CASE 6430: PHOENIX RESOURCES COMPANY FOR APPROVAL OF THE BUCKHORN CANYON UNIT AGREEMENT, CHAVES COUNTY, NEW MEXICO

CASE NO.

6430

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

19-19S-20E

6430

State of New Mexico

Commissioner of Public Lands

February 9, 1979

ALEX J. ARMIJO
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO

Kellahin and Kellahin
500 Don Gaspar Avenue
P.O. Box 1769
Santa Fe, New Mexico 87501

Re: Buckhorn Canyon Unit
Chaves County, New Mexico

ATTENTION: Mr. W. Thomas Kellahin

Gentlemen:

The Commissioner of Public Lands has this date approved the Buckhorn Canyon Unit, Chaves County, New Mexico, which you submitted on behalf of Phoenix Resources Company. Our approval is subject to like approval by the United States Geological Survey. The effective date to be as of the date the USGS gives their approval.

Enclosed are Five (5) Certificates of approval.

Your filing fee in the amount of Three Hundred and Sixty ($360.00) Dollars has been paid.

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

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

United States Department of the Interior

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

FEB 02 1979

No. 6430

Phoenix Resources Company
Attention: Mr. Harvey Case
3555 NW 58th, Suite 300
Oklahoma City, Oklahoma 73112

Gentlemen:

One approved copy of the Bullhorn Canyon unit agreement, Chaves County, New Mexico, with your company as unit operator, is enclosed. Such agreement has been assigned No. 14-08-0001-16921 and is effective on the date above, the same date as approved.

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

Sincerely yours,

(ORIG. SGD.) JAMES W. SUTHERLAND

Oil and Gas Supervisor, SRMA

Enclosure

cc:
BLM, Santa Fe (w/cy appln.)
NMOCD, Santa Fe (ltr. only) ← This Copy for
Com. Pub. Lands, Santa Fe (ltr. only)

State of New Mexico

Commissioner of Public Lands

ALEX J. ARMIJO
COMMISSIONER

March 13, 1979

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

Phoenix Resources Company
3555 N.W. 59- Suite 300
Oklahoma City, Oklahoma 73112

NM 6430

Re: Buckhorn Canyon Unit
Chaves County, New Mexico
TERMINATION

ATTENTION: Mr. R. E. Dippo

Gentlemen:

The Commissioner of Public Lands has this date terminated the Buckhorn Canyon Unit, Chaves County, New Mexico, as per your letter of March 2, 1979, requesting that the unit be terminated.

The effective date of the termination to be March 7, 1979.

Please advise all interested parties of this action.

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

Unit Name BUCKHORN CANYON UNIT-EXPLORATORY
Operator PHOENIX RESOURCES COMPANY
County CHAVES

DATE APPROVED	OCC CASE NO. 6430 OCC ORDER NO. R-5916	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
Commissioner 2-9-79	Commission 2-2-79	2-2-79	23,008.28	5,759.21	17,250.17	-0-	Yes	5 Yrs.

UNIT AREA

TOWNSHIP 19 SOUTH, RANGE 19 EAST, NMPM
Section 1: All
Sections 12 and 13: All
Sections 24 and 25: All
Section 36: All

TOWNSHIP 19 SOUTH, RANGE 20 EAST, NMPM
Sections 2 through 11: All
Sections 14 through 23: All
Sections 26 through 35: All

TERMINATED
Eff. 3-7-79

Unit Name BUCKHORN CANYON UNIT-EXPLORATORY
Operator PHOENIX RESOURCES COMPANY
County CHAVES

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
29	L-2754-3	C.S.	2	19S	20E	Lots 1, 2, 3, 4, S/2N/2, S/2	1-4-79	1,081.12		Phoenix Resources Co.
			3	19S	20E	N/2S/2, SE/4SW/4, SW/4SE/4				
			4	19S	20E	NE/4SE/4				
			18	19S	20E	SE/4				
30	L-2755-2	Por. Norm	4	19S	20E	Lots 1, 2, 3, 4, SE/4NE/4	1-4-79	638.09		Phoenix Resources Co.
			7	19S	20E	Lot 4, SE/4SW/4, S/2SE/4				
			8	19S	20E	S/2SW/4				
			17	19S	20E	NW/4				
			26	19S	20E	SW/4NW/4				
31	L-2756-3	C.S.	16	19S	20E	All	1-4-79	640.00		Phoenix Resources Co.
32	L-2757-2	C.S.	20	19S	20E	W/2W/2, NE/4NW/4, SE/4SW/4, N/2NE/4, S/2SE/4	1-30-79	880.00		Allan J. Antweil and Moranco, Inc.
			21	19S	20E	W/2NW/4, S/2, E/2NE/4				
33	L-2917-3	C.S.	36	19S	19E	All	1-4-79	640.00		Phoenix Resources Co.
34	L-3055	C.B.	12	19S	19E	S/2SW/4	NOT COMMITTED		160.00	Globe Minerals
		C.S.	13	19S	19E	N/2NW/4				
35	LG-0684	C.S.	22	19S	20E	N/2N/2, SE/4NE/4, NE/4SE/4, S/2S/2	1-23-79	400.00		Cities Service Oil Co.
36	LG-0685	Port.Norm.	23	19S	20E	N/2N/2	1-23-79	160.00		Cities Service Oil Co.
37	LG-1790-1	Port. Norm.	24	19S	19E	NW/4NW/4	1-16-79	40.00		Robert Hillin
38	LG-2475-1	P.N.	12	19S	19E	S/2SE/4	1-16-79	200.00		Robert Hillin
		P.N.	13	19S	19E	W/2SW/4, SW/4NW/4				
39	LG-2476	C.S.	26	19S	20E	S/2SW/4	1-22-79	280.00		Great Western
			27	19S	20E	W/2SE/4, SE/4SE/4				
			31	19S	20E	NE/4NE/4				
			34	19S	20E	SE/4NE/4				

TERMINATED
Eff. 3-7-79

Unit Name BUCKHORN CANYON UNIT-EXPLORATORY
Operator PHOENIX RESOURCES COMPANY
County CHAVES

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
40	LG-5759	C.S.	32	19S	20E	All	1-4-79	640.00		Phoenix Resources Co.

TERMINATED
Eff: 3-7-79

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
31 January 1979

EXAMINER HEARING

IN THE MATTER OF:

Application of Phoenix Resources Company for a unit agreement, Chaves County, New Mexico.

CASE 6430

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Lynn Teschendorf, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
Santa Fe, New Mexico 87501

I N D E X

E X H I B I T S

MR. STAMETS: Call next Case 6430.

MS. TESCHENDORF: Case 6430. Application of Phoenix Resources Company for unit agreement, Chaves County, New Mexico.

MR. STAMETS: Call for appearances.

MR. KELLAHIN: Tom Kellahin of Kellahin and Kellahin, Santa Fe, New Mexico, appearing on behalf of the Applicant, and I have two witnesses to be sworn.

MR. STAMETS: I'd like to have both of them stand and be sworn, please.

(Witnesses sworn.)

HARVEY CASE

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Would you please state your name, by whom you're employed, and in what capcity?

A. My name is Harvey Case and I'm a land man with Phoenix Resources in Oklahoma City.

Q. Mr. Case, you've not previously testified before this Commission as a land man, have you?

A. No.

Q. Would you describe briefly for the Examiner what your educational background has been and work experience in the field of petroleum land?

A. I graduated from Texas Tech University in Lubbock, Texas, in 1972, and was employed with Hunt Energy in Dallas, Texas. I worked in their Oklahoma City office for two years as a land man, and in December of '78 I went to work for Phoenix Resources, where I'm currently employed as a land man.

Q. Mr. Case, you've been assigned the responsibility of preparing and completing the different unit agreements and operating agreements with regards to this particular application. What is the name for this particular unit?

A. It's the Buckhorn Canyon Unit.

Q. And how many acres are totally comprised within the unit?

A. 23,000 and 9.38.

Q. Where is this acreage generally located?

A. In Chaves County, New Mexico.

MR. KELLAHIN: We tender Mr. Case as an expert land man.

MR. STAMETS: He is considered so qualified.

Q. (Mr. Kellahin continuing.) Would you please refer to what I've marked as Phoenix Resources Exhibit

Number One and identify that?

What is that?

A. This land plat is an analysis or an acreage of the -- giving the sections contained in our proposed unit, in the area. It also gives the lease numbers; it's Federal and State property, giving the lease numbers and current leaseholds.

Q. Would you summarize for the Examiner what the total Federal acreage is to be included within the unit?

A. There is some 12,255 acres of Federal property that is leased. Federal unleased is 4,994.27. There is 5,759.21 acres of State property.

Q. There are no fee acres involved, are there?

A. No.

Q. What is indicated by the red shading on Exhibit Number One?

A. The red shading is people or companies that have joined the unit and we have copies of their letter of ratification and joinder.

Q. At this point what percentage of the total unit has committed to the unit?

A. 69 percent.

Q. In your opinion, Mr. Case, will that percentage give you effective control of unit operation?

A. Yes.

Q. Have you made preliminary application to the USGS with regards to this unit?

A. Yes, we have on October the 30th, 1978.

Q. Okay. What occurred on that date?

A. We received a letter confirming our application and preliminary approval.

Q. What, if anything, have you done with regards to obtaining Commissioner of Public Lands, State Of New Mexico approval for the unit?

A. We have applied and they are currently reviewing our application.

Q. At this point you've received verbal preliminary approval for the State joinder on the particular unit.

A. Yes.

Q. Now, if I understand your testimony correctly there is some approximately 5000 acres within the unit that is currently unleased Federal acreage.

A. Yes.

Q. What percentage of the unit has been leased and not committed to the unit? Do you have that figure?

A. Yes. That would be 9 percent.

Q. All right.

A. 9.0722 percent.

Q. I'll show you what I have marked as Exhibit

Number Three, I believe. Exhibit Number Two is simply an additional plat of the unit boundary.

Exhibit Number Three, would you please identify that exhibit and explain what information it contains?

A. Exhibit Number Three is a breakdown of all the overriding royalty owners in the unit, giving their tract numbers, and the ones that have accepted is in the top half.

Q. Okay. You are currently going forth with additional efforts to obtain consent from those people that have not joined you as of yet?

A. Yes.

Q. Let me show you what I've marked as Exhibit Number Four, and have you identify that document.

A. Number Four is the unit agreement.

Q. Mr. Case, does the unit agreement marked as Exhibit Number Four, has that exhibit been modified to conform to the requirements of the USGS and the Commissioner of Public Lands?

A. Yes.

Q. And that's the same document that's been tendered and approved preliminarily by both agencies?

A. Yes.

Q. I'll show you what I've marked as Exhibit Number Five and ask you to identify that.

A. Exhibit Number Five is an operating agreement for the Buckhorn Canyon -- a unit operating agreement, pardon me.

Q. Is that unit operating agreement and the various schedules and exhibits attached thereto the same operating agreement that's been tendered to the Commissioner of Public Lands and the USGS?

A. Yes.

Q. Okay.

MR. KELLAHIN: I have no further questions of Mr. Case.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Case, how are you going to handle the Federal unleased lands?

A. As of right now we're not sure. It will depend on the USGS ruling. Hopefully, it will be committed and as the leases are awarded, they will be committed to our unit, also, and this would give us a greater percentage of control in the area; upwards of 90 percent, if this land is committed to the unit.

This represents 21 percent of the unit, the unleased Federal.

MR. STAMETS: Any other questions of the

witness?

MS. TESCHENDORF: I have one.

CROSS EXAMINATION

BY MS. TESCHENDORF:

Q. The unit agreement provides that if the unit operator is removed or resigns, that you provide notice to the Conservation Commission but when a successor is approved there is no provision to provide notice to the Division. It's fine with us that the selection is approved only by the supervisor or Commissioner, since no fee land is involved, but we'd like to have some kind of -- well, I guess we could just put it in the order. Would you object to a provision in the order that notice should be sent to the Commission in that case?

A. No.

MR. STAMETS: Any other questions of this witness? He may be excused.

MR. KELLAHIN: I have a second witness.

GEORGE REDDY

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Reddy, would you please state your name, by whom you're employed, and in what capacity?

A. My name is George Reddy. I'm a consulting geologist in Roswell, and working for Phoenix Resources.

Q. Mr. Reddy, have you previously testified before the Oil Conservation Division and had your qualifications as an expert geologist accepted and made a matter of record?

A. Yes.

MR. KELLAHIN: We tender Mr. Reddy as an expert witness.

MR. STAMETS: The witness is considered qualified.

Q. (Mr. Kellahin continuing.) Would you please refer to what I've marked as Phoenix Exhibit Number Six, identify that, and explain what information is contained on it?

A. This is a structure map and a sand Isopach map of the primary objective, the Strawn formation, in the unit area.

The solid contour lines depict the structure. The dashed contour lines depict the sand distribution in this unit.

The geologic basis for the unit boundary is

based on both of these two sets of data. The north and west boundaries have been established by the 10-foot contour line on the sand Isopach. The south and east boundaries are established by the minus 1700-foot structural contour.

Q. I show you Exhibit Number Two and ask you to identify the information contained on that exhibit.

A. This is another structure map and it's drawn on the top of the Chester limestone, which at this time we consider the base of our prospective section there, and it depicts a strong structural nose that plunges southeastward across the proposed unit.

Q. What is the principal formation to be developed by the unit?

A. The Strawn formation.

Q. Do you have other secondary formations that you will perhaps encounter within the unit?

A. We consider the other Pennsylvanian units, Cisco, Canyon, Atoka, and Morrow sections to be secondary objectives.

Q. Please refer to Exhibit Number Eight and identify it.

A. This is a stratigraphic cross section which is shown on the two previously discussed maps. It crosses the proposed unit from west to east.

MR. STAMETS: Mine is marked Exhibit Nine.

MR. KELLAHIN: I believe that's an error. We're only up to Eight.

MR. STAMETS: Exhibit Eight.

A. This cross section is datumed on the Canyon formation and the main purpose of it is to show the reservoir situation in the Strawn formation across the unit.

The middle well in the cross section, the Texas Oil and Gas Corporation No. 1-A Federal, had about 34 feet of net sand in the Strawn and this is the primary objective of our unit proposal.

This well was completed initially as a shut-in gas well from that zone and in June of 1966. Later that year, in October, it was plugged and abandoned and never produced gas.

Q. What is the location of the first well to be drilled for the unit?

A. It would be in the next section west of the Texas Oil and Gas Federal 1-A; southeast quarter of Section 18.

Q. Okay. In your opinion, Mr. Reddy, is the acreage dedicated to the unit reasonably productive from the Strawn formation?

A. Yes, sir.

Q. Let's talk a moment about the first well. It's currently being drilled, is it not?

A. That's correct.

Q. I believe Exhibit Number One indicated the -- Mr. Case's Exhibit Number One, indicated the various Federal leases involved. To your knowledge, Mr. Reddy, what is the earliest expiration date of any of those leases?

A. March 9th.

Q. 1979?

A. 1979.

Q. So there is some need to expedite approval of the unit and to obtain final approval from the Land Commissioner and the USGS before the well that's now being drilled is completed.

A. That's correct.

MR. STAMETS: I've got a couple more exhibits I need to get the numbers straightened out on.

MR. KELLAHIN: Geology was --

MR. STAMETS: Exhibit One --

MR. KELLAHIN: This is Six.

MR. STAMETS: This is one with the Isopach of the top of the Strawn.

MR. KELLAHIN: That's Six.

MR. STAMETS: And then the top of the Chester is Seven.

Any questions of this witness? He may be excused.

Anything further in this case?

MR. KELLAHIN: No, sir. I'd like to introduce my exhibits, One through Eight.

MR. STAMETS: These exhibits will be admitted, and we'll take the case under advisement.

(Hearing concluded.)

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3130 Plaza Blanca (505) 471-2462
Santa Fe, New Mexico 87501

REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill, from my notes taken at the time of the hearing.

Sally W. Boyd CSR
Sally W. Boyd, C.S.R.

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3010 Plaza Blanca (505) 471-2462
Santa Fe, New Mexico 87501

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6430, heard by me on 1-31, 1979.

Richard L. Stamets, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
31 January 1979

EXAMINER HEARING

IN THE MATTER OF:

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BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

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Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
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E X H I B I T S

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Q. Mr. Case, you've been assigned the responsibility of preparing and completing the different unit agreements and operating agreements with regards to this particular application. What is the name for this particular unit?

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A. 69 percent.

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A. Yes, we have on October the 30th, 1973.

Q Okay. What occurred on that date?

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A. We have applied and they are currently reviewing our application.

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Q Now, if I understand your testimony correctly there is some approximately 5000 acres within the unit that is currently unleased Federal acreage.

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A. Yes. That would be 9 percent.

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Q. Let me show you what I've marked as Exhibit Number Four, and have you identify that document.

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Q. Mr. Case, does the unit agreement marked as Exhibit Number Four, has that exhibit been modified to conform to the requirements of the USGS and the Commissioner of Public Lands?

A. Yes.

Q. And that's the same document that's been tendered and approved preliminarily by both agencies?

A. Yes.

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A. Yes.

Q. Okay.

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A. As of right now we're not sure. It will depend on the USGS ruling. Hopefully, it will be committed and as the leases are awarded, they will be committed to our unit, also, and this would give us a greater percentage of control in the area; upwards of 90 percent, if this land is committed to the unit.

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witness?

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A. No.

MR. STAMETS: Any other questions of this witness? He may be excused.

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Q. Mr. Reddy, have you previously testified before the Oil Conservation Division and had your qualifications as an expert geologist accepted and made a matter of record?

A. Yes.

MR. KELLAHIN: We tender Mr. Reddy as an expert witness.

MR. STAMETS: The witness is considered qualified.

Q. (Mr. Kellahin continuing.) Would you please refer to what I've marked as Phoenix Exhibit Number Six, identify that, and explain what information is contained on it?

A. This is a structure map and a sand Isopach map of the primary objective, the Strawn formation, in the unit area.

The solid contour lines depict the structure. The dashed contour lines depict the sand distribution in this unit.

The geologic basis for the unit boundary is

based on both of these two sets of data. The north and west boundaries have been established by the 10-foot contour line on the sand Isopach. The south and east boundaries are established by the minus 1700-foot structural contour.

Q. I show you Exhibit Number Two and ask you to identify the information contained on that exhibit.

A. This is another structure map and it's drawn on the top of the Chester limestone, which at this time we consider the base of our prospective section there, and it depicts a strong structural nose that plunges southeastward across the proposed unit.

Q. What is the principal formation to be developed by the unit?

A. The Strawn formation.

Q. Do you have other secondary formations that you will perhaps encounter within the unit?

A. We consider the other Pennsylvanian units, Cisco,Canyon, Atoka, and Morrow sections to be secondary objectives.

Q. Please refer to Exhibit Number Eight and identify it.

A. This is a stratigraphic cross section which is shown on the two previously discussed maps. It crosses the proposed unit from west to east.

MR. STAMETS: Mine is marked Exhibit Nine.

MR. KELLAHIN: I believe that's an error. We're only up to Eight.

MR. STAMETS: Exhibit Eight.

A. This cross section is datumed on the Canyon formation and the main purpose of it is to show the reservoir situation in the Strawn formation across the unit.

The middle well in the cross section, the Texas Oil and Gas Corporation No. 1-A Federal, had about 34 feet of net sand in the Strawn and this is the primary objective of our unit proposal.

This well was completed initially as a shut-in gas well from that zone and in June of 1966. Later that year, in October, it was plugged and abandoned and never produced gas.

Q. What is the location of the first well to be drilled for the unit?

A. It would be in the next section west of the Texas Oil and Gas Federal 1-A; southeast quarter of Section 18.

Q. Okay. In your opinion, Mr. Reddy, is the acreage dedicated to the unit reasonably productive from the Strawn formation?

A. Yes, sir.

Q. Let's talk a moment about the first well. It's currently being drilled, is it not?

A. That's correct.

Q. I believe Exhibit Number One indicated the -- Mr. Case's Exhibit Number One, indicated the various Federal leases involved. To your knowledge, Mr. Reddy, what is the earliest expiration date of any of those leases?

A. March 9th.

Q. 1979?

A. 1979.

Q. So there is some need to expedite approval of the unit and to obtain final approval from the Land Commissioner and the USGS before the well that's now being drilled is completed.

A. That's correct.

MR. STAMETS: I've got a couple more exhibits I need to get the numbers straightened out on.

MR. KELLAHIN: Geology was --

MR. STAMETS: Exhibit One --

MR. KELLAHIN: This is Six.

MR. STAMETS: This is one with the Isopach of the top of the Strawn.

