

BEFORE THE OIL CONSERVATION COMMISSION  
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF  
THE WALNUT DRAW UNIT AGREEMENT  
CHAVES AND EDDY COUNTIES, NEW MEXICO

Case 6490

New Mexico Oil Conservation Commission  
Santa Fe, New Mexico 87501

Comes the undersigned L. C. Harris, with offices at Roswell, New Mexico and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Walnut Draw Unit Area, Eddy and Chaves Counties, New Mexico and hereby makes application for approval of said Unit Agreement as provided by law, and in support thereof states:

1. That the proposed Unit Area covered by said Agreement embraces 9,797.48 acres of land, more or less, more particularly described as follows:

<u>T-15-S, R-23-E, N.M.P.M.</u> Secs. 33, 34, 35, 36; All	<u>T-16-S, R-23-E, N.M.P.M.</u> Secs. 1, 2, 11, 12, 13; All	<u>T-16-S, R-<sup>26</sup><del>25</del>-E, N.M.P.M.</u> Secs. 5, 6, 7, 8, 18; All
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Eddy and Chaves Counties, New Mexico

2. That of the lands embraced within the proposed Unit, 4,972.62 acres are lands of the United States, being 50.76% of the Area; 4,424.86 acres are State of New Mexico lands being 45.16% of the Area, and 400.00 acres are Fee Lands being 4.08% of the Unit Area.

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

4. That L. C. Harris is designated as the Unit Operator in said Unit Agreement, and, as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for the drilling of an Initial Test Well to a depth sufficient to test the Siluro-Devonian Formation, but applicant is not obligated to drill said well in any event to a depth in excess of 6,500 feet.

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

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

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

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

DATED this 9th day of February, 1979.

L. C. Harris

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

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
WALNUT DRAW UNIT AREA  
COUNTIES OF EDDY AND CHAVES

STATE OF NEW MEXICO

NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 10th day of February,  
1979, by and between the parties subscribing, ratifying, or consenting hereto,  
and herein referred to as the "parties hereto,"

W I T N E S S E T H :

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

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as  
amended, 30 U. S. C. Secs. 181 et seq., authorizes Federal lessees and their re-  
presentatives to unite with each other, or jointly or separately with others, in  
collectively adopting and operating a cooperative or unit plan of development or  
operation of any oil or gas pool, field, or like area, or any part thereof for the  
purpose of more properly conserving the natural resources thereof whenever determined  
and certified by the Secretary of the Interior to be necessary or 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,

WHEREAS, the Oil Conservation Commission of the State of New Mexico is author-  
ized by an Act of the Legislature (Chapter 72, Laws of 1935, as amended by Chapter  
193, Laws of 1937; Chapter 166, Laws of 1941; and Chapter 168, Laws of 1949) to ap-  
prove this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the \_\_\_\_\_  
Walnut Draw Unit Area covering the land hereinafter des-  
cribed to give reasonably effective control of operations therein; and

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

herein set forth;

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

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

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

<u>T-15-S, R-23-E, NMPM</u> Secs. 33, 34, 35, 36; All	<u>T-16-S, R-23-E, NMPM</u> Secs. 1, 2, 11, 12, 13; All	<u>T-16-S, R-24-E, NMPM</u> Secs. 5, 6, 7, 8, 18; All
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Containing 9,797.48 acres,  
more or less.

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."

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

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

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

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

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

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

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

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

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

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

4. UNIT OPERATOR.

L. C. Harris

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Silure-Devonian formation has been tested

\_\_\_\_\_, or until at a lesser depth unitized substances shall be discovered which can be produced in paying

quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 6,500 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

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

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

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

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

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

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

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

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

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

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

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

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

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

Determination as to whether a well completed within the Unit Area prior to the effective date of this agreement is capable of producing unitized substances in paying quantities shall be deferred until an initial participating area is established as a result of the completion of a well for production in paying quantities in accordance with Section 9 hereof.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses

set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

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

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

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

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

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

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

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

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

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

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

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

(1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or

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

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

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

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

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

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

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

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

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

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

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

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

ATTEST:

BY: \_\_\_\_\_

BY: \_\_\_\_\_

Address:

UNIT OPERATOR

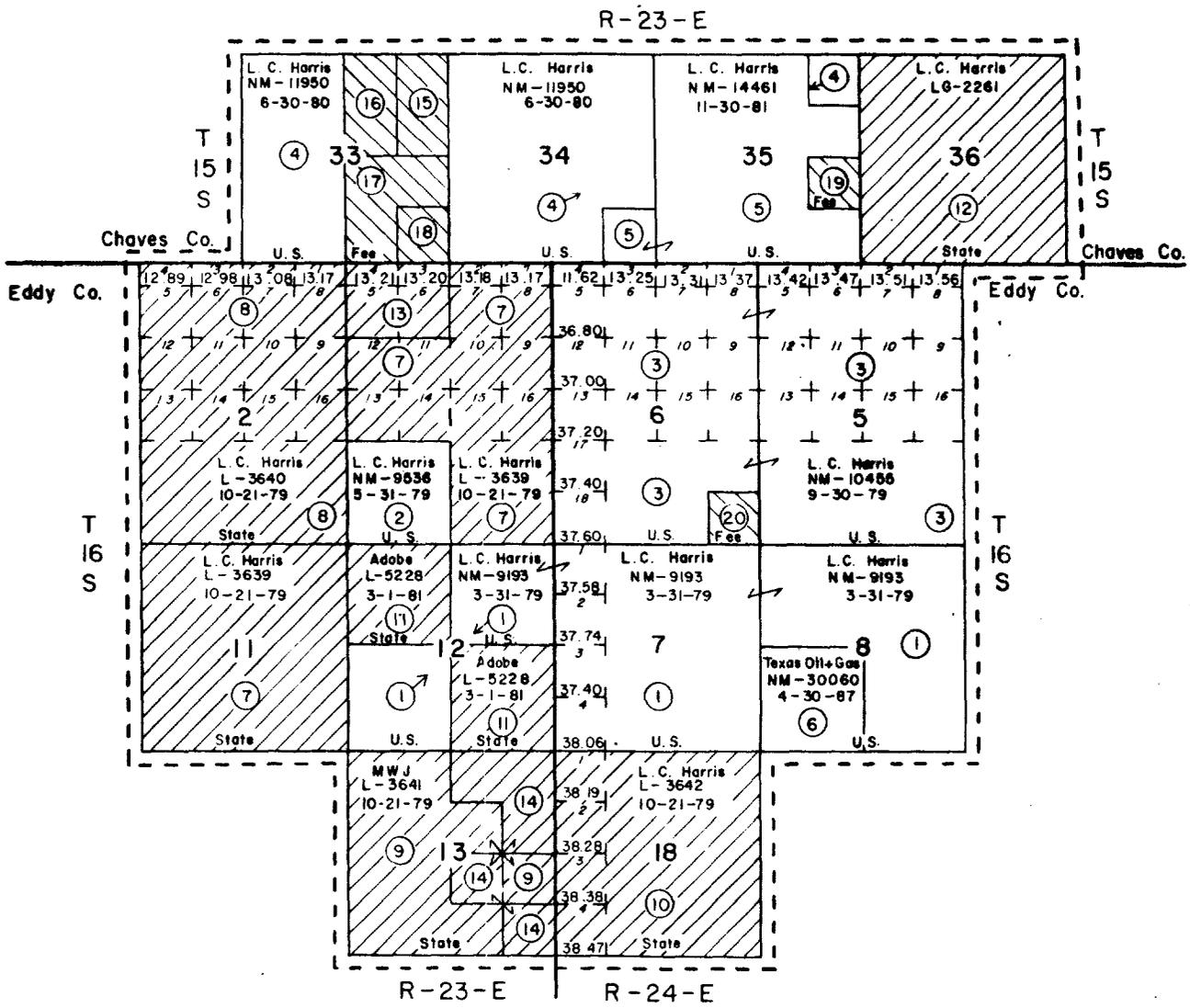
STATE OF \_\_\_\_\_ )  
 COUNTY OF \_\_\_\_\_ ) ss

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 197 , by \_\_\_\_\_ who is \_\_\_\_\_ of \_\_\_\_\_ (State of Incorp.) corporation, for and on behalf of said Corporation.

