and regulations. 7
8 Settlement for royalty interest not taken in kind shall be made by working-interest 8
9 owners responsible therefor under existing contracts, laws, and regulations, or 9
10 by the Unit Operator, on or before the last day of each month for unitized sub- 10
11 stances produced during the preceding calendar month; provided, however, that 11
12 nothing herein contained shall operate to relieve the lessees of any land from 12
13 their respective lease obligations for the payment of any royalties due under 13
14 their leases. 14

15 If gas obtained from lands not subject to this agreement is introduced 15
16 into any participating area hereunder, for use in repressuring, stimulation of 16
17 production, or increasing ultimate recovery, in conformity with a plan of opera- 17
18 tions approved by the Supervisor and the Land Commissioner, a like amount of gas, 18
19 after settlement as herein provided for any gas transferred from any other parti- 19
20 cipating area and with appropriate deduction for loss from any cause, may be with- 20
21 drawn from the formation into which the gas is introduced, royalty free as to dry 21
22 gas, but not as to any products which may be extracted therefrom; provided that 22
23 such withdrawal shall be at such time as may be provided in the approved plan of 23
24 operations or as may otherwise be consented to by the Supervisor and the Land 24
25 Commissioner as conforming to good petroleum engineering practice; and provided 25
26 further, that such right of withdrawal shall terminate on the termination of this 26
27 unit agreement. 27

28 Royalty due the United States shall be computed as provided in the operating 28
29 regulations and paid in value or delivered in kind as to all unitized substances 29
30 on the basis of the amounts thereof allocated to unitized Federal land as pro- 30
31 vided herein at the rates specified in the respective Federal leases, or at such 31
32 lower rate or rates as may be authorized by law or regulation; provided, that 32
33 for leases on which the royalty rate depends on the daily average production per 33
34 well, said average production shall be determined in accordance with the 34
35 operating regulations as though each participating area were a single consoli- 35
36 dated lease. 36

1 Royalty due on account of State lands shall be computed and paid on the 1
2 basis of all unitized substances allocated to such lands. 2

3 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases 3
4 committed hereto shall be paid by working-interest owners responsible therefor 4
5 under existing contracts, laws, and regulations, provided that nothing herein 5
6 contained shall operate to relieve the lessees of any land from their respective 6
7 lease obligations for the payment of any rental or minimum royalty due under 7
8 their leases. Rental or minimum royalty for lands of the United States subject 8
9 to this agreement shall be paid at the rate specified in the respective leases 9
10 from the United States unless such rental or minimum royalty is waived, sus- 10
11 pended, or reduced by law or by approval of the Secretary or his duly authorized 11
12 representative. 12

13 Rentals on State of New Mexico lands subject to this agreement shall be 13
14 paid at the rates specified in the respective leases. 14

15 With respect to any lease on non-Federal land containing provisions which 15
16 would terminate such lease unless drilling operations are commenced upon the 16
17 land covered thereby within the time therein specified or rentals are paid for 17
18 the privilege of deferring such drilling operations, the rentals required there- 18
19 by shall, notwithstanding any other provision of this agreement, be deemed to 19
20 accrue and become payable during the term thereof as extended by this agreement 20
21 and until the required drilling operations are commenced upon the land covered 21
22 thereby or until some portion of such land is included within a participating 22
23 area. 23

24 16. CONSERVATION. Operations hereunder and production of unitized sub- 24
25 stances shall be conducted to provide for the most economical and efficient 25
26 recovery of said substances without waste, as defined by or pursuant to State 26
27 or Federal law or regulation. 27

28 17. DRAINAGE. The Unit Operator shall take such measures as the Super- 28
29 visor and Land Commissioner deem appropriate and adequate to prevent drainage 29
30 of unitized substances from unitized land by wells on land not subject to this 30
31 agreement. 31

32 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, 32
33 and provisions of all leases, subleases, and other contracts relating to explor- 33
34 ation, drilling, development, or operation for oil or gas on lands committed to 34
35 this agreement are hereby expressly modified and amended to the extent necessary 35

1 to make the same conform to the provisions hereof, but otherwise to remain in 1
2 full force and effect; and the parties hereto hereby consent that the Secretary, 2
3 as to Federal leases and the Land Commissioner, as to State leases, shall and 3
4 each by his approval hereof, or by the approval hereof by his duly authorized 4
5 representative, does hereby establish, alter, change, or revoke the drilling, 5
6 producing, rental, minimum royalty, and royalty requirements of Federal and 6
7 State leases committed hereto and the regulations in respect thereto to conform 7
8 said requirements to the provisions of this agreement, and without limiting the 8
9 generality of the foregoing, all leases, subleases, and contracts are particu- 9
10 larly modified in accordance with the following: 10