MR. KELLAHIN: That's Six.

MR. STAMETS: And then the top of the Chester is Seven.

Any questions of this witness? He may be excused.

Anything further in this case?

MR. KELLAHIN: No, sir. I'd like to introduce my exhibits, One through Eight.

MR. STAMETS: These exhibits will be admitted, and we'll take the case under advisement.

(Hearing concluded.)

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3010 Plaza Blanca (505) 471-2462
Santa Fe, New Mexico 87501

REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill, from my notes taken at the time of the hearing.

Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6430 heard by me on 1-31, 1979.

Richard L. Stamets, Examiner
Oil Conservation Division

Unit Name BUCKHORN CANYON UNIT-EXPLORATORY
Operator PHOENIX RESOURCES COMPANY
County CHAVES

OCC

DATE APPROVED	OCC CASE NO. 6430 OCC ORDER NO. R-5916	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
Commissioner 2-9-79	Commission 2-2-79	2-2-79	23,008.28	5,759.21	17,250.17	-0-	Yes	5 Yrs.

UNIT AREA

TOWNSHIP 19 SOUTH, RANGE 19 EAST, NMPM
Section 1: All
Sections 12 and 13: All
Sections 24 and 25: All
Section 36: All

TOWNSHIP 19 SOUTH, RANGE 20 EAST, NMPM
Sections 2 through 11: All
Sections 14 through 23: All
Sections 26 through 35: All

Unit Name BUCKHORN CANYON UNIT-EXPLORATORY
Operator PHOENIX RESOURCES COMPANY
County CHAVES

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
29	L-2754-3	C.S.	2	19S	20E	Lots 1, 2, 3, 4, S/2N/2, S/2	1-4-79	1,081.12		Phoenix Resources Co.
			3	19S	20E	N/2S/2, SE/4SW/4, SW/4SE/4				
			4	19S	20E	NE/4SE/4				
			18	19S	20E	SE/4				
30	L-2755-2	Por. Norm	4	19S	20E	Lots 1, 2, 3, 4, SE/4NE/4	1-4-79	638.09		Phoenix Resources Co.
			7	19S	20E	Lot 4, SE/4SW/4, S/2SE/4				
			8	19S	20E	S/2SW/4				
			17	19S	20E	NW/4				
			26	19S	20E	SW/4NW/4				
31	L-2756-3	C.S.	16	19S	20E	All	1-4-79	640.00		Phoenix Resources Co.
32	L-2757-2	C.S.	20	19S	20E	W/2W/2, NE/4NW/4, SE/4SW/4, N/2NE/4, S/2SE/4	1-30-79	880.00		Allan J. Antweil and Moranco, Inc.
			21	19S	20E	W/2NW/4, S/2, E/2NE/4				
33	L-2917-3	C.S.	36	19S	19E	All	1-4-79	640.00		Phoenix Resources Co.
34	L-3055	C.B.	12	19S	19E	S/2SW/4	NOT COMMITTED		160.00	Globe Minerals
		C.S.	13	19S	19E	N/2NW/4				
35	LG-0684	C.S.	22	19S	20E	N/2N/2, SE/4NE/4, NE/4SE/4, S/2S/2	1-23-79	400.00		Cities Service Oil Co.
36	LG-0685	Port.Norm.	23	19S	20E	N/2N/2	1-23-79	160.00		Cities Service Oil Co.
37	LG-1790-1	Port. Norm.	24	19S	19E	NW/4NW/4	1-16-79	40.00		Robert Hillin
38	LG-2475-1	P.N.	12	19S	19E	S/2SE/4	1-16-79	200.00		Robert Hillin
		P.N.	13	19S	19E	W/2SW/4, SW/4NW/4				
39	LG-2476	C.S.	26	19S	20E	S/2SW/4	1-22-79	280.00		Great Western
			27	19S	20E	W/2SE/4, SE/4SE/4				
			31	19S	20E	NE/4NE/4				
			34	19S	20E	SE/4NE/4				

Unit Name BUCKHORN CANYON UNIT-EXPLORATORY
Operator PHOENIX RESOURCES COMPANY
County CHAVES

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	RATIFIED ACRES	ACREAGE NOT RATIFIED	LESSEE
40	LG-5759	C.S.	32	19S	20E	All	1-4-79	640.00		Phoenix Resources Co.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

JERRY APODACA
GOVERNOR

NICK FRANKLIN
SECRETARY

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

February 2, 1979

Mr. Tom Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: CASE NO. 6430
ORDER NO. R-5916

Applicant:

Phoenix Resources Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC
Aztec OCC

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6430
Order No. R-5916

APPLICATION OF PHOENIX RESOURCES COMPANY
FOR APPROVAL OF THE BUCKHORN CANYON UNIT
AGREEMENT, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on January 31, 1979, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 2nd day of February, 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, Phoenix Resources Company, seeks approval of the Buckhorn Canyon Unit Agreement covering 23,009.38 acres, more or less, of State and Federal lands described as follows:

CHAVES COUNTY, NEW MEXICO

TOWNSHIP 19 SOUTH, RANGE 19 EAST, NMPM
Section 1: All
Sections 12 and 13: All
Sections 24 and 25: All
Section 36: All

TOWNSHIP 19 SOUTH, RANGE 20 EAST, NMPM
Sections 2 through 11: All
Sections 14 through 23: All
Sections 26 through 35: All

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

(4) That the Division should be notified of any change in Unit Operator.

(5) 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 Buckhorn Canyon 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 any change in Unit Operator shall immediately be reported to the Oil Conservation Division.

(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 hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

S E A L

fd/

OVERRIDING ROYALTY RATIFICATIONS OF THE PROPOSED BUCKHORN UNIT

NAME	TRACT NUMBERS
E. R. Thompson, Jr.	1, 18
B. L. House	2
Benlow & Haun	4
R. C. Balsam	5, 19
Clifton & Tony Wilderspin	5, 19, 31, 33
Thomas J. Sweeney	14
Darrell G. Seal	14
Kenneth Griffin	37, 38
Gary G. Barnett	37, 38
Robert B. Ross	37, 38
Margaret White	37, 38

OVERRIDING ROYALTY RATIFICATIONS THE PROPOSED BUCKHORN CANYON UNIT

NAME	TRACT NUMBERS
Anadarko Production	1, 3, 18
Northern Natural	2, 9, 18, 31
G. E. Farmar	3
R. Short & L Gray	7, 10, 21
R. E. Cunningham	9
D. L. & J. Hanifin	9
Guy & Ritta Willis	12
John J. Gergurich	14
F. J. Bradshaw	15
Dolores & R. Quinton Marshall	26
Van Hawber	37, 38
John Gould	37, 38
Sarah Margaret Davis	37, 38

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Phoenix EXHIBIT NO. 3
CASE NO. 6430
Submitted by
Hearing Date

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION

OF THE

BUCKHORN CANYON UNIT AREA

COUNTY OF CHAVES

STATE OF NEW MEXICO

NO. _____

EXHIBIT NO. 4
CASE NO. 6430
Submitted by _____
Hearing Date _____

THIS AGREEMENT, entered into as of the 15th day of December, 1978, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto."

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil and gas interests in the Unit Area subject to this Agreement; and

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operations 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. 7-11-39 N.M. Statues 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 interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Chapter 166, Laws of 1941, and Chapter 168, Laws of 1949) to approve this Agreement and the conservation provisions hereof.

WHEREAS, the parties hereto hold sufficient interests in the Gardner Draw Unit Area covering the land hereinafter described 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 State of New Mexico 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 of New Mexico are hereby accepted and made a part of this Agreement.

2. UNIT AREA. The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 23,009.38 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the Unit Area, 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, or 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 two (2) copies thereof shall be filed with the Land Commissioner and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "Conservation Commission."

The above-described Unit Area shall when practicable be expanded to include therein any such additional lands or shall be contracted to exclude lands whenever such expansion or contraction is deemed to be necesesary 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, but only after preliminary concurrence by the Director and the Land Commissioner, shall prepare a notice of the proposed expansion or contraction describing the contemplated changes in the boundaries of the Unit Area, the reason 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 Conservation 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 thirty- (30-) day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, Land Commissioner and Conservation 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 the Conservation 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 (5th) 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 (5th) anniversary, in which event all such lands shall remain subject hereto so long as such drilling operations are continued diligently with not more than ninety (90) days time elapsing between the completion of one well and the commencement of the next well. All legal subdivisions of lands not entitled to be in a participating area within ten (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 (10th) 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 nonparticipating lands shall be automatically eliminated effective as of the ninety-first (91st) day thereafter. The Unit Operator shall within ninety (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- (10-) year period specified in this subsection 2(e), a single extension of not to exceed two (2) years may be accomplished by consent of the owners of ninety percent (90%) of the working interests in the current nonparticipating Unitized Lands and the owners of sixty percent (60%) of the basic royalty interests (exclusive of the basic royalty interests of the United States) in nonparticipating Unitized Lands with approval of the Director and the Land Commissioner, provided such extension application is submitted to the Director and the Land Commissioner not later than sixty (60) days prior to the expiration of said ten- (10-) 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. PHOENIX RESOURCES COMPANY 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 that capacity and not as an owner of interest in Unitized Substances, and the term "working interest owner" when used herein 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, the Supervisor, the Land Commissioner and Conservation Commission, 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 by the Conservation 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 thirty (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 seventy-five percent (75%) 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 the 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 interest, 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 (3) true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor and one (1) true copy with the Land Commissioner, prior to approval of this Unit Agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor if on Federal land, or by the Land Commissioner if on State Land, or by the Conservation Commission if on privately owned land, unless on such effective date a well is being drilled conformably with the terms hereof and thereafter continue such drilling diligently until the top 200' of the Mississippian 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, of the Land Commissioner if on State land, or of the Conservation Commission if on privately owned land, that further drilling of a particular well would be unwarranted or impractical, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of ~~6675~~ 6700 feet. Until the discovery of a deposit of Unitized Substances capable of being produced in paying quantities, Unit Operator shall continue drilling diligently one (1) 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 and is completed to the satisfaction of said Supervisor if on Federal land, the Land Commissioner if on State land, or of the Conservation Commission if on privately owned land, or until it is reasonably proved that the Unitized Land is incapable of producing Unitized Substances in paying quantities in the formation 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 Supervisor may modify the drilling requirements of this section by granting reasonable extensions of time when, in his 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, this Agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and Land Commissioner may, after fifteen (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 approval of the Supervisor, Land Commissioner, and Oil Commission an acceptable plan of development and operation for the Unitized Land which, when approved by the Supervisor, Land Commissioner, and Oil 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, Land Commissioner, and Oil 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, Land Commissioner, and Oil 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, Land Commisioner, and Oil 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, Land Commissioner and Oil Commission are authorized to grant a reasonable extension of the six- (6-) 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 Substances 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, Land Commissioner, and Oil 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, Land Commissioner, and Oil Commission, the Unit Operator shall submit for approval by the Supervisor, Land Commissioner, and Oil 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, Land Commissioner, and Oil 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, Land Commissioner, and Oil 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, Land Commissioner, and Oil 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 allocated 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, Land Commissioner, and Oil 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, Land Commissioner, and Oil Commission as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have been established, 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 and the State of New Mexico shall be determined by the Supervisor and the Land Commissioner, respectively, and the amounts thereof shall be deposited as directed by the Supervisor and the Land Commissioner to be held as unearned monies until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sums due as Federal royalty and State of New Mexico royalty, respectively, on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor, as to wells drilled on Federal land, the Land Commissioner as to wells drilled on State land and of the Oil Commission as to wells drilled on privately owned land 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 purpose of settlement among all parties other than working interest owners, be allocated to the land on which the well is located unless such land is already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the Unit Operating Agreement.

12. ALLOCATION OF PRODUCTION. All Unitized Substances produced from each participating area established under this Agreement, except any part thereof used in conformity with good operating practices within the Unitized Area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in

accordance with a plan of development approved by the Supervisor, the Land Commissioner and the Conservation Commission, or unavoidably 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 where 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 as to Federal land, the Land Commissioner as to State land and the Conservation Commission as to privately owned land, at such party's sole risk, costs, and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within ninety (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, the State of New Mexico, 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 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 shares 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, the Land Commissioner and the Conservation Commission, 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, the Land Commissioner and the Conservation Commission, as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination date 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 rate 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 the State of New Mexico shall be computed and paid on the basis of the amounts allocated to unitized State land as provided herein at the rate specified in the State oil and gas lease.

Royalty due on account of privately owned 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 provisions 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 operations 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, 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 modified in accordance with the following.

(a) The development and operation of lands subject to this Agreement under the terms hereof 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 their duly authorized representatives 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 committed to this Agreement, which, by its terms might expire prior to the termination of the 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 thereof. 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) 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 lands committed hereto with the termination hereof.

(h) The segregation of any Federal lease committed to this Agreement is governed by the following provisions 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."

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

part of the lands embraced in such lease, the same, as 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.

(j) Any lease, other than a Federal lease, having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts.

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 of 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 their 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 Land Commissioner, or

(c) A valuable discovery of Unitized Substances has been made or accepted on Unitized Land during said initial term or any extension thereof, in which event the Agreement shall remain in effect for such term and so long as Unitized Substances can be produced 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 can be 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 seventy-five percent (75%), on an acreage basis, of the working interest owners signatory hereto, with the approval of the Supervisor and Land Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

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

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 fifteen (15) days from notice.

22. 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 rights 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 provision thereof to the extent that the Unit Operator, 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 thing concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Conservation Commission in and by any provisions of this by it[illegible]nt 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.

23. 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, the Commissioner of Public Lands of the State of New Mexico and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of said Department, the Conservation Commission or Land Comissioner or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, the Land Commissioner, or Conservation Commission 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.

24. 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.

25. 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.

26. 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.

27. NONDISCRIMINATION. In connection with the performance of work under this Agreement, the Unit 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.

28. 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 of the United States 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.

29. 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 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 Agreement 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 commited 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 Conservation 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 or Land Commissioner, provided, that, as to State lands, all subsequent joinders must be approved by the Land Commissioner.

30. 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.

31. 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 interest 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; or

(3) Provide for the independent operation of any part of such land that is 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 of working interests shall compensate the fee owner of Unitized Substances 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 monies 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.

32. 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 or net 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 of 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 lessee which requires the lessee to pay such taxes.

33. 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.

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

UNIT OPERATOR AND WORKING INTEREST OWNERS

ATTEST: By _____

Address: _____

_____ _____

Date of Execution:

_____

STATE OF)
) ss.
COUNTY OF)

On this _____ day of _____, 19 ___, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is the _____ President of _____ _____, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

_____
Notary Public

My Commission expires:

UNIT OPERATING AGREEMENT

BUCKHORN CANYON UNIT AREA

COUNTY OF CHAVES

STATE OF NEW MEXICO

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UNIT OPERATING AGREEMENT

BUCKHORN CANYON UNIT AREA

STATE OF NEW MEXICO

COUNTY OF CHAVES

THIS AGREEMENT made as of the..... day of ....., 19....., by and among the parties who execute or ratify this agreement or a counterpart hereof,

WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE BUCKHORN UNIT AREA, County of Chaves, State of New Mexico, dated as of the..... day of ....., 19....., and hereinafter referred to as the "Unit Agreement", covering the lands described in Exhibit 1, hereto attached, which lands are referred to in the Unit Agreement and in this agreement as the "Unit Area";

WHEREAS, the Parties enter into this agreement pursuant to Section 7 of the Unit Agreement;
NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1
DEFINITIONS

1.1 **Unit Agreement Definitions.** The definitions contained in the Unit Agreement are adopted for all purposes of this agreement. In addition, each term listed below shall have the meaning stated therefor, whenever used in this agreement.

1.2 **"Unit Operator"** means Phoenix Resources Company and its successors, as the Unit Operator designated in accordance with the Unit Agreement acting in that capacity and not as an owner of Working Interest.

1.3 **"Party"** means a party to this agreement, including the Party acting as Unit Operator when acting as an owner of Working Interest.

1.4 **"Costs"** means all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement or the Unit Agreement and all other expenses that are herein made chargeable as Costs, determined in accordance with the accounting procedure set forth in Exhibit 2 attached hereto, which shall govern in all matters covered thereby, except that in event of inconsistency between said accounting procedure and this agreement, this agreement shall control.

1.5 **"Committed Working Interest"** means a Working Interest which is shown on Exhibit B to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement. Whenever reference is made to a Party "in" or "within" the Unit Area, a participating area, or other area designated pursuant to this agreement, such reference shall mean a Party owning a Committed Working Interest in lands within such area.

1.6 **"Acreage Basis"**, when used to describe the basis of participation by the Parties within the Unit Area, a participating area, or other area designated pursuant to this agreement in voting, Costs, or Production, means participation by each such Party in the proportion that the acreage of its Committed Working Interests in such area bears to the total acreage of the Committed Working Interests of all such Parties therein. For the purposes of this definition, (a) the acreage of the working interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement, and (b) if there are two or more undivided working interests in a tract, there shall be apportioned to each such working interest that proportion of the acreage of the tract that such working interest bears to the entire working interest in the tract.

1.7 **"Production"** means all Unitized Substances produced and saved from the Unit Area except so much thereof as is used in the conduct of operations under the Unit Agreement and this agreement.

1.8 **"Lease Burdens"** means the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment and any similar burden, but does not include a carried working interest, a net profits interest or any other interest which is payable out of profits.

1.9 **"Drilling Party"** means the Party or Parties obligated to bear the Costs incurred in Drilling, Deepening or Plugging Back a well in accordance with this agreement at the commencement of such operation.

1.10 **"Non-Drilling Party"** means a Party who has had the optional right to participate in the Drilling, Deepening or Plugging Back of a well and who has elected not to participate therein.

1.11 **"Drill"** means to perform all operations reasonably necessary and incident to the Drilling of a well, including preparation of roads and drill site, testing, and, if productive of Unitized Substances, completing and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.12 **"Deepen or Plug Back"** means to perform all operations reasonably necessary and incident to Deepening or Plugging Back a well, testing, and, if productive of Unitized Substances, completing or recompleting and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.13 **"Initial Test Well"** means a test well specifically provided for in Section 5 of the Unit Agreement and described in Exhibit 3 attached hereto.

1.14 **"Subsequent Test Well"** means a test well Drilled after the Drilling of the Initial Test Well or Wells, and before discovery of Unitized Substances in paying quantities in the Unit Area.

1.15 **"Development Well"** means a well Drilled within a participating area and projected to the pool or zone for which the participating area was established.

1.16 **"Exploratory Well"** means a well other than a Development Well Drilled after discovery of Unitized Substances in paying quantities in the Unit Area.

1.17 **"Approval of the Parties"** or **"Direction of the Parties"** mean an approval, authorization or direction which receives the affirmative vote specified in Section 14.2 of the Parties entitled to vote on the giving of such Approval or Direction.

1.18 **"Salvage Value"** of a well means the value of the materials and equipment in or appurtenant to the well determined in accordance with Exhibit 2, less the reasonably estimated Costs of salvaging the same and plugging the well.

1.19 Each Party is herein referred to by the neuter pronoun "it".

ARTICLE 2
NO LIABILITY FOR DRILLING, DEEPENING OR PLUGGING BACK WELLS WITHOUT CONSENT

2.1 **No Liability Without Consent.** No party shall be liable without its consent for any portion of the Costs of Drilling, Deepening or Plugging Back a well except as provided in Section 10.4 with respect to Required Wells, and except as provided in Article 13 dealing with Investment Adjustment. Nothing herein shall be construed to relieve a Party of any obligation assumed by it pursuant to Exhibit 3 to participate in the Costs of the Initial Test Well.

ARTICLE 3
INITIAL TEST WELL

3.1 **Location.** Unit Operator shall begin to Drill the Initial Test Well within the time required by Section 9 of the Unit Agreement or any extension thereof at the location specified in Exhibit 3 attached hereto.

3.2 **Costs of Drilling.** Subject to the Investment Adjustment provisions of Article 13 the Costs of Drilling the Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in said Exhibit 3.

* For the purpose of Section 12.3B hereof and Section 7B of Exhibit 4 such terms do not include equipment or equipping beyond the wellhead connections (e.g. flow lines, treaters, separators, tankage) and the same shall be considered included as a part of the cost of operating under Section 12.3 hereof and 7A of Exhibit 4.

ARTICLE 4
SUBSEQUENT TEST WELLS

4.1 Right to Drill. The Drilling of any Subsequent Test Well shall be on such terms and conditions as the Parties shall agree; provided, however, that in the absence of agreement, such wells may be Drilled under the provisions of Article 9 dealing with Exploratory Wells.

