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GEOLOGIC REPORT
PROPOSED BOND DRAW UNIT
EDDY COUNTY, NEW MEXICO

The purpose of this report is to show the geologic reasons for forming an eight section Federal Unit in Sections 2,3,10,11,14,15,22, and 23, T24S, R27E in order to drill a Pennsylvanian test.

The proposed Unit is located on the north side of the Delaware Basin. The attached map contoured on top of the Delaware limestone indicates regional east dip with a northeast plunging anticlinal nose. This shallow structure trends in the same direction as known deep Pennsylvanian structures in the area and may be indicative that a structure is present in the deeper Pennsylvanian horizons within the boundary of the proposed Unit.

The Morrow sands of Pennsylvanian Age are the primary objective of the Unit Test Well. The attached stratigraphic cross-section indicates four sands as being possibly productive. Each of these sands exhibited gas shows downdip from the proposed Unit in the Mobil Oil test in Sec. 31, T23S, R28E and is demonstrably without permeability in the Union Oil test updip from the proposed Unit in Sec. 9, T24S, R27E.

The two prospective sands in the Morrow "C" zone are interpreted from log character and a brief sample description to be shoreline or near shore sands. Therefore, on the attached map they are drawn with a northeast-southwest trend parallel to the regional Pennsylvanian shoreline. The basal Morrow "C" sand outline is controlled by the non-permeable sand in the Mobil test interpreted to be on the seaward edge of the sand body and the remnant of sand in the Union test is interpreted to be on the shoreward side. The upper Morrow "C" sand outline is controlled by the permeable sand in the Mobil test interpreted to be well within the sand body, and the absence of good sand development in the Union test indicating that the upper Morrow "C" sand is farther from that test than the basal Morrow "C" sand.

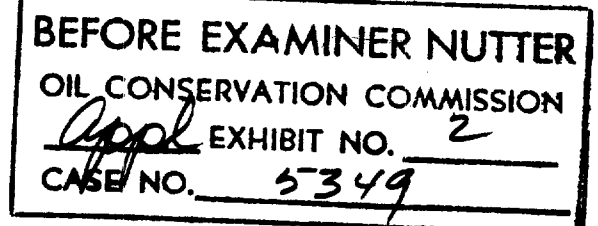
The two prospective sands in the Morrow "B" zone are postulated from log character and regional mapping to be offshore marine sands. These sands are irregular in shape and could occur over any part of the proposed Unit. Therefore an outline of postulated limits for these sands is not drawn on the attached map.

The preceding discussion has shown that the basic purpose of the Unit Test Well is to test several Morrow sands pinching out updip on a postulated deep structure. The north, west, and south boundaries of the proposed Unit have been selected to include full sections most coincident with the postulated limits of the prospective sand bodies. The east boundary of the proposed Unit is drawn along the section lines most coincident with the postulated location of a gas-water contact approximately 150 feet higher than the wet sands in the Mobil test.

Secondary objectives which will be watched closely are: the lower Wolfcamp, which had a GAOF test of 3.9 MMCFGPD in the Amoco #1 Herren in Sec. 7, T24S, R27E; the Cisco which was completed in the Tennessee Gas #1 Kelly "A" for 2.24 MMCFGPD; and the Strawn which flowed 840 MGF+2bbbls. condensate+53BWPD through perforations in the Mobil #1 Pardue Farms in Sec. 31, T23S, R28E.