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

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

21 (c) Suspension of drilling or producing operations on all unitized lands 21
22 pursuant to direction or consent of the Secretary and the Land Commissioner, or 22
23 his duly authorized representative, shall be deemed to constitute such suspension 23
24 pursuant to such direction or consent as to each and every tract of unitized land. 24
25 A suspension of drilling or producing operations limited to specified lands shall 25
26 be applicable only to such lands. 26

27 (d) Each lease, sublease, or contract relating to the exploration, 27
28 drilling, development or operation for oil or gas of lands other than those of 28
29 the United States and State of New Mexico committed to this agreement, which, 29
30 by its terms might expire prior to the termination of this agreement, is hereby 30
31 extended beyond any such terms so provided therein so that it shall be continued 31
32 in full force and effect for and during the term of this agreement. 32

33 (e) Any Federal lease for a fixed term of twenty (20) years or any 33
34 renewal thereof or any part of such lease which is made subject to this agree- 34
35 ment shall continue in force beyond the term provided therein until the 35

1 termination hereof. Any other Federal lease committed hereto shall continue in 1
2 force beyond the term so provided therein or by law as to the land committed 2
3 so long as such lease remains subject hereto, provided that production is had 3
4 in paying quantities under this unit agreement prior to the expiration date 4
5 of the term of such lease, or in the event actual drilling operations are 5
6 commenced on unitized land, in accordance with the provisions of this agreement, 6
7 prior to the end of the primary term of such lease and are being diligently 7
8 prosecuted at that time, such lease shall be extended for two years and so long 8
9 thereafter as oil or gas is produced in paying quantities in accordance with 9
10 the provisions of the Mineral Leasing Act Revision of 1960. 10

11 (f) Each sublease or contract relating to the operation and development 11
12 of unitized substances from lands of the United States committed to this 12
13 agreement, which by its terms would expire prior to the time at which the under- 13
14 lying lease, as extended by the immediately preceding paragraph, will expire, 14
15 is hereby extended beyond any such term so provided therein so that it shall be 15
16 continued in full force and effect for and during the term of the underlying 16
17 lease as such term is herein extended. 17

18 (g) The segregation of any Federal Lease committed to this agreement is 18
19 governed by the following provision in the fourth paragraph of Sec. 17 (j) of 19
20 the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 20
21 781-784): "Any (Federal) lease heretofore or hereafter committed to any such 21
22 (unit) Plan embracing lands that are in part within and in part outside of the 22
23 area covered by any such plan shall be segregated into separate leases as to 23
24 the lands committed and the lands not committed as of the effective date of 24
25 unitization: Provided, however, that any such lease as to the non-unitized 25
26 portion shall continue in force and effect for the term thereof but for not 26
27 less than two years from the date of such segregation and so long thereafter 27
28 as oil or gas is produced in paying quantities." 28

29 (h) Any lease embracing lands of the State of New Mexico which is made 29
30 subject to this agreement, shall continue in force beyond the term provided 30
31 therein as to the lands committed hereto until the termination hereof. 31

32 (i) Any lease embracing lands of the State of New Mexico having only a 32
33 portion of its lands committed hereto, shall be segregated as to the portion 33
34 committed and the portion not committed, and the terms of such lease shall 34
35 apply separately to such segregated portions commencing as of the effective date 35

1 hereof; provided, however, notwithstanding any of the provisions of this 1
2 agreement to the contrary any lease embracing lands of the State of New Mexico 2
3 having only a portion of its lands committed hereto shall continue in full 3
4 force and effect beyond the term provided therein as to all lands embraced in 4
5 such lease, if oil or gas is discovered and is capable of being produced in 5
6 paying quantities from some part of the lands embraced in such lease at the 6
7 expiration of the secondary term of such lease; or if, at the expiration of the 7
8 secondary term, the lessee or the Unit Operator is then engaged in bona fide 8
9 drilling or reworking operations on some part of the lands embraced in such 9
10 lease, the same, as to all lands embraced therein, shall remain in full force 10
11 and effect so long as such operations are being diligently prosecuted, and if 11
12 they result in the production of oil or gas; said lease shall continue in full 12
13 force and effect as to all of the lands embraced therein, so long thereafter as 13
14 oil or gas in paying quantities is being produced from any portion of said lands. 14