ARTICLE 5
ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREAS

5.1 Proposal. Unit Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal in writing to each Party at least 20 days before filing the same with the ~~Director~~ *Supervisor. The date of proposed filing must be shown on the proposal. If the proposal receives the Approval of the Parties within the proposed participating area, then such proposal shall be filed on the date specified in the notice.

5.2 Objections to Proposal. Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If, despite such objections the proposal receives the Approval of the Parties within the proposed participating area, then the Party making the objections may renew the same before the ~~Director~~*.

5.3 Revised Proposal. If the proposal does not receive the Approval of the Parties within the proposed participating area, then Unit Operator shall submit a revised proposal taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within 60 days from the submission of the first proposal then Unit Operator shall file with the ~~Director~~* a proposal reflecting, as nearly as practicable the various views expressed by the Parties.

5.4 Rejection by ~~Director~~*. If a proposal filed by Unit Operator as above provided is rejected by the ~~Director~~* Unit Operator shall initiate a new proposal in the same manner as provided in Section 5.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

5.5 Consolidation. Two or more participating areas may be combined as provided in the Unit Agreement.

*Supervisor

ARTICLE 6
APPORTIONMENT OF COSTS AND OWNERSHIP AND DISPOSITION OF PRODUCTION AND PROPERTY

6.1 Apportionment and Ownership Within Participating Area. Except as otherwise provided in Article 8 dealing with Development Wells, Part 1 of Exhibit 4 dealing with Exploratory Wells, and Part 2 of Exhibit 4 dealing with Attempted Completion, Deepening and Plugging Back:

A. Costs. All Costs incurred in the development and operation of a participating area for or in connection with production of Unitized Substances from any pool or zone for which such participating area is established shall be borne by the Parties within such participating area on an Acreage Basis determined as of the time such Costs are incurred. on an acreage basis

B. Production. All Production from a participating area shall be allocated in accordance with the Unit Agreement to the tracts of land within such participating area. That portion of such Production which is allocated to any such tract shall be owned by the Party or Parties having Committed Working Interest or Interests therein in the same manner and subject to the same conditions as if actually produced from such tract through a well thereon, and as if this agreement and the Unit Agreement had not been executed.

C. Property. All materials, equipment and other property, whether real or personal, the cost of which is chargeable as Costs and which have been acquired in connection with the development or operation of a participating area shall be owned by the Parties within such participating area on an Acreage Basis.

6.2 Ownership and Costs Outside Participating Area. If a well completed as a producer is not included within a participating area, such well, the Production therefrom, and the materials and equipment therein or appurtenant thereto shall be owned by the Party or Parties who constituted the Drilling Party for such well, and all Costs incurred in the operation of the well shall be charged to and borne by such Party or Parties, and all Lease Burdens payable in respect of Production from the well shall be borne and paid by such Party or Parties. If the Drilling Party comprises two or more Parties, apportionment among them of ownership, Costs and Lease Burdens shall be in the same proportions that they bore the Costs incurred in Drilling the well.

6.3 Taking in Kind. Each Party shall currently as produced take in kind or separately dispose of its share of Production and pay Unit Operator for any extra expenditure necessitated thereby. Except as otherwise provided in Section 15.5 dealing with Liens, each Party shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of its share of Production, and on all purchases or sales each Party shall execute any division order or contract of sale pertaining to its interest.

~~**6.4 Failure to Take in Kind.** If any Party fails so to take or dispose of its share, Unit Operator shall have the right for the time being and subject to revocation at will by the Party owning same to purchase for its own account or sell to others such share at not less than the market price prevailing in the area and not less than the price Unit Operator receives for its share of Production, subject to the right of such Party to exercise at any time its right to take in kind or separately dispose of its own share of Production not previously taken by Unit Operator or delivered to others pursuant to this Section 6.4.~~

6.5 Surplus Materials and Equipment. Materials and equipment acquired by the Parties, or any of them pursuant to this agreement, may be classified as surplus by Unit Operator when deemed by it to be no longer needed in operations hereunder, by giving to each Party owning an interest therein written notice thereof. Such surplus materials and equipment shall be disposed of as follows:

A. Each Party owning an interest therein shall have the right to take in kind its share of surplus tubular goods and other surplus items which are susceptible of division in kind, by written notice given to Unit Operator within thirty (30) days after classification thereof as surplus, except that such right shall not apply to junk or to any item (other than tubular goods) having a replacement cost less than one thousand dollars ($1,000).

B. Surplus materials and equipment not divided in kind (other than junk and any item other than tubular goods having a replacement cost of less than one thousand dollars ($1,000)) shall be offered to the Parties owning interests therein and sold to the highest bidder or bidders.

C. Surplus materials and equipment not disposed of in accordance with the preceding provisions of this section shall be disposed of by Unit Operator for the best prices obtainable.

ARTICLE 7
PLANS OF DEVELOPMENT

7.1 Wells and Projects Included. Each plan for the development and operation of the Unit Area which is submitted by Unit Operator to the Supervisor in accordance with the Unit Agreement shall make provision only for such Drilling, Deepening and Plugging Back operations and such other projects as Unit Operator has been authorized to conduct by the Parties chargeable with the Costs incurred therein.

7.2 Notice of Proposed Plan. At least ten (10) days before submitting any such proposed plan to the Supervisor, Unit Operator shall give each Party written notice thereof, together with a copy of the proposed plan.

7.3 Notice of Approval or Disapproval. If and when a proposed plan has been approved or disapproved by the Supervisor, Unit Operator shall give prompt written notice thereof to each Party. In the case of disapproval, Unit Operator shall state in such notice the reasons therefor.

7.4 Amendments. If any Party or Parties shall have elected to proceed with Drilling, Deepening or Plugging Back operation in accordance with the provisions of this agreement, and such operation is not provided for in the then current plan of development as approved by the Supervisor, Unit Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation, if his consent is sufficient.

7.5 Cessation of Operations Under Plan. If any such plan as approved by the Supervisor provides for the cessation of any Drilling or other operations thereon provided for on the happening of a contingency and if such contingency occurs, Unit Operator shall promptly cease such Drilling or other operations and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operations are again authorized in accordance with the agreement by the Parties chargeable with such Costs.

ARTICLE 8
DRILLING OF DEVELOPMENT WELLS

8.1 Purpose and Procedure. It is the purpose of this Article to set forth the procedure for Drilling a Development Well otherwise than by the written consent of all Parties within the participating area involved. The Drilling of a Development Well pursuant to the procedure herein set forth shall, however, be subject to such Drilling receiving the Approval of the Parties, unless the Drilling of the proposed well is necessary to prevent the loss of Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of Approval of the Drilling of any such well shall not, however, be deemed an election by said Party to participate in the Costs thereof, but will mean only that such Party considers the Drilling of the well consistent with the ordinary development of the participating area involved and has no objection to the Drilling thereof.

8.2 Notice of Proposed Drilling. Subject to the provisions of Section 8.1, any Party within a participating area may propose the Drilling of a Development Well therein by giving to each of the other Parties within the participating area written notice specifying the location, depth and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern theretofore adopted or then being followed, or an authorized exception thereto.

8.3 Response to Notice. Within thirty (30) days after receipt of such notice, each Party within such participating area shall advise all other Parties therein, in writing, whether or not it wishes to participate in Drilling the proposed well. If all the Parties within such participating area so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties within the participating area. If any Party fails to respond to such notice within said thirty (30) day period, it shall be deemed to have elected not to participate in Drilling the proposed well.

8.4 Notice of Election to Drill. Unless all Parties within the participating area agree to participate in response to said notice, then within fifteen (15) days after expiration of said period of thirty (30) days, each Party within the participating area who then desires to have the proposed well Drilled shall give to all other Parties within the participating area written notice of election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling said well.

8.5 Effect of Election to Drill. If one or more, but not all, of the Parties within the participating area so elect to proceed, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party.

8.6 Subsequent Election. If election to Drill the proposed well is made, any Party within the participating area who has not previously elected to participate therein may do so by written notice given to all other Parties within the participating area at any time before operations for Drilling the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

8.7 Rights and Obligations of Drilling Party and Non-Drilling Parties. Whenever a Development Well is Drilled otherwise than for the account of all Parties within the participating area involved, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall be applicable.

ARTICLE 9
EXPLORATORY WELLS

9.1 Procedure for Drilling. The Drilling of Exploratory Wells shall be governed by the provisions of Part 1 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 10
REQUIRED WELLS

10.1 Definition. For the purpose of this Article a well shall be deemed a required well if the Drilling thereof is required by the final order of an authorized representative of the Department of Interior. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each of the other Parties; if any such order is appealed, the Party appealing shall give prompt written notice thereof to each of the other Parties, and upon final disposition of the appeal, Unit Operator shall give each of the other Parties prompt written notice of the result thereof.

10.2 Election to Drill. Any Party desiring to Drill, or participate in the Drilling of, a required well shall give to Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required by such order. If such notice is given within said period, Unit Operator shall Drill the required well for the account of the Party or Parties giving such notice who shall bear all Costs incurred therein, provided, however, that if the Required Well is a Development Well it shall not be drilled unless it receives the Approval of the Parties. The rights and obligations of such Party or Parties with respect to the ownership of such well, the operating rights therein, the Production therefrom and the bearing of Costs incurred therein shall be the same as if the well had been Drilled for the account of such Party or Parties under Article 8 dealing with Development Wells, if the same is a Development Well, or Article 9 dealing with Exploratory Wells if the same is an Exploratory Well or a Subsequent Test Well.

10.3 Alternatives to Drilling. If no Party elects to Drill a required well within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

A. **Compensatory Royalties.** If compensatory royalties may be paid in lieu of Drilling the well and if payment thereof receives, within said period, the Approval of the Parties who would be chargeable with the Costs incurred in Drilling the well, if the well were Drilled as provided in Section 10.4, Unit Operator shall pay such compensatory royalties for the account of said Parties; or

B. **Contraction.** If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the ~~Director~~ Supervisor; or

C. **Termination.** If the required well is a Subsequent Test Well, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

10.4 Required Drilling. If none of the foregoing alternatives is available, Unit Operator shall Drill the required well under whichever of the following provisions is applicable.

A. **Development Well.** If the required well is a Development Well it shall be Drilled by Unit Operator for the account of all Parties within the participating area in which the well is Drilled; or

B. **Exploratory Well.** If the required well is an Exploratory Well it shall be Drilled by Unit Operator for the account of the Party or Parties who would be obligated to bear the Costs thereof in accordance with Part 1 of Exhibit 4.

ARTICLE 11
ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

11.1 Procedure. The attempted completion, Deepening, or Plugging Back of any well not completed as a producer, the abandonment of a producing well and the Deepening or Plugging Back of any well abandoned in the stratum in which it was completed as a producer, shall be governed by the provisions of Part 2 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 12
RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY

12.1 Scope of Article. Subject to such contrary or inconsistent provisions, if any, as are contained in Exhibit 4, the rights and obligations of the Drilling Party and Non-Drilling Party in respect of a well which is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, shall be governed by the succeeding provisions of this article.

12.2 Relinquishment of Interest by Non-Drilling Party. When a well is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, each Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all of its operating rights and working interest in and to such well. In the case of a Deepening or Plugging Back, if a Non-Drilling Party owned an interest in the well immediately prior to the Deepening or Plugging Back, the Drilling Party shall pay to each Non-Drilling Party its share of the Salvage Value of the well, such payment to be made at the time the well is taken over by the Drilling Party for Deepening or Plugging Back.

12.3 Reversion of Relinquished Interest. If the well is completed as a producer of Unitized Substances, and if the well is a Development Well, or results in the establishment or enlargement of a participating area to include such well, then the operating rights and working interest relinquished by a Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Production obtained from the well after such relinquishment which is allocated to the acreage of such Non-Drilling Party in the participating area involved (after deducting from such proceeds or market value all Lease Burdens and all taxes upon or measured by Production that are payable up to such time on said portion of the Production from such well) shall equal the total of the following:

A. 100% of that portion of the Costs incurred in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

B. .....% of that portion of the Costs incurred in Drilling, Deepening, Plugging Back or completing the well that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

However, if a Deepening or Plugging Back is involved (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.2 shall be added to and deemed part of the Costs incurred in operating the well, for the purposes of Subdivision A above, and (2) if such Non-Drilling Party did not participate in the initial Drilling of the well, but the Drilling Party did participate therein, and if the interest relinquished by such Non-Drilling Party upon the initial Drilling of the well had not reverted to it before such Deepening or Plugging Back, then, for the purposes of Subdivision B above, there shall be added to and deemed part of the Costs incurred in the Deepening or Plugging Back, the then unrecovered portion of the Costs incurred in the initial Drilling of the well down to the pool or zone in which such well is completed as a producer.

12.4 Effect of Reversion. From and after reversion to a Non-Drilling Party of its relinquished interest in a well, such Non-Drilling Party shall share, on an Acreage Basis in the ownership of the well, the operating rights and working interest therein, the materials and equipment in or pertaining to the well, the Production therefrom and the Costs of operating the well.

12.5 Rights and Obligations of Drilling Party. The Drilling Party for whom a well is Drilled, Deepened, Plugged Back or completed shall pay and bear all Costs incurred therein, and shall own the well, the materials and equipment in the well or pertaining thereto, and the production therefrom, subject to reversion to each Non-Drilling Party of its relinquished interest in the well. If the well is a Development Well, or results in the establishment or enlargement of a participating area to include the well, then, until reversion to a Non-Drilling Party of its relinquished interest, the Drilling Party shall pay and bear (a) that portion of the costs incurred in operating the well that otherwise would be chargeable to such Non-Drilling Party, and (b) all Lease Burdens that are payable in respect of that portion of the Production from such well which is allocated to the acreage of such Non-Drilling Party. If the Drilling Party includes two (2) or more Parties, the burdens imposed upon and the benefits accruing to the Drilling Party shall be shared by such Parties on an Acreage Basis among themselves.

ARTICLE 13
ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF PARTICIPATING AREA

13.1 When Adjustment Made. Whenever, in accordance with the Unit Agreement, a participating area is established or revised by contraction or enlargement, and whenever two or more participating areas are combined (the participating area resulting from such establishment, revision or combination being hereinafter referred to as a "resulting area") an adjustment shall be made in accordance with the succeeding provisions of this Article 13, as of the date on which the establishment, revision or combination that creates such resulting area becomes effective, such date being hereinafter referred to as the "effective date" of such resulting area.

13.2 Definitions. As used in this Article 13:

A. "Useable well" within a resulting area means a well which is either (1) completed in and capable of producing unitized substances from a pool or zone for which such resulting area is created, or (2) used as a disposal well, injection well or otherwise, in connection with the production of Unitized Substances from such resulting area.

B. "Intangible value" of a useable well within a resulting area means the amount of Costs incurred in Drilling such well, or Deepening it, down to the deepest pool or zone for which such resulting area is created, and which contribute to the Production of Unitized Substances therefrom and which are properly classified as intangible costs in conformity with accounting practices generally accepted in the industry, reduced at the following rates for each month during any part of which such well has been operated prior to the effective date of such resulting area:

(1) One-half ..... per cent (.50 %) per month for a cumulative total of Sixty (60) months, and

(2) Zero ..... per cent (-0- %) per month for each month in excess of said cumulative total.

C. "Tangible property" serving a resulting area means any kind of tangible property (whether or not in or pertaining to a well) which has been acquired for use in or in connection with the Production of Unitized Substances from such resulting area or any portion thereof, and the cost of which has been charged as Costs pursuant to this agreement.

D. "Value" of tangible property means the amount of Costs incurred therefor, including Costs incurred in the construction or installation thereof (excepting installation costs properly classified as part of the intangible costs incurred in connection with a well) reduced, in the case of tangible property which is generally regarded as depreciable, at such reasonable rates of depreciation as receive the Approval of the Parties within such resulting area, for the period of time between the acquisition date thereof and the effective date of such resulting area.

13.3 Method of Adjustment on Establishment or Enlargement. As promptly as reasonably possible after the effective date of a resulting area created by establishment or enlargement of a participating area, and as of such effective date an adjustment shall be made in accordance with the following provisions except to the extent otherwise specified in Section 13.6.

A. The intangible value of each useable well within such resulting area on the effective date thereof shall be credited to the Party or Parties who own such well immediately prior to such effective date, in proportion to their respective interests in such well immediately prior to such effective date. The total amount so credited as the intangible value of useable wells shall be charged to all parties within the resulting area on an Acreage Basis.

B. The value of each item of tangible property serving the resulting area on the effective date thereof shall be credited to the Party or Parties who own such item immediately prior to such effective date, in proportion to their respective interests in such item immediately prior to such effective date. The total amount so credited as the value of tangible property shall be charged to all Parties within the resulting area on an Acreage Basis.

C. If a resulting area, on the effective date thereof, is served by any tangible property or useable well, which also serves another participating area or other participating areas, the value of such tangible property and useable well (including intangible value thereof) shall be determined in accordance with Subdivision D of Section 13.2, and such value may be fairly apportioned between such resulting area and such other participating area or areas, provided that such apportionment receives Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and useable well (including intangible value thereof) which is so apportioned to the resulting area shall be included in the adjustment made as of the effective date of such resulting area in the same manner as the value of tangible property serving only the resulting area.

D. The credits and charges above provided for shall be made by Unit Operator, in such manner that an adjustment shall be made for the intangible value of useable wells separate and apart from an adjustment for the value of tangible property. On each such adjustment, each Party who is charged an amount in excess of the amount credited to it, shall pay to Unit Operator the amount of such excess, which shall be considered as Costs chargeable to such Party for all purposes of this agreement, and such amount, when received by Unit Operator, shall be distributed or credited to the Parties who, in such adjustment, are credited with amounts in excess of the amounts charged to them respectively.

13.4 Method of Adjustment on Contraction. As promptly as reasonably possible after the effective date of any contraction of a participating area, an adjustment shall be made with each Party owning a Committed Working Interest in land excluded from the participating area by such contraction (each Committed Working Interest being hereinafter in this section referred to as "excluded interest") in accordance with the following provisions:

A. An adjustment for intangibles shall be made in accordance with Subdivision B hereof and a separate adjustment for tangibles shall be made in accordance with Subdivision C hereof.

B. Such party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest in accordance with the accounting procedure set forth in Exhibit 2 as intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of such excluded interest as intangible value of useable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Such Party shall be charged with the sum of (1) the market value of that portion of the Production from such participating area which, prior to the effective date of such contraction, is delivered to such Party in respect of such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion and (2) the total amount credited to such Party in respect of such excluded interest as intangible value of useable wells, in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Any difference between the amount of said credit and the amount of said charge shall be adjusted as hereinafter provided.

C. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest, in accordance with the accounting procedure set forth in Exhibit 2, as Costs other than intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area, plus (3) the excess, if any, of the credit provided for in Subdivision B of this Section over the charge provided for in said Subdivision B. Such Party shall be charged with the sum of (1) the excess, if any, of the charge provided for said Subdivision B, over the credit therein provided for, plus (2) the total amount credited to such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area.

D. If the charge provided for in Subdivision C of this Section is equal to or greater than the credit therein provided for, no adjustment shall be made with such Party. However if the credit provided for in said Subdivision C is in excess of the charge therein provided for, such excess shall be charged on an Acreage Basis against the Parties who remain in the participating area after such contraction, and shall be paid by said Parties to Unit Operator upon receipt of invoices therefor. Such payments, when received by Unit Operator, shall be paid by it to the Party owning such excluded interest.

13.5 Ownership of Wells and Tangible Property. From and after the effective date of a resulting area all useable wells within such resulting area and all tangible property serving such resulting area shall be owned by the Parties within such area on an Acreage Basis except that (a) in the case of tangible property serving a participating area or participating areas in addition to the resulting area, only that undivided interest therein which is proportionate to that portion of the value thereof which is included in the adjustment made or shall be owned by the parties within the resulting area on an Acreage Basis, and (b) if a Party within the resulting area was a Non-Drilling Party for a well which is a useable well within such resulting area on the effective date thereof, and if the relinquished interest of such Non-Drilling Party in such well has not reverted to it prior to such effective date, the Drilling Party for such well shall own the interest therein that would otherwise be owned by such Non-Drilling Party, until reversion to such Non-Drilling Party of its relinquished interest in such well.