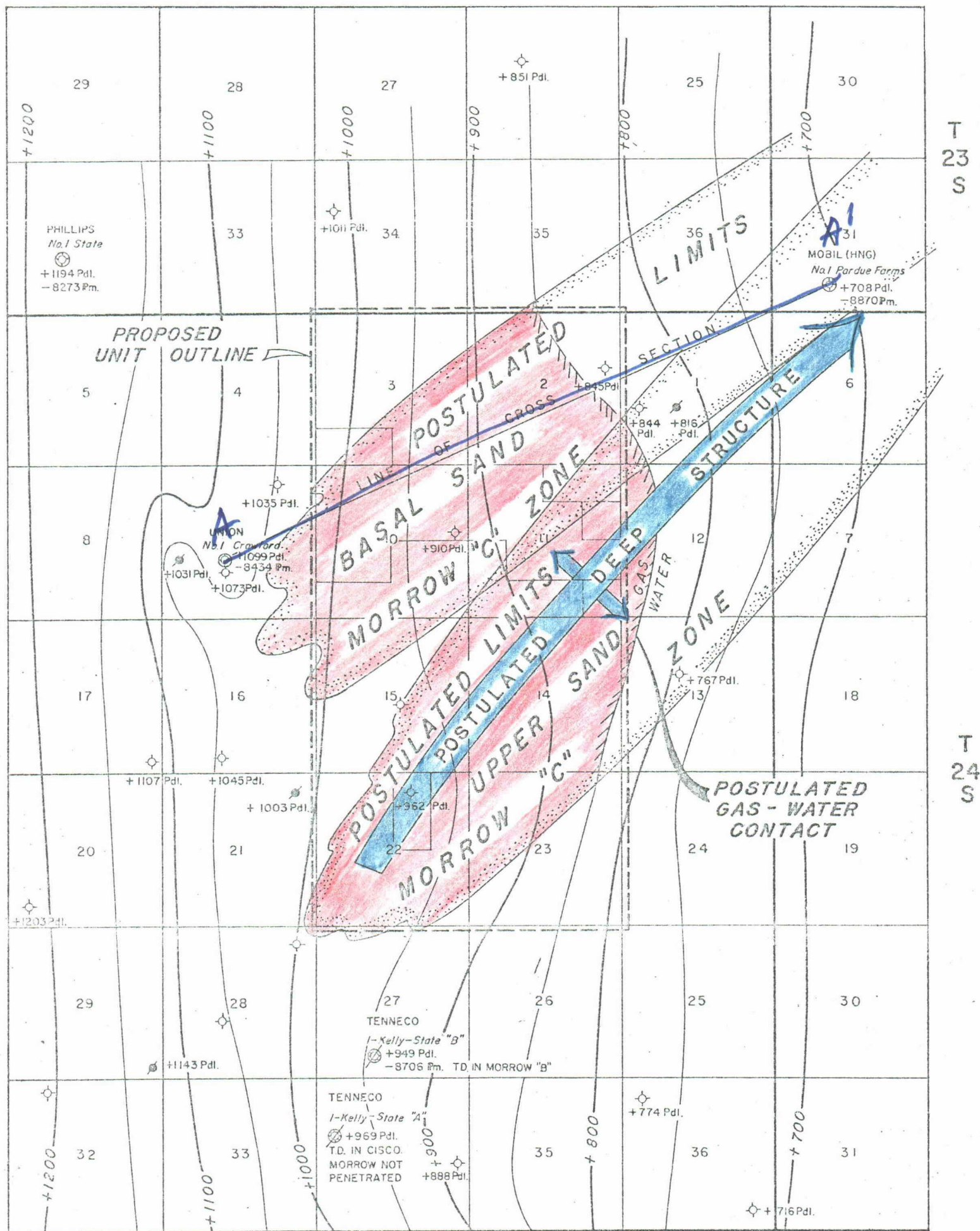
In view of the previously reviewed geology demonstrating the possibility of porous Morrow sands with gas shows pinching out updip across a deep structure, the proposed Unit will offer a valid location for a test of all formations of Pennsylvanian Age. The Test Well for the proposed Unit is expected to encounter the following:

Delaware lime	2,200'
Bone Springs	5,800'
Wolfcamp	9,200'
Strawn	11,100'
Atoka	11,300'
Morrow	11,800'
Barnett Shale	12,550'



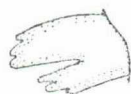
R 27 E

R 28 E



LEGEND:

- ⊕ +910 Pdl. Delaware Lime Test
- ⊕ +1191 Pdl. - Paleozoic Test
- ⊕ +1191 Pdl. - Delaware Lime Top
- 8273 Pm. - Morrow Top



Postulated Outline of
Gas-Filled Morrow "C" Sands

GEOLOGIC MAP PROPOSED

BOND DRAW UNIT

EDDY COUNTY, NEW MEXICO

STRUCTURE: TOP OF DELAWARE LIME

CONTOUR INTERVAL - 50'

