

1 UNIT AGREEMENT 1
2
3 FOR THE DEVELOPMENT AND OPERATION 3
4
5 OF THE 5
6
7 N.E. SALADO DRAW (DEEP) UNIT AREA 7
8
9 COUNTY OF LEA 9
10
11 STATE OF NEW MEXICO 11
12
13 No. _____ 13
14

15 THIS AGREEMENT, entered into as of the _____ day of _____, 15
16 19 84, by and between the parties subscribing, ratifying, or consenting hereto, 16
17 and herein referred to as the "parties hereto," 17
18

19
20 WITNESSETH: 20
21

22 WHEREAS, the parties hereto are the owners of working, royalty, or other oil 22
23 and gas interests in the unit area subject to this agreement; and 23
24

25 WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as 25
26 amended, 30 U. S. C. Sec. 181 et seq., authorizes Federal lessees and their repre- 26
27 sentatives to unite with each other, or jointly or separately with others, in 27
28 collectively adopting and operating a unit plan of development or operations of any 28
29 oil and gas pool, field, or like area, or any part thereof for the purpose of more 29
30 properly conserving the natural resources thereof whenever determined and certified 30
31 by the Secretary of the Interior to be necessary or advisable in the public inter- 31
32 est; and 32
33

34 WHEREAS the Commissioner of Public Lands of the State of New Mexico is author- 34
35 ized by an Act of the Legislature (Sec. 19-10-45,46,47 N.M. Statutes 1978 Annotat- 35
36 ed) to consent to or approve this agreement on behalf of the State of New Mexico, 36
37 insofar as it covers and includes lands and mineral interest of the State of New 37
38 Mexico; and 38
39

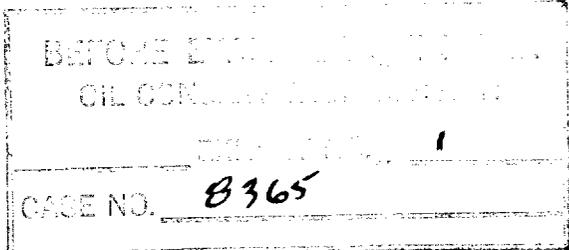
40 WHEREAS, the Oil Conservation Division of the New Mexico Energy and Minerals 40
41 Department, hereinafter referred to as "Division", is authorized by an act of the 41
42 Legislature (Chapter 70 and 71, New Mexico Statutes 1978 Annotated) to approve this 42
43 agreement and the conservation provisions hereof; and 43
44

45 WHEREAS, the parties hereto hold sufficient interests in the N.E. Salado Draw 45
46 (Deep) Unit Area covering the land hereinafter described to give reason- 46
47 ably effective control of operations therein; and 47
48

49 WHEREAS, it is the purpose of the parties hereto to conserve natural 49
50 resources, prevent waste, and secure other benefits obtainable through development 50
51 and operation of the area subject to this agreement under the terms, conditions, 51
52 and limitations herein set forth; 52
53

54 NOW, THEREFORE, in consideration of the premises and the promises herein 54
55 contained, the parties hereto commit to this agreement their respective interests 55
56 in the below-defined unit area, and agree severally among themselves as follows: 56
57

58 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, 58
59 as amended, supra, and all valid pertinent regulations including operating and unit 59
60 plan regulations, heretofore issued thereunder or valid, pertinent and reasonable 60
61 regulations hereafter issued thereunder are accepted and made a part of this agree- 61
62 ment as to Federal lands, provided such regulations are not inconsistent with the 62
63 terms of this agreement; and as to non-Federal lands, the oil and gas operating 63
64 regulations in effect as of the effective date hereof governing drilling and pro- 64
65 ducing operations, not inconsistent with the terms hereof or the laws of the State 65
66 in which the non-Federal land is located, are hereby accepted and made a part of 66
67 this agreement. 67



1 2. UNIT AREA. The following described land is hereby designated and recog- 1
2 nized as constituting the unit area: 2
3 3

4 Township 25 South, Range 33 East, N.M.P.M. 4
5 Section 36: All 5
6 6

7 Township 25 South, Range 34 East, N.M.P.M. 7
8 Section 31: All 8
9 9

10 Township 26 South, Range 33 East, N.M.P.M. 10
11 Section 1: All 11
12 12

13 Township 26 South, Range 34 East, N.M.P.M. 13
14 Section 6: All 14
15 15

16 Containing 2,560.36 acres, more or less 16
17 17

18 Exhibit "A" shows, in addition to the boundary of the unit area, the bound- 18
19 aries and identity of tracts and leases in said area to the extent known to the 19
20 Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent 20
21 known to the Unit Operator, the acreage, percentage, and kind of ownership of oil 21
22 and gas interests in all lands in the unit area. However, nothing herein or in 22
23 Exhibits "A" and "B" shall be construed as a representation by any party hereto as 23
24 to the ownership of any interest other than such interest or interests as are shown 24
25 in the Exhibits as owned by such party. Exhibits "A" and "B" shall be revised by 25
26 the Unit Operator whenever changes in the unit area or in the ownership interests 26
27 in the individual tracts render such revision necessary, or when requested by the 27
28 Authorized Officer, hereinafter referred to as "AO", or when requested by the 28
29 Commissioner of Public Lands of the State of New Mexico, hereinafter referred to an 29
30 "Land Commissioner", and not less than four copies of the revised Exhibits shall be 30
31 filed with the proper Bureau of Land Management office and one (1) copy thereof 31
32 shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil 32
33 Conservation Division of the Energy and Minerals Department, hereinafter referred 33
34 to as "Division". 34
35 35

36 The above-described unit area shall when practicable be expanded to include 36
37 therein any additional lands or shall be contracted to exclude lands whenever such 37
38 expansion or contraction is deemed to be necessary or advisable to conform with the 38
39 purposes of this agreement. Such expansion or contraction shall be effected in the 39
40 following manner: 40
41 41

42 (a) Unit Operator, on its own motion (after preliminary concurrence by the 42
43 AO), or on demand of the AO, or the Land Commissioner (after preliminary concur- 43
44 rence by the AO and the Land Commissioner) shall prepare a notice of proposed 44
45 expansion or contraction describing the contemplated changes in the boundaries of 45
46 the unit area, the reasons therefore, any plans for additional drilling, and the 46
47 proposed effective date of the expansion or contraction, preferably the first day 47
48 of a month subsequent to the date of notice. 48
49 49

50 (b) Said notice shall be delivered to the proper Bureau of Land Management 50
51 office, the Land Commissioner and the Division, and copies thereof mailed to the 51
52 last known address of each working interest owner, lessee and lessor whose 52
53 interests are affected, advising that 30 days will be allowed for submission to the 53
54 Unit Operator of any objections. 54
55 55

56 (c) Upon expiration of the 30-day period provided in the preceding item (b) 56
57 hereof, Unit Operator shall file with the AO, the Land Commissioner and the 57
58 Division, evidence of mailing of the notice of expansion or contraction and a copy 58
59 of any objections thereto which have been filed with Unit Operator, together with 59
60 an application in triplicate, for approval of such expansion or contraction and 60
61 with appropriate joinders. 61
62 62

63 (d) After due consideration of all pertinent information, the expansion or 63
64 contraction shall, upon approval by the AO, the Land Commissioner and the Division, 64
65 become effective as of the date prescribed in the notice thereof or such other 65
66 appropriate date. 66