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
 Notary Public

EXHIBITS "A" AND "B" HAVE NOT BEEN PREPARED  
AND WILL BE FURNISHED AT A LATER DATE



**EXHIBIT "A"**  
**Walnut Draw Unit Area**  
 Eddy and Chaves Counties, New Mexico

- Unit Outline
- Tract No.
- Federal Lands  
4,962.79 Acres
- ▨ State of N. M. Lands  
4,418.20 Acres
- ▩ Fee Lands  
400.00 Acres

EXHIBIT "B"  
 Schedule Showing All Lands and Leases  
 Within the Walnut Draw Unit Area  
 Eddy and Chaves Counties, New Mexico

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. AND EXP. DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	ALL	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
1.	T-16-S, R-23-E, NMPM Sec. 12; NE $\frac{1}{4}$ , SW $\frac{1}{4}$	1,431.28	NM-9193 3-31-79	U.S.A. 12.5	L. C. Harris	ALL	Jean Okason R. M. Richardson R. H. Cress	3% 1% 1%	L. C. Harris ALL
	T-16-S, R-24-E, NMPM Sec. 7; All Sec. 8; E $\frac{1}{2}$ , NW $\frac{1}{4}$								
2.	T-16-S, R-23-E, NMPM Sec. 1; SW $\frac{1}{4}$	160.00	NM-9536 5-31-79	U.S.A. 12.5	Lawrence C. Harris	ALL	Labelle Shanahan R. M. Richardson R. H. Cress	3% 1% 1%	Lawrence C. Harris ALL
3.	T-16-S, R-24-E, NMPM Sec. 5; Lots 1 through S $\frac{1}{2}$ (all)	1,651.51	NM-10455 9-30-79	U.S.A. 12.5	Lawrence C. Harris	ALL	Donald D. Bruce R. M. Richardson R. H. Cress	3% 1% 1%	Lawrence C. Harris ALL
	Sec. 6; Lots 1 through 18, E $\frac{1}{2}$ SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$								
4.	T-15-S, R-23-E, NMPM Sec. 33; W $\frac{1}{2}$ Sec. 34; N $\frac{1}{2}$ , N $\frac{1}{2}$ S $\frac{1}{2}$ , S $\frac{1}{2}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$ SE $\frac{1}{4}$ Sec. 35; NE $\frac{1}{4}$ NE $\frac{1}{4}$	960.00	NM-11950 6-30-80	U.S.A. 12.5	Lawrence C. Harris	ALL	Ronald E. Evenson R. M. Richardson R. H. Cress	3% 1% 1%	Lawrence C. Harris ALL

5.	T-15-S, R-23-E, NMPM Sec. 34; SE $\frac{1}{4}$ SE $\frac{1}{4}$ Sec. 35; W $\frac{1}{2}$ E $\frac{1}{2}$ , W $\frac{1}{2}$ , SE $\frac{1}{4}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ SE $\frac{1}{4}$	600.00	NM-14461 11-30-81	U.S.A. 12.5	Lawrence C. Harris	All	Ben S. Brooks R. M. Richardson R. H. Cress	3% 1% 1%	Lawrence C. Harris	All	
6.	T-16-S, R-24-E, NMPM Sec. 8; SW $\frac{1}{4}$	160.00	NM-30060 4-30-87	U.S.A. 12.5	Texas Oil & Gas Corp.	All			Texas Oil & Gas Corp.	All	
		<b>TOTAL: 4,962.79 Acres Federal Lands</b>									
<b>STATE OF NEW MEXICO LANDS</b>											
7.	T-16-S, R-23-E, NMPM Sec. 1; Lots 1, 2, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16. SE $\frac{1}{4}$ Sec. 11; All	1,226.35	L-3639 10-21-79	State 12.5	L. C. Harris	All	R. M. Richardson R. H. Cress	1% 1%	L. C. Harris	All	
8.	T-16-S, R-23-E, NMPM Sec. 2; Lots 1 through 16, SW $\frac{1}{2}$ (all)	852.12	L-3640 10-21-79	State 12.5	L. C. Harris	All	R. M. Richardson R. H. Cress	1% 1%	L. C. Harris	All	
9.	T-16-S, R-23-E, NMPM Sec. 13; W $\frac{1}{2}$ , SW $\frac{1}{4}$ NE $\frac{1}{4}$ , SW $\frac{1}{4}$ SE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$	440.00	L-3641 10-21-79	State 12.5	MWJ Producing Co.	All	None		MWJ Producing Co.	All	
10.	T-16-S, R-24-E, NMPM Sec. 18; Lots 1, 2, 3, 4, E $\frac{1}{2}$ , E $\frac{1}{2}$ SW $\frac{1}{2}$	633.32	L-3642 10-21-79	State 12.5	L. C. Harris	All	R. M. Richardson R. H. Cress	1% 1%	L. C. Harris	All	
11.	T-16-S, R-23-E, NMPM Sec. 12; NW $\frac{1}{4}$ , SE $\frac{1}{4}$	320.00	L-5228 3-1-81	State 12.5	Adobe Oil & Gas Corp.	All	None		Adobe Oil & Gas Corp.	All	

**50.81480**

12.	<u>T-15-S, R-23-E, MMPM</u> Sec, 36; All	640.00	IG-2261 9-30-84	State 12.5	L. C. Harris	All	R. M. Richardson R. H. Cress	1% 1%	L. C. Harris	All
13.	<u>T-16-S, R-23-E, MMPM</u> Sec. 1; Lots 3, 4, 5, 6	106.41		Open						
14.	<u>T-16-S, R-23-E, MMPM</u> Sec. 13; <u>NW<sup>1</sup>/<sub>4</sub>NE<sup>1</sup>/<sub>4</sub>, SE<sup>1</sup>/<sub>4</sub>NE<sup>1</sup>/<sub>4</sub>,</u> <u>NW<sup>1</sup>/<sub>4</sub>SE<sup>1</sup>/<sub>4</sub>, SE<sup>1</sup>/<sub>4</sub>SE<sup>1</sup>/<sub>4</sub></u>	200.00		Open						
TOTAL:		4,418.20 Acres State of New Mexico Lands								
		<i>45.17/2</i>								