13.6 Relinquished Interests of Non-Drilling Parties. If the interest relinquished by a Non-Drilling Party in a well which is a useable well within a resulting area on the effective date thereof has not reverted to it prior to such effective date then insofar, and only insofar, as relates to such well, the adjustments provided for in Section 13.3 shall be subject to the following provisions, wherein the sum of the intangible value of such well, plus the value of the tangible property in or pertaining thereto, is referred to as the "value" of such well:

A. The Drilling Party for such well shall be charged with that part of the value of the well that would otherwise be chargeable to such Non-Drilling Party in respect of (1) such Non-Drilling Party's Committed Working Interest or Interests in the participating area in which the well was Drilled, as such participating area existed when the Drilling of the well was commenced, if the well was Drilled as a Development Well, or (2) the Committed Working Interest or Interests of such Non-Drilling Party which entitled it to participate in the Drilling, Deepening, Plugging Back, or Completion of the well, if it was Drilled, Deepened, Plugged Back or Completed, otherwise than as a Development Well. However, such Non-Drilling Party shall be charged with such part, if any, of the value of such well as is chargeable to it, in accordance with Subdivisions A and B or Section 13.3, in respect of its Committed Working Interests other than those referred to in (1) or (2) above.

B. If that part of the value of such well which would have been credited to such Non-Drilling Party, if the well had been Drilled, Deepened, Plugged Back or Completed for the account of all Parties entitled to participate therein, exceeds the amount provided in Subdivision A above to be charged against the Drilling Party, such excess shall be applied against the reimbursement to which the Drilling Party is entitled out of Production that would otherwise accrue to such Non-Drilling Party. Any balance of such excess over the amount necessary to complete such reimbursement shall be credited to such Non-Drilling Party.

ARTICLE 14
SUPERVISION OF OPERATIONS BY PARTIES

14.1 Right of Supervision. Each operation conducted by Unit Operator under this agreement or the Unit Agreement shall be subject to supervision and control in accordance with the succeeding provisions of this article by the Parties who are chargeable with the Costs thereof.

14.2 Voting Control. In the supervision of an operation conducted by Unit Operator, the Parties chargeable with the Costs of such operation shall have the right to vote thereon in proportion to their respective obligations for such Costs. The Parties having the right to vote on any other matter shall vote thereon on an Acreage Basis. Except as provided in the Unit Agreement and except as otherwise specified herein (particular reference being made to Section 25.1, Consent Required to Commence Secondary Recovery and Pressure Maintenance; Section 27.1, Surrender or Release Within Participating Area, and that portion of Part 2, Exhibit 4 relating to Abandonment of producing wells outside of a participating area), the affirmative vote of Parties having Sixty-five per cent (65 %) or more of the voting power on any matter which is proper for action by them shall be binding on all Parties entitled to vote thereon; provided, however, that if one Party voting in the affirmative has Sixty-five per cent (65%) or more but less than Seventy-five per cent (75 %) of the voting power, the affirmative vote of such Party shall not be binding on the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one additional Party; and provided further, that if one Party voting in the negative or failing to vote has more than Thirty-five per cent (35 %) but less than fifty per cent (50%) of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding on all Parties entitled to vote unless there is a negative vote of at least one additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. If only one Party is entitled to vote, such Party's vote shall control. A Party failing to vote shall not be deemed to have voted either in the affirmative or negative. Any Approval or Direction provided for in this agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding on all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

14.3 Meetings. Any matter which is proper for consideration by the Parties or any of them, may be considered at a meeting held for that purpose. A meeting may be called by Unit Operator at any time and a meeting shall be called by Unit Operator upon written request of any Party or Parties having Five per cent (5 %) or more of the voting power on each matter to be considered at the meeting. At least ten (10) days in advance of each meeting, Unit Operator shall give each Party entitled to vote thereat written notice of the time, place and purpose of the meeting. Unit Operator's representative shall be chairman of such meetings.

14.4 Action Without Meeting. In lieu of calling a meeting, Unit Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party written notice by mail or telegraph (or telephone confirmed in writing not later than the next business day), describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Unit Operator by mail or telegraph (or telephone, confirmed in writing not later than the next business day), within such period as may be designated in the notice given by Unit Operator (which period shall not be less than ten (10) nor more than thirty (30) days) provided, however, that if within ten (10) days after submission of such matter, request is made for a meeting in accordance with Section 14.3, such matter shall be considered only at a meeting called for that purpose. If a meeting is not required, then, at the expiration of the period designated in the notice given by it, Unit Operator shall give to each Party entitled to vote thereon written notice stating the tabulation and result of the vote.

14.5 Representatives. Promptly after execution of this agreement, each Party by written notice to all other Parties shall designate a representative authorized to vote for such Party, and may designate an alternate who is authorized to vote for such Party in the absence of its representative. Any such designation of a representative or alternate representative may be revoked at any time by written notice given to all other Parties, provided such notice designates a new representative or alternate representative as the case may be. In addition any corporate Party may vote through its President, or any of its Vice Presidents, and a Party which is a partnership may vote through any of its partners.

~~**14.6 Audits.** An audit shall be made of the accounts reflecting matters of record pertaining to operations hereunder whenever the making of such audit receives the Approval of the Parties (other than the Party acting as Unit Operator) chargeable with the Costs incurred during the period covered by the audit, except that such audit shall not be made more often than once each six months, and each audit shall be made by auditors at the employ of said Parties, and the allowance to be made to each Party for making an audit so conducted by the Approval of said Parties, such allowances shall be paid by such Parties in proportion to their respective participations among themselves in Costs incurred during the period covered by the audit.~~

14.7 Extraneous Projects. Nothing contained in this agreement shall be deemed to authorize the Parties, by vote or otherwise, to act on any matter or authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this agreement.

ARTICLE 15
UNIT OPERATOR'S POWERS AND RIGHTS

15.1 In General. Subject to the limitations provided for in this agreement, all operations authorized by the Unit Agreement and this agreement shall be performed and conducted by Unit Operator. Unit Operator shall have exclusive custody of all materials, equipment and any other property used in connection with any operation on the Unit Area.

15.2 Employees. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone and their working hours, rates of compensation and all other matters relating to their employment shall be determined solely by Unit Operator.

15.3 Non-Liability. Unit Operator shall not be liable to any other Party for anything done or omitted to be done by it in the conduct of operations hereunder except in case of bad faith.

15.4 Force Majeure. The obligations of Unit Operator hereunder shall be suspended to the extent that, and only so long as, performance thereof is prevented by the action of the elements, strikes or other differences with workmen, acts of civil or military authorities, acts of the public enemy, restrictions or restraints imposed by law or by regulation or order of governmental authority whether federal, state or local, inability to obtain necessary rights of access, or any other cause reasonably beyond control by Unit Operator, whether or not similar to any cause above enumerated. Whenever performance of its obligations is prevented by any such cause Unit Operator shall give notice thereof to the other Parties as promptly as reasonably possible.

15.5 Lien. Each of the other Parties hereby grants to Unit Operator a lien upon its Committed Working Interests, its interest in all jointly owned materials, equipment and other property and its interest in all Production, as security for payment of Costs chargeable to it (or other with any interest payable thereon. Unit Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers thereof the proceeds of such Party's share of Production up to the amount owing by such Party plus interest at the rate of six per cent (6%)* per annum until paid; each such purchaser shall be entitled to rely on Unit Operator's statement concerning the existence and amount of any such default.

15.6 Advances. Unit Operator, at its election, shall have the right from time to time to demand and receive from the other Parties chargeable therewith payment in advance of their respective shares of the estimated amount of the Costs to be incurred during any month, which right may be exercised only by submission to each such Party of a properly itemized statement of such estimated Costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated Costs for any month shall be submitted on or about the twentieth (20th) day of the next preceding month. The amount of each such invoice shall be payable within fifteen (15) days after the mailing thereof, and thereafter shall bear interest at the rate of six per cent (6%)* per annum until paid. Proper adjustment shall be made monthly between such advances and Costs to the end that each Party shall bear and pay its proportionate share of Costs incurred and no more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Deepening or Plugging Back operation and notwithstanding any other provision of this agreement shall not be obligated to commence such operation unless and until such advance payment is made or Unit Operator is furnished security acceptable to it for the payment thereof by the Party or Parties chargeable therewith.

15.7 Use of Unit Operator's Drilling Equipment. Any Drilling, Deepening or Plugging Back operation conducted hereunder may be conducted by Unit Operator by means of its own tools and equipment provided that the rates to be charged and the applicable terms and conditions are set forth in a form of drilling contract which receives the Approval of the Party or Parties chargeable with the Costs incurred in such operation, except that in any case where the Unit Operator alone constitutes the Drilling Party, such form shall receive the approval of the Parties within the participating area, or other designated area for such well prior to the commencement of such operation.

15.8 Rights as Party. As an owner of Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not the Unit Operator. In each instance where this agreement requires or permits a Party to give a notice, consent or approval to the Unit Operator, such notice, consent or approval shall be deemed properly given by the Party acting as Unit Operator if and when given to all other Parties entitled to give or receive such notice, consent or approval.

*Ten percent (10%)

ARTICLE 16
UNIT OPERATOR'S DUTIES

16.1 Specific Duties. In the conduct of operations hereunder, Unit Operator shall:

A. Drilling of Wells. Drill, Deepen or Plug Back a well or wells only in accordance with the provisions of this agreement;

B. Compliance with Laws and Agreements. Comply with the provisions of the Unit Agreement, all applicable laws and governmental regulations (whether federal, state or local), and Directions by the Parties pursuant to this agreement. In case of conflict between such Directions and the provisions of the Unit Agreement or such laws or regulations, the provisions of the Unit Agreement or such laws or regulations shall govern;

C. Consultation with Parties. Consult freely with the Parties within the area affected by any operation hereunder, and keep them advised of all matters arising in operations hereunder which Unit Operator deems important in the exercise of its best judgment;

D. Payment of Costs. Pay all Costs incurred in operations hereunder promptly as and when due and payable and keep the Committed Working Interests and all property used in connection with operations under this agreement free from liens which may be claimed for the payment of such Costs, except any such lien which it disputes, in which event Unit Operator may contest the disputed lien upon giving written notice thereof to the Parties affected thereby;

E. Records. Keep full and accurate records of all Costs incurred, and controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized representatives of the other Parties at reasonable intervals during normal business hours at the office of Unit Operator;

F. Information. Furnish to each of the other Parties who make timely written request therefor (1) copies of Unit Operator's authorizations for expenditure or itemizations of estimated expenditures in excess of ..... Ten Thousand ..... Dollars ($ 10,000.00), (2) copies of all drilling reports, well logs, basic engineering data, core tables, gauge reports and run tickets, (3) reports of stock on hand at the first of each month, and (4) samples of cores or cuttings taken from wells Drilled hereunder (to be delivered at the well in containers furnished by the Party requesting same), and (5) such other and additional information or reports as may be required by Direction of the Parties within the area affected;

G. Access to Unit Area. Permit each of the other Parties, through its duly authorized employees or agents, but at such Party's sole risk and expense, to have access to the Unit Area at all times and to the derrick floor of each well Drilled or being Drilled hereunder, for the purpose of observing operations conducted hereunder and to perform

materials, equipment or other property used in connection with operations under this agreement, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area.

16.2 Insurance.

A. Unit Operator's. Unit Operator shall comply with the Workmen's Compensation Law of the state in which the Unit Area is located. Unit Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. In addition, Unit Operator shall maintain such other insurance, if any, as is described in Exhibit 5 hereto attached or as receives the Approval of the Parties from time to time. Unit Operator shall carry no other insurance for the benefit of the Parties except as above specified. Upon written request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

B. Contractor's. Unit Operator shall require all contractors engaged in operations under this agreement to comply with the Workmen's Compensation Law of the state in which the Unit Area is located and to maintain such insurance as is required by Direction of the Parties.

C. Automotive Equipment. In the event Automobile Public Liability insurance is specified in said Exhibit 5 or subsequently receives the Approval of the Parties, no direct charge shall be made by Unit Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

~~16.3 Non-Discrimination. In connection with the performance of work under this agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.~~

~~The Unit Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.~~

16.4 Drilling Contracts. Each Drilling, Deepening or Plugging Back operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15.7 dealing with Use of Unit Operator's Drilling Equipment, shall be performed by a reputable drilling contractor having suitable equipment and personnel under written contract between Unit Operator and the contractor, at the most favorable rates and on the most favorable terms and conditions bid by any such contractor after soliciting bids, if bids are obtainable, but otherwise at rates and on terms and conditions receiving the Approval of the Parties.

16.5 Uninsured Losses. Any and all payments made by Unit Operator in the settlement or discharge of any liability to third persons (whether or not reduced to judgment) arising out of an operation conducted hereunder and not covered by insurance herein provided to be maintained by Unit Operator shall be charged as Costs and borne by the Party or Parties for whose account such operation was conducted.

ARTICLE 17
LIMITATIONS ON UNIT OPERATOR

17.1 Specific Limitations. In the conduct of operations hereunder, Unit Operator shall not, without first obtaining the Approval of the Parties:

A. Change in Operations. Make any substantial change in the basic method of operation of any well, except in the case of an emergency.

B. Limit on Expenditures. Undertake any project reasonably estimated to require an expenditure in excess of ....Fifteen Thousand.... Dollars ($15,000.00....); provided, however, that (1) Unit Operator is authorized to make all usual and customary operating expenditures that are required in the normal course of producing operations, (2) whenever Unit Operator is authorized to conduct a Drilling, Deepening or Plugging Back operation, or to undertake any other project, in accordance with this agreement, Unit Operator shall be authorized to make all reasonable and necessary expenditures in connection therewith and (3) in case of emergency, Unit Operator may make such immediate expenditures as may be necessary for the protection of life or property, but notice of such emergency shall be given to all other Parties as promptly as reasonably possible.

C. Partial Relinquishment. Make any partial relinquishment of its rights as Unit Operator or appoint any sub-operator.

D. Settlement of Claims. Pay in excess of ~~Five Hundred Dollars ($500.00)~~ Two Thousand Five Hundred Dollars ($2,500.00) in the settlement of any claim (other than Workmen's Compensation claims) for injury to or death of persons, or for loss of or damage to property.

E. Determinations. Make any of the determinations provided in the Unit Agreement to be made by Unit Operator, except as otherwise specified in this agreement.

ARTICLE 18
TITLES

18.1 Representations of Ownership. Each Party represents to all other Parties that to the best of its knowledge and belief its ownership of Working Interests in the Unit Area is that set out in Exhibit B of the Unit Agreement. If it develops that any such ownership is incorrectly stated, the rights and responsibilities of the Parties shall be governed by the provisions of this Article 13, but such erroneous statement shall not be a cause for cancelling or terminating this agreement.

18.2 Title Papers to be Furnished.

A. Lease Papers. Each Party, after executing this agreement, shall upon request promptly furnish Unit Operator, ~~and any other Party requesting same,~~ with photostatic copies of all leases, assignments, options and other contracts which it has in its possession relating to its Committed Working Interests.

B. Title Papers for Initial Test Well. Promptly after the effective date of this agreement each Party within the area described as the Title Examination Area in Exhibit 3 shall at its own expense furnish Unit Operator with the following title material relating to all lands within such area in which it owns Committed Working Interests covering the same:

(1) Abstracts of title based upon the county records certified to current date,

(2) All lease papers, or photostatic copies thereof, mentioned in Section 18.2A which the Party has in its possession, and which have not been previously furnished to Unit Operator,

(3) Copies of any title opinions which the Party has in its possession,

(4) If federal lands are involved, status reports of current date setting forth the entries found in the district land office and ~~the Washington, D. C. land office~~ of the Bureau of Land Management for the lands involved, and also a certified copy of the serial register for the federal leases involved,

(5) If state lands are involved, status reports of current date showing the entries pertaining to the land involved found in the records of such state,

(6) If Indian lands are involved, status reports for the land involved showing the entries found in the office of the Superintendent of the Indian Agency and the area office for such Indian lands ~~and in the Bureau of Indian Affairs in Washington, D. C.~~

C. Title Papers for Subsequent Wells. Any Party who proposes the Drilling of a Subsequent Test Well or Exploratory Well shall, at the time of giving notice for such proposed well, designate a title examination area not exceeding ...23,009.54.... acres and not including any lands within a participating area. When the drilling of a Development Well receives the Approval of the Parties within the participating area in which it is located, a title examination area which covers lands outside any participating area may be designated by the Approval of such Parties. Each Party within any such title examination area shall at its own expense and upon request furnish Unit Operator with the title materials listed in Section 18.2B not previously furnished, relating to all lands within such area in which it owns Committed Working Interests.

D. Title Papers on Establishment or Enlargement of a Participating Area. Upon the establishment or the enlargement of a participating area, each Party shall promptly at its own expense furnish Unit Operator all the title materials listed in Section 18.2B relating to all its Committed Working Interests in the lands lying within such participating area as established or enlarged, which have not been previously furnished.

18.3 Title Examination. Promply after all title papers delivered pursuant to Section 18.2B, C, or D have been received, Unit Operator shall deliver such title papers to an attorney or attorneys approved by the Parties within the title examination area. Unit Operator shall arrange to have the same examined promptly by such attorney or attorneys and shall distribute copies of the title opinions to said Parties as soon as they are received. After a title examination has been completed and a reasonable time, not exceeding thirty (30) days, has been allowed for any necessary curative work, Unit Operator shall submit to each said Party copies of the title opinions and a report concerning the title examination with written recommendations for approval or disapproval of the title to each Committed Working Interest involved, and within fifteen (15) days after receipts of such title opinions or reports said Parties shall advise Unit Operator in writing of approval or disapproval of titles. Unless otherwise agreed, the cost of all title examinations made under this Section 18.3 shall be charged as a part of the Costs of Drilling the well for which such title examination was made.

18.4 Option for Additional Title Examination. Any Party who furnished materials for title examination pursuant to Section 18.2B, C, or D shall have the right to examine all title materials furnished Unit Operator. If such additional title examination is performed, this shall be at the sole cost and expense of the Party electing to perform the same, and such Party shall bear any expense which may be necessary to reproduce title materials for its use, if required. Whether or not such additional title examination is performed, each Party shall have the right to approve or disapprove title according to the provisions of this Article 18.

18.5 Approval of Titles Prior to Drilling. Where the Committed Working Interests within a title examination area are owned by more than one Party then no drilling shall be conducted within such area until title to the Committed Working Interests therein has received the Approval of the Parties, as hereinafter in this Section provided. If a Drilling Block has been designated for the Drilling of a well, such well shall not be Drilled until title to the Committed Working Interests within the title examination area established for such well is approved. Approval of title to the lands within a Drilling Block shall be binding upon all Parties owning Committed Working Interests within such Drilling Block. If land outside a participating area is designated as a title examination area for a Development Well, such well shall not be Drilled until title to the Committed Working Interests within such title examination area has received the Approval of the Parties within the participating area in which such well is located. In all other instances where a title examination area has been established for a well, such well shall not be drilled until title to the Committed Working Interests within such title examination area has received the Approval of the Parties herein. In the event Approval of the Parties is not obtained as provided in this Section, said Drilling Party (whether one or more) may proceed with the Drilling of the well, but said Drilling Party (a) shall, by so proceeding, assume all risk attending the failure to obtain such Approval to the same extent as if approval of title to all lands within the Drilling Block (if one has been established) or the title examination area (in all other instances) had been obtained, and (b) shall also be deemed to have given its approval of titles in all lands within the Drilling Block (if one has been established) or the titled examination area (in all other instances).

18.6 Approval of Titles Prior to Inclusion of Land in a Participating area. Where the Committed Working Interest within a participating area is owned by more than one Party, no Committed Working Interest shall be included within such participating area or be entitled to participate in Production therefrom until title to such Committed Working Interest has received the Approval of the Parties within such participating area. Approval of titles to lands within a participating area shall be binding on all Parties within such participating area and all Parties coming within such participating area upon any enlargement thereof.

18.7 Failure of Title to Committed Working Interest Before Approval. If title to any Committed Working Interest shall fail in whole or in part prior to receiving the Approval of the Parties, the Parties who improperly claimed an interest in the said land shall sustain the entire loss occasioned by such failure of title, and do hereby expressly relieve and indemnify Unit Operator and all other Parties from any and all liability on account thereof.