15 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to 15
16 be covenants running with the land with respect to the interest of the parties 16
17 hereto and their successors in interest until this agreement terminates, and 17
18 any grant, transfer, or conveyance, or interest in land or leases subject hereto 18
19 shall be and hereby is conditioned upon the assumption of all privileges and 19
20 obligations hereunder by the grantee, transferee, or other successor in interest. 20
21 No assignment or transfer of any working interest, royalty, or other interest 21
22 subject hereto shall be binding upon Unit Operator until the first day of the 22
23 calendar month after Unit Operator is furnished with the original, photostatic, 23
24 or certified copy of the instrument of transfer. 24

25 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon 25
26 approval by the Secretary and the Land Commissioner or his duly authorized 26
27 representative, and shall terminate five (5) years from said effective date 27
28 unless 28

29 (a) such date of expiration is extended by the Director and the Land Com- 29
30 missioner, or 30

31 (b) it is reasonably determined prior to the expiration of the fixed term 31
32 or any extension thereof that the unitized land is incapable of production of 32
33 unitized substances in paying quantities in the formations tested hereunder and 33
34 after notice of intention to terminate the agreement on such ground is given by 34
35 the Unit Operator to all parties in interest at their last known addresses, the 35

1 agreement is terminated with the approval of the Supervisor and the Land 1
2 Commissioner, or 2

3 (c) a valuable discovery of unitized substances has been made or accepted 3
4 on unitized land during said initial term or any extension thereof, in which 4
5 event the agreement shall remain in effect for such term and so long as 5
6 unitized substances can be produced in quantities sufficient to pay for the 6
7 cost of producing same from wells on unitized land within any participating 7
8 area established hereunder and, should production cease, so long thereafter as 8
9 diligent operations are in progress for the restoration of production or dis- 9
10 covery of new production and so long thereafter as unitized substances so dis- 10
11 covered can be produced as aforesaid, or 11

12 (d) it is terminated as heretofore provided in this agreement. This 12
13 agreement may be terminated at any time by not less than 75 per centum, on an 13
14 acreage basis, of the working-interest owners signatory hereto, with the approval 14
15 of the Supervisor and the Land Commissioner; notice of any such approval to be 15
16 given by the Unit Operator to all parties hereto. 16

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

32 Powers in this section vested in the Director shall only be exercised after 32
33 notice to Unit Operator and opportunity for hearing to be held not less than 15 33
34 days from notice. 34

1 22. APPEARANCES. Unit Operator shall, after notice to other parties 1
2 affected, have the right to appear for and on behalf of any and all interests 2
3 affected hereby before the Department of the Interior and the Commissioner of 3
4 Public Lands and to appeal from orders issued under the regulations of said 4
5 Department or Land Commissioner or to apply for relief from any of said 5
6 regulations or in any proceedings relative to operations before the Department 6
7 of the Interior or the Land Commissioner or any other legally constituted 7
8 authority; provided, however, that any other interested party shall also have 8
9 the right at his own expense to be heard in any such proceeding. 9

10 23. NOTICES. All notices, demands, or statements required hereunder to be 10
11 given or rendered to the parties hereto shall be deemed fully given if given 11
12 in writing and personally delivered to the party or sent by postpaid registered 12
13 or certified mail, addressed to such party or parties at their respective 13
14 addresses set forth in connection with the signatures hereto or to the ratifi- 14
15 cation or consent hereof or to such other address as any such party may have 15
16 furnished in writing to party sending the notice, demand or statement. 16

17 24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall 17
18 be construed as a waiver by any party hereto of the right to assert any legal 18
19 or constitutional right or defense as to the validity or invalidity of any 19
20 law of the State wherein said unitized lands are located, or of the United 20
21 States, or regulations issued thereunder in any way affecting such party, or as 21
22 a waiver by any such party of any right beyond his or its authority to waive. 22