PATENTED (FEE) LANDS

15.	<u>T-15-S, R-23-E, NMPM</u> <u>Sec. 33; E/2NE1/4</u>	80.00
16.	<u>T-15-S, R-23-E, NMPM</u> <u>Sec. 33; W/2NE1/4</u>	80.00
17.	<u>T-15-S, R-23-E, NMPM</u> <u>Sec. 33; N/8SE1/4, SW/8SE1/4</u>	120.00
18.	<u>T-15-S, R-23-E, NMPM</u> <u>Sec. 33; SE/8SE1/4</u>	40.00
19.	<u>T-15-S, R-23-E, NMPM</u> <u>Sec. 35; NE/8SE1/4</u>	40.00
20.	<u>T-16-S, R-24-E, NMPM</u> <u>Sec. 6; SE/8SE1/4</u>	40.00

TOTAL: 400.00 Acres Patented (Fee) Lands

4.09%

Dockets Nos. 11-79 and 12-79 are tentatively set for hearing on March 14 and 28, 1979. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - WEDNESDAY - MARCH 7, 1979

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205  
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 6489: Application of J. V. Fritts and Wm. B. Barnhill for review of Order No. R-4831, Eddy County, New Mexico. Applicants, in the above-styled cause, seek the review and interpretation of Order No. R-4831 to permit them the opportunity to join in the drilling of the Federal "B" Well No. 1 located in Unit P of Section 1, Township 18 South, Range 26 East, Atoka-Pennsylvanian Pool, Eddy County, New Mexico, and to determine the applicability of the 200% risk factor.

CASE 6398: (DE NOVO)

Application of Texas Oil & Gas Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location for the Wolfcamp and Pennsylvanian formations of its State Com Well No. 1, to be located 660 feet from the South and West lines of Section 18, Township 21 South, Range 26 East, Catclaw Draw Field, Eddy County, New Mexico, all of said Section 18 to be dedicated to the well in the Morrow formation.

Upon application of Texas Oil & Gas Corporation this case will be heard De Novo pursuant to the provisions of Rule 1220.

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DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 14, 1979

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

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

- ALLOWABLE:
- (1) Consideration of the allowable production of gas for April, 1979, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
  - (2) Consideration of the allowable production of gas for April, 1979, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 6490: Application of L. C. Harris for a unit agreement, Chaves and Eddy Counties, New Mexico. Applicant, in the above-styled cause, seeks approval for his Walnut Draw Unit Area comprising 9,797 acres, more or less, of Federal, state and fee lands in Townships 15 and 16 South, Ranges 23 and 24 East, Chaves and Eddy Counties, New Mexico.

CASE 6491: Application of C & E Operators, Inc. for an unorthodox well location and a non-standard proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of an 80-acre non-standard gas proration unit comprising the E/2 SW/4 of Section 10, Township 30 North, Range 11 West, Aztec-Pictured Cliffs Pool, San Juan County, New Mexico, to be dedicated to a well to be located 1700 feet from the South line and 1760 feet from the West line of said Section 10.

CASE 6477: (Continued from February 28, 1979, Examiner Hearing)

Application of Sun Oil Company for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project on its East Millman Pool Unit Area by the injection of water into the Queen and Grayburg formations through eleven wells located in Sections 12 and 13 of Township 19 South, Range 28 East, East Millman Pool, Eddy County, New Mexico.

CASE 6492: Application of Yates Petroleum Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the NE/4 NW/4 of Section 13, Township 17 South, Range 25 East, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6072: (Reopened and Rēadvertised)

In the matter of Case 6072 being reopened pursuant to the provisions of Order No. R-5643 which order created the Travis-Upper Pennsylvanian Pool, Eddy County, New Mexico, with provisions for 80-acre spacing. All interested parties may appear and show cause why the Travis-Upper Pennsylvanian Pool should not be developed on 40-acre spacing units.

CASE 6493: Application of Merrion & Bayless for gas well commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the surface commingling, prior to measurement, of Pictured Cliffs production from the Hi Roll Wells Nos. 1 and 2 located in Units O and K of Section 35, Township 27 North, Range 13 West, San Juan County, New Mexico.

CASE 6494: Application of Morris R. Antweil for an unorthodox gas well location and simultaneous dedication, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of his Mesa Macho Well No. 1 located in Unit O of Section 24, Township 20 South, Range 27 East, Morrow formation, Eddy County, New Mexico, the E/2 of said Section 24 to be simultaneously dedicated to the aforesaid well and to applicant's Macho Norte Well No. 1 located in Unit G of Section 24.

CASE 6495: Application of Amax Chemical Corporation for the amendment of Order No. R-111-A, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-111-A to extend the boundaries of the Potash-Oil Area by the inclusion of certain lands in Sections 23 and 24, Township 19 South, Range 29 East, Sections 1, 4, 5, 6, 7, 11, 12, 13, 14, 19, 20, 23, 24, and 29, Township 19 South, Range 30 East, and Sections 7, 8, 17, 18, and 19, Township 19 South, Range 31 East, all in Eddy County, New Mexico.

CASE 6496: Application of Llano, Inc. for rescission of pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the rescission of Order No. R-3006, which promulgated 640-acre spacing for the Grama Ridge-Morrow Gas Pool, Lea County, New Mexico. Applicant proposes that said pool be developed and operated under 320-acre spacing and well location requirements.

CASE 6497: Application of Llano, Inc. for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be located 1650 feet from the South line and 660 feet from the East line of Section 34, Township 21 South, Range 34 East, Grama Ridge-Morrow Gas Pool, Lea County, New Mexico, the E/2 of said Section 34 to be dedicated to the well.

CASE 6498: Application of Pogo Producing Company to limit application of pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks to limit the application of the Grama Ridge-Morrow Gas Pool Rules to the horizontal limits of said pool, being all of Sections 2, 3, 4, and 10, Township 22 South, Range 34 East and Sections 33 and 34, Township 21 South, Range 34 East, Lea County, New Mexico.

CASE 6499: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating and extending horizontal limits and contracting vertical limits of certain pools in Chaves, Eddy, Lea, and Roosevelt Counties, New Mexico:

(a) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Morrow production and designated as the Antelope Sink-Morrow Gas Pool. The discovery well is Maddox Energy Corporation State 32 Well No. 1 located in Unit I of Section 32, Township 18 South, Range 24 East, NMPM. Said pool would comprise:

TOWNSHIP 18 SOUTH, RANGE 24 EAST, NMPM  
Section 32: E/2

(b) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Morrow production and designated as the Baldrige Canyon-Morrow Gas Pool. The discovery well is W. A. Moncrief, Jr., Baldrige Canyon Com Well No. 1 located in Unit G of Section 13, Township 24 South, Range 24 East, NMPM. Said pool would comprise:

TOWNSHIP 24 SOUTH, RANGE 24 EAST, NMPM  
Section 13: E/2

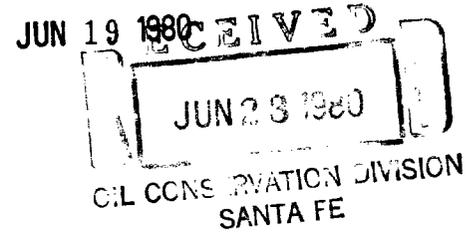
(c) CREATE a new pool in Eddy County, New Mexico, classified as an oil pool for Delaware production and designated as the Burton Flat-Delaware Pool. The discovery well is Yates Petroleum Corporation Stonewall EP State Well No. 3 located in Unit N of Section 19, Township 20 South, Range 28 East, NMPM. Said pool would comprise:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM  
Section 19: SW/4



# United States Department of the Interior

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



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

Gentlemen:

The Walnut Draw unit agreement, Eddy and Chaves Counties, New Mexico, was approved April 10, 1979, by the Acting Area Oil and Gas Supervisor, effective the date approved. The term of such agreement is contingent upon the unit operator drilling one well at a time, allowing not more than six months' time between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed.