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

27 Any expansion of the unit area pursuant to this section which embraces lands 27
28 theretofore eliminated pursuant to this subsection 2(e) shall not be considered 28
29 automatic commitment or recommitment of such lands. If conditions warrant exten- 29
30 sion of the 10-year period specified in this subsection, a single extension of not 30
31 to exceed 2 years may be accomplished by consent of the owners of 90% of the work- 31
32 ing interests in the current non-participating unitized lands and the owners of 60% 32
33 of the basic royalty interests (exclusive of the basic royalty interests of the 33
34 United States) in non-participating unitized lands with approval of the AO and the 34
35 Land Commissioner provided such extension application is submitted not later than 35
36 60 days prior to the expiration of said 10-year period. 36
37

38 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land now or hereafter committed 38
39 to this agreement shall constitute land referred to herein as "unitized land" or 39
40 "land subject to this agreement". All oil and gas in any and all formations of the 40
41 unitized land below the base of the Delaware Formation or the stratigraphic equiva- 41
42 lent of 9,542' as identified in the HNG Oil Company Diamond 5 Federal #1 Well lo- 42
43 cated in the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 5, Township 25 South, Range 34 East, N.M.P.M., are 43
44 unitized under the terms of this agreement and herein are called "unitized sub- 44
45 stances". 45
46

47 4. UNIT OPERATOR. Sohio Petroleum Company is 47
48 hereby designated as Unit Operator and by signature hereto as Unit Operator agrees 48
49 and consents to accept the duties and obligations of Unit Operator for the dis- 49
50 covery, development, and production of unitized substances as herein provided. 50
51 Whenever reference is made herein to the Unit Operator, such reference means the 51
52 Unit Operator acting in that capacity and not as an owner of interest in unitized 52
53 substances, and the term "working interest owner" when used herein shall include 53
54 or refer to Unit Operator as the owner of a working interest only when such an 54
55 interest is owned by it. 55
56

57 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right 57
58 to resign at any time prior to the establishment of a participating area or areas 58
59 hereunder, but such resignation shall not become effective so as to release Unit 59
60 Operator from the duties and obligations of Unit Operator and terminate Unit 60
61 Operator's rights as such for a period of 6 months after notice of intention to 61
62 resign has been served by Unit Operator on all working interest owners and the AO 62
63 and the Land Commissioner and the Division, and until all wells then drilled 63
64 hereunder are placed in a satisfactory condition for suspension or abandonment, 64
65 whichever is required by the AO as to Federal lands and the Division as to State 65
66 and Fee lands, unless a new Unit Operator shall have been selected and approved and 66
67 shall have taken over and assumed the duties and obligations of Unit Operator prior 67
68 to the expiration of said period. 68

1 Unit Operator shall have the right to resign in like manner and subject to 1
2 like limitations as above provided at any time after a participating area estab- 2
3 lished hereunder is in existence, but in all instances of resignation or removal, 3
4 until a successor Unit Operator is selected and approved as hereinafter provided, 4
5 the working interest owners shall be jointly responsible for performance of the 5
6 duties of Unit Operator, and shall not later than 30 days before such resignation 6
7 or removal becomes effective appoint a common agent to represent them in any action 7
8 to be taken hereunder. 8
9

10 The resignation of Unit Operator shall not release Unit Operator from any 10
11 liability for any default by it hereunder occurring prior to the effective date of 11
12 its resignation. 12
13

14 The Unit Operator may, upon default or failure in the performance of its 14
15 duties or obligations hereunder, be subject to removal by the same percentage vote 15
16 of the owners of working interests as herein provided for the selection of a new 16
17 Unit Operator. Such removal shall be effective upon notice thereof to the AO and 17
18 the Land Commissioner. 18
19

20 The resignation or removal of Unit Operator under this agreement shall not 20
21 terminate its right, title, or interest as the owner of a working interest or other 21
22 interest in unitized substances, but upon the resignation or removal of Unit Opera- 22
23 tor becoming effective, such Unit Operator shall deliver possession of all wells, 23
24 equipment, materials, and appurtenances used in conducting the unit operations to 24
25 the new duly qualified successor Unit Operator or to the common agent, if no such 25
26 new Unit Operator is selected, elected, to be used for the purpose of conducting 26
27 unit operations hereunder. Nothing herein shall be construed as authorizing removal 27
28 of any material, equipment, or appurtenances needed for the preservation of any 28
29 wells. 29
30

31 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its 31
32 resignation as Unit Operator or shall be removed as hereinabove provided, or a 32
33 change of Unit Operator is negotiated by the working interest owners, the owners of 33
34 the working interests according to their respective acreage interests in all unit- 34
35 ized land shall, pursuant to the Approval of the Parties requirements of the unit 35
36 operating agreement, select a successor Unit Operator. Such selection shall not 36
37 become effective until: 37
38

39 (a) a Unit Operator so selected shall accept in writing the duties and 39
40 responsibilities of Unit Operator, and 40
41

42 (b) the selection shall have been approved by the AO and approved by the Land 42
43 Commissioner. 43
44

45 If no successor Unit Operator is selected and qualified as herein provided, 45
46 the AO and the Land Commissioner, at their election may declare this unit agreement 46
47 terminated. 47
48

49 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator 49
50 is not the sole owner of working interests, costs and expenses incurred by Unit 50
51 Operator in conducting unit operations hereunder shall be paid and apportioned 51
52 among and borne by the owners of working interests, all in accordance with the 52
53 agreement or agreements entered into by and between the Unit Operator and the 53
54 owners of working interests, whether one or more, separately or collectively. 54
55 Any agreement or agreements entered into between the working interest owners and 55
56 the Unit Operator as provided in this section, whether one or more, are herein 56
57 referred to as the "unit operating agreement." Such unit operating agreement shall 57
58 also provide the manner in which the working interest owners shall be entitled to 58
59 receive their respective proportionate and allocated share of the benefits accruing 59
60 hereto in conformity with their underlying operating agreements, leases, or other 60
61 independent contracts, and such other rights and obligations as between Unit Oper- 61
62 ator and the working interest owners as may be agreed upon by Unit Operator and the 62
63 working interest owners; however, no such unit operating agreement shall be deemed 63
64 either to modify any of the terms and conditions of this unit agreement or to 64
65 relieve the Unit Operator of any right or obligation established under this unit 65
66 agreement, and in case of any inconsistency or conflict between this agreement and 66

1 the unit operating agreement, this agreement shall govern. Two copies of any unit 1
2 operating agreement executed pursuant to this section shall be filed in the proper 2
3 Bureau of Land Management office and one true copy with the Land Commissioner, and 3
4 one true copy with the Division prior to approval of this unit agreement. 4
5

6 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically 6
7 provided herein, the exclusive right, privilege, and duty of exercising any and all 7
8 rights of the parties hereto which are necessary or convenient for prospecting 8
9 for, producing, storing, allocating, and distributing the unitized substances are 9
10 hereby delegated to and shall be exercised by the Unit Operator as herein provided. 10
11 Acceptable evidence of title to said rights shall be deposited with Unit Operator 11
12 and, together with this agreement, shall constitute and define the rights, privi- 12
13 leges, and obligations of Unit Operator. Nothing herein, however, shall be 13
14 construed to transfer title to any land or to any lease or operating agreement, it 14
15 being understood that under this agreement the Unit Operator, in its capacity as 15
16 Unit Operator, shall exercise the rights of possession and use vested in the par- 16
17 ties hereto only for the purposes herein specified. 17
18