18.8 Failure of Title to Committed Working Interest After Approval. If title to a Committed Working Interest which has received the Approval of the Parties under Section 18.5 fails in whole or in part at a time when the tract affected thereby is within an active Drilling Block or within a Drilling Block upon which a well has been completed as a producer of Unitized Substances but which has not been admitted to a participating area or if title to a Committed Working Interest which has received the Approval of the Parties under Section 18.6 fails in whole or in part at a time when the tract affected thereby is within a participating area, then:

A. the loss and any ensuing liability shall be charged as a common loss of the Parties having interests in the affected participating area or Drilling Block (including the Party whose Committed Working Interest has been lost and including the acreage of such Committed Working Interest); and

B. there shall be relinquished to the Party whose Committed Working Interest has been lost such proportionate part of each of the other Committed Working Interests in the lands within such afected participating area of Drilling Block, subject to a like portion of their respective Lease Burdens, as may be necessary to make the loss of such Committed Working Interest a joint loss of the Parties within such participating area of Drilling Block; and

C. the relinquished portions of said Committed Working Interest shall be deemed owned by the Party receiving the same, subject to a proportionate part of their respective Lease Burdens for all purposes of this agreement.

18.9 Joinder by True Owner. If title to a Committed Working Interest fails in whole or in part, such Committed Working Interest shall no longer be subject to this agreement and the Unit Agreement. The true owner of a working interest title which has failed may join in this agreement or enter into a separate Operating Agreement with the Parties to this agreement upon such terms and conditions as received the Approval of the Parties within the Unit Area and subject to any valid claims of the true owners.

ARTICLE 19

19.1 Unleased Interests: There are no unleased fee interests.

ARTICLE 20
RENTALS AND LEASE BURDENS

20.1 Rentals. Each Party shall be obligated to pay any and all rental, and other sums (other than Lease Burdens) payable upon or in respect of its Committed Working Interests, subject, however, to the right of each Party to surrender any of its Committed Working Interests in accordance with Article 27. Upon request, each Party shall furnish to Unit Operator satisfactory evidence of the making of such payment. However, no Party shall be liable to any other Party for unintentional failure to make any such payment provided it has acted in good faith.

20.2 Lease Burdens. The Party or Parties entitled to receive the Production allocated to a tract of land within a participating area shall be obligated to make any and all payments, whether in cash or in kind, accruing to any and all Lease Burdens, net profits interests, carried interests and any similar interest payable in respect of such Production or the proceeds thereof, except as provided in Article 22 dealing with Withdrawal of Tracts and Uncommitted Interests. The Party or Parties entitled to receive the Production from a well completed as a producer but not included within a participating area shall be obligated to pay all Lease Burdens payable in respect of such Production and each such Party shall be obligated to pay any net profits interest, carried interest and similar interests payable in respect of its share of such production.

20.3 Loss of Committed Working Interest. If a Committed Working Interest is lost through failure to make any payment above provided to be made by the Party owning the same, such loss shall be borne entirely by such Party, provided, however, if the Committed Working Interest so lost covered land within a participating area the provisions of ~~Subdivisions A, B, C and D of~~ Section 10.9 dealing with Failure of Title to Committed Working Interest shall apply.

ARTICLE 21
and severance TAXES

21.1 Payment. Any and all ad valorem taxes payable upon the Committed Working Interests (and upon Lease Burdens which are not payable by the owners thereof) or upon materials, equipment or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) upon or measured by Unitized Substances produced from the Unit Area which are not payable by the purchaser or purchasers thereof or by the owner of Lease Burdens, shall be paid by Unit Operator as and when due and payable.

21.2 Apportionment. Taxes upon materials, equipment and other property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective interests therein. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their ownership in the Committed Working Interests or Unitized Substances (as the case may be) upon which or in respect of which such taxes are paid. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

21.3 Transfer of Interests. In the event of a transfer by one Party to another under the provisions of this agreement of any Committed Working Interest or of any interest in any well or in the materials and equipment in any well or in the event of the reversion of any relinquished interest as in this agreement provided the taxes above mentioned assessed against the interest transferred or reverted for the taxable period in which such transfer or reversion occurs shall be apportioned between such Parties so that each shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest.

21.4 Notices and Returns. Each Party shall promptly furnish Unit Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

ARTICLE 22
WITHDRAWAL OF TRACTS AND UNCOMMITTED INTERESTS

22.1 ~~Limitation on~~ Right of Withdrawal. ~~Not less than five (5) days before filing the Unit Agreement for final Departmental approval, Unit Operator shall notify each Party in writing of intention to file, specifying in such notice, to the best of Unit Operator's knowledge, the status of ownership of uncommitted lands and Lease Burdens on Production therefrom.~~ If the owner of any substantial interest in a tract within the Unit Area has then failed or refused to join in the Unit Agreement, the Party or Parties owning Committed Working Interests in such tract shall have the right to withdraw such tract from the Unit Area in accordance with the Unit Agreement, provided, however, ~~that such right shall not be exercised until after at least ten (10) days prior written notice to all other Parties within the Unit Area and such right shall not be exercised if within said period of ten days the non-withdrawal of such tract receives the Direction of the Parties who at the time of the giving of such notice have executed this agreement.~~

~~22.2 The Effect of Non-Withdrawal at Direction of Parties. If the non-withdrawal of a tract receives the Direction of the Parties as above provided and if such tract is included within a participating area, the following provisions shall apply:~~

~~A. Any and all payments and liabilities to the owners of uncommitted interests in such tract that are in excess of the payments that would accrue to such owners had they executed the Unit Agreement shall be borne and shared on an Acreage Basis by the Parties within the participating area in which the tract is located.~~

~~B. If the payments that would accrue to the owners of uncommitted interests in such tract if they had joined in the Unit Agreement are in excess of the payments actually accruing to them such excess shall be shared by all Parties within the participating area on an Acreage Basis.~~

22.3 Voluntary Non-Withdrawal. If the Party or Parties owning Committed Working Interests in a tract voluntarily fails to exercise the right to withdraw such tract in accordance with the Unit Agreement, all payments and liabilities accruing to the owners of uncommitted interests in such tract shall be paid and borne by such Party or Parties.

ARTICLE 23
COMPENSATORY ROYALTIES

23.1 Notice. Whenever demand is made in accordance with the Unit Agreement for the payment of compensatory royalties, Unit Operator shall give written notice thereof to each Party affected by the demand, as hereinafter provided.

23.2 Demand for Failure to Drill a Development Well. If the demand for compensatory royalty results from the failure to Drill a Development Well and such well is not drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be charged as Costs incurred in operations within such participating area.

23.3 Demand for Failure to Drill a Well Other than a Development Well. If the demand for compensatory royalty results from the failure to Drill a well other than a Development Well and an election to Drill in order to avoid payment of Compensatory Royalties is not made by any Party owning a Committed Working Interest in the tract upon which such a well may be Drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be chargeable to and borne by the Parties who would be obligated to bear the Costs of such well if the well were Drilled as a Required Well in accordance with Section 10.4B.

ARTICLE 24
SEPARATE MEASUREMENT AND SALVAGE

24.1 Separate Measurement. If a well completed as a producer of Unitized Substances is in or included in a participating area but is not owned on an Acreage Basis by all the Parties within such participating area and if, within thirty (30) days after request by any interested Party, a method of measuring the Production from such well without necessitating additional facilities does not receive the Approval of the Parties, then Unit Operator shall install such additional tankage, flow lines or other facilities for separate measurement of the Unitized Substances produced from such well as Unit Operator may deem suitable. The Costs of such facilities for separate measurement shall be charged to and borne by the Drilling Party for such well and treated as Costs incurred in operating such well notwithstanding any other provisions of this agreement.

24.2 Salvaged Materials. If any materials and equipment are salvaged from a well completed as a producer after being Drilled, Deepened or Plugged Back, otherwise than for the account of all the Parties entitled to participate therein before reversion to the Non-Drilling Parties of their relinquished interests in the well, the proceeds derived from sale

thereof, or, if not sold, the Salvage Value thereof, shall be treated in the same manner as proceeds of Production from such well for the purpose of determining reversion to Non-Drilling Parties of their relinquished interests in such well.

ARTICLE 25
SECONDARY RECOVERY AND PRESSURE MAINTENANCE

25.1 Consent Required. Unit Operator shall not undertake any program of secondary recovery or pressure maintenance involving injection of gas, water or other substance by any method, whether now known or hereafter devised, without first obtaining the consent of ~~not less than~~ ..... Parties in the aggregate owning not less than ..... Ninety ..... per cent (.90 .....%) of the Committed Working Interests on an Acreage Basis in the participating area affected by any such program. After the Parties have voted to undertake a program of secondary recovery or pressure maintenance in accordance with this section, the conduct of such a program shall be subject to supervision by the Parties by vote as set forth in Article 14.

25.2 Above Ground Facilities. This agreement shall not be deemed to require any Party to participate in the construction or operation of any gasoline plant, sulphur recovery plant, dewaxing plant or other above ground facilities to process or otherwise treat Production, other than such facilities as may be required for treating Production in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 25.1.

ARTICLE 26
TRANSFERS OF INTEREST

~~**26.1 Restriction on Zone Transfers.** No Party shall assign, mortgage or transfer its Committed Working Interest in any tract committed to this agreement as to less than all formations underlying said tract without first receiving the Approval of the Parties within the Unit Area; provided, however, that such restriction shall not apply to a transfer by any Party of any part of its Committed Working Interest in any tract prior to the Drilling of the Initial Test Well or Wells and prior to the discovery of Unitized Substances in paying quantities under a farmout arrangement in consideration of the Drilling of a well within the Unit Area, free of expense to the other Parties, and upon the further condition that if such well results in the production of Unitized Substances in paying quantities such well and the Production therefrom will be shared by the Parties within the participating area established for such well in the same manner as if the well had been Drilled for the account of all Parties within such participating area.~~

26.2 Sale by Unit Operator. If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in the Unit Agreement.

26.3 Assumption of Obligations. No transfer of any Committed Working Interests shall be effective unless the same is made expressly subject to the Unit Agreement and this agreement and the transferee agrees in writing to assume and perform all obligations of the transferor under the Unit Agreement and this agreement insofar as relates to the interest assigned, except that such assumption of obligations shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

26.4 Effective Date. A transfer of Committed Working Interests shall not be effective as between the Parties until the first day of the month next following the delivery to Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of Section 26.3. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued hereunder prior to said effective date, for which purpose any obligation assumed by the transferee to participate in the Drilling, Deepening or Plugging Back of a well prior to such effective date shall be deemed an accrued obligation.

ARTICLE 27
RELEASE FROM OBLIGATIONS AND SURRENDER

27.1 Surrender or Release Within Participating Area. A Committed Working Interest covering land within a participating area shall not be surrendered except with the consent of all Parties within such participating area. However, a Party who owns a Committed Working Interest in land within a participating area and who is not at the time committed to participate in the Drilling, Deepening or Plugging Back of a well within such participating area may be relieved of further obligations with respect to such participating area as then constituted by executing and delivering to Unit Operator an assignment conveying to all other Parties within such participating area all Committed Working Interests owned by such Party in lands within the participating area, together with the entire interest of such Party in any and all wells, materials, equipment and other property within or pertaining to such participating area.

27.2 Procedure on Surrender Outside Participating Area. Whenever a Party desires to surrender its Committed Working Interest in any tract which is not within any participating area, such Party shall give to all other Parties written notice thereof describing such Committed Working Interest. The Parties receiving such notice, or any of them, shall have the right at their option to take from the Party desiring to surrender an assignment of such Committed Working Interest by giving to the Party desiring to surrender written notice of election so to do within thirty (30) days after receipt of the notice of the desire to surrender. If such election is made as above provided, the Party or Parties taking the assignment (which shall be taken by them in proportion to the acreage of their Committed Working Interests among themselves in the Unit Area) shall pay to the assigning Party its share of the Salvage Value of any wells owned by the Parties and then located on the land covered by such Committed Working Interest, which payment shall be made on receipt of the assignment. If no Party elects to take such assignment within such thirty (30) day period, then the Party or Parties owning such Committed Working Interest may surrender the same if surrender thereof can be made in accordance with the Unit Agreement.

27.3 Accrued Obligations. A Party making an assignment or surrender in accordance with Section 27.1 or 27.2 shall not be relieved of its liability for any obligation accrued hereunder at the time the assignment or surrender is made, or of obligation to bear its share of the Costs incurred in any Drilling, Deepening or Plugging Back operation in which such Party has elected to participate prior to the making of such assignment or surrender, except to the extent that the Party or Parties receiving such assignment shall assume, with the Approval of the Parties, any and all obligations of the assigning Party hereunder and under the Unit Agreement.

ARTICLE 28
SEVERAL, NOT JOINT LIABILITY

28.1 Liability. The liability of the Parties hereunder shall be several and not joint or collective. Each Party shall be responsible only for its obligations as herein set out.

28.2 No Partnership Created. It is not the intention of the Parties to create, nor shall this agreement or the Unit Agreement be construed as creating a mining or other partnership or association between the Parties, or to render them liable as partners or associates.

28.3 Election. Each of the Parties hereby elects to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 or such portion or portions thereof as may be permitted or authorized by the Secretary of the Treasury of the United States or his delegate insofar as such Subchapter or any portion or portions thereof may be applicable to the Parties. If any present or future income tax laws of the state or states in which the Unit Area is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the Parties hereby elects to be excluded from the application of such laws. Accordingly, each Party hereby authorizes and directs Unit Operator to execute such an election or elections on its behalf and file the same with the proper administrative office or agency. If requested by Unit Operator, each Party agrees to execute and join in such instruments as are necessary to make such elections effective.

ARTICLE 29
NOTICES

29.1 Giving and Receipt. Except as otherwise specified herein, any notice, consent or statement herein provided or permitted to be given by Unit Operator or a Party to the Parties shall be given in writing by United States mail or by telegraph, properly addressed to each Party to whom given, with postage or charges prepaid, or by delivery thereof in person to the Party to whom given; however, if delivered to a corporate Party, it shall not be deemed given unless delivered personally to an executive officer of such Party or to its representative designated pursuant to Section 14.5 dealing with Representatives. A notice given under any provision hereof shall be deemed given only when received by the Party to whom such notice is directed, except that any notice given by United States registered mail or by telegraph,

properly addressed to the Party to whom given with all postage and charges prepaid, shall be deemed given to and received by the Party to whom directed forty-eight (48) hours after such notice is deposited in the United States mails or twenty-four (24) hours after such notice is filed with an operating telegraph company for immediate transmission by telegraph, and also except that a notice to Unit Operator shall not be deemed given until actually received by it.

29.2 Proper Addresses. Each Party's proper address shall be deemed to be the address set forth under or opposite its signature hereto unless and until such Party specifies another post office address within the continental limits of the United States by not less than ten (10) days prior written notice to all other Parties.

ARTICLE 30
EXECUTED IN COUNTERPARTS AND RATIFICATION

30.1 Counterparts. This agreement may be executed in counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.

30.2 Ratification. This agreement may be executed by the execution and delivery of a good and sufficient instrument of ratification, adopting and entering into this agreement. Such ratification shall have the same effect as if the Party executing it had executed this agreement or a counterpart hereof.

ARTICLE 31
SUCCESSORS AND ASSIGNS

31.1 Covenants. This agreement shall be binding on and inure to the benefit of all Parties signing the same, their heirs, devisees, personal representatives, successors and assigns and their successors in interest, whether or not it is signed by all the Parties listed below. The terms hereof shall constitute a covenant running with the lands and the Committed Working Interests of the Parties.

ARTICLE 32
HEADINGS FOR CONVENIENCE

32.1 Headings. The table of contents and the headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

ARTICLE 33
RIGHT OF APPEAL

33.1 Not Waived. Nothing contained in this agreement shall be deemed to constitute the waiver by any Party of any right it would otherwise have to contest the validity of any law or any order or regulation of governmental authority (whether federal, state or local) relating to or affecting the conduct of operations within the Unit Area or to appeal from any such order.

ARTICLE 34
SUBSEQUENT JOINDER

34.1 Prior to the Commencement of Operations. Prior to the commencement of operations under the Unit Agreement, all owners of Working Interests in the Unit Area who have joined in the Unit Agreement shall be privileged to execute or ratify this agreement.

34.2 After Commencement of Operations. After commencement of operations under the Unit Agreement, any Working Interest in land within the Unit Area which is not then committed hereto may be committed to this agreement and to the Unit Agreement upon such reasonable terms and conditions as may receive the Approval of the Parties.

ARTICLE 35
CARRIED INTERESTS

35.1 Treatment of. If any working interest shown on Exhibit B of the Unit Agreement and committed thereto is a carried working interest, such interest shall, if the carrying party executes this agreement be deemed to be, for the purpose of this agreement, a Committed Working Interest owned by the carrying party.

ARTICLE 36
EFFECTIVE DATE AND TERM

36.1 Effective Date. This agreement shall become effective on the effective date of the Unit Agreement ~~except that the provisions of Section 22.1 dealing with Limitation or Right of Withdrawal shall be operative prior to such effective date.~~

36.2 Term. The term of this agreement shall be the same as the term of the Unit Agreement and shall terminate concurrently therewith.

36.3 Effect of Termination. Termination of this agreement shall not relieve any Party of its obligations then accrued hereunder. Notwithstanding termination of this agreement the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of and until final accounting between Unit Operator and the Parties. Termination of this agreement shall automatically terminate all rights and interests acquired by virtue of this agreement in lands within the Unit Area except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

36.4 Effect of Signature. When this agreement is executed by two Parties, execution by each shall be deemed consideration for execution by the other and each Party thereafter or thereafter executing this agreement shall thereupon become and remain bound hereby until the termination of this agreement. ~~However, if the Unit Agreement does not become effective within twelve (12) months (time and after the date of this agreement, then at the expiration of said period this agreement shall terminate.~~

37.1 Failure to Take in Kind. If any Party shall at any time fail or refuse to take in kind or separately dispose of its proportionate part of Production, Unit Operator shall have the right to enter into a contract for the sale of all or part of such Production at the price which Unit Operator receives for its own portion of the Production, but any such contract shall be only for such reasonable period of time as is consistent with the minimum needs of the industry under the circumstances, and in no event shall the term thereof exceed one (1) year, provided, however, that any Non-Operator may revoke at any time Unit Operator's right to dispose of its proportionate part of Production.

Notwithstanding anything contained herein to the contrary, Unit Operator shall not commit a sale of any Party's share of gas production which requires authorization of any government agency or is in interstate commerce without the written consent of such Party.

37.2 Accounting Due Non-Drilling Party. In the event a relinquishment of interest by a Non-Drilling Party occurs according to the provisions of this agreement as to any well and Production is had from such well, Unit Operator shall furnish each Non-Drilling Party upon its request all the information referred to in Section 16.1F and, in addition, the following:

A. an itemized statement of the Costs of the operation in which the Non-Drilling Party did not participate, and

B. until reversion occurs, a monthly itemized statement of the Costs incurred in the operation of said well, the quantity of Production therefrom, the amount of proceeds received from the sale of the same, and the Lease Burdens paid with respect to such Production.

37.3 Reversion to Non-Drilling Party. The provisions of Section 6.2 are hereby modified and limited with respect to a well covered thereby if any Party owning a Committed Working Interest in the Drilling Block formed for such well elects not to participate in the Costs thereof as to such Party's Committed Working Interest in the Drilling Block. In such case, the relinquished interest of the Non-Drilling Party shall revert to it in the same manner and under the same conditions as provided in Section 12.3 with respect to wells located in a participating area, except that the Production from such well sufficient to cause such reversion shall be that which, had the Non-Drilling Party elected to participate in such well, would be allocable on an Acreage Basis to the interest of the Non-Drilling Party in the Drilling Block formed for such well. Upon reversion of the interest relinquished by the Non-Drilling Party in such well, the provisions of Section 12.4 shall be applicable.

37.4 Subsequently Created Interests. Anything in this agreement to the contrary notwithstanding, if any Party should, subsequent to the execution of this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its working interest (hereinafter called "subsequently created interest") such subsequently created interest shall be specifically made subject to all the terms and provisions of this agreement. If the Party which created such interest (a) fails to pay when due its share of Costs, and its share of Production is insufficient to cover such share of Costs, or (b) elects to abandon a well under Part 2 of Exhibit 4 or be chargeable with a pro rata portion of all Costs in the same manner as if such sub-

sequently created interest were a working interest, Unit Operator shall have the right to enforce against such subsequently created interest the lien and all other rights granted in Section 15.5 for the purpose of collecting Costs chargeable to the subsequently created interest.

37.5 Specific Consent---Drilling, Deepening, Plugging Back, Completing or Abandoning. The consent or authorization by any party to the drilling, deepening or plugging back of any well shall not constitute, nor be implied to be, a consent or election to participate in a completion attempt or other operation beyond such authorized drilling, deepening or plugging back and any related testing prior to the running of casing in connection therewith, and the plugging and abandoning thereof. This shall be true regardless of any inconsistent expressed or implied provision contained herein or in the Unit Agreement.