D.A. BENTZIN

OCTOBER, 1974

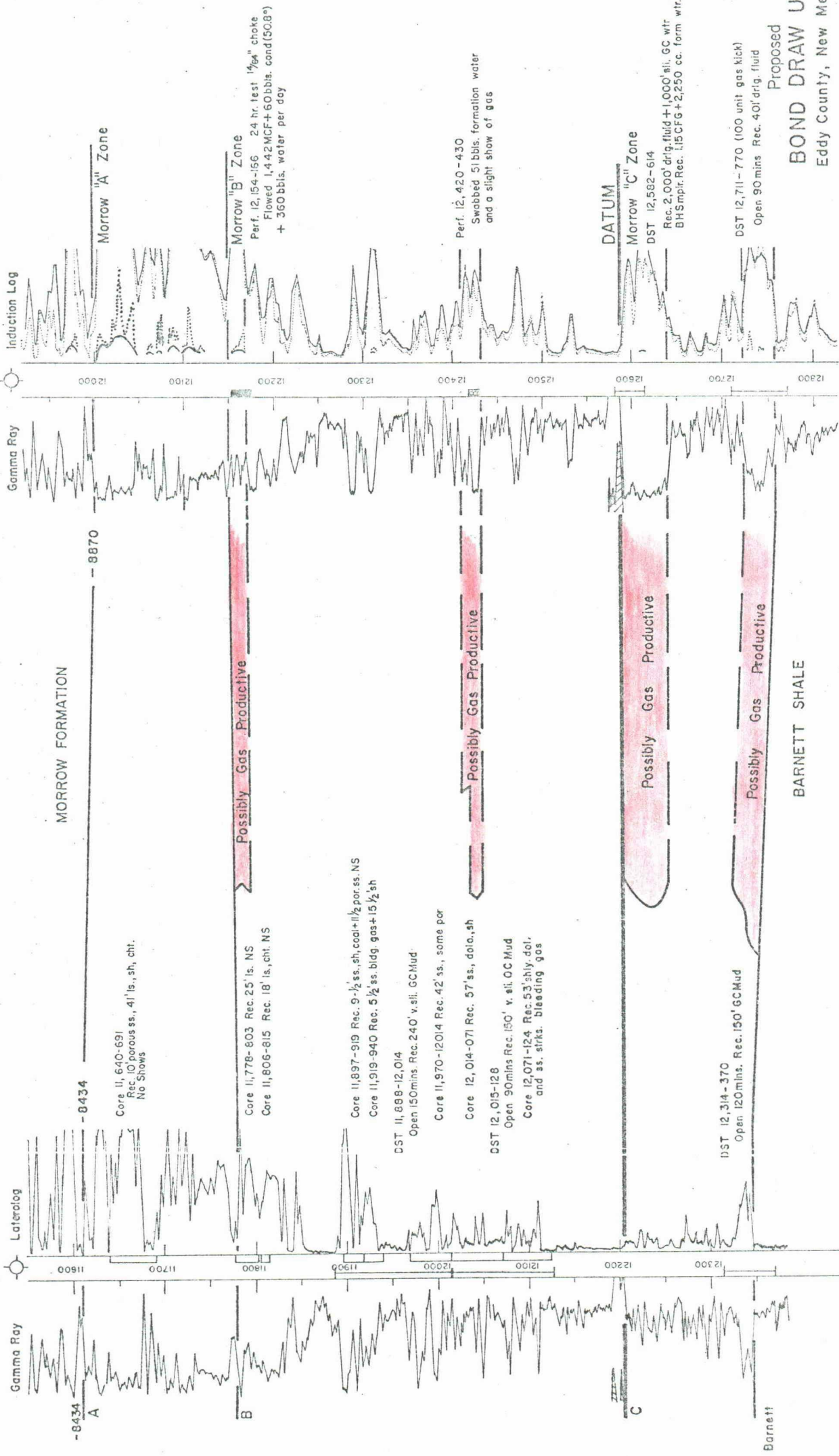
WEST

UNION OIL #1-9 Crawford "B"
NE SW Sec. 9, T24S, R27E
Eddy Co., New Mexico
Elev. 3177 K.B.

A

MOBIL OIL #1 Pardue Farms
SE SW Sec. 31, T23S, R28E
Eddy Co., New Mexico
Elev. 3130 K.B.