19 9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, the 19
20 Unit Operator shall commence to drill an adequate test well at a location approved 20
21 by the AO, if on Federal land, or by the Land Commissioner, if on State land, and 21
22 by the Division if on Fee land, unless on such effective date a well is being 22
23 drilled in conformity with the terms hereof, and thereafter continue such drilling 23
24 diligently until the upper 100 feet of the Middle Morrow Shale 24
25 has been tested or until at a lesser depth unitized substances shall be discovered 25
26 which can be produced in paying quantities (to-wit: quantities sufficient to repay 26
27 the costs of drilling, completing, and producing operations, with a reasonable 27
28 profit) or the Unit Operator shall at any time establish to the satisfaction of the 28
29 AO if on Federal land, or the Land Commissioner if on State land, or the Division 29
30 if located on Fee land, that further drilling of said well would be unwarranted or 30
31 impracticable, provided, however, that Unit Operator shall not in any event be 31
32 required to drill said well to a depth in excess of 16,200 feet. Until the 32
33 discovery of unitized substances capable of being produced in paying quantities, 33
34 the Unit Operator shall continue drilling one well at a time, allowing not more 34
35 than 6 months between the completion of one well and the commencement of drilling 35
36 operations for the next well, until a well capable of producing unitized substances 36
37 in paying quantities is completed to the satisfaction of the AO if it be on Federal 37
38 land or of the Land Commissioner if on State land, or the Division if on Fee land, 38
39 or until it is reasonably proved that the unitized land is incapable of producing 39
40 unitized substances in paying quantities in the formations drilled hereunder. 40
41 Nothing in this section shall be deemed to limit the right of the Unit Operator to 41
42 resign as provided in Section 5, hereof, or as requiring Unit Operator to commence 42
43 or continue any drilling during the period pending such resignation becoming 43
44 effective in order to comply with the requirements of this section. 44
45

46 The AO and Land Commissioner may modify any of the drilling requirements of 46
47 this section by granting reasonable extensions of time when, in their opinion, such 47
48 action is warranted. 48
49

50 Upon failure to commence any well as provided for in this section within the 50
51 time allowed, prior to the establishment of a participating area, including any 51
52 extension of time granted by the AO and the Land Commissioner, this agreement will 52
53 automatically terminate. Upon failure to continue drilling diligently any well 53
54 commenced hereunder, the AO and the Land Commissioner may, after 15 days notice to 54
55 the Unit Operator, declare this unit agreement terminated. The parties to this 55
56 agreement may not initiate a request to voluntarily terminate this agreement during 56
57 the first 6 months of its term unless at least one obligation well has been drilled 57
58 in accordance with the provisions of this section. 58
59

60 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after comple- 60
61 tion of a well capable of producing unitized substances in paying quantities, the 61
62 Unit Operator shall submit for the approval of the AO, the Land Commissioner and 62
63 Division, an acceptable plan of development and operation for the unitized land 63
64 which, when approved by the AO, the Land Commissioner and Division, shall consti- 64
65 tute the further drilling and development obligations of the Unit Operator under 65

1 this agreement for the period specified therein. Thereafter, from time to time 1
2 before the expiration of any existing plan, the Unit Operator shall submit for the 2
3 approval of the AO, the Land Commissioner and Division a plan for an additional 3
4 specified period for the development and operation of the unitized land. Subse- 4
5 quent plans should normally be filed on a calendar year basis not later than March 5
6 1 each year. Any proposed modification or addition to the existing plan should be 6
7 filed as a supplement to the plan. 7
8 8

9 Any plan submitted pursuant to this section shall provide for the timely 9
10 exploration of the unitized area, and for the diligent drilling necessary for 10
11 determination of the area or areas capable of producing unitized substances in 11
12 paying quantities in each and every productive formation. This plan shall be as 12
13 complete and adequate as the AO, the Land Commissioner and Division may determine 13
14 to be necessary for timely development and proper conservation of the oil and gas 14
15 resources of the unitized area and shall: 15
16 16

17 (a) specify the number and locations of any wells to be drilled and the pro- 17
18 posed order and time for such drilling; and (b) Provide a summary of operations 18
19 and production for the previous year. 19
20 20

21 Plans shall be modified or supplemented when necessary to meet changed condi- 21
22 tions or to protect the interests of all parties to this agreement. Reasonable 22
23 diligence shall be exercised in complying with the obligations of the approved plan 23
24 of development and operation. The AO and the Land Commissioner are authorized to 24
25 grant a reasonable extension of the 6 month period herein prescribed for submission 25
26 of an initial plan of development and on operation where such action is justified 26
27 because of unusual conditions or circumstances. 27
28 28

29 After completion of a well capable of producing unitized substances in paying 29
30 quantities, no further wells, except such as may be necessary to afford protection 30
31 against operations not under this agreement and such as may be specifically 31
32 approved by the AO, the Land Commissioner and Division, shall be drilled except in 32
33 accordance with an approved plan of development and operation. 33
34 34

35 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of pro- 35
36 ducing unitized substances in paying quantities, or as soon thereafter as required 36
37 by the AO, the Land Commissioner or the Division, the Unit Operator shall submit 37
38 for approval by the AO, the Land Commissioner and Division, a schedule, based on 38
39 subdivisions of the public-land survey or aliquot parts thereof, of all land then 39
40 regarded as reasonably proved to be productive of unitized substances in paying 40
41 quantities. These lands shall constitute a participating area on approval of the 41
42 AO, the Land Commissioner and Division, effective as of the date of completion of 42
43 such well or the effective date of this unit agreement, whichever is later. The 43
44 acreages of both Federal and non-Federal lands shall be based upon appropriate 44
45 computations from the courses and distances shown on the last approved public-land 45
46 survey as of the effective date of each initial participating area. The schedule 46
47 shall also set forth the percentage of unitized substances to be allocated, as 47
48 provided in Section 12 to each committed tract in the participating area so estab- 48
49 lished, and shall govern the allocation of production commencing with the effective 49
50 date of the participating area. A different participating area shall be established 50
51 for each separate pool or deposit of unitized substances or for any group thereof 51
52 which is produced as a single pool or zone, and any two or more participating areas 52
53 so established may be combined into one, on approval of the AO, the Land Commis- 53
54 sioner and the Division. When production from two or more participating areas is 54
55 subsequently found to be from a common pool or deposit, the participating areas 55
56 shall be combined into one, effective as of such appropriate date as may be 56
57 approved or prescribed by the AO, the Land Commissioner and Division. The partici- 57
58 pating area or areas so established shall be revised from time to time, subject to 58
59 the approval of the AO, the Land Commissioner and Division to include additional 59
60 lands then regarded as reasonably proved to be productive of unitized substances in 60
61 paying quantities or which are necessary for unit operations, or to exclude lands 61
62 then regarded as reasonably proved not to be productive of unitized substances in 62
63 paying quantities, and the schedule of allocation percentages shall be revised 63
64 accordingly. The effective date of any revision shall be the first of the month in 64
65 which the knowledge or information is obtained on which such revision is predi- 65
66 cated; provided, however, that a more appropriate effective date may be used if 66

1 justified by the Unit Operator and approved by the AO, the Land Commissioner and 1
2 Division. No land shall be excluded from a participating area on account of deple- 2
3 tion of its unitized substances, except that any participating area established 3
4 under the provisions of this unit agreement shall terminate automatically whenever 4
5 all completions in the formation on which the participating area is based are 5
6 abandoned. 6
7