23 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring 23
24 the Unit Operator to commence or continue drilling or to operate on or produce 24
25 unitized substances from any of the lands covered by this agreement shall be 25
26 suspended while the Unit Operator despite the exercise of due care and dili- 26
27 gence, is prevented from complying with such obligations, in whole or in part, 27
28 by strikes, acts of God, Federal, State, or municipal law or agencies, unavail- 28
29 able accidents, uncontrollable delays in transportation, inability to obtain 29
30 necessary materials in open market, or other matters beyond the reasonable 30
31 control of the Unit Operator whether similar to matters herein enumerated or 31
32 not. No unit obligation which is suspended under this section shall become 32
33 due less than thirty (30) days after it has been determined that the suspension 33
34 is no longer applicable. Determination of creditable "Unavoidable Delay" time 34
35 shall be made by the unit operator subject to approval of the Supervisor and the 35
36 Land Commissioner. 36

1 26. NONDISCRIMINATION. In connection with the performance of work 1
2 under this agreement, the operator agrees to comply with all the provisions 2
3 of section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), 3
4 as amended, which are hereby incorporated by reference in this agreement. 4

5 27. LOSS OF TITLE. In the event title to any tract of unitized land 5
6 shall fail and the true owner cannot be induced to join in this unit agreement, 6
7 such tract shall be automatically regarded as not committed hereto and there 7
8 shall be such readjustment of future costs and benefits as may be required on 8
9 account of the loss of such title. In the event of a dispute as to title as to 9
10 any royalty, working interest, or other interests subject thereto, payment or 10
11 delivery on account thereof may be withheld without liability for interest until 11
12 the dispute is finally settled; provided, that, as to Federal and State land or 12
13 leases, no payments of funds due the United States or the State of New Mexico 13
14 should be withheld, but such funds shall be deposited as directed by the Super- 14
15 visor and such funds of the State of New Mexico shall be deposited as directed 15
16 by the Land Commissioner, to be held as unearned money pending final settlement 16
17 of the title dispute, and then applied as earned or returned in accordance with 17
18 such final settlement. 18

19 Unit Operator as such is relieved from any responsibility for any defect 19
20 or failure of any title hereunder. 20

21 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial 21
22 interest in a tract within the unit area fails or refuses to subscribe or 22
23 consent to this agreement, the owner of the working interest in that tract may 23
24 withdraw said tract from this agreement by written notice delivered to the Super- 24
25 visor and the Land Commissioner and the Unit Operator prior to the approval of 25
26 this agreement by the Supervisor. Any oil or gas interests in lands within the 26
27 unit area not committed hereto prior to submission of this agreement for final 27
28 approval may thereafter be committed hereto by the owner or owners thereof sub- 28
29 scribing or consenting to this agreement, and, if the interest is a working 29
30 interest, by the owner of such interest also subscribing to the unit operating 30
31 agreement. After operations are commenced hereunder, the right of subsequent 31
32 joinder, as provided in this section, by a working-interest owner is subject to 32
33 such requirements or approvals, if any, pertaining to such joinder, as may be 33
34 provided for in the unit operating agreement. After final approval hereof, 34
35 joinder by a non-working interest owner must be consented to in writing by the 35

1 working-interest owner committed hereto and responsible for the payment of any 1
2 benefits that may accrue hereunder in behalf of such non-working interest. A 2
3 non-working interest may not be committed to this unit unless the corresponding 3
4 working interest is committed hereto. Joinder to the unit agreement by a 4
5 working-interest owner, at any time, must be accompanied by appropriate joinder 5
6 to the unit operating agreement, if more than one committed working-interest 6
7 owner is involved, in order for the interest to be regarded as committed to this 7
8 unit agreement. Except as may otherwise herein be provided, subsequent joinders 8
9 to this agreement shall be effective as of the first day of the month following 9
10 the filing with the Supervisor and the Land Commissioner of duly executed 10
11 counterparts of all or any papers necessary to establish effective commitment 11
12 of any tract to this agreement unless objection to such joinder is duly made 12
13 within sixty (60) days by the Supervisor and the Land Commissioner. 13

14 29. COUNTERPARTS. This agreement may be executed in any number of 14
15 counterparts no one of which needs to be executed by all parties or may be 15
16 ratified or consented to by separate instruments in writing specifically refer- 16
17 ring hereto and shall be binding upon all those parties who have executed such 17
18 a counterpart, ratification, or consent, hereto with the same force and effect 18
19 as if all such parties had signed the same document and regardless of whether 19
20 or not it is executed by all other parties owning or claiming an interest in the 20
21 lands within the above-described unit area. 21