EAST

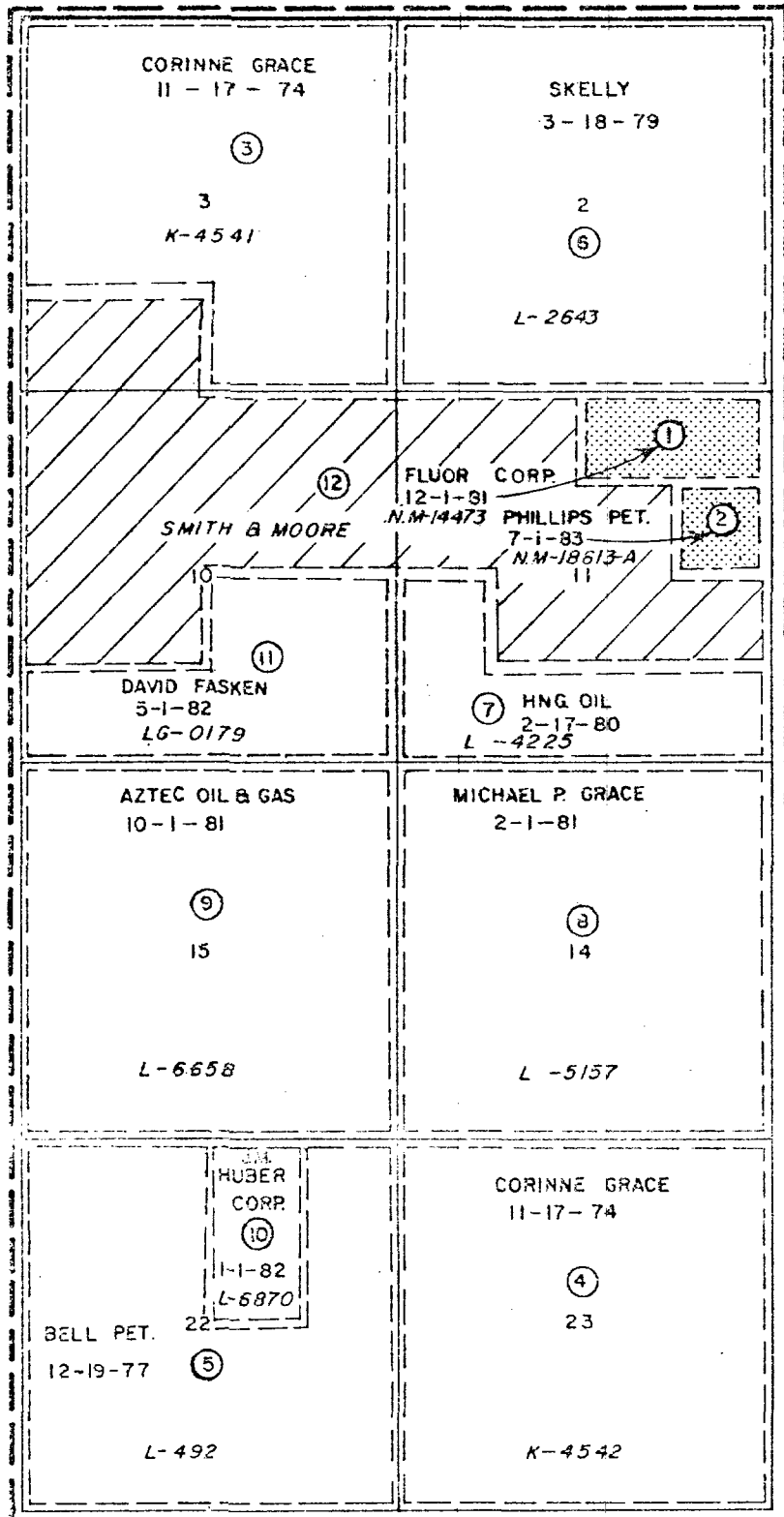


BARNETT SHALE

BOND DRAW UNIT
Eddy County, New Mexico

STRATIGRAPHIC CROSS-SECTION
MORROW FORMATION
DATUM- Top of Morrow "C" Zone
D.A. Bentzin
October, 1974

R 27 E



FEDERAL LEASES

Tract No. New Mexico Serials

- ① N.M-14473
- ② N.M 18613 - A

STATE OF NEW MEXICO

- ③ K - 4541
- ④ K - 4542
- ⑤ L - 492
- ⑥ L - 2643
- ⑦ L - 4225
- ⑧ L - 5157
- ⑨ L - 6658
- ⑩ L - 6870
- ⑪ LG- 0179

PATENTED LAND

- ⑫ Smith and Moore

T
24
S

LEGEND:

- BOUNDARY OUTLINE
- TRACT OUTLINE
- ③ TRACT NUMBER

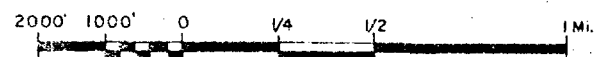
EXHIBIT "A"

BOND DRAW UNIT

T 24 S, R 27 E

EDDY COUNTY, NEW MEXICO

GRAPHIC SCALE



BOND DRAW UNIT

CERTIFICATION--DETERMINATION

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

A. Approve the attached agreement for the development and operation of the Bond Draw Unit Area, State of New Mexico.

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

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

Dated _____.