Unit well No. 1 was drilled as a dry hole. A six-month extension to start the second well was approved and the second well was due to be commenced by May 15, 1980. Inasmuch as the second test well was not commenced, the Walnut Draw unit agreement is considered to have terminated automatically as of May 15, 1980.

Sincerely yours,

(ORIG. SGD.) JACK WILLOCK

FOR: ~~FOR~~ Bene F. Daniel  
Acting Deputy Conservation Manager  
Oil and Gas

cc:  
NMOCD, Santa Fe

Unit Name MAINUT DRAW UNIT-EXPLORATORY  
 Operator YATES PETROLEUM CORPORATION  
 County EDDY AND CHAVES

DATE	OCC CASE NO.	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	MINIMUM-FEE	SEGREGATION CLAUSE
APPROVED	OCC ORDER NO. R-5965						
COMMISSIONER	Commission	4-10-79	9,780.99	4,418.20	4,962.79	400.00	Yes
4-3-79	3-30-79						

UNIT AREA  
TOWNSHIP 15 SOUTH, RANGE 23 EAST, NMPM  
 Sections 33 through 36: All  
TOWNSHIP 16 SOUTH, RANGE 23 EAST, NMPM  
 Sections 1 and 2: All  
 Sections 11 through 13: All  
TOWNSHIP 16 SOUTH, RANGE 24 EAST, NMPM  
 Sections 5 through 8: All  
 Section 18: All

**TERMINATED**  
 5/16/80

RECEIVED  
 JUN 24 1980  
 OIL CONSERVATION COMMISSION  
 SANTA FE

Unit Name MAINUT DRAW UNIT-EXPLORATORY  
 Operator YATES PETROLEUM CORPORATION  
 County EDDY AND CHAVES

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	DATE	ACREAGE		LESSEE
								RATIFIED	NOT RATIFIED	
7	L-3639	C.S.	1	16S	23E	Lots 1, 2, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, SE/4	3-22-79	1,226.35		L. C. Harris
8	L-3640	C.S.	2	16S	23E	Lots 1 through 16, S/2 (A11)	3-22-79	852.12		L. C. Harris
9	L-3641	C.S.	13	16S	23E	W/2, SW/4NE/4, SW/4SE/4, NE/4SE/4	3-28-79	440.00		MWJ Producing Co.
10	L-3642	C.S.	18	16S	24E	Lots 1, 2, 3, 4, E/2, E/2W/2	3-22-79	633.32		L. C. Harris
11	L-5228-1	C.S.	12	16S	23E	NW/4, SE/4	3-26-79	320.00		Adobe Oil & Gas Corp.
12	LG-2261	C.S.	36	15S	23E	A11	3-22-79	640.00		L. C. Harris
13	✓LG-6457	C.S.	1	16S	23E	Lots 3, 4, 5, 6,	3-27-79	106.41		Yates Petroleum Corp.
14	LG-6458	C.S.	13	16S	23E	N/2NE/4, SE/4NE/4, NW/4SE/4, SE/4SE/4	3-27-79	200.00		Yates Petroleum Corp.

**TERMINATED**  
 5/16/80  
 JH

OIL CONSERVATION DIVISION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

October 15, 1979

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

Attention: Jack W. McCaw

Re: Case No. 6490  
Walnut Draw Unit  
Extension of Time  
for Drilling Second  
Unit Well

Gentlemen:

We hereby approve your request for an extension of time for the drilling of a second unit well on the Walnut Draw Unit, Eddy and Chaves Counties, New Mexico, to May 16, 1980. This approval is subject to like approval by the United States Geological Survey and the Commissioner of Public Lands.

Three approved copies of the extension of time are returned herewith.

Yours very truly,

JOE D. RAMEY  
Director

JDR/EP/fd  
enc.

cc: U.S.G.S. - Roswell  
Commissioner of Public Lands

C  
O  
P  
Y



207 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 746-3558

September 6, 1979

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

Mr. Wallace Sutherland, Oil & Gas Supervisor  
U. S. G. S.  
P. O. Box 26124  
Albuquerque, New Mexico 87125

Mr. Ray D. Graham, Director  
Oil & Gas Division  
New Mexico State Land Office  
P. O. Box 1148  
Santa Fe, New Mexico 87501

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

6490

OK  
10/5/79  
E/R

Re: Walnut Draw Unit  
Township 15 South, Range 23 East, NMPM  
Sections 33, 34, 35, 36; All  
Township 16 South, Range 23 East, NMPM  
Sections 1, 2, 11, 12, 13; All  
Township 16 South, Range 24 East, NMPM  
Sections 5, 6, 7, 8, 18; All  
Eddy and Chaves Counties, New Mexico

RECEIVED  
SEP 16 1979  
OIL CONSERVATION DIVISION  
SANTA FE

Gentlemen:

The Walnut Draw "KV" Federal #1, located 1980 FSL and 660 FWL of Section 7, Township 16 South, Range 24 East, was spudded March 3, 1979 and drilled to a total depth of 7050 feet, TD being achieved on April 20, 1979. The well was plugged back to 5000 feet and production casing was run. The intervals 4802'-4831' were perforated and acidized April 28 through April 30, 1979. The well was subsequently plugged back to 4795 feet and the intervals 4578'-4580' were perforated and treated with acid on May 3, 1979. On May 8, 1979 the

Mr. Wallace Sutherland  
Mr. Ray Graham  
Mr. Joe Ramey  
Page -2-  
September 6, 1979

well was plugged back to 4560 feet and perforated over the interval 4468'-4478' and treated with acid. On May 16, 1979 the well was plugged back to 920 feet and an application was made to the BLM for transfer of the well to the surface owner as a possible water well.

The Walnut Draw Unit Area, consisting of 9,780.99 acres in Eddy and Chaves Counties, was originally approved under U.S.G.S Contract No. 14-08-0001-18026, Case No. 6490, Order No. R-5965 of the New Mexico Oil Conservation Division and received a Certificate of Approval from the Commissioner of Public Lands dated April 4, 1979. The Walnut Draw "KU" Federal #1 was timely spudded and diligently drilled to satisfy the terms of the Unit Agreement.

Under terms of the Unit Agreement, Section 9, "Drilling to Discovery", Yates Petroleum Corporation as the Unit Operator, is required to drill a well every six (6) months until a deposit of unitized substances, capable of being produced in paying quantities is achieved. By terms of Section 9, the Director and the Land Commissioner may modify the drilling requirements by granting reasonable extensions of time when, in their opinion, such action is warranted.