8 It is the intent of this section that a participating area shall represent the 8
9 area productive of unitized substances known or reasonably proved to be productive 9
10 in paying quantities or which are necessary for unit operations; but, regardless of 10
11 any revision of the participating area, nothing herein contained shall be construed 11
12 as requiring any retroactive adjustment for production obtained prior to the effec- 12
13 tive date of the revision of the participating area. 13
14

15 In the absence of agreement at any time between the Unit Operator and the AO, 15
16 the Land Commissioner and Division, as to the proper definition or redefinition of 16
17 a participating area, or until a participating area has, or areas have, been estab- 17
18 lished, the portion of all payments affected thereby shall, except royalty due the 18
19 United States, be impounded in a manner mutually acceptable to the owners of com- 19
20 mitted working interests and the AO and the Land Commissioner. Royalties due the 20
21 United States and the State of New Mexico shall be determined by the AO for Federal 21
22 lands and the Land Commissioner for the State lands and the amount thereof shall be 22
23 deposited, as directed by the AO and the Land Commissioner until a participating 23
24 area is finally approved and then adjusted in accordance with a determination of 24
25 the sum due as Federal royalty on the basis of such approved participating area. 25
26

27 Whenever it is determined, subject to the approval of the AO, the Land Com- 27
28 missioner and Division, that a well drilled under this agreement is not capable of 28
29 production of unitized substances in paying quantities and inclusion in a partici- 29
30 pating area of the land on which it is situated in a participating area is unwar- 30
31 ranted, production from such well shall, for the purposes of settlement among all 31
32 parties other than working interest owners, be allocated to the land on which the 32
33 well is located, unless such land is already within the participating area estab- 33
34 lished for the pool or deposit from which such production is obtained. Settlement 34
35 for working interest benefits from such a nonpaying unit well shall be made as 35
36 provided in the unit operating agreement. 36
37

38 12. ALLOCATION OF PRODUCTION. All unitized substances produced from each par- 38
39 ticipating area established under this agreement, except any part thereof used in 39
40 conformity with good operating practices within the unitized area for drilling, 40
41 operating, and other production or development purposes, for repressuring or re- 41
42 cycling in accordance with a plan of development and operations which has been 42
43 approved by the AO, Land Commissioner and Division, or unavoidably lost, shall be 43
44 deemed to be produced equally on an acreage basis from the several tracts of unit- 44
45 ized land of the participating area established for such production. For the 45
46 purpose of determining any benefits accruing under this agreement, each such tract 46
47 of unitized land shall have allocated to it such percentage of said production as 47
48 the number of acres of such tract included in said participating area bears to the 48
49 total acres of unitized land in said participating area, except that allocation of 49
50 production hereunder for purposes other than for settlement of the royalty, over- 50
51 riding royalty, or payment out of production obligations of the respective working 51
52 interest owners, shall be on the basis prescribed in the unit operating agreement 52
53 whether in conformity with the basis of allocation herein set forth or otherwise. 53
54 It is hereby agreed that production of unitized substances from a participating 54
55 area shall be allocated as provided herein regardless of whether any wells are 55
56 drilled on any particular part or tract of the participating area. If any gas pro- 56
57 duced from one participating area is used for repressuring or recycling puposes in 57
58 another participating area, the first gas withdrawn from the latter participating 58
59 area for sale during the life of this agreement, shall be considered to be the gas 59
60 so transferred, until an amount equal to that transferred shall be so produced for 60
61 sale and such gas shall be allocated to the participating area from which initially 61
62 produced as such area was defined at the time of such transferred gas was finally 62
63 produced and sold. 63
64

65 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any 65
66 party hereto owning or controlling the working interest in any unitized land having 66
67 thereon a regular well location may with the approval of the AO and the Land Com- 67
68 missioner, and the Division at such party's sole risk, costs, and expense, drill a 68

1 well to test any formation provided the well is outside any participating area 1
2 established for that formation, unless within 90 days of receipt of notice from 2
3 said party of his intention to drill the well, the Unit Operator elects and com- 3
4 mences to drill the well in a like manner as other wells are drilled by the Unit 4
5 Operator under this agreement. 5
6

7 If any well drilled under this section by a working interest owner results in 7
8 production of unitized substances in paying quantities such that the land upon 8
9 which it is situated may properly be included in a participating area, such parti- 9
10 cipating area shall be established or enlarged as provided in this agreement and 10
11 the well shall thereafter be operated by the Unit Operator in accordance with the 11
12 terms of this agreement and the unit operating agreement. 12
13

14 If any well drilled under this section by a working interest owner that ob- 14
15 tains production in quantities insufficient to justify the inclusion of the land 15
16 upon which such well is situated in a participating area, such well may be operated 16
17 and produced by the party drilling the same, subject to the conservation require- 17
18 ments of this agreement. The royalties in amount or value of production from any 18
19 such well shall be paid as specified in the underlying lease and agreements 19
20 affected. 20
21

22 14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner 22
23 who is entitled to take in kind a share of the substances now unitized hereunder 23
24 shall hereafter be entitled to the right to take in kind its share of the unitized 24
25 substances, and Unit Operator, or the working interest owner in case of the opera- 25
26 tion of a well by a working interest owner as herein provided for in special cases, 26
27 shall make deliveries of such royalty share taken in kind in conformity with the 27
28 applicable contracts, laws, and regulations. Settlement for royalty interest not 28
29 taken in kind shall be made by working interest owners responsible therefor under 29
30 existing contracts, laws and regulations, or by the Unit Operator on or before the 30
31 last day of each month for unitized substances produced during the preceding cal- 31
32 endar month; provided, however, that nothing in this section shall operate to 32
33 relieve the lessees of any land from their respective lease obligations for the 33
34 payment of any royalties due under their leases. 34
35

36 If gas obtained from lands not subject to this agreement is introduced into 36
37 any participating area hereunder, for use in repressuring, stimulation of produc- 37
38 tion, or increasing ultimate recovery, in conformity with a plan of development and 38
39 operation approved by the AO and the Land Commissioner and the Division, a like 39
40 amount of gas, after settlement as herein provided for any gas transferred from any 40
41 other partici-pating area and with appropriate deduction for loss from any cause, 41
42 may be withdrawn from the formation into which the gas is introduced, royalty free 42
43 as to dry gas, but not as to any products which may be extracted therefrom; pro- 43
44 vided that such withdrawal shall be at such time as may be provided in the approved 44
45 plan of development and operation or as may otherwise be consented to by the AO and 45
46 the Land Commissioner and the Division as conforming to good petroleum engineering 46
47 practice; and provided further, that such right of withdrawal shall terminate on 47
48 the termination of this unit agreement. 48
49

50 Royalty due the United States shall be computed as provided in 30 CFR Part 221 50
51 and paid in value or delivered in kind as to all unitized substances on the basis 51
52 of the amounts thereof allocated to unitized Federal land as provided in Section 12 52
53 at the rates specified in the respective Federal leases, or at such other rate or 53
54 rates as may be authorized by law or regulation and approved by the AO; provided, 54
55 that for leases on which the royalty rate depends on the daily average production 55
56 per well, said average production shall be determined in accordance with the 56
57 operating regulations as though each participating area were a single consolidated 57
58 lease. 58
59

60 Royalty due on account of State lands shall be computed and paid on the basis 60
61 of all unitized substances allocated to such lands. 61
62

63 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed 63
64 hereto shall be paid by appropriate working interest owners under existing con- 64
65 tracts, laws, and regulations, provided that nothing herein contained shall operate 65
66 to relieve the lessees of any land from their respective lease obligations for the 66