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

27 31. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working- 27
28 interest owners, nor any of them, shall be subject to any forfeiture, termination, 28
29 or expiration of any right hereunder or under any leases or contracts subject 29
30 hereto, or to any penalty or liability on account of delay or failure in whole 30
31 or in part to comply with any applicable provisions thereof to the extent that 31
32 the said Unit Operator or the working-interest owners, or any of them, are 32
33 hindered, delayed, or prevented from complying therewith by reason of failure of 33
34 the Unit Operator to obtain, in the exercise of due diligence, the concurrence 34
35 proper representatives of the United States and proper representatives of the 35

1 State of New Mexico in and about any matters or things concerning which it 1
2 is required herein that such concurrence be obtained. The parties hereto, 2
3 including the State Commission, agree that all powers and authority vested 3
4 in the State Commission in and by any provisions of this agreement are 4
5 vested in the State Commission and shall be exercised by it pursuant to the 5
6 provisions of the laws of the State of New Mexico and subject in any case to 6
7 appeal or judicial review as may now or hereafter be provided by the laws of 7
8 the State of New Mexico. 8

9 IN WITNESS WHEREOF, the parties hereto have caused this agreement to be 9
10 executed and have set opposite their respective names the date of execution. 10

ATTEST:

MARALO, INC.

Secretary

BY: _____

THE STATE OF TEXAS }
COUNTY OF _____ }

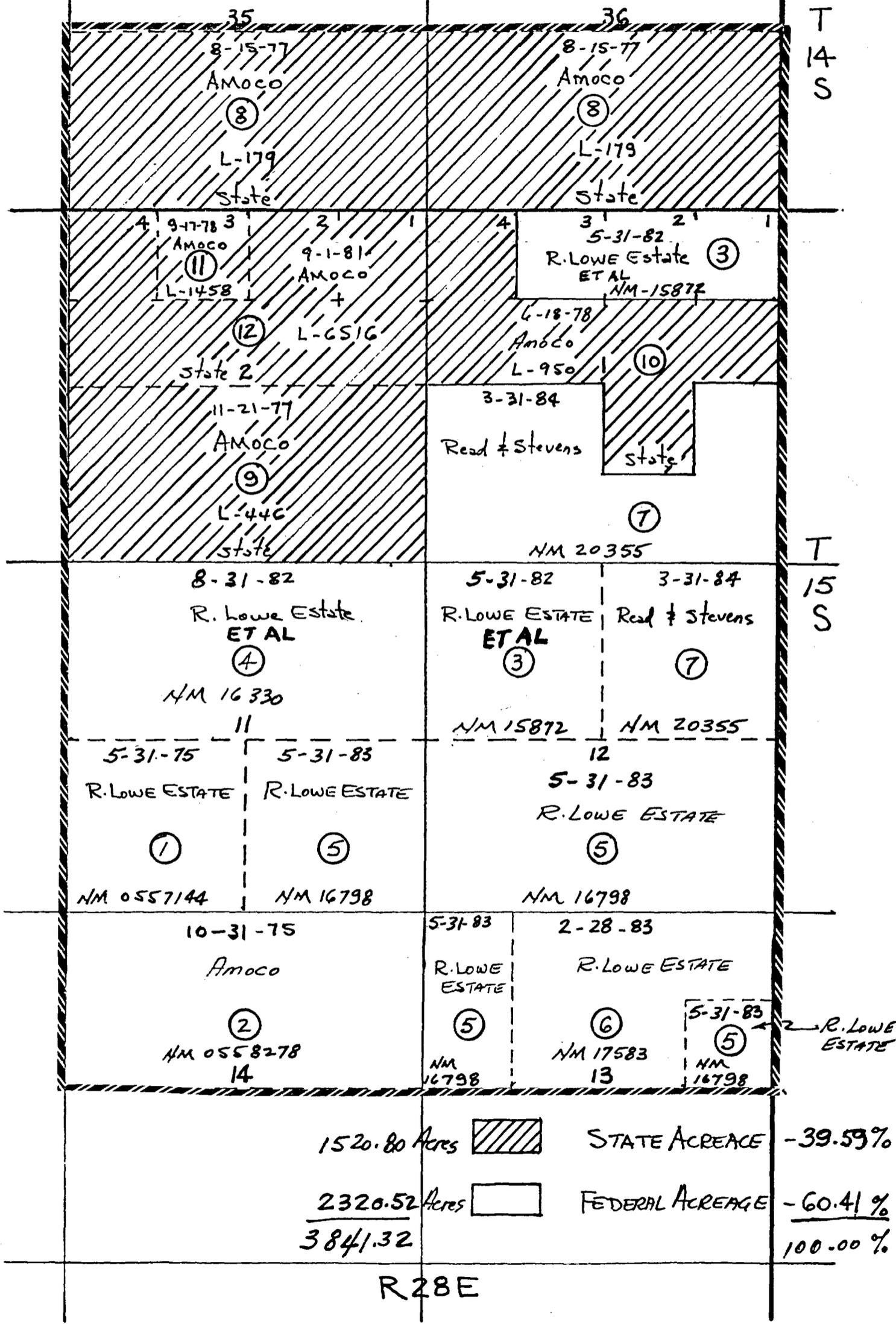
The foregoing instrument was acknowledged before me this _____ day of
_____, 1975, by _____
who is _____ President of Maralo, Inc., a Texas Corporation, for and
on behalf of said Corporation.