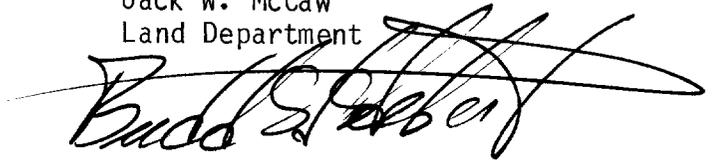
Yates Petroleum Corporation is presently evaluating the results of the initial unit well prior to making a decision to conduct further drilling operations within the unit. We anticipate that this evaluation will extend beyond November 16, 1979, the termination of the initial six (6) month period. Therefore, we respectfully request an extension of time for the drilling of a second unit well for an additional six (6) months, to May 16, 1980.

Mr. Wallace Sutherland  
Mr. Ray D. Graham  
Mr. Joe Ramey  
September 6, 1979  
Page -3-

Your timely consideration of this request would be appreciated.

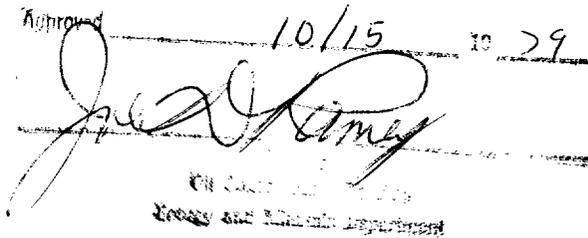
Very truly yours,

Jack W. McCaw  
Land Department



By: Budd H. Hebert

BHH/kc

Approved 10/15 19 79  
  
Joe Ramey  
Forest and Wildlife Department

THIS DOCUMENT REQUIRES YOUR APPROVAL  
FOR THE STATE OF TEXAS  
DEPARTMENT OF LAND  
BY THE SIGNATURE OF THE APPLICANT

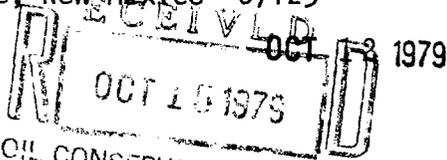


# United States Department of the Interior

GEOLOGICAL SURVEY

P. O. Box 26124

Albuquerque, New Mexico 87125



Yates Petroleum Corporation  
Attention: Mr. Budd H. Hebert  
207 South Fourth Street  
Artesia, New Mexico 88210

OIL CONSERVATION DIVISION  
SANTA FE

Gentlemen:

Your request of September 6, 1979, for a 6-month extension of time in which to commence drilling the second test well under the terms of the Walnut Draw unit agreement, No. 14-08-0001-18026, Eddy and Chaves Counties, New Mexico, has been approved on this date. Accordingly, drilling operations connected with the second well under the Walnut Draw unit agreement are now due to be commenced before midnight on May 15, 1980.

Copies of the approved extension are being distributed to the appropriate Federal offices and one copy of this letter is being sent to the New Mexico Oil Conservation Division and the New Mexico Commissioner of Public Lands in Santa Fe.

Sincerely yours,

(ORIG. SGD.) JACK WILLOCK

Jack Willock  
Acting Oil and Gas Supervisor, SRMA

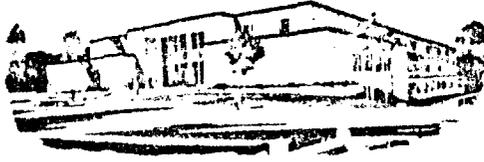
Enclosures

cc:

NMOCD, Santa Fe/  
Comm. Public Lands, Santa Fe



State of New Mexico



Commissioner of Public Lands  
October 16, 1979

ALEX J. ARMIJO  
COMMISSIONER

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

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

4490

Re: Walnut Draw Unit  
Eddy and Chaves Counties, New Mexico

ATTENTION: Mr. Budd H. Herbert

Gentlemen:

We are in receipt of your letter dated September 6, 1979, whereby, you request a six month extension of time in which to commence drilling the second test well under the term of the Walnut Draw unit agreement.

The Commissioner of Public Lands has this date granted you an extension from November 16, 1979 to May 16, 1980. The USGS granted their approval on October 12, 1979.

A copy of this letter is being sent to the United States Geological Survey and the New Mexico Oil Conservation Division.

Very truly yours,

ALEX J. ARMIJO  
COMMISSIONER OF PUBLIC LANDS

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

AJA/RDG/s  
cc:

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



# United States Department of the Interior

GEOLOGICAL SURVEY

P. O. Box 26124  
Albuquerque, New Mexico 87125

APR 10 1979

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

Dear Mr. Richardson:

One approved copy of the Walnut Draw unit agreement, Eddy and Chaves Counties, New Mexico, with Yates Petroleum Corporation as unit operator, is enclosed. Such agreement has been assigned No. 14-08-0001-18026 and is effective as of the date approved.

You are requested to furnish the Commissioner of Public Lands and the Oil Conservation Commission, both of the State of New Mexico, and all other interested principals with appropriate evidence of this approval.

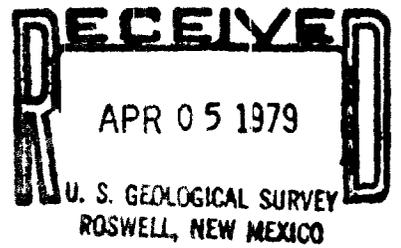
Sincerely yours,

JAMES W. SUTHERLAND  
Oil and Gas Supervisor, SRMA

Enclosure



ONE HUNDRED YEARS OF EARTH SCIENCE IN THE PUBLIC SERVICE



CERTIFICATION--DETERMINATION

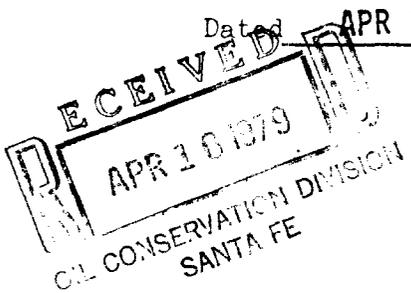
Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Oil and Gas Supervisors of the Geological Survey (33 F.R. 5812), I do hereby:

A. Approve the attached agreement for the development and operation of the Walnut Draw Unit Area, State of New Mexico, Counties of Chaves and Eddy.

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

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

Dated APR 10 1979



James W. Lanthier  
Oil and Gas Supervisor, United States Geological Survey

Contract Number \_\_\_\_\_

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
WALNUT DRAW UNIT AREA  
COUNTIES OF EDDY AND CHAVES  
STATE OF NEW MEXICO  
NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 20th day of February,  
1979, by and between the parties subscribing, ratifying, or consenting hereto,  
and herein referred to as the "parties hereto,"

W I T N E S S E T H :

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

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as  
amended, 30 U. S. C. Secs. 181 et seq., authorizes Federal lessees and their re-  
presentatives to unite with each other, or jointly or separately with others, in  
collectively adopting and operating a cooperative or unit plan of development or  
operation of any oil or gas pool, field, or like area, or any part thereof for the  
purpose of more properly conserving the natural resources thereof whenever determined  
and certified by the Secretary of the Interior to be necessary or 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 (S.C. 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,

WHEREAS, the Oil Conservation Commission of the State of New Mexico is author-  
ized by an Act of the Legislature (Chapter 72, Laws of 1935, as amended by Chapter  
193, Laws of 1937; Chapter 166, Laws of 1941; and Chapter 168, Laws of 1949) to ap-  
prove this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the \_\_\_\_\_  
Walnut Draw \_\_\_\_\_ Unit Area covering the land hereinafter des-  
cribed to give reasonably effective control of operations therein; and

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

herein set forth;

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

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

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

T-15-S, R-23-E, NMPM  
Secs. 33, 34, 35, 36; All

T-16-S, R-23-E, NMPM  
Secs. 1, 2, 11, 12, 13; All

T-16-S, R-24-E, NMPM  
Secs. 5, 6, 7, 8, 18; All

Containing 9,780.99 acres more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator.