1 payment of any rental or minimum royalty due under their leases. Rental or minimum 1
2 royalty for lands of the United States subject to this agreement shall be paid at 2
3 the rate specified in the respective leases from the United States unless such 3
4 rental or minimum royalty is waived, suspended, or reduced by law or by approval of 4
5 the Secretary or his duly authorized representative. 5
6

7 Rentals on State of New Mexico lands subject to this agreement shall be paid 7
8 at the rate specified in the respective leases. 8
9

10 With respect to any lease on non-Federal land containing provisions which 10
11 would terminate such lease unless drilling operations are commenced upon the land 11
12 covered thereby within the time therein specified or rentals are paid for the priv- 12
13 ilege of deferring such drilling operations, the rentals required thereby shall, 13
14 notwithstanding any other provision of this agreement, be deemed to accrue and 14
15 become payable during the term thereof as extended by this agreement and until the 15
16 required drilling operations are commenced upon the land covered thereby, or until 16
17 some portion of such land is included within a participating area. 17
18

19 16. CONSERVATION. Operations hereunder and production of unitized substances 19
20 shall be conducted to provide for the most economical and efficient recovery of 20
21 said substances without waste, as defined by or pursuant to State or Federal law or 21
22 regulation. 22
23

24 17. DRAINAGE. The Unit Operator shall take such measures as the AO and Land 24
25 Commissioner deems appropriate and adequate to prevent drainage of unitized sub- 25
26 stances from unitized land by wells on land not subject to this agreement, which 26
27 shall include the drilling of protective wells and which may include the payment of 27
28 a fair and reasonable compensatory royalty, as determined by the AO, as to Federal 28
29 leases and the Land Commissioner, as to State leases. 29
30

31 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and 31
32 provisions of all leases, subleases, and other contracts relating to exploration, 32
33 drilling, development, or operation for oil or gas on lands committed to this 33
34 agreement are hereby expressly modified and amended to the extent necessary to make 34
35 the same conform to the provisions hereof, but otherwise to remain in full force 35
36 and effect; and the parties hereto hereby consent that the Secretary, as to Federal 36
37 leases and the Land Commissioner, as to State leases, shall and each by his 37
38 approval hereof, or by the approval hereof by his duly authorized representative, 38
39 does hereby establish, alter, change, or revoke the drilling, producing, rental 39
40 minimum royalty, and royalty requirements of Federal leases committed hereto and 40
41 the regulations in respect thereto to conform said requirements to the provisions 41
42 of this agreement, and, without limiting the generality of the foregoing, all 42
43 leases, subleases, and contracts are particularly modified in accordance with the 43
44 following: 44
45

46 (a) The development and operation of lands subject to this agreement under the 46
47 terms hereof shall be deemed full performance of all obligations for development 47
48 and operation with respect to each and every separately owned tract subject to this 48
49 agreement, regardless of whether there is any development of any particular tract 49
50 of this unit area. 50
51

52 (b) Drilling and producing operations performed hereunder upon any tract of 52
53 unitized lands will be accepted and deemed to be performed upon and for the benefit 53
54 of each and every tract of unitized land, and no lease shall be deemed to expire by 54
55 reason of failure to drill or produce wells situated on the land therein embraced. 55
56

57 (c) Suspension of drilling or producing operations on all unitized lands 57
58 pursuant to direction or consent of the AO and the Land Commissioner, or his duly 58
59 authorized representative, shall be deemed to constitute such suspension pursuant 59
60 to such direction or consent as to each and every tract of unitized land. A sus- 60
61 pension of drilling or producing operations limited to specified lands shall be 61
62 applicable only to such lands. 62
63

64 (d) Each lease, sublease or contract relating to the exploration, drilling, 64
65 development, or operation for oil or gas of lands other than those of the United 65
66 States and State of New Mexico committed to this agreement which, by its terms 66

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

5 (e) Any Federal lease committed hereto shall continue in force beyond the term 5
6 so provided therein or by law as to the land committed so long as such lease re- 6
7 mains subject hereto, provided that production of unitized substances in paying 7
8 quantities is established in paying quantities under this unit agreement prior to 8
9 the expiration date of the term of such lease, or in the event actual drilling 9
10 operations are commenced on unitized land, in accordance with provisions of this 10
11 agreement, prior to the end of the primary term of such lease and are being dili- 11
12 gently prosecuted at that time, such lease shall be extended for two years, and so 12
13 long thereafter as oil or gas is produced in paying quantities in accordance with 13
14 the provisions of the Mineral Leasing Act, as amended. 14
15

16 (f) Each sublease or contract relating to the operation and development of 16
17 unitized substances from lands of the United States committed to this agreement, 17
18 which by its terms would expire prior to the time at which the underlying lease, as 18
19 extended by the immediately preceding paragraph, will expire, is hereby extended 19
20 beyond any such term so provided therein so that it shall be continued in full 20
21 force and effect for and during the term of the underlying lease as such term is 21
22 herein extended. 22
23

24 (g) The segregation of any Federal lease committed to this agreement is 24
25 governed by the following provision in the fourth paragraph of Sec. 17(j) of the 25
26 Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784) 26
27 (30 U.S.C. 226 (j)): "Any (Federal) lease heretofore or hereafter committed to any 27
28 such (unit) plan embracing lands that are in part within and in part outside of the 28
29 area covered by any such plan shall be segregated into separate leases as to the 29
30 lands committed and the lands not committed as of the effective date of unitiza- 30
31 tion: Provided, however, that any such lease as to the non-unitized portion shall 31
32 continue in force and effect for the term thereof but for not less than two years 32
33 from the date of such segregation and so long thereafter as oil or gas is produced 33
34 in paying quantities." 34
35

36 (h) In the event the Initial Test Well is commenced prior to the expiration 36
37 date of the shortest term State Lease within the Unit Area, any lease embracing 37
38 lands of the State of New Mexico which is made the subject to this agreement, shall 38
39 continue in force beyond the term provided therein as to the lands committed hereto 39
40 until the termination hereof. 40
41

42 (i) Any lease embracing lands of the State of New Mexico having only a portion 42
43 of its lands committed hereto, shall be segregated as to the portion committed and 43
44 the portion not committed, and the terms of such lease shall apply separately to 44
45 such segregated portions commencing as the effective date hereof; contrary any 45
46 lease embracing lands of the State of New Mexico having only a portion of its lands 46
47 committed hereto shall continue in full force and effect beyond the term provided 47
48 therein as to all lands embraced in such lease, if oil or gas is discovered and is 48
49 capable of being produced in paying quantities from some part of the lands embraced 49
50 in such lease at the expiration of the secondary term of such lease; or if, at the 50
51 expiration of the secondary term, the lessee or the Unit Operator is then engaged 51
52 in bona fide drilling or reworking operations on some part of the lands embraced in 52
53 such lease, the same as to all lands embraced therein, shall remain in full force 53
54 and effect so long as such operations are being diligently prosecuted, and if they 54
55 result in the production of oil or gas; said lease shall continue in full force and 55
56 effect as to all the lands embraced therein, so long thereafter as oil or gas in 56
57 paying quantities is being produced from any portion of said lands. 57
58