Notary Public in and for _____
County, Texas

My Commission Expires:

EXHIBIT "A"

Butler Springs Unit
Chaves County,
New Mexico
Marolo, Inc. - Operator



R28E

EXHIBIT "B"

SCHEDULE OF LANDS AND LEASES
 BUTLER SPRINGS UNIT AGREEMENT
 CHAVES COUNTY, NEW MEXICO

PAGE 1

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE OF LEASES	BASIC ROYALTY		OVERRIDING ROYALTY		WORKING INTEREST	
				OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OWNER AND PERCENTAGE	OWNER AND PERCENTAGE		
<u>TOWNSHIP 15 SOUTH, RANGE 28 EAST</u>									
1	Sec.11: SW/4	160.00	NM-0557144 5-31-75	USA	12.5	Estate of Ralph Lowe	Thelma F.DeSmet:	4% Lowe:	100%
2	Sec.14: N/2	320.00	NM-0558278 10-31-75	USA	12.5	Amoco Production Company	None	Amoco:	100%
3	Sec. 1: Lots 1,2,3 Sec.12: NW/4	280.52	NM-15872 5-31-82	USA	12.5	Estate of Ralph Lowe, et al	A.Lansdale:	5% Lowe:	100%
4	Sec.11: N/2	320.00	NM-16330 8-31-82	USA	12.5	Estate of Ralph Lowe, et al	Panos Investment Company:	5% Lowe:	100%
5	Sec.11: SE/4 Sec.12: S/2	600.00	NM-16798 5-31-83	USA	12.5	Estate of Ralph Lowe	Mildred Unruh:	5% Lowe:	100%
6	Sec.13: W/2 NW/4 & SE/4 NE/4 Sec.13: E/2 NW/4, W/2 NE/4, NE/4 NE/4	200.00	NM-17583 2-28-83	USA	12.5	Estate of Ralph Lowe	M.N.Hahn: C.E.Strange:	2% Lowe: 2%	100%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXP. DATE OF LEASES	BASIC ROYALTY OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND PERCENTAGE	WORKING INTEREST OWNER AND PERCENTAGE
7	Sec. 1: SW/4,S/2 SE/4,NE/4 SE/4 Sec.12: NE/4	440.00	NM-20355 3-31-84	USA	Read & Stevens, Inc.	Otto G.Green: 5%	Read & Stevens: 100%
7 Federal Tracts 2,320.52 acres, or 60.41% of Unit Area.							
<u>TOWNSHIP 14 SOUTH, RANGE 28 EAST</u>							
8	Sec. 1: NE/4, S/2	600.00	L-170 11-15-77	State	Amoco Production Company	None	Amoco: 100%
Sec.36: S/2							
<u>TOWNSHIP 15 SOUTH, RANGE 28 EAST</u>							
9	Sec. 2: S/2	320.00	L-446 11-21-77	State	Amoco Production Company	None	Amoco: 100%
10	Sec. 1: Lot 4, S/2 N/2,NW/4 SE/4	240.40	L-950 6-18-78	State	Amoco Production Company	None	Amoco: 100%
11	Sec. 2: Lot 3	40.01	L-1458 9-17-78	State	Amoco Production Company	None	Amoco: 100%
12	Sec. 2: Lots 1,2,4, S/2 N/2	280.39	L-6516	USA	Amoco Production Company	None	Amoco: 100%
5 State Tracts 1,520.80 acres, or 39.59% of Unit Area.							
TOTAL:	12 Tracts 3,841.52 acres in entire Unit Area.						