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

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

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

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

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

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

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

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

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

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

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

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

4. UNIT OPERATOR. Yates Petroleum Corporation  
is hereby designated as Unit Operator and by signature hereto as Unit Operator

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

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

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

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

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

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

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

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

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

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

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

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

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Siluro-Devonian formation has been tested

\_\_\_\_\_, or until at a lesser depth unitized substances shall be discovered which can be produced in paying

quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 6,500 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

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

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

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

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

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

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

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

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

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

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

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

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

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

Determination as to whether a well completed within the Unit Area prior to the effective date of this agreement is capable of producing unitized substances in paying quantities shall be deferred until an initial participating area is established as a result of the completion of a well for production in paying quantities in accordance with Section 9 hereof.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses

set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

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

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

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

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

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

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

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

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

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

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

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

(1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or

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

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

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

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

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

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

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

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

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

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

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

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

ATTEST:

YATES PETROLEUM CORPORATION

BY: B. W. Harper  
Secretary

BY: S. P. Yates  
President

Address: 207 S. 4th St.  
Artesia, New Mexico 88210

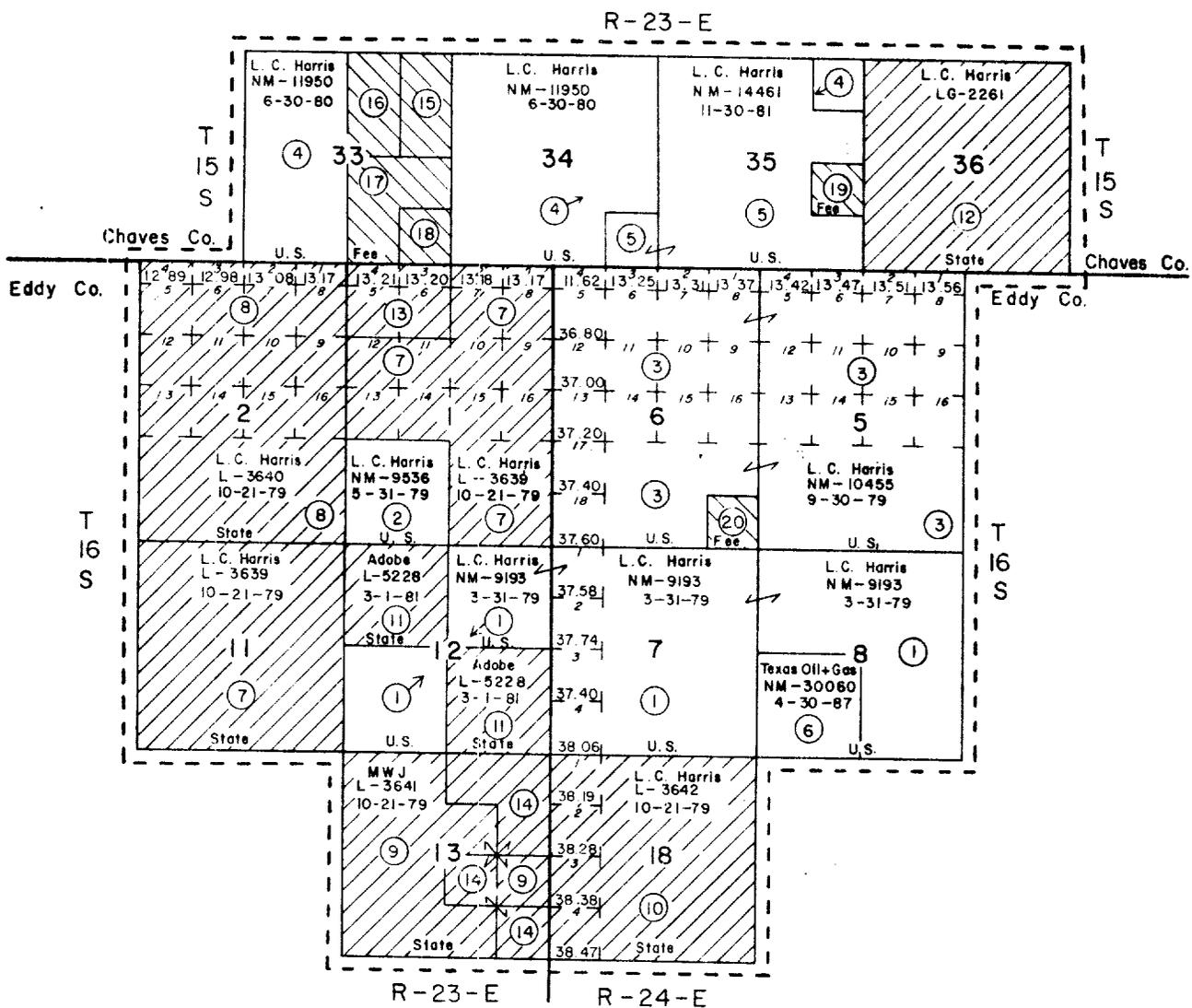
UNIT OPERATOR

STATE OF New Mexico )  
COUNTY OF Eddy ) ss

The foregoing instrument was acknowledged before me this 27th day of March, 1979, by S. P. Yates who is President of Yates Petroleum Corporation, a New Mexico corporation, for and on behalf of said Corporation. (State of Incorp.)

My Commission Expires:  
August 20, 1980

Marsha A. Keya  
Notary Public



**EXHIBIT "A"**

**Walnut Draw Unit Area**  
Eddy and Chaves Counties, New Mexico

- Unit Outline
- Tract No.
- Federal Lands  
4,962.79 Acres
- ▨ State of N. M. Lands  
4,418.20 Acres
- ▩ Fee Lands  
400.00 Acres

EXHIBIT "B"

Schedule Showing All Lands and Leases  
Within the Walnut Draw Unit Area  
Eddy and Chaves Counties, New Mexico

TRACT NO.	DESCRIPTION OF LANDS	ACRES	SERIAL NO. AND EXP. DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
1.	T-16-S, R-24-E, NMPM Sec. 17: NE1/4, SW1/4  T-16-S, R-24-E, NMPM Sec. 1: All Sec. 2: 2/4, SW1/4	1,431.23	NM-9493 5-21-79	U.S.A. 12.5	L. O. Harris	Jean Oakason R. M. Richardson R. H. Cress	3% 1% 1%	L. O. Harris All*
2.	T-16-S, R-23-E, NMPM Part. 1: SW1/4	160.00	NM-9536 5-31-79	U.S.A. 12.5	Lawrence C. Harris	Labelle Shanahan R. M. Richardson R. H. Cress	3% 1% 1%	Lawrence C. Harris All*
3.	T-16-S, R-24-E, NMPM Sec. 5: Lots 1 through 16, 3/4 (all) Sec. 6: Lots 1 through 18, E1/8SW1/4, W1/8SW1/4, NE1/8SW1/4	1,651.51	NM-10455 9-30-79	U.S.A. 12.5	Lawrence C. Harris	Donald D. Bruce R.M. Richardson R.H. Cress	3% 1% 1%	Lawrence C. Harris All*
4.	T-15-S, R-23-E, NMPM Sec. 33: W1/2 Sec. 34: N1/2, N1/8S1/2, S1/8SW1/4 Sec. 35: NE1/4NE1/4	960.00	NM-11950 6-30-80	U.S.A. 12.5	Lawrence C. Harris	Ronald E. Evenson R. M. Richardson R. H. Cress	3% 1% 1%	Lawrence C. Harris All*