37.6 Excess Burdens. Notwithstanding anything to the contrary herein contained it is understood and agreed that if any Party hereto should create any overriding royalty, production payment, or other burden against its working interest share of production and if any other Party of Parties should conduct nonconsent operations pursuant to any provision of this agreement and as a result become entitled to receive the working interest production belonging to the Non-Consenting Party, the Consenting Party or Parties entitled to receive the working interest production of the Non-Participating Party shall receive such production free and clear of burdens against such production and the Non-Consenting Party creating each burden shall save the Consenting Party or Parties harmless with respect to the receipt of such working interest production.

37.7 Non-Consenting investment adjustment. Anything in this agreement to the contrary notwithstanding, no Party shall be liable without its consent for any investment adjustment charge under the provisions of Section 13.3D or Section 13.4D, which charge is in excess of said Party's credits under Article 13. In the event of the establishment, enlargement, or contraction of a participating area, the provisions related thereto shall be applicable to any investment adjustment to the same extent that such provisions are applicable to a well drilled otherwise than for the account of all Parties entitled to participate therein. Any Party subject to such charge may elect not to pay it in cash. If, within thirty (30) days after a proposal for the establishment, enlargement, or contraction of a participating area has been submitted by Unit Operator in writing to the Parties involved, a Party elects not to participate in the investment adjustment applicable to the establishment, enlargement, or contraction, such Party shall be a Non-Drilling Party and shall be deemed, as of the effective date of the resulting area in connection with which such charge is made, to have relinquished the interest for which such charge is made to the Party or Parties who would otherwise be entitled to receive a credit under Section 13.3D or Section 13.4D, which later Party or Parties shall be the Drilling Party with respect to such relinquished interest. The Drilling Party shall own the relinquished interest until it reverts to Non-Drilling Party pursuant to Article 12.

37.8 Non-Joining Royalty Interest. Should the owner of a royalty interest fail or refuse to execute or become bound by the Unit Agreement and as a result thereof the Lease Burdens of the Party entitled to receive the production allocated to the tract or tracts of land affected are more than the Lease Burdens computed on the basis of production allocated thereto, Unit Operator, upon receipt of evidence thereof from the Party affected, shall treat the same as an operating cost; similarly, if the Lease Burdens are less than the Lease Burdens computed on the basis of production allocated thereto, such Party shall remit the difference to Unit Operator for distribution to all Parties.

37.9 Non-Discrimination. In connection with the performance of work conducted under this Agreement, the Unit Operator agrees to comply with Executive Order 11246, as amended, the provisions of which are contained in Exhibit "6" attached hereto and by this reference made a part hereof.

IN WITNESS WHEREOF, this Agreement has been executed by the undersigned as of the day and year first above written.

UNIT OPERATOR AND WORKING INTEREST OWNER

PHOENIX RESOURCES COMPANY

ATTEST:

By: James A Kishpaugh
James A. Kishpaugh, President

R. E. Dippo, Secretary

Address: PHOENIX RESOURCES COMPANY
3555 N. W. 58th Str., Suite 300
Oklahoma City, Oklahoma 73112

Dated of Execution:

_____

STATE OF OKLAHOMA)
)ss
COUNTY OF OKLAHOMA)

On this 4 day of January, 1979, before me appeared James A. Kishpaugh to me personally known, who, being by me duly sworn, did say that he is the President of PHOENIX RESOURCES COMPANY, and that the seal affixed to said instrument is the corporate seal of said Corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said James A. Kishpaugh acknowledged said instrument to be the free act and deed of said Corporation.

Yvonne Mize
Yvonne Mize, Notary Public

My Commission Expires:

12-20-82

KraMbill 601, TULSA 74101

COPAS — 1974
Recommended by the Council of Petroleum Accountants Societies of North America
COPAS

EXHIBIT "2"

Attached to and made a part of the Unit Operating Agreement for the Buckhorn Canyon Unit Area, Chaves County, New Mexico

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

2. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(XXX) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ 1,400.00

Producing Well Rate $ First Five Years $230.00
Next Five Years $210.00 Thereafter $190.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~B. Overhead—Percentage Basis~~

~~(1) Operator shall charge the Joint Account at the following rates:~~

~~(a) Development~~

~~_____ Percent (___%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.~~

~~(b) Operating~~

~~_____ Percent (___%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~

~~(2) Application of Overhead - Percentage Basis shall be as follows:~~

~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.~~

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $ 25,000.00 :

A. 5 % of total costs if such costs are more than $ 25,000 but less than $ 100,000 ; plus

B. 4 % of total costs in excess of $ 100,000 but less than $1,000,000; plus

C. 3 % of total costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "3"

Attached to and made a part of the
Unit Operating Agreement for the
Buckhorn Canyon Unit Area
Chaves County, New Mexico

A. The Initial Test Well shall be drilled at a location satisfactory to Unit Operator and approved by the Supervisor.

B. Depth. The Initial Test Well shall be drilled conformably with the terms of Article 9 of the Buckhorn Canyon Unit Agreement.

C. Costs. All costs and expenses incurred in connection with the Initial Test Well, including drilling, testing, and completing into tanks, if an oil producer, or through gas separator, if a gas producer, and plugging and abandoning, if a dry hole, shall be borne and paid for by Phoenix Resources Company, and such other parties hereto as agree to bear such costs in accordance with separate agreement among themselves, subject to the investment adjustment provisions of Article 13 of this agreement. Any cash contributions received towards the drilling of the Initial Test Well shall belong to the parties sustaining the risk of drilling the Initial Test Well.

D. Title Examination Area. The Title Examination Area for the Initial Test Well shall be an area not exceeding 640 acres surrounding the location of such well as may be designated by the Unit Operator.

E. Costs of Title Examination. The cost of Title Examination shall be charged as a cost of drilling the Initial Test Well.

ROCKY MOUNTAIN UNIT OPERATING AGREEMENT
Form 2 (Divided Interest) January, 1955
(Flexible Drilling Block)

EXHIBIT 4

Attached to and made a part of that certain agreement entitled Unit Operating Agreement For Buckhorn Canyon Unit Area Unit Area, County of Chaves, State of New Mexico, Dated the ..... day of ....., 19.....

PART 1
DRILLING OF EXPLORATORY WELLS

1. **Notice of Proposed Drilling.** Any Party desiring the Drilling of an Exploratory Well on land in which it owns a Committed Working Interest shall designate an area, herein called a Drilling Block, not to exceed 640 acres, which, on the basis of available geological information will, in its judgment, be proved productive by the drilling of such well. Unit Operator and each Party within the Drilling Block shall be furnished with a plat and description of the area so designated, together with written notice of the location, objective formation, maximum depth, and estimated cost of the proposed well. The location of the proposed well shall conform to any applicable spacing pattern then existing or an authorized exception thereto. The Drilling Block shall include no land in an established participating area for the objective formation for the well to be drilled thereon nor any land included in a proposal therefor filed with the Director, nor any land within an active, previously designated Drilling Block for such formation. The Drilling Block shall be considered active for ninety (90) days after the designation thereof and if a well is commenced thereon within such period until either:

A. The completion of the well, if it is completed otherwise than as a producer of unitized substances in paying quantities, or;

B. The filing with the Director of a proposal for the establishment or revision of a participating area if the drilling of the well results in the filing of such proposal.

2. **Basis of Participation.** Each Party within the Drilling Block shall be entitled to participate in the Costs of the proposed well on an Acreage Basis, but shall be required to do so only if it notifies the other Parties of its willingness so to participate as hereinafter in this Article provided.

3. **Exclusion of Land From Proposed Drilling Block.** Within thirty (30) days after receipt of such notice, any part of the land included in the proposed Drilling Block may be excluded therefrom at the Direction of the Parties therein. In such event the proposed Drilling Block as reduced by the exclusion of such land shall be established as the Drilling Block. In the absence of any such Direction then at the expiration of said period, the proposed Drilling Block shall be established as the Drilling Block.

4. **Preliminary Notice to Join in Drilling.** Within ten (10) days after the establishment of the Drilling Block, each Party within such Drilling Block shall in writing advise all other Parties therein whether or not it wishes to participate in the Drilling of the proposed well. If any Party fails to give such advice within the prescribed time, it shall be deemed to have elected not to participate in Drilling such proposed well. If all the Parties within the Drilling Block so advise that they wish to participate therein, the Unit Operator shall Drill the proposed well for the account of all such Parties.

5. **Notice of Election to Drill.** Unless all Parties within the Drilling Block agree to participate in Drilling such well, then, within fifteen (15) days after the expiration of the ten-day period last above provided in Section 4, each Party within the Drilling Block then desiring to have the proposed well Drilled, shall give to all other Parties therein written notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling the well.

6. **Effect of Election to Drill.** If one or more, but not all of the Parties, elect to proceed with the Drilling of the well, Unit Operator shall drill the well for the account of such Party or Parties on an Acreage Basis among themselves who shall constitute the Drilling Party.

Any Party within the Drilling Block who has not previously elected to participate in the proposed well may do so by written notice given to all other Parties within the Drilling Block at any time before operations for the Drilling of the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

7. **Rights and Obligations of Drilling Party and Non-Drilling Party.** If the well results in the establishment or enlargement of a participating area to include such well and if by reason thereof there is included in such participating area any land within the Drilling Block in which a Non-Drilling Party owns a Committed Working Interest, then such Non-Drilling Party as of the effective date of such inclusion shall be deemed to have relinquished to the Drilling Party and the Drilling Party shall own all of the operating rights and working interests in such well, and the materials and equipment pertaining thereto, which such Non-Drilling Party would otherwise own, and that portion of production from such well which is allocated to all of the acreage of such Non-Drilling Party within such participating area until such time as the proceeds or market value of said portion of the production from such well (after deducting all Lease Burdens and all taxes upon or measured by production which are payable in respect of said portion up to such time) shall equal the sum of the following:

A. One hundred per cent (100%) of that portion of the Costs incurred in operation of the well up to such time that would have been chargeable to Non-Drilling Party with respect to its Committed Working Interest in the participating area but for the relinquishment aforesaid, and,

B. Three Hundred per cent (300%) of that portion of the Costs incurred by Drilling Party in Drilling the well that would have been chargeable to such Non-Drilling Party had it initially participated in the Drilling of such well on an Acreage Basis and had the Drilling Block included only such of the lands included in the Drilling Block as originally designated which are included within the participating area. At such time the interest relinquished by Non-Drilling Party in such well shall revert to it. Except as above in this section provided the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Party shall apply.

8. **Required Drilling.** If an Exploratory Well is Drilled as a required well in accordance with Section 10.4 B, the Drilling block for such well shall consist of all forty acre subdivisions and lots of the Public Land Survey of which more than one-half of the surface area is within a distance of 2,640 feet from the proposed bottom hole location of such well, but excluding therefrom all lands within a participating area theretofore established for the pool or zone to which the well is to be Drilled.

PART 2
ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

1. **Wells Not Completed as Producers.** The attempted completion, Deepening or Plugging Back of wells not completed as producers at their projected depths, shall be governed by the following provisions, except that said provisions shall not apply to a particular well if every Party entitled to the notice provided for in Subdivision A hereof has consented to abandonment and plugging of such well:

A. **Notice by Unit Operator.** Before abandoning a Development Well which has been Drilled to its projected depth but not completed as a producer, Unit Operator shall give notice thereof to each Party within the participating area involved. After a well other than a Development Well has reached its projected depth and been tested, but before production pipe has been set therein, Unit Operator shall give notice thereof to each Party who participated in Drilling the well, and to each additional Party, if any, who was entitled to participate therein, but elected not to do so. Each notice provided for in this section shall be given by telegraph or telephone.

B. Right to Attempt Completion, Deepen or Plug Back. Each Party who participated in the Drilling of a well concerning which notice is given in accordance with Subdivision A hereof, and any other Party owning a Committed Working Interest in the tract of land on which the well is located, may initiate a proposal to attempt the completion of, or to Deepen or Plug Back such well; provided, however, that if the well was Drilled as a Development Well, a proposal to Deepen or Plug Back the well may be initiated only by a Party owning a Committed Working Interest in the tract of land on which the well is located. In order to be entitled to participate in a proposed operation, a Party must have the right to initiate the same or must own a Committed Working Interest in the Drilling Block theretofore established for such well or, if no Drilling Block has theretofore been established for such well, in the Drilling Block established for such Deepening or Plugging Back operation as provided in the following paragraph C.

C. Time and Manner of Initiating Proposal. A period of twenty-four (24) hours (exclusive of Saturdays, Sundays and holidays) from and after receipt of the notice referred to in Subdivision A of this paragraph 1 shall be allowed within which a Party may initiate a proposal to complete, Deepen or Plug Back and, except in the case of a proposal to complete a well Drilled as a Development well, designate a Drilling Block for such proposed operation, if one has not previously been designated for such well. Any such proposal shall be initiated by giving notice thereof by telephone or telegraph to each Party entitled to participate in the proposed operation. If no such proposal is initiated within the period allowed therefor, Unit Operator shall abandon and plug the well.

D. Election. If a proposal is initiated each Party entitled to participate in any completing, Deepening or Plugging Back operation proposed in accordance with Subdivision C above shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays and holidays) from and after receipt of notice of the initiation of any such operation within which (either at a meeting or by telephone) to establish a Drilling Block if the establishment of a Drilling Block is necessary for the proposed operations (following the same procedures in establishing a Drilling Block as the procedures provided for in Part 1 of the Exhibit 4 for the establishment of a Drilling Block for an Exploratory Well) and to notify Unit Operator by telephone or telegraph whether or not it elects to participate in the proposed operation. The failure of a Party to signify its election within the time required shall be deemed to constitute an election not to participate in the proposed operation.

E. Effect of Election. The Party or Parties electing to participate in an attempt to complete, or to Deepen or Plug Back, a well as above provided shall constitute the Drilling Party for such operation. Each Party who is entitled to make such election but fails to do so as above provided, shall be deemed to have elected not to participate in such operation, and shall be a Non-Drilling Party in respect of such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Drilling Party on an acreage basis among themselves, subject, however, to the provisions of paragraph 4 of Part 2 of this Exhibit 4, dealing with Conflicts, and paragraph 5 of Part 2 of this Exhibit 4 dealing with Deepening or Plugging Back to Participating Area.

F. Stand-By Rig Time. Stand-by time paid for the rig on a well until expiration of the period of forty-eight (48) hours allowed for the initiation of and election to participate in an attempt to complete, or to Deepen or Plug Back, such well, shall be charged and borne as part of the Costs incurred in Drilling the well. Thereafter such stand-by time shall be charged to and borne by the Party or Parties who elect to participate in the attempt to complete, or to Deepen or Plug Back, the well, whether or not such Party or Parties shall proceed with such operation. However, if the Party or Parties making such election do not proceed with the operation, the Costs incurred in plugging the well shall be charged and borne as part of the Costs incurred in Drilling the well.

2. **Abandonment of Producing Wells.** A well completed as a producer of Unitized Substances within a participating area shall be abandoned for plugging if and when abandonment thereof receives the Approval of the Parties within such participating area, subject, however, to the provisions of paragraph 3 hereof concerning Deepening, or Plugging Back Abandoned Producing Wells. The abandonment of a well completed as a producer but not included in a participating area shall be governed by the following provisions:

A. Consent Required. Such a well shall not be abandoned for production from the pool or zone in which it is completed except with the consent of all Parties then owning the well.

B. Abandonment Procedure. If the abandonment of such a well receives the Approval of the Parties who own the well, but is not consented to by all such Parties, Unit Operator shall give written notice thereof to each Party then having an interest in the well who did not join in such Approval. Any such non-joining Party who objects to abandonment of the well (herein called non-abandoning Party) may give written notice thereof to all other Parties (herein called abandoning Parties) then having interests in the well, provided such notice is given within thirty (30) days after receipt of the notice given by Unit Operator. If such objection is so made the non-abandoning Party or Parties shall forthwith pay to the abandoning Parties their respective shares of the Salvage Value of the well. Upon the making of such payment, the abandoning Parties shall be deemed to have relinquished unto the non-abandoning Party or Parties all their operating rights and working interest in the well, but only with respect to the pool or zone in which it is then completed, and all their interest in the materials and equipment in or pertaining to the well. If there is more than one non-abandoning Party, the interest so relinquished shall be owned by the non-abandoning Parties, each in the proportion that its interest in the well bears to the combined interest therein of all non-abandoning Parties immediately prior to such relinquishment.

C. Rights and Obligations of Non-Abandoning Party. After the relinquishment above provided for, such well shall be operated by Unit Operator for the account of the non-abandoning Party or Parties, who shall own all Production therefrom and shall bear all Costs, Lease Burdens and other burdens thereafter incurred in operating the well and plugging it when abandoned (unless the well is taken over for Deepening or Plugging Back as hereinafter provided), and also the Costs of any additional tankage, flow lines or other facilities needed to measure separately the Unitized Substances produced from the well; said operating Costs shall include an overhead charge computed at the highest per well rate applicable to the operation of a single producing well in accordance with Exhibit 2, if such rate is provided.

D. Option to Repurchase Materials. If a well taken over by the non-abandoning Party or Parties as above provided is abandoned for plugging within six (6) months after relinquishment by the abandoning Parties of their interests therein, each abandoning Party shall have the right at its option to repurchase that portion of the materials and equipment salvaged from the well equal to the interest relinquished by it to the non-abandoning Party or Parties, at the value fixed therefor in accordance with Subdivision B of this section. Said option may be exercised only by written notice given to Unit Operator and the non-abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator pursuant to paragraph 3 hereof.

3. **Deepening or Plugging Back Abandoned Producing Wells.** Before abandoning for plugging any well completed as a producer of Unitized Substances, Unit Operator shall, (A) if the well is within a Participating Area, give written notice thereof to the Party or Parties owning Committed Working Interests in the tract of land on which the well is located, or (B) if the well is not within a Participating Area, give written notice thereof to each Party then owning an interest in the well and to each additional Party, if any, owning Committed Working Interests in the tract of land upon which the well is located. If no Drilling Block has previously been established for such well and a Party receiving such notice desires the Deepening or Plugging Back thereof, it shall, within fifteen (15) days after receipt of such notice, proceed with the establishment of a Drilling Block for such well as provided in paragraphs 1 and 3 of Part 1 of this Exhibit 4. Within ten (10) days after receipt of such notice, if a Drilling Block has previously been established for such well, or, if not previously established, within ten (10) days after a Drilling Block is established for such well, the Party desiring the Deepening or Plugging Back of such well shall give notice thereof in accordance with paragraph 4 of Part 1 of this Exhibit 4 and all of the provisions of paragraphs 4, 5 and 6 of Part 1 of this Exhibit 4 shall apply in the same manner as if the proposed Deepening or Plugging Back were the Drilling of an Exploratory Well, subject, however, to the provisions of paragraph 4 of Part 1 of this Exhibit 4, dealing with Conflicts, and paragraph 5 of Part 1 of this Exhibit 4, dealing with Deepening or Plugging Back to a Participating Area. If no Party gives notice of desire to Deepen or Plug Back such well within said period of ten (10) days, or if such notice is given but no Party elects to proceed with the Deepening or Plugging Back of the well within the time limited therefor, Unit Operator shall abandon and plug the well for the account of the Party or Parties owning the well.

4. **Conflicts.** If conflicting elections to attempt completion, Deepen, or Plug Back are made in accordance with the preceding provisions of Part 2 of this Exhibit 4, preference shall be given first to a completion attempt and then to Deepening. However, if a completion attempt, a Deepening or Plugging Back does not result in completion of the well as a producer, Unit Operator shall again give notice in accordance with Subdivision A of paragraph 1 of Part 2 of this Exhibit 4 before abandoning the well for plugging.

5. **Deepening or Plugging Back to Participating Area.** If a well within the surface boundaries of a participating area is to be Deepened or Plugged Back to a pool or zone for which such participating area has been established, such op-

eration may be conducted only if it receives the Approval of the Parties within such participating area, and upon such terms and conditions as may be specified in such Approval.

6. Rights and Obligations of Drilling Party and Non-Drilling Parties. Whenever an attempt to complete a well Drilled as a Development Well is made otherwise than for the account of all Parties entitled to participate therein, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall apply.

Whenever either (1) an attempted completion of a well which was not Drilled as a Development well is made or (2) a well is Deepened or Plugged Back, otherwise than for the account of all Parties entitled to participate therein, the provisions of paragraph 7 of Part 1 of this Exhibit 4 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall apply to the operations conducted the same as if such operations comprised Drilling operations.