59 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be 59
60 covenants running with the land with respect to the interests of the parties hereto 60
61 and their successors in interest until this agreement terminates, and any grant, 61
62 transfer or conveyance of interest in land or leases subject hereto shall be and 62
63 hereby is conditioned upon the assumption of all privileges and obligations here- 63
64 under by the grantee, transferee, or other successor in interest. No assignment or 64
65 transfer of any working interest, royalty, or other interest subject hereto shall 65
66 be binding upon Unit Operator until the first day of the calendar month after Unit 66
67 Operator is furnished with the original, photostatic, or certified copy of the 67
68 instrument of transfer. 68

1 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon ap- 1
2 proval by the AO and the Land Commissioner or their duly authorized representative 2
3 and shall automatically terminate five (5) years from said effective date unless: 3
4

5 (a) Upon application by the Unit Operator such date of expiration is extended 5
6 by the AO and the Land Commissioner, or 6
7

8 (b) it is reasonably determined prior to the expiration of the fixed term or 8
9 any extension thereof that the unitized land is incapable of production of unitized 9
10 substances in paying quantities in the formations tested hereunder, and after 10
11 notice of intention to terminate this agreement on such ground is given by the Unit 11
12 Operator to all parties in interest at their last known addresses, this agreement 12
13 is terminated with approval of the AO and the Land Commissioner, or 13
14

15 (c) a valuable discovery of unitized substances in paying quantities has been 15
16 made or accepted on unitized land during said initial term or any extension there- 16
17 of, in which event this agreement shall remain in effect for such term and so long 17
18 thereafter as unitized substances can be produced as to Federal lands and are being 18
19 produced as to State lands in quantities sufficient to pay for the cost of produc- 19
20 ing same from wells on unitized land within any participating area established 20
21 hereunder. Should production cease and diligent drilling operations to restore 21
22 production or new production are not in progress or reworking within 60 days and 22
23 production is not restored or should new production not be obtained in paying quan- 23
24 tities on committed lands within this unit area, this agreement will automatically 24
25 terminate effective the last day of the month in which the last unitized production 25
26 occurred, or 26
27

28 (d) it is voluntarily terminated as provided in this agreement. Except as 28
29 noted herein this agreement may be terminated at any time prior to the discovery of 29
30 unitized substances which can be produced in paying quantities by not less than 75 30
31 per centum, on an acreage basis, of the working interest owners signatory hereto, 31
32 with the approval of the AO and the Land Commissioner. The Unit Operator shall 32
33 give notice of any such approval to all parties hereto. Voluntary termination may 33
34 not occur during the first six (6) months of this agreement unless at least one 34
35 obligation well shall have been drilled in conformance accordance with Section 9. 35
36

37 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested 37
38 with authority to alter or modify from time to time, in his discretion, the quan- 38
39 tity and rate of production under this agreement when such quantity and rate are 39
40 not fixed pursuant to Federal or State law, or do not conform to any State-wide 40
41 voluntary conservation or allocation program which is established, recognized, and 41
42 generally adhered to by the majority of operators in such State. The above author- 42
43 ity is hereby limited to alteration or modifications which are in the public 43
44 interest. The public interest to be served and the purpose thereof, must be stated 44
45 in the order of alteration or modification. Without regard to the foregoing, the AO 45
46 is also hereby vested with authority to alter or modify from time to time, in his 46
47 discretion, the rate of prospecting and development and the quantity and rate of 47
48 production under this agreement when such alteration or modification is in the 48
49 interest of attaining the conservation objectives stated in this agreement and is 49
50 not in violation of any applicable Federal or State law; provided, further, that no 50
51 such alteration or modification shall be effective as to any land of the State of 51
52 New Mexico, as to the rate of prospecting and developing in the absence of the 52
53 specific written approval thereof by the Commissioner and also to any lands of the 53
54 State of New Mexico or privately owned lands subject to this agreement as to the 54
55 quantity and rate of production in the absence of specific written approval thereof 55
56 by the Division. 56
57

58 Powers in the section vested in the AO shall only be exercised after notice to 58
59 Unit Operator and opportunity for hearing to be held not less than 15 days from 59
60 notice. 60
61

62 22. APPEARANCES. Unit Operators shall, after notice to other parties affected, 62
63 have the right to appear for and on behalf of any and all interests affected hereby 63
64 before the Department of the Interior and the Commissioner of Public Lands and 64
65 Division, and to appeal from orders issued under the regulations of said Department 65
66 or Land Commissioner and Division or to apply for relief from any of said regula- 66
67 tions, or in any proceedings relative to operations before the Department or the 67

1 Land Commissioner and Division or any other legally constituted authority; pro- 1
2 vided, however, that any other interested party shall also have the right at its 2
3 own expense to be heard in any such proceeding. 3
4 4

5 23. NOTICES. All notices, demands, or statements required hereunder to be 5
6 given or rendered to the parties hereto shall be in writing and shall be personally 6
7 delivered to the party or parties, or sent by postpaid registered or certified 7
8 mail, to the last known address of the party or parties. 8
9 9

10 24. NO WAIVER OF CERTAIN RIGHTS. Nothing contained in this agreement shall be 10
11 construed as a waiver by any party hereto of the right to assert any legal or con- 11
12 stitutional right or defense as to the validity or invalidity of any law of the 12
13 State where the unitized lands are located, or of the United States, or regulations 13
14 issued thereunder in any way affecting such party, or as a waiver by any such party 14
15 of any right beyond his or its authority to waive. 15
16 16

17 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit 17
18 Operator to commence or continue drilling, or to operate on, or produce unitized 18
19 substances from any of the lands covered by this agreement, shall be suspended 19
20 while the Unit Operator, despite the exercise of due care and diligence, is pre- 20
21 vented from complying with such obligations, in whole or in part, by strikes, acts 21
22 of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncon- 22
23 trollable delays in transportation, inability to obtain necessary materials or 23
24 equipment in open market, or other matters beyond the reasonable control of the 24
25 Unit Operator whether similar to matters herein enumerated or not. 25
26 26

27 26. NONDISCRIMINATION. In connection with the performance of work under this 27
28 agreement, the Unit Operator agrees to comply with all the provisions of Section 28
29 202 (1) to (7) inclusive of Executive Order 11246 (30 F. R. 12319), as amended, 29
30 which are hereby incorporated by reference in this agreement. 30
31 31

32 27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail 32
33 and the true owner cannot be induced to join in this unit agreement, such tract 33
34 shall be automatically regarded as not committed hereto, and there shall be such 34
35 readjustment of future costs and benefits as may be required on account of the loss 35
36 of such title. In the event of a dispute as to title to any royalty, working inter- 36
37 est, or other interests subject thereto, payment or delivery on account thereof may 37
38 be withheld without liability for interest until the dispute is finally settled; 38
39 provided, that, as to Federal and State lands or leases, no payments of funds due 39
40 the United States or the State of New Mexico should be withheld, but such funds 40
41 shall be deposited as directed by the AO and such funds of the State of New Mexico 41
42 shall be deposited as directed by the Land Commissioner, to be held as unearned 42
43 money pending final settlement of the title dispute, and then applied as earned or 43
44 returned in accordance with such final settlement. 44
45 45

46 Unit Operator as such is relieved from any responsibility for any defect or 46
47 failure of any title hereunder. 47
48 48