5.	<u>T-15-S, R-23-E, NMPM</u> Sec. 34; <u>SE1/4SE1/4</u> Sec. 35; <u>W1/2E1/2, W1/2, SE1/4NE1/4, SE1/4SE1/4</u>	600.00	NM-14461 11-30-81	U.S.A. 12.5	Lawrence C. Harris	All	Ben S. Brooks R. M. Richardson R. H. Cress	3% 1% 1%	Lawrence C. Harris	All*
6.	<u>T-16-S, R-24-E, NMPM</u> Sec. 8; <u>SW1/4</u>	160.00	NM-30060 4-30-87	U.S.A. 12.5	Texas Oil & Gas Corp.	All			Texas Oil & Gas Corp.	All
		<u>TOTAL: 4,962.79 Acres Federal Lands</u>								
<u>STATE OF NEW MEXICO LANDS</u>										
7.	<u>T-16-S, R-23-E, NMPM</u> Sec. 1; Lots 1, 2, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16. <u>SE1/4</u> <u>SW1/4, NE1/4, All</u>	1,226.35	U-3639 10-21-79	State 12.5	L. C. Harris	All	R. M. Richardson R. H. Cress	1% 1%	L. C. Harris	All*
8.	<u>T-16-S, R-23-E, NMPM</u> Sec. 2; Lots 1 through 16, 3% (all)	852.12	L-3640 10-21-79	State 12.5	L. C. Harris	All	R. M. Richardson R. H. Cress	1% 1%	L. C. Harris	All*
9.	<u>T-16-S, R-23-E, NMPM</u> Sec. 13; <u>W1/2, SW1/4NE1/4, SW1/4SE1/4, NE1/4SE1/4</u>	440.00	L-3641 10-21-79	State 12.5	MWJ Producing Co.	All	William H. Martin R. Ken Williams Edward H. Judson	1.66% 1.67% 1.67%	MWJ Producing Co.	All
10.	<u>T-16-S, R-24-E, NMPM</u> Sec. 12; Lots 1, 2, 3, 4, <u>E1/2, E1/2NW1/2</u>	633.32	L-3642 10-21-79	State 12.5	L. C. Harris	All	R. M. Richardson R. H. Cress	1% 1%	L. C. Harris	All*
11.	<u>T-16-S, R-23-E, NMPM</u> Sec. 12; <u>NW1/4, SE1/4</u>	320.00	L-5228 3-1-81	State 12.5	Adobe Oil & Gas Corp.	All	G. Dee Williamson (Production Payment)	5%	Adobe Oil & Gas Corp.	All

2.	<u>T-15-S, R-23-E, MMPM</u> Sec. 36; All	640.00	LG-2261 9-30-84	State 12.5	L. C. Harris	All	R. M. Richardson R. H. Cress	1% 1%	L. C. Harris	All*
3.	<u>T-16-S, R-23-E, MMPM</u> Sec. 1; Lots 3, 4, 5, 6	106.41		State 12.5	Yates Petroleum Corp.	All			Yates Pet. Corp. L. C. Harris McClellan Oil Corp.	3/8 1/4 3/8
4.	<u>T-16-S, R-23-E, MMPM</u> Sec. 13; $\frac{N}{4}$ SE $\frac{1}{4}$ , SE $\frac{1}{4}$ NE $\frac{1}{4}$ , NW $\frac{1}{4}$ SE $\frac{1}{4}$ , SE $\frac{1}{4}$ SE $\frac{1}{4}$	200.00		State 12.5	Yates Petroleum Corp.	All			Yates Pet. Corp. L. C. Harris McClellan Oil Corp.	3/8 1/4 3/8

TOTAL: 4,415.20 Acres State of New Mexico Lands

\*By conveyance of operating rights, (working interest only), dated March 21, 1979, L. C. Harris conveyed an undivided 37.5% operating rights to Yates Petroleum Corporation and an undivided 37.5% operating rights to McClellan Oil Corporation as to all his interests within the Unit Area except the W $\frac{1}{2}$  Sec. 7, T-16-S, R-24-E, MMPM., (out of Tract #1), and as to said W $\frac{1}{2}$  Sec. 7, L. C. Harris conveyed 50% operating rights to Yates and 50% to McClellan.

Note: State Tracts 13. and 14. were leased by the State through the March 20th, 1979 land sale to Yates Petroleum Corporation. Leases are in the process of being issued, and when issued will probably bear serial numbers LG-6457 and LG-6458, expiring March 31, 1989.

PATENTED (FEE) LANDS\*\*

\*\*Note: Those fee mineral owners who can be located have been made an offer for Oil and Gas Leases. It is expected that approximately 75% will be leased by Unit Operator.

15.	<u>T-15-S, R-23-E, NMPM</u> <u>Sec. 33; E1/4NE1/4</u>	80.00	Fee	Ballard E. Spencer Trust
16.	<u>T-15-S, R-23-E, NMPM</u> <u>Sec. 33; W1/4NE1/4</u>	80.00	Fee	David J. Runyan
17.	<u>T-15-S, R-23-E, NMPM</u> <u>Sec. 33; NW1/4SE1/4, NW1/4SE1/4</u>	120.00	Fee	Eva Crook T. A. Crook Bonnie Morrison The Blarco Co. C. A. Ward
8.	<u>T-15-S, R-23-E, NMPM</u> <u>Sec. 33; SE1/4SE1/4</u>	40.00	Fee	R. F. Beasley Bonnie Morrison The Blarco Co. C. A. Ward
9.	<u>T-15-S, R-23-E, NMPM</u> <u>Sec. 33; NW1/4SE1/4</u>	40.00	Fee	Dartmouth College
0.	<u>T-16-S, R-24-E, NMPM</u> <u>Sec. 6; SE1/4SE1/4</u>	40.00	Fee	Dartmouth College
<u>TOTAL: 400.00 Acres Patented (Fee) Lands</u>				
<u>Recapitulation:</u>				
	4,962.79 Acres Federal Land			50.74% of Unit Area
	4,418.20 Acres State Land			45.17% of Unit Area
	<u>400.00 Acres Patented (Fee) Land</u>			<u>4.09% of Unit Area</u>
	9,780.99			100.00%



















4

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 6490  
Order No. R-5965

APPLICATION OF L. C. HARRIS  
FOR APPROVAL OF THE WALNUT DRAW  
UNIT AGREEMENT, CHAVES AND EDDY  
COUNTIES, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 14, 1979, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 30th day of March, 1979, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, L. C. Harris, seeks approval of the Walnut Draw Unit Agreement covering 9,780.99 acres, more or less, of State, Federal and Fee lands described as follows:

CHAVES COUNTY, NEW MEXICO  
TOWNSHIP 15 SOUTH, RANGE 23 EAST, NMPM  
Sections 33 through 36: All

EDDY COUNTY, NEW MEXICO  
TOWNSHIP 16 SOUTH, RANGE 23 EAST, NMPM  
Sections 1 and 2: All  
Sections 11 through 13: All

TOWNSHIP 16 SOUTH, RANGE 24 EAST, NMPM  
Sections 5 through 8: All  
Section 18: All

-2-

Case No. 6490  
Order No. R-5965

(3) That the operator of the Walnut Draw Unit Area will be Yates Petroleum Corporation.