EXHIBIT "5"

Attached to and made a part of the
Unit Operating Agreement for the
Buckhorn Canyon Unit Area
Chaves County, New Mexico

A. Unit Operator shall at all times while operations are conducted on the jointly owned property carry or provide insurance which indemnifies, protects and saves parties to the joint account blameless as follows:

1. Workman's Compensation Insurance as contemplated by the laws of the state in which operations will be conducted, and Employers' Liability Insurance with limits of not less than $100,000.00 per employee;

2. Public Liability (Bodily Injury) Insurance with limits of not less than $100,000.00 for each person, and $300,000.00 for each accident, and Public Liability (Property Damage) Insurance with limits of $100,000.00 for one accident and $100,000.00 for any number of accidents;

3. Automobile Public Liability Insurance covering all automotive equipment used under this Agreement, with limits of not less than $100,000.00 for bodily injury for one person and $300,000.00 for more than one person in any one accident, and $50,000.00 for property damage in any one accident. (If automotive equipment used is owned exclusively by OPERATOR, no charge will be made to the joint account for premiums for this coverage except as provided in the Accounting Procedure - Exhibit "C".)

B. Operator shall submit to Non-Operators Certificates of Insurance in evidence of such coverage.

C. Operator shall notify Non-Operators promptly in writing of any occurances wherein liability may exceed the limits of the insurance if covered by the insurance as set out above.

EXHIBIT "6"

Attached to and made a part of the
Unit Operating Agreement
for the Gardner Draw Unit Area
Chaves and Eddy Counties, New Mexico

Executive Order 11246 and Executive Order 1159
Provisions of Section 202 of Executive Order 11246

"(1) The contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include but no be limited to the following: Employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; dates of pay or other terms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this non-discrimination clause.

(2) The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employement without regard to race, color, religion, sex or national origin.

(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting office, advising the labor union or workers' representative of the contractor's committments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employement.

(4) The contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts, by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Goverment contract in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies involved as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by Law.

(7) The contractor will include the provisions of paragraph (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant ot Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provision will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance; Provided, however, that in the event the contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interest of the United States."

EXHIBIT B or EXHIBIT 1

SCHEDULE OF LEASES

Attached to and made a part of the Unit Agreement and the
Unit Operation Agreement, respectively, for the Buckhorn Canyon Unit Area
Chaves County, New Mexico

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
	FEDERAL LAND						
1.	T19S-R20E, NMPM Sec. 7: E½NW¼, NE¼SW¼, N½SE¼, NE/4 Sec. 8: N½SW¼ Sec. 17: E½ Sec. 20: S½NE¼, N½SE¼, NE¼SW¼	960.00	NM-2795 7/29/79	USA - All	PRC 100%	E.R. Thompson, Jr. 2.5% Anadarko .5%	PRC 100%
2.	T19S-R20E, NMPM Sec. 30: Lots 1,2,3,4 E½, W½E½ Sec. 31: E½W½, W½NE¼ SE¼NE¼, SE¼	1,074.87	NM-3576 11/1/79	USA - All	PRC 100%	B.L. House 3.0% Northern Natural 2.5%	PRC 100%
3.	T19S-R20E, NMPM Sec. 18: Lots 3,4 SE¼NW¼, E½SW¼ Sec. 19: Lots 1,2,3,4 SE¼NE¼	392.66	NM-3577 7/29/79	USA - All	PRC 100%	G.E. Farmar 1.5% Anadarko 1.5%	PRC 100%
4.	T19S-R20E Sec. 18: NE¼ Sec. 19: E½W½, W½E½, E½SE¼	560.00	NM-3578 7/29/79	USA - All	Kerr-McGee Corp. 100%	Barlow & Haun 3.0%	Kerr-McGee 100%
5.	T19S-R20E Sec. 29: S½S½	160.00	NM-3579 7/29/79	USA - All	Cities Service 100%	R.C. Balsam 1.0% Clifton & Terry Wilderspin 4.0%	Cities Service 100%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
	FEDERAL LAND						
6.	T19S-R20E Sec. 8: N½, SE/4	480.00	NM-3994 7/29/79	USA - All	Sabine Production Company 100%	None	SPC 100%
7.	T19S-R20E Sec. 7: Lots 1,2,3 Sec. 8: NE/4 NW/4	155.43	NM-7792 7/29/79	USA - All	Cities Service 100%	R. Short L. Gray 3.0%	Cities Service 100%
8.	T19S-R20E Sec. 11: NE¼SW¼ Sec. 27: NE¼SE¼	80.00	NM-11313 3/1/80	USA - All	M. J. Harvey 100%	None	M. J. Harvey 100%
9.	T19S-R19E Sec. 25: All	640.00	NM-11939 6/30/80	USA - All	Phelps Dodge (W/2 Sec. 25) 25% PRC (W/2 Sec.25) 50% U.V.I. (W/2 Sec. 25) 25% PRC (E/2 Sec. 25) 100% Cities Service 100%	R.E. Cunningham 1.5% D.L.& J. Hannifin 3.5% Northern Natural 2.5% W. & R. Short 3.0%	Phelps (W/2 Sec.25) 25% UVI (W/2 Sec.25) 25% PRC 100% (E/2 Sec. 25) PRC (W/2 Sec. 25) 50% Cities Service 100%
10.	T19S-R20E Sec. 31: Lots 1,2,3,4	156.00	NM-12822 1/1/81	USA - All			
11.	T19S-R20E Sec. 34: SE¼ Sec. 35: S½	480.00	NM-14976 3/1/82	USA - All	Great Western 64.476% Davoil Oil, Inc 35.525%	None	Great Western Drilling 100%
12.	T19S-R20E Sec. 34: SE¼SW¼	40.00	NM-15275 4/1/87	USA - All	Cities Service 100%	Guy M. Willis 1.5% Rilla M. Willis 1.5%	Cities Service 100%
13.	T19S-R20E Sec. 4: SW¼NE¼	40.00	NM-28290 10/1/86	USA - All	PRC 100%	None	PRC 100%
14.	Insofar as lease covers: T19S-R20E Sec. 14: E½	320.00	NM-29586 4/1/87	USA - All	Cities Service 100%	Thomas J. Sweeney 1.6667% John J. Gergurich 1.6667% Darrell G. Seal 1.6666%	Cities Service 100%
15.	Insofar as lease covers: Sec. 18: Lots 1,2, Sec. 23: S½NE¼, SE¼ Sec. 26: E½ Sec. 35: N½	956.94	NM-29587 4/1/87	USA - All	Bradshaw Oil 100%	F. J. Bradshaw 1.0%	Bradshaw Oil 100%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE		OVERRIDING ROYALTY AND PERCENTAGE		WORKING INTEREST AND PERCENTAGE	
	FEDERAL LAND									
16.	T19S-R20E Sec. 33: S½S½	160.00	NM-29588 4/1/87	USA - All	D. J. Sorenson	100%	None		D.J. Sorenson	100%
17.	T19S-R20E Sec. 11: SE¼	320.00	NM-29807 5/1/87	USA - All	M. E. Parsley	100%	None		M. E. Parsley	100%
	T19S-R19E Sec. 1: NE/4									
18.	T19S-R20E Sec. 27: N½	320.00	NM-30492 3/9/79	USA - All	PRC	100%	Anadarko E.R. Thompson, Jr. Northern Natural	.5% 2.5% 2.5%	PRC	100%
19.	T19S-R20E Sec. 27: SW¼SW¼ Sec. 28: S½SE¼ Sec. 33: NE¼, N½SE¼ Sec. 34: NE¼SW¼, W½NE¼, NE¼NE¼	520.00	NM-30494 3/9/79	USA - All	Cities Service	100%	Clifton & Terry Wilderspin Robert & Mary Balsam	4.0% 1.0%	Cities Service	100%
20.	T19S-R20E Sec. 3: SE¼SE¼, SW¼SW¼ Sec. 4: W½SE¼ Sec. 9: All	800.00	NM-30495 3/9/79 NM-3994 exp. 7-29-79	USA - All	Sabine Production Company	100%	None		SPC	100%
21.	T19S-R20E Sec. 11: W½SW¼, SE¼SW¼ Sec. 14: W½ Sec. 15: SW¼SW¼ Sec. 21: E½NW¼, W½NE¼ Sec. 22: S½NW¼, N½SW¼, SW¼NE¼, NW¼SE¼ Sec. 23: S½NW¼, SW¼ Sec. 26: N½NW¼, SE¼NW¼, N½SW¼ Sec. 27: N½SW¼, SE¼SW¼	1,440.00	NM-30496 3/9/79	USA - All	Cities Service	100%	R. Short & L. Gray	3.0%	Cities Service	100%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENGAGE	WORKING INTEREST AND PERCENTAGE
	FEDERAL LANDS						
22.	T19S-R20E Sec. 17: SW¼ Sec. 19: NE¼NE¼	200.00	NM-31193 8/31/82	USA - All	PRC 50% U.V.I. 25% Phelps Dodge 25%	None	PRC 50% UV 25% Phelps Dodge 25%
24.	T19S-R20E Sec. 29: N½, N½S½	480.00	NM-31625 1/1/87	USA - All	Fossil Fuels Corp. 100%	None	Fossil Fuels Corp. 100%
25.	T19S-19E Sec. 12: N½, N½S½ Sec. 13: E½, E½SW¼ SE¼NW¼ Insofar as lease covers:	920.00	NM-31931	USA - All	M. Sixt (On Appeal) 100%	None	M. Sixt 100%
26.	T19S-R19E Sec. 24: E½, SW¼, E½NW¼, SW¼NW¼	600.00	NM-31932 12/1/87	USA - All	PRC 100%	Dolores & R. Quinton Marshall 3.0%	PRC 100%
	FEDERAL UNLEASED						
27.	T19S-R19E Sec. 1: Lots 3,4, S½NW¼, SW¼, SE/4	480.30					
	T19S-R20E	320.52					
	Sec. 3: Lots 1,2,3,4 S½N½						
	Sec. 4: SE¼SE¼, S½NW¼, SW¼	280.00					
	Sec. 5: Lots 1,2,3,4 S½N½, S½	639.68					
	Sec. 6: Lots 1,2,3,4,5, 6,7, SE¼NW¼, E½ SW¼, SE¼, S½NE¼	633.77					
	Sec. 10: All	640.00					

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
27.	FEDERAL UNLEASED (continued)						
	T19S-20E						
	Sec. 11: N/2	320.00					
	Sec. 15: N/2, N/2S/2, SE/4SW/4, S/2SE/4	600.00					
	Sec. 20: SE/4NW/4	40.00					
	Sec. 28: N/2, N/2S/2, S/2SW/4	560.00					
	Sec. 33: NW/4, N/2SW/4	240.00					
	Sec. 34: NW/4, W/2SW/4	240.00					
	28 Federal Tracts 17,250.17 acres or 74.97% of unit area						
	STATE LANDS						
29.	T19S-R20E Sec. 2: Lots 1,2,3,4, S½N½, S½ Sec. 3: N½S½, SE¼SW¼, SW¼SE¼ Sec. 4: NE¼SE¼ Sec. 18: SE¼	1,081.12	L-2754 4/15/79	State of NM - All	PRC 100%	None	PRC 100%
30.	T19S-R20E Sec. 4: Lots 1,2,3,4 SE¼NE¼ Sec. 7: Lot 4, SE¼SW¼, S½SE¼ Sec. 8: S½SW¼ Sec. 17: NW¼ Sec. 26: SW¼NW¼	638.09	L-2755 4/15/79	State of NM - All	PRC 100%	None	PRC 100%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE		OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
	STATE LANDS								
31.	T19S-R20E Sec. 16: All	640.00	L-2756 4/15/79	State of NM - All	PRC	100%	Clifton Wilderspin 3.0% Northern Natural 2.5%	PRC	100%
32.	T19S-R20E Sec. 20: W½W½, NE¼NW¼, SE¼SW¼, N½NE¼, S½SE¼ Sec. 21: W½NW¼, S½, E½NE¼	880.00	L-2757 4/15/79	State of NM - All	Allan J. Antweil Moranco, Inc.	50% 50%	Michael P. Grace 4%	A. J. Antweil Moranco	50% 50%
33.	T19S-R19E Sec. 36: All	640.00	L-2917 5/20/79	State of NM - All	PRC(E/2 Sec.36) PRC(W/2 Sec.36) U.V.I.(W/2 " ") Phelps Dodge" "	100% 50% 25% 25%	Clifton Wilderspin 3.0%	PRC (E/2 Sec.36) PRC (W/2 Sec.36) UV (W/2 Sec.36) Phelps Dodge""	100% 50% 25% 25%
34.	Insofar as lease covers: T19S-R19E Sec. 12: S½SW¼ Sec. 13: N½NW¼	160.00	L-3055 6/17/79	State of NM - All	Globe Minerals UV Phelps Dodge	50% 25% 25%	None	U.V. Industries Globe Minerals Phelps Dodge	25% 50% 25%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE		OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
	STATE LANDS								
35.	T19S-R20E Sec. 22: N½N½, SE¼NE¼, NE¼SE¼, S½S½	400.00	LG-0684 10/1/82	State of NM - All	Cities Service	100%	None	Cities Service	100%
36.	T19S-R20E Sec. 23: N½N½	160.00	LG-0685 10/1/82	State of NM - All	Cities Service	100%	None	Cities Service	100%
	Insofar as lease covers:								
37.	T19S-R19E Sec. 24: NW¼NW¼	40.00	LG-1790 5/1/84	State of NM - All	Robert Hillin PRC UV Phelps Dodge	30% 20% 25% 25%	Kenneth Griffin Gary G. Burnett Robert B. Ross Margaret F. White Van Howbert John Gould Sarah Margaret Davis	.494791 .494792 .494792 .078125 .520833 .520833 .520834	PRC 20% Robert Hillin 30% UVI 25% Phelps Dodge 25%
38.	Insofar as lease covers: T19S-R19E Sec. 12: S½SE¼ Sec. 13: W½SW¼, SW¼NW¼	200.00	LG-2475 1/1/85	State of NM - All	R. Hillin (S/2 SE/4 Sec.12) PRC (S/2 SE/4 Sec.12) R. Hillin(W/2SW/4: SW/4 NW/4 Sec.13) PRC " " UV " " Phelps Dodge " "	60% 40% 30% 20% 25% 25%	Kenneth Griffin Gary G. Burnett Robert B. Ross Margaret F. White Van Howbert John Gould Sarah Margaret Davis	.494791 .494792 .494792 .078125 .520833 .520833 .520834	R. Hillin(S/2 SE/4 Sec. 12) 60% PRC " " 40% PRC(W/2 SW/4, SW/4 NW/4, S.13) 20% R. Hillin " " 30% UVI " " 25% Phelps Dodge" " 25%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE		OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
	STATE LANDS								
39.	T19S-20E Sec. 26: S½SW¼ Sec. 27: W½SE¼, SE¼SE¼ Sec. 31: NE¼NE¼ Sec. 34: SE¼NE¼	280.00	LG-2476 1/1/85	State of NM - All	Great Western	100%	None	Great Western Drilling	100%
40.	T19S-20E Sec. 32: All	640.00	LG-5759 10/1/88	State of NM - All	PRC	100%	None	PRC	100%

8 State of New Mexico Tracts 5,759.21 acres or 25.03% of unit area

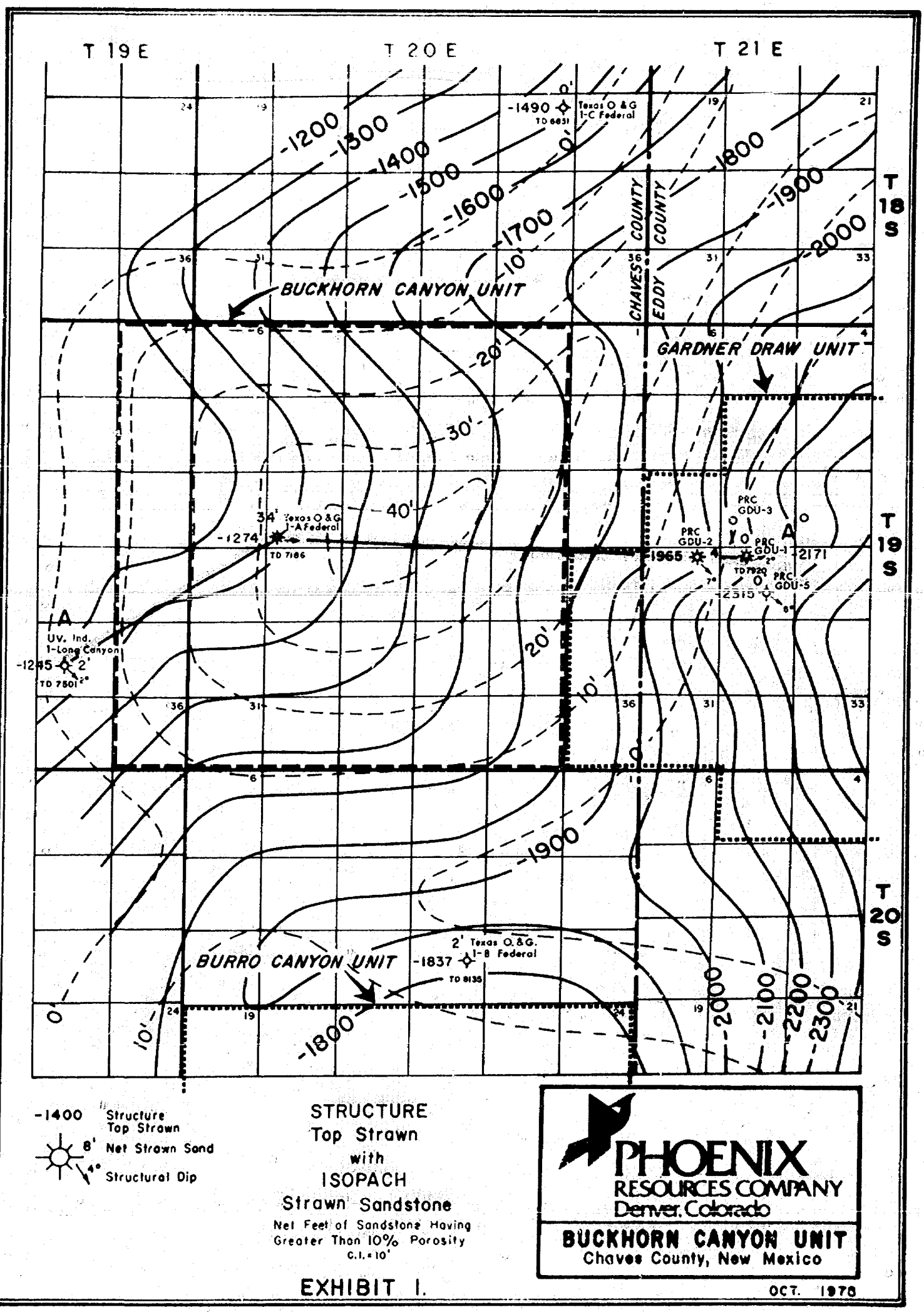


EXHIBIT I.