49 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial inter- 49
50 est in a tract within the unit area fails or refuses to subscribe or consent to 50
51 this agreement, the owner of the working interest in that tract may withdraw the 51
52 tract from this agreement by written notice delivered to the proper Bureau of Land 52
53 Management office, the Land Commissioner, the Division and the Unit Operator prior 53
54 to the approval of this agreement by the AO and Commissioner. Any oil or gas in- 54
55 terests in lands within the unit area not committed hereto prior to final approval 55
56 may thereafter be committed hereto by the owner or owners thereof subscribing or 56
57 consenting to this agreement, and, if the interest is a working interest, by the 57
58 owner of such interest also subscribing to the unit operating agreement. After 58
59 operations are commenced hereunder, the right of subsequent joinder, as provided in 59
60 this section, by a working interest owner is subject to such requirements or 60
61 approval(s), if any, pertaining to such joinder, as may be provided for in the unit 61
62 operating agreement. After final approval hereof, joinder by a non-working interest 62
63 owner must be consented to in writing by the working interest owner committed here- 63
64 to and responsible for the payment of any benefits that may accrue hereunder in 64
65 behalf of such non-working interest. A non-working interest may not be committed to 65
66 this unit agreement unless the corresponding working interest is committed hereto. 66
67 Joinder to the unit agreement by a working interest owner, at any time, must be 67

1 accompanied by appropriate joinder to the unit operating agreement, in order for 1
2 the interest to be regarded as committed to this agreement. Except as may otherwise 2
3 herein be provided, subsequent joinders to this agreement shall be effective as of 3
4 the date of the filing with the AO, the Land Commissioner and the Division of duly 4
5 executed counterparts of all or any papers necessary to establish effective commit- 5
6 ment of any interest and/or tract to this agreement. 6
7
8 29. COUNTERPARTS. This agreement may be executed in any number of counter- 8
9 parts, no one of which needs to be executed by all parties, or may be ratified or 9
10 consented to by separate instrument in writing specifically referring hereto and 10
11 shall be binding upon all those parties who have executed such a counterpart, rati- 11
12 fication, or consent hereto with the same force and effect as if all such parties 12
13 had signed the same document and regardless of whether or not it is executed by all 13
14 other parties owning or claiming an interest in the lands within the above- 14
15 described unit area. 15
16
17 30. SPECIAL SURFACE STIPULATIONS. Nothing in this agreement shall modify 17
18 the special Federal lease stipulations attached to the individual Federal oil 18
19 leases. 19
20
21 31. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agree- 21
22 ment shall modify or change either the special Federal lease stipulations relating 22
23 to surface management or such special Federal lease stipulations relating to 23
24 surface and environmental protection, attached to and made a part of, Oil and Gas 24
25 Leases covering lands within the Unit Area. 25

1 IN WITNESS WHEREOF, the parties hereto have caused this agreement to be
2 executed and have set opposite their respective name the dates of execution.

3
4 UNIT OPERATOR AND WORKING INTEREST OWNER

5
6 ~~ATTEST:~~

SOHIO PETROLEUM COMPANY

7
8
9 By J. E. Owens
10 J. E. Owens
11 Agent and Attorney-in-Fact

12
13
14 Address: Two Lincoln Centre
15 5420 LBJ Freeway
16 Suite 1000/LB 03
17 Dallas, TX 75240

Date of Execution:
18
19 _____

20 Telephone: (214) 387-5000

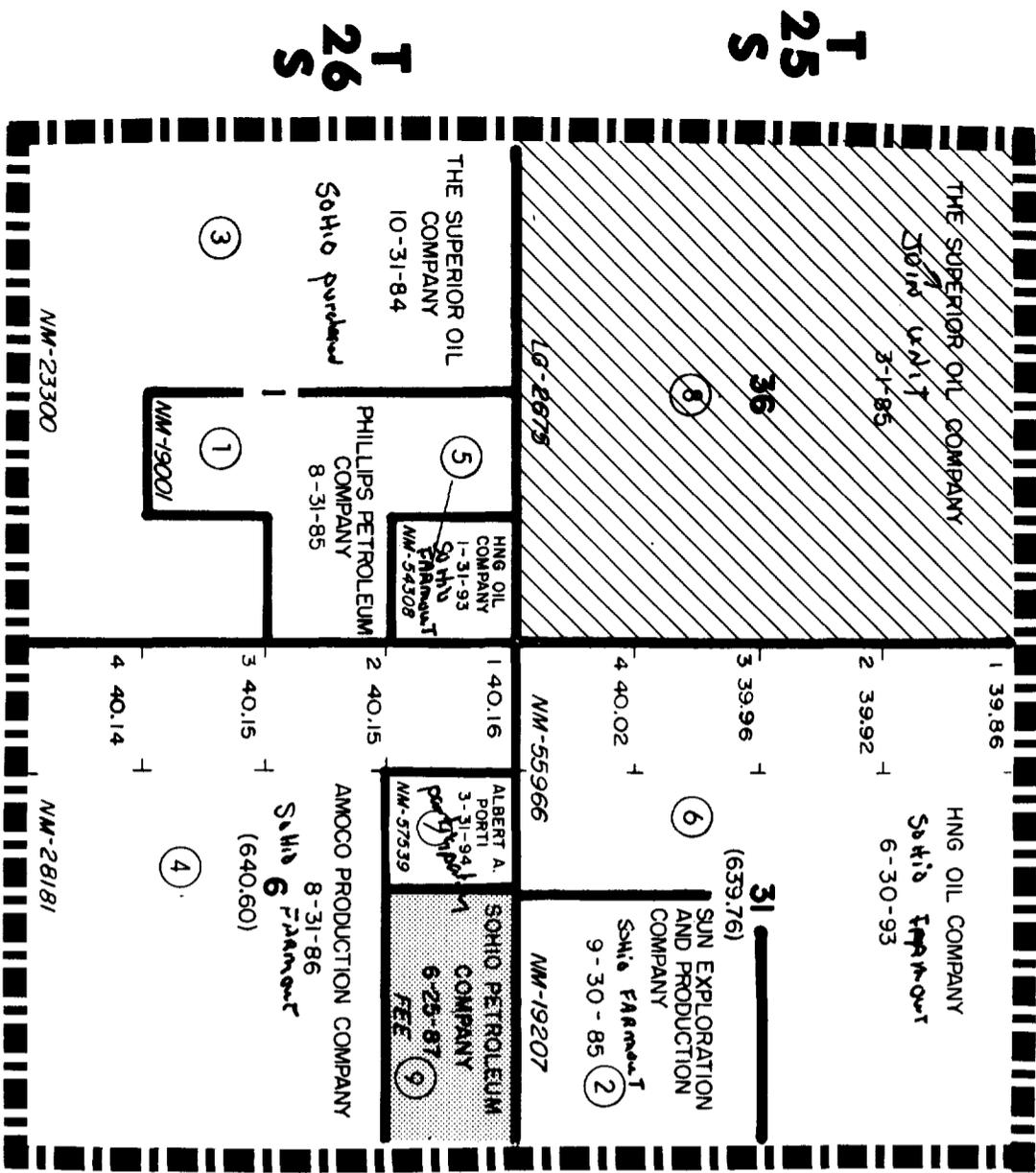
21
22
23
24
25 STATE OF TEXAS
26
27 COUNTY OF DALLAS

28
29 This instrument was acknowledged before me on _____, 1984,
30 by J. E. Owens, Agent and Attorney-in-Fact, of Sohio Petroleum Company,
31 a Delaware corporation, on behalf of said corporation.