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

(5) That notice of any change of unit operator should be given to the Director of the Division.

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

IT IS THEREFORE ORDERED:

(1) That the Walnut Draw Unit Agreement is hereby approved.

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

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

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

(5) That notice of any change of unit operator shall be given to the Director of the Division.

-3-

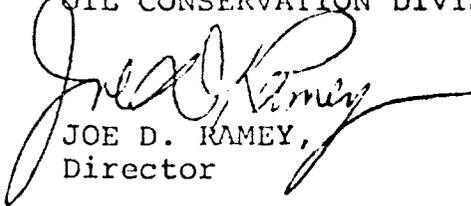
Case No. 6490  
Order No. R-5965

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

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION



JOE D. RAMEY,  
Director

S E A L

dr/



# NEW MEXICO STATE LAND OFFICE

## CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

WALNUT DRAW UNIT  
EDDY AND CHAVES COUNTIES, NEW MEXICO

---

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated February 20, 1979, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

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

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

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 4th day of April, 1979.

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

**RANDOLPH M. RICHARDSON**

OIL AND GAS LAND AND UNIT CONSULTANT

FEDERAL - STATE - FEE

P. O. BOX 819

ROSWELL, NEW MEXICO 88201

OFFICE 505 622-8801

HOME 505 622-7985

April 12, 1979

In Re: Walnut Draw Unit  
Chaves and Eddy Counties, NM

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

6490

Gentlemen:

Pursuant to Case No. 6490, Order No. R-5965, I am enclosing complete copy of Unit Agreement showing approval by the U.S.G.S. and the Commissioner of Public Lands.

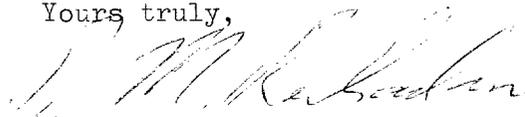
All of the necessary signature pages and Consent and Ratification forms are attached.

You will also note that on page 4 of the Unit Agreement and on the signature page, 23, Yates Petroleum Corporation has been inserted as Unit Operator instead of L. C. Harris.

Please advise if you need any additional information or if all is not in order.

Thank you.

Yours truly,



R. M. Richardson

RMR:dal

Enclosures





United States Department of the Interior

GEOLOGICAL SURVEY  
P. O. Box 26124  
Albuquerque, New Mexico 87125  
OIL CONSERVATION DIVISION  
SANTA FE

APR 10 1979

*No. 6490*

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

Dear Mr. Richardson:

One approved copy of the Walnut Draw unit agreement, Eddy and Chaves Counties, New Mexico, with Yates Petroleum Corporation as unit operator, is enclosed. Such agreement has been assigned No. 14-08-0001-18026 and is effective as of the date approved.

You are requested to furnish the Commissioner of Public Lands, and the Oil Conservation Commission, both of the State of New Mexico, and all other interested principals with appropriate evidence of this approval.

Sincerely yours,

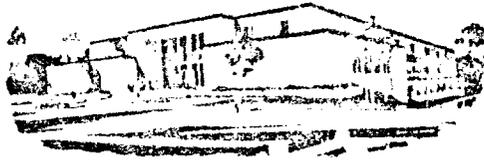
(ORIG. SGD.) JAMES W. SUTHERLAND

Oil and Gas Supervisor, SRMA

Enclosure

cc:  
NMOCD, Santa Fe (1tr. only) ← This Copy for  
Com. Pub. Lands, Santa Fe (1tr. only)

State of New Mexico



Commissioner of Public Lands

April 4, 1979

ALEX J. ARMIJO  
COMMISSIONER

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

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

6490

Re: Walnut Draw Unit  
Eddy and Chaves Counties. N.M.

Dear Mr. Richardson:

The Commissioner of Public Lands has this date approved the Walnut Draw Unit, Eddy and Chaves Counties, New Mexico, which you submitted on behalf of Yates Petroleum Corporation. Our approval is subject to like approval by the United States Geological Survey.

Enclosed are Five (5) Certificates of approval.

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

Would appreciate receiving all Well Records available on the initial test well.

Very truly yours,

ALEX J. ARMIJO  
COMMISSIONER OF PUBLIC LANDS

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

AJA/RDG/s  
encls.

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

Unit Name WAINUT DRAM UNIT-EXPLORATORY  
 Operator YATES PETROLEUM CORPORATION  
 County EDDY AND CHAVES

DATE	OCC CASE NO.	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	MEMBER-FEE	SEGE
APPROVED	OCC ORDER NO. <u>6490</u> R-5965						
COMMISSIONER	Commission						
4-3-79	3-30-79	4-10-79	9,780.99	4,418.20	4,962.79	400.00	Y

UNIT AREA

TOWNSHIP 15 SOUTH, RANGE 23 EAST, NMPM  
 Sections 33 through 36: All

TOWNSHIP 16 SOUTH, RANGE 23 EAST, NMPM  
 Sections 1 and 2: All  
 Sections 11 through 13: All

TOWNSHIP 16 SOUTH, RANGE 24 EAST, NMPM  
 Sections 5 through 8: All  
 Section 18: All

Unit Name WALNUT DRAW UNIT-EXPLORATORY  
 Operator YATES PETROLEUM CORPORATION  
 County EDDY AND CHAVES

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	DATE	ACREAGE		LESSEE
								ACRES	NOT RATIFIED	
7	L-3639	C.S.	1	16S	23E	Lots 1, 2, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, SE/4	3-22-79	1,226.35		L. C. Harris
8	L-3640	C.S.	2	16S	23E	Lots 1 through 16, S/2 (All)	3-22-79	852.12		L. C. Harris
9	L-3641	C.S.	13	16S	23E	W/2, SW/4NE/4, SW/4SE/4, NE/4SE/4	3-28-79	440.00		MWJ Producing Co.
10	L-3642	C.S.	18	16S	24E	Lots 1, 2, 3, 4, E/2, E/2W/2	3-22-79	633.32		L. C. Harris
11	L-5228-1	C.S.	12	16S	23E	NW/4, SE/4	3-26-79	320.00		Adobe Oil & Gas Corp.
12	LG-2261	C.S.	36	15S	23E	All	3-22-79	640.00		L. C. Harris
13	LG-6457	C.S.	1	16S	23E	Lots 3, 4, 5, 6,	3-27-79	106.41		Yates Petroleum Corp.
14	LG-6458	C.S.	13	16S	23E	N/2NE/4, SE/4NE/4, NW/4SE/4, SE/4SE/4	3-27-79	200.00		Yates Petroleum Corp.