OCT. 1978

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 6
CASE NO.
Submitted by
Hearing Date

R 19 E R 20 E R 21 E

T 18 S

T 19 S

T 20 S

CHAVES COUNTY

EDDY COUNTY

BUCKHORN CANYON UNIT

GARDNER DRAW UNIT

BURRO CANYON UNIT

-1600 -1800 -2000 -2200 -2400 -2600 -2800 -3000

Texas O.&G. 1-A Federal -1738 TD 7186

PRC GDU-3 A'

PRC GDU-2 -2619

PRC GDU-1 -2844 TD 7920

PRC GDU-5 -3021

A UV, Ind. 1-Long Canyon -1785 TD 7801

Texas O.&G. 1-8 Federal -2747 TD 8135

-1800 Structure Top Chester

Structural Dip

STRUCTURE

Top Chester

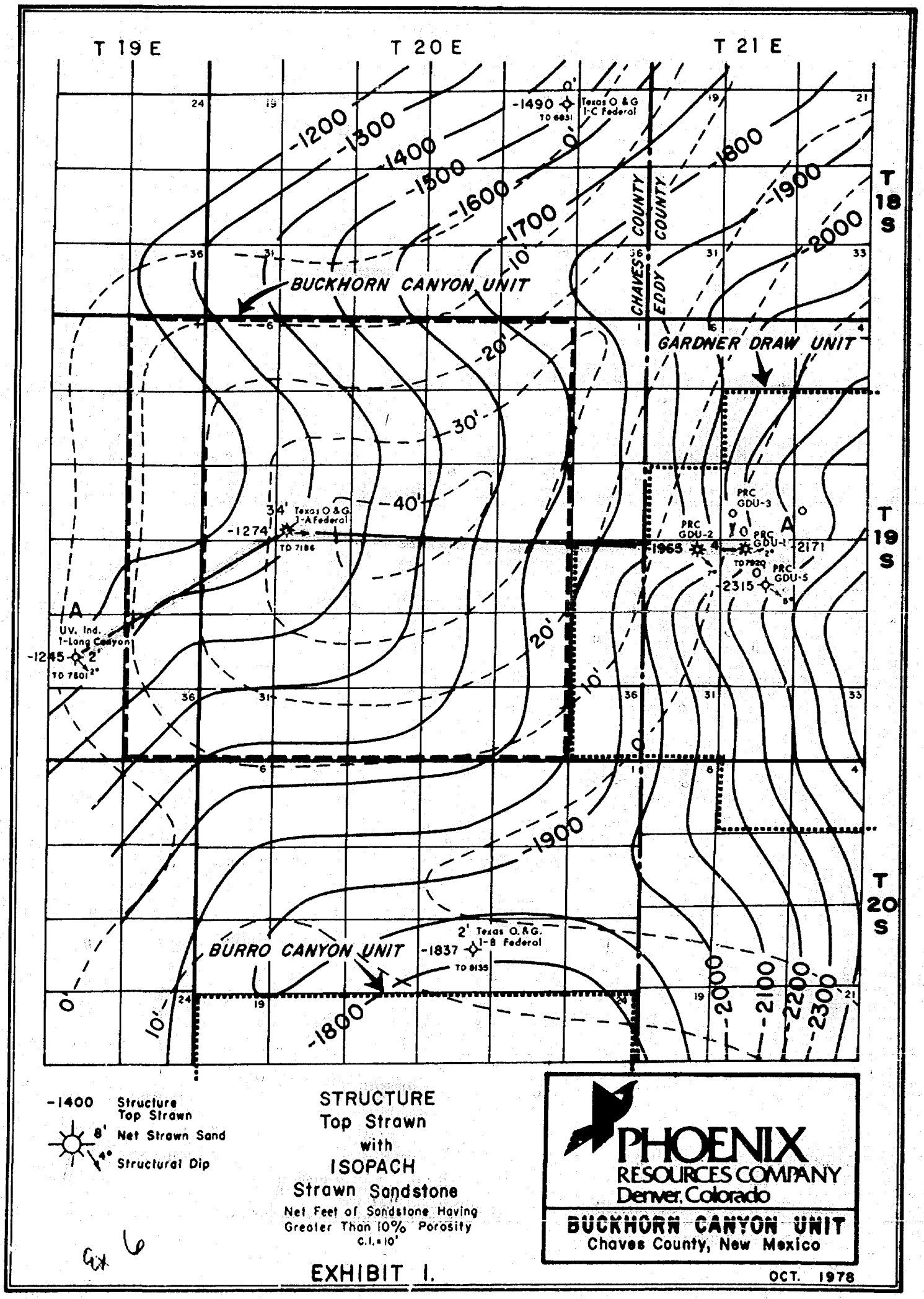
C.I. = 200'

PHOENIX RESOURCES COMPANY
Denver, Colorado

BUCKHORN CANYON UNIT
Chaves County, New Mexico

EXHIBIT 2.

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 7
CASE NO.
Submitted by
Hearing Date



-1400 Structure Top Strawn

8' Net Strawn Sand

4° Structural Dip

STRUCTURE
Top Strawn
with
ISOPACH
Strawn Sandstone

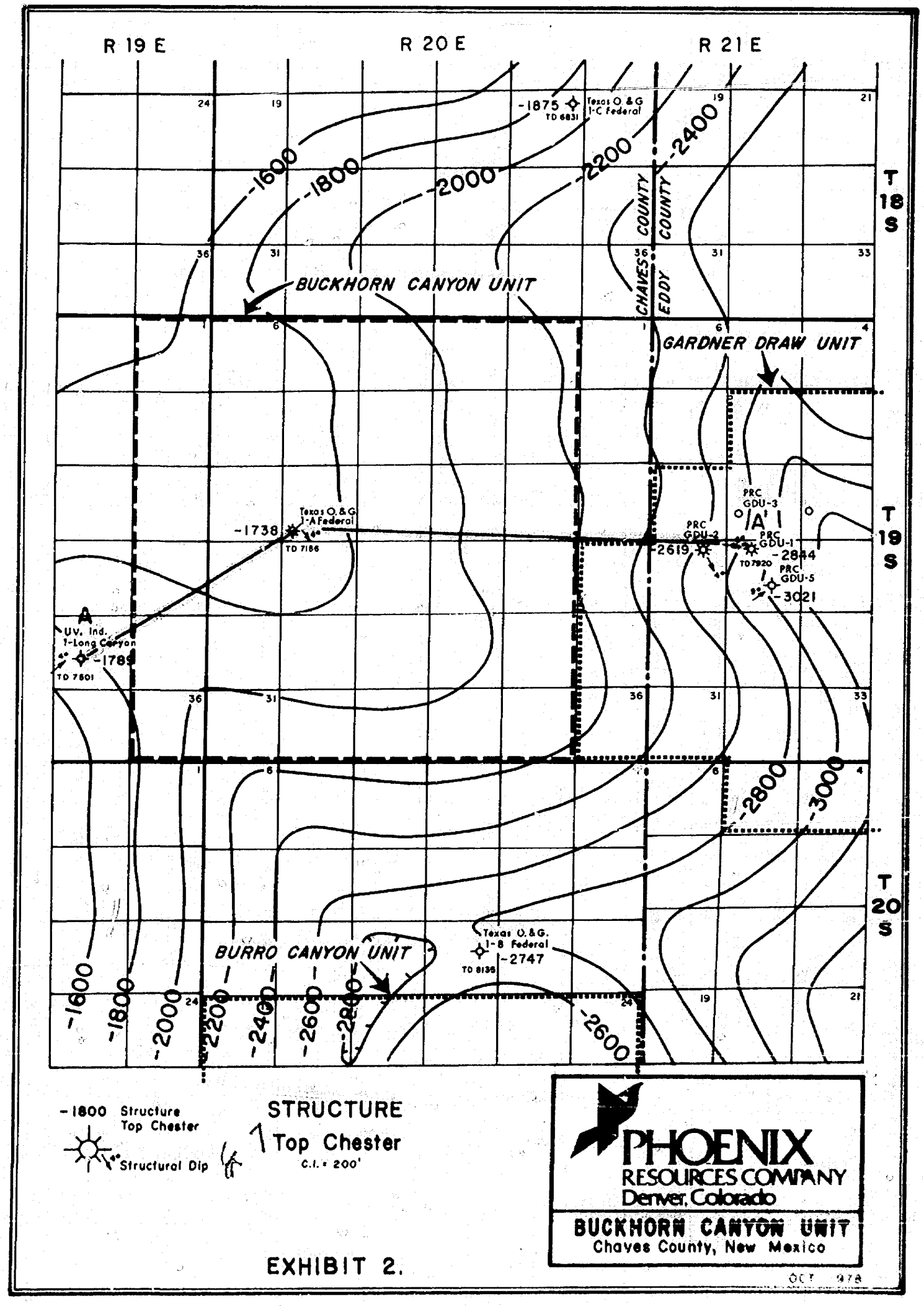
Net Feet of Sandstone Having Greater Than 10% Porosity
C.I. = 10'

PHOENIX RESOURCES COMPANY
Denver, Colorado

BUCKHORN CANYON UNIT
Chaves County, New Mexico

EXHIBIT I.

OCT. 1978



-1800 Structure Top Chester

Structural Dip

STRUCTURE

Top Chester

C.I. = 200'

PHOENIX RESOURCES COMPANY
Denver, Colorado

BUCKHORN CANYON UNIT
Chaves County, New Mexico

OCT 978

EXHIBIT 2.

Dockets Nos. 5-79 and 6-79 are tentatively set for hearing on February 14 and 28, 1979. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - JANUARY 31, 1979

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

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

CASE 6422: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Helton Engineering & Geological Services, Inc., Travelers Indemnity Company, and all other interested parties to appear and show cause why the Brent Well No. 1 located in Unit M of Section 29 and the Brent Well No. 3 located in Unit G of Section 19, both in Township 13 North, Range 6 East, Sandoval County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6415: (Continued from January 17, 1979, Examiner Hearing)

Application of Yates Petroleum Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp thru Devonian formations underlying the W/2 of Section 20, Township 14 South, Range 36 East, Lea 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 6419: (Continued from January 17, 1979, Examiner Hearing)

Application of Yates Petroleum Corporation for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its Lanning JC Well No. 1 located in Unit B of Section 7, Township 18 South, Range 26 East, Eagle Creek Field, Eddy County, New Mexico, to produce gas from the Strawn formation through the casing-tubing annulus and from the Morrow formation through tubing.

CASE 6423: Application of Yates Petroleum Corporation for an unorthodox well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Jackson AT Well No. 9 located 660 feet from the South and West lines of Section 13, Township 17 South, Range 25 East, Eddy County, New Mexico, to test the Wolfcamp, Pennsylvanian, and Mississippian formations, the S/2 of said Section 13 to be dedicated to the well.

CASE 6424: Application of Yates Petroleum Corporation for an unorthodox well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Superior Fed. KJ Well No. 1 located 990 feet from the North and West lines of Section 7, Township 20 South, Range 29 East, Eddy County, New Mexico, to test the Wolfcamp and Pennsylvanian formations, the N/2 of said Section 7 to be dedicated to the well.

CASE 6425: Application of T. B. Knox Estate for exception to Order No. R-111-A, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the casing/cementing rules for the Oil-Potash Area as promulgated by Order No. R-111-A to permit its Lucia Brookes Well No. 2 located in Unit K of Section 14, Township 18 South, Range 30 East, Eddy County, New Mexico, to be completed in the following manner: set surface casing and circulate cement; eliminate salt protection string; and do not circulate cement on production casing.

CASE 6426: Application of C. W. Trainer 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 660 feet from the North and West lines of Section 24, Township 20 South, Range 32 East, South Salt Lake-Morrow Pool, Lea County, New Mexico, the N/2 of said Section 24 to be dedicated to the well.

CASE 6427: Application of Caribou Four Corners, Inc., for an unorthodox well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Caribou/Kirtland Well No. 1 to be located 1214 feet from the North line and 650 feet from the East line of Section 13, Township 29 North, Range 15 West, Cha Cha-Gallup Pool, San Juan County, New Mexico, the E/2 NE/4 to be dedicated to the well.

CASE 6428: Application of Mobil Oil Corporation for the amendment of Order No. R-5801, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-5801 to delete the requirements for lined tubing in injection wells in the North Vacuum Abo East Pressure Maintenance Project, Lea County, New Mexico.

CASE 6429: Application of Zia Energy, Inc., for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a finding that the drilling of its Elliott State Well No. 2 to be located in Unit B of Section 34, Township 20 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well, and further seeks approval of a waiver of existing well-spacing requirements.

CASE 6430: Application of Phoenix Resources Company for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for its Buckhorn Canyon Unit Area comprising 23,009 acres, more or less, of Federal and state lands in Township 19 South, Ranges 19 and 20 East, Chaves County, New Mexico.

CASE 6431: Application of HNG Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the N/2 of Section 35, Township 23 South, Range 28 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 6432: Application of John Yuronka for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Langlie Mattix Pool underlying the NE/4 NW/4 and the SE/4 NW/4 of Section 29, Township 24 South, Range 37 East, Lea County, New Mexico, to form two 40-acre units, each 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 wells 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 wells and a charge for risk involved in drilling said wells.

CASE 6433: Application of Cities Service Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formations underlying the S/2 of Section 8, Township 23 South, Range 28 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 6434: Application of Amerada Hess Corporation for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a finding that the drilling of its State "O" Well No. 5 to be located in Unit H of Section 30, Township 19 South, Range 37 East, Eumont Gas Pool, Lea County, New Mexico, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well, and further seeks approval of a waiver of existing well-spacing requirements.

CASE 6435: Application of Amerada Hess Corporation for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a finding that the drilling of its W. A. Weir "B" Well No. 3 located in Unit B of Section 26, Township 19 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well, and further seeks approval of a waiver of existing well-spacing requirements.

CASE 6436: Application of Amerada Hess Corporation for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a finding that the drilling of its State "U" Gas Com Well No. 2 to be located in Unit C of Section 32, Township 19 South, Range 37 East, Eumont Gas Pool, Lea County, New Mexico, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well, and further seeks approval of a waiver of existing well-spacing requirements.

CASE 6437: Application of Curtis Little for approval of infill drilling and a non-standard proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks a finding that the drilling of a well to be located 1085 feet from the South line and 285 feet from the West line of Section 12, Township 28 North, Range 13 West, Basin-Dakota Pool, San Juan County, New Mexico, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well. Applicant further seeks rescission of Order No. R-4556 and approval of a 344.36-acre non-standard gas proration unit comprising all of Section 11, and Lot 4 and the SW/4 SW/4 of Section 12 for said well.

CASE 6438: Application of Caulkins Oil Company for dual completions and downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Breech Well No. 812 located in Unit N of Section 18, Township 26 North, Range 6 West, and its Breech Well No. 224-A located in Unit B of Section 13, Township 26 North, Range 7 West, Rio Arriba County, New Mexico, to produce gas from the Dakota formation through a separate string of tubing and to commingle Chacra and Mesaverde production in the wellbores of said wells.

CASE 6439: Application of Caulkins Oil Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Mesaverde and Dakota production in the wellbore of its Breech A Well No. 229 located in Unit D of Section 17, Township 26 North, Range 6 West, Rio Arriba County, New Mexico.

CASE 6440: Application of Caulkins Oil Company for a dual completion and downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Breech F Well No. 8 located in Unit A of Section 34, Township 27 North, Range 6 West, Rio Arriba County, New Mexico, to produce gas from the Pictured Cliffs formation through a separate string of tubing and to commingle Mesaverde and Dakota production in the wellbore of said well.

CASE 6441: Application of Caulkins Oil Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Pictured Cliffs and Mesaverde production in the wellbore of its Breech F Well No. 12 located in Unit A of Section 35, Township 27 North, Range 6 West, Rio Arriba County, New Mexico.

CASE 6442: Application of Caulkins Oil Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Pictured Cliffs, Chacra and Mesaverde production in the wellbore of its Breech E Well No. 109 located in Unit M of Section 3, Township 26 North, Range 6 West, Rio Arriba County, New Mexico.

CASE 6443: Application of Caulkins Oil Company for a dual completion and downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its Breech B Well No. 220-R located in Unit B of Section 14, Township 26 North, Range 7 West, to produce gas from the Dakota formation through a separate string of tubing and to commingle Pictured Cliffs, Chacra and Mesaverde production in the wellbore of said well.

CASE 6444: Application of Caulkins Oil Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Pictured Cliffs, Mesaverde, Chacra and Greenhorn production in the wellbore of its Breech Well No. 224 located in Unit A of Section 13, Township 26 North, Range 7 West, Rio Arriba County, New Mexico.

United States Department of the Interior

GEOLOGICAL SURVEY

Case 6430

OCT 30 1978

Phoenix Resources Company
Attention: Mr. Charles E. Williams
P. O. Box 9699
Denver, Colorado 80209

Gentlemen:

Your application of October 19, 1978, filed with the Assistant Oil and Gas Supervisor, Roswell, New Mexico, requests the designation of the Buckhorn Canyon Unit area embracing 23,008.28 acres, more or less, Chaves County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act as amended.

Pursuant to unit plan regulations 30 CFR 226, the land requested as outlined on your plat marked "Buckhorn Canyon Unit, Chaves County, New Mexico" is hereby designated as a logical unit area.

The unit agreement submitted for the area designated should provide for a well to be drilled until the top 200' of the Mississippian formation has been tested or to 6,700 feet, whichever depth is the lesser. Your proposed use of the Form of Agreement for Unproved Areas (1968 Reprint) will be accepted with the modifications requested in your application provided it is further modified as follows:

> Add the words "as amended" after (30 F.R. 12319) in Section 26, Nondiscrimination.

If conditions are such that further modification of said standard form is deemed necessary, three copies of the proposed modifications with appropriate justification must be submitted to this office through the Assistant Area Oil and Gas Supervisor for preliminary approval.

In the absence of any other type of land requiring special provisions or of any objections not now apparent, a duly executed agreement identical with said form, modified as outlined above, will be approved if submitted in approvable status within a reasonable period of time. However, notice

is hereby given that the right is reserved to deny approval of any executed agreement submitted which, in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.

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

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

Sincerely yours,

George W. Horn

Regional Conservation Manager
For the Director

cc:
Commissioner of Public Lands, Santa Fe
NMOCD, Santa Fe

This Copy for

KELLAHIN and KELLAHIN
ATTORNEYS AT LAW
500 DON GASPAR AVENUE
P. O. BOX 1769
SANTA FE, NEW MEXICO 87501

JASON W. KELLAHIN
W. THOMAS KELLAHIN
KAREN AUBREY

TELEPHONE 982-4285
AREA CODE 505

OIL CONSERVATION COMM.
Santa Fe

January 3, 1979

Mr. Joe Ramey
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Joe:

I would appreciate you setting the enclosed application of Phoenix Resources Company for hearing on January 31, 1979.

Very truly yours,

W. Thomas Kellahin

CC: Mr. Harvey Case
Phoenix Resources

WTK:kfm

Enclosure

Tom Kellahin
1/11/79:
23,009.38 acs

BEFORE THE NEW MEXICO

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF PHOENIX RESOURCES COMPANY FOR
APPROVAL OF THE BUCKHORN CANYON UNIT,
CHAVES COUNTY, NEW MEXICO

Case 6430

A P P L I C A T I O N

COMES NOW PHOENIX RESOURCES COMPANY and applies to the Oil Conservation Division of New Mexico for approval of a Unit Agreement, Chaves County, New Mexico and in support thereof would show:

1. Applicant has formed its Buckhorn Canyon Unit, composed of Federal and State acreage consisting of the following lands:

23,009.54 acres more or less within Township 19 South, Range 20 East and Township 19 South, Range 19 East, N.M.P.M.

2. Applicant is designated as operator of the proposed unit.

3. The Unit Agreement has been submitted to the United States Geological Survey and the Commissioner of Public Lands of New Mexico for preliminary approval.

4. The said Unit Agreement has been approved by sufficient owners of interests to assure its ultimate effectiveness.

5. The said Unit is being formed for the development of the acreage dedicated to it.

6. The granting of this application will result in the prevention of waste and the protection of correlative rights.

WHEREFORE, Applicant respectfully requests that this

matter be set for hearing before the Division's duly appointed Examiner and that after notice and hearing, an order be entered approving the Unit Agreement.

PHOENIX RESOURCES COMPANY

By _____
Kellahin & Kellahin
P. O. Box 1769
Santa Fe, New Mexico

BEFORE THE NEW MEXICO

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF PHOENIX RESOURCES COMPANY FOR
APPROVAL OF THE BUCKHORN CANYON UNIT,
CHAVES COUNTY, NEW MEXICO

Case 6430

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PHOENIX RESOURCES COMPANY

By _____
Kellahin & Kellahin
P. O. Box 1769
Santa Fe, New Mexico

BEFORE THE NEW MEXICO

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF PHOENIX RESOURCES COMPANY FOR
APPROVAL OF THE BUCKHORN CANYON UNIT,
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Case 6430

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PHOENIX RESOURCES COMPANY

By _____
Kellahin & Kellahin
P. O. Box 1769
Santa Fe, New Mexico

ROUGH

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6430

Order No. R-5916

APPLICATION OF PHOENIX RESOURCES COMPANY
FOR APPROVAL OF THE BUCKHORN CANYON
UNIT AGREEMENT, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on January 31, 19 79, at Santa Fe, New Mexico, before Examiner Richard L. Stamets

NOW, on this _____ day of February, 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, Phoenix Resources Company, seeks approval of the Buckhorn Canyon Unit Agreement covering 23,009.38 acres, more or less, of State, Federal and ~~Fee~~ lands described as follows:

CHAVES COUNTY, NEW MEXICO

T19S, R19E
Sec 1: All
Secs. 12 and 13: All
Sec 3 24 and 25: All
Sec. 36: All

Township 19 South, Range 20 East, NMPM
Section 1 through 36: All

T19S, R20E
Secs 2 through 11: All
Secs 14 through 23: All
Secs 26 through 35: All

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

(4) That the Division should be notified of any change in Unit Operator.

(3) 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 Buckhorn Canyon 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 any change in Unit operator shall immediately be reported to the Oil Conservation Division.

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for

State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Division immediately in writing of such termination.

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

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.