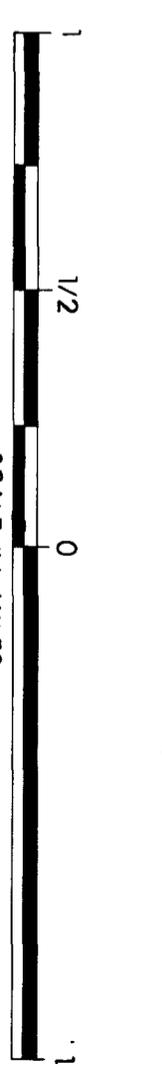
32
33 _____
34 Notary Public
35

My Commission Expires:
36 _____

JAVELLING BASIN UNIT AREA



| | ACREAGE | PERCENTAGE |
|----------------|-----------------|-----------------|
| FEDERAL LANDS | 1,840.36 | 71.88 % |
| STATE LANDS | 640.00 | 25.00 % |
| PATENTED LANDS | 80.00 | 3.12 % |
| TOTAL | 2,560.36 | 100.00 % |



NOTE: UNLESS OTHERWISE INDICATED, THE VARIOUS SECTIONS ON THIS PLAT CONTAIN 640.00 ACRES.

N.E. SALADO DRAW (DEEP) UNIT AREA LEA COUNTY, NEW MEXICO

EXHIBIT "A"
SOHIO PETROLEUM COMPANY
 DALLAS, TEXAS

EXHIBIT NO. 2
 DATE: 8/3/85

EXHIBIT "B"
 SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS
 N.E. SALADO DRAW (DEEP) UNIT AREA
 LEA 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 LANDS:

| | | | | | | | |
|----|--|--------|---------------------------------|------------|------------------------------------|------|--------------------|
| 1. | T26S-R33E, N.M.P.M. Sec. 1: SE $\frac{1}{4}$ NE $\frac{1}{4}$, W $\frac{1}{2}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$ SE $\frac{1}{4}$ | 160.00 | NM-19001 Effective 9-1-73 | U.S.A.-A11 | Phillips Petroleum Company 100% | None | Phillips Petroleum |
| | | | Expires 8-31-85 | | | | |

| | | | | | | | | | | |
|----|--|--------|----------------------|------------|---|------|--|-------------------------------|---|------|
| 2. | T25S-R34E, N.M.P.M. Sec. 31: SE $\frac{1}{4}$ | 160.00 | NM-19207 | U.S.A.-A11 | Sun Exploration and Production Company | 100% | James H. Scott | 3% | Sun Exploration and Production Company | 100% |
| | | | Effective 10-1-73 | | | | | | | |
| | | | Expires 9-30-85 | | | | | | | |
| 3. | T26S-R33E, N.M.P.M. Sec. 1: W $\frac{1}{2}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$, S $\frac{1}{2}$ SE $\frac{1}{4}$ | 440.00 | NM-23300 | U.S.A.-A11 | The Superior Oil Company | 100% | Guy M. Willis | 5% | The Superior Oil Company | 100% |
| | | | Effective 11-1-74 | | | | | | | |
| | | | Expires 10-31-84 | | | | | | | |
| 4. | T26S-R34E, N.M.P.M. Sec. 6: Lots 1,2,3, 4, S $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ | 520.60 | NM-28181 | U.S.A.-A11 | Amoco Production Company | 100% | Walter L. Blatz and Elizabeth A. Blatz Petroleum Chemical Services, Inc. Joe B. Schutz Energy Group of America Joseph Vine | 3% 1% .4% .4% .2% | Amoco Production Company | 100% |
| | | | Effective 9-1-76 | | | | | | | |
| | | | Expires 8-31-86 | | | | | | | |

| | | | | | | | | | | |
|----|---|--------|---------------------|------------|------------------|------|-----------------|-------|------------------|------|
| 5. | <u>T26S-R33E, N.M.P.M.</u> Sec. 1: <u>NE$\frac{1}{2}$NW$\frac{1}{4}$</u> | 40.00 | NM-54308 | U.S.A.-All | HNG Oil Company | 100% | Enrico Macchini | 5% | HNG Oil Company | 100% |
| | | | Effective 2-1-83 | | | | | | | |
| | | | Expires 1-31-93 | | | | | | | |
| 6. | <u>T25S-R34E, N.M.P.M.</u> Sec. 31: <u>Lots 1,2,3,</u> <u>4, NE$\frac{1}{4}$, E$\frac{1}{2}$W$\frac{1}{2}$</u> | 479.76 | NM-55966 | U.S.A.-All | HNG Oil Company | 100% | Here Company | 5.75% | HNG Oil Company | 100% |
| | | | Effective 7-1-83 | | | | | | | |
| | | | Expires 6-30-93 | | | | | | | |
| 7. | <u>T26S-R34E, N.M.P.M.</u> Sec. 6: <u>NE$\frac{1}{2}$NW$\frac{1}{4}$</u> | 40.00 | NM-57539 | U.S.A.-All | *Albert A. Porti | 100% | None | | *Albert A. Porti | 100% |
| | | | Effective 4-1-84 | | | | | | | |
| | | | Expires 3-31-94 | | | | | | | |

| 7 | FEDERAL | TRACTS | TOTALING | 1,840.36 | ACRES | OR | 71.88% | OF | UNIT | AREA |
|---|---------|--------|----------|----------|-------|----|--------|----|------|------|
|---|---------|--------|----------|----------|-------|----|--------|----|------|------|

STATE LANDS:

| | | | | | | | | | |
|----|----------------------------|--|--------|-----------|-------------|--|--------------------------|--|------|
| 8. | <u>T25S-R33E, N.M.P.M.</u> | | 640.00 | LG-2675 | State of | | The Superior Oil Company | | None |
| | <u>Sec. 36: All</u> | | | | New Mexico- | | | | |
| | | | | Effective | All | | | | 100% |
| | | | | 3-1-75 | | | | | |
| | | | | Expires | | | | | |
| | | | | 3-1-85 | | | | | |

| 1 | STATE | TRACT | TOTALING | 640.00 | ACRES | OR | 25.00% | OF | UNIT | AREA |
|---|-------|-------|----------|--------|-------|----|--------|----|------|------|
|---|-------|-------|----------|--------|-------|----|--------|----|------|------|

PATENTED LANDS :

| | | | | | | | | |
|----|--|-------|---------|--|----------------------------|------|------|----------------------------|
| 9. | <u>T26S-R34E, N.M.P.M.</u> <u>Sec. 6: N$\frac{1}{2}$NE$\frac{1}{4}$</u> | 80.00 | 6-25-87 | Beatty Oldham, Independent Executor of the Estate of Catherine Dumraese, deceased 16.66667% Lignum Oil Company 16.66667% Lucille Chism Bates 10.06945% Wilma Chism Lain 10.06944% Norma Chism McCarthy 10.06944% Theodocia C. Bates, a widow 7.77778% Frank T. Fleet, Inc. 6.25% P.A.W.N. Enterprises 4.86111% Warren J. Bates 4.44444% The Nommensen Investment Co. 3.125% Margaret Fleet Freeman, a/k/a Margaret Fleet Kalmar and Eric J. Kalmar (w&h) 2.77778% Eric J. Kalmar 2.77778% Chas. T. Bates, Jr. 2.22222% Kenneth C. Bates 2.22222% | Sohio Petroleum Company | 100% | None | Sohio Petroleum Company |
|----|--|-------|---------|--|----------------------------|------|------|----------------------------|

1 PATENTED TRACT TOTALING 80.00 ACRES OR 3.12% OF UNIT AREA

9 TRACTS TOTALING 2,560.36 ACRES IN UNIT AREA

*Assignment Pending to Marshall & Winston, Inc.