Oil and Gas Supervisor, United States Geological Survey

Contract Number _____

UNIT AGREEMENT FOR THE DEVELOPMENT
AND OPERATION OF THE BOND DRAW UNIT AREA
COUNTY OF EDDY, STATE OF NEW MEXICO

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Exhibit "A" (Map)

Exhibit "B" (Description of interests subject to agreement)

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
5349	EXHIBIT NO. # 1
CASE NO.	<i>Wass</i>

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
BOND DRAW UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 15 day of November, 1974, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951, and Secs. 1 and 2, Chap. 176, Laws of 1961, See Sections 7-11-39, 40 and 41 New Mexico Statutes, 1953 Annotated) to consent to or approve this agreement of 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 Act of Legislature (Chap. 168, Laws 1949) to approve this agreement and the conservation provisions hereof; and;

WHEREAS, the parties hereto hold sufficient interests in the BOND 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

1 operation of the area subject to this agreement under the terms, conditions and 1
2 limitations herein set forth; 2

3 NOW, THEREFORE, in consideration of the premises and the promises herein 3
4 contained, the parties hereto commit to this agreement their respective interests 4
5 in the below-defined unit area, and agree severally among themselves as follows: 5

6 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, 6
7 as amended, supra, and all valid pertinent regulations, including operating and 7
8 unit plan regulations, heretofore issued thereunder of valid, pertinent, and 8
9 reasonable regulations hereafter issued thereunder are accepted and made a part of 9
10 this agreement as to Federal lands, provided such regulations are not inconsistent 10
11 with the terms of this agreement; and as to non-Federal lands, the oil and gas 11
12 operating regulations in effect as of the effective date hereof governing drilling 12
13 and producing operations, not inconsistent with the terms hereof or the laws of the 13
14 State in which the non-Federal land is located, are hereby accepted and made a part 14
15 of this agreement. 15

16 2. UNIT AREA.. The area specified on the map attached hereto marked Exhibit A 16
17 is hereby designated and recognized as constituting the unit area, containing 17
18 5,123.11 acres, more or less. 18

19 Exhibit A shows, in addition to the boundary of the unit area, the boundaries 19
20 and identity of tracts and leases in said area to the extent known to the Unit 20
21 Operator. Exhibit B attached hereto is a schedule showing, to the extent known to 21
22 the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas 22
23 interests in all land in the unit area. However, nothing herein or in said schedule 23
24 or map shall be construed as a representation by any party hereto as to the owner- 24
25 ship of any interest other than such interest or interests as are shown in said map 25
26 or schedule as owned by such party. Exhibits A and B shall be revised by the Unit 26
27 Operator whenever changes in the unit area render such revision necessary, or when 27
28 requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor" 28
29 and not less than five copies of the revised exhibits shall be filed with the Super- 29
30 visor, and two copies each with the Commissioner of Public Lands of the State of 30
31 New Mexico, hereinafter referred to as the "Commissioner," and the Oil Conservation 31
32 Commission, hereinafter referred to as "Commission." 32

33 The above-described unit area shall when practicable be expanded to include 33
34 therein any additional lands or shall be contracted to exclude therein any additional 34
35 lands or shall be contracted to exclude lands whenever such expansion or contraction 35

1 is deemed to be necessary or advisable to conform with the purposes of this agree- 1
2 ment. Such expansion or contraction shall be effected in the following manner: 2

3 (a) Unit Operator, on its own motion or on demand of the Director of the 3
4 Geological Survey, hereinafter referred to as "Director," or on demand of the 4
5 Commissioner after preliminary concurrence by the Director, shall prepare a notice 5
6 of proposed expansion or contraction describing the contemplated changes in the 6
7 boundaries of the unit area, the reasons therefor, and the proposed effective date 7
8 thereof, preferably the first day of a month subsequent to the date of notice. 8

9 (b) Said notice shall be delivered to the Supervisor and the Commissioner 9
10 and copies thereof mailed to the last known address of each working interest owner, 10
11 lessee, and lessor whose interests are affected, advising that 30 days will be 11
12 allowed for submission to the Unit Operator of any objections. 12

13 (c) Upon expiration of the 30-day period provided in the preceding item (b) 13
14 hereof, Unit Operator shall file with the Supervisor and the Commissioner evidence 14
15 of mailing of the notice of expansion or contraction and a copy of any objections 15
16 thereto which have been filed with the Unit Operator, together with an application 16
17 in sufficient number, for approval of such expansion or contraction and with 17
18 appropriate joinders. 18

19 (d) After due consideration of all pertinent information, the expansion or 19
20 contraction shall, upon approval by the Supervisor and the Commissioner, become 20
21 effective as of the date prescribed in the notice thereof. 21

22 (e) All legal subdivisions of lands (i.e., 40 acres by Government survey 22
23 or its nearest lot or tract equivalent; in the instances of irregular surveys 23
24 unusually large lots or tracts shall be considered in multiples of 40 acres or the 24
25 nearest aliquot equivalent thereof), no parts of which are entitled to be in a 25
26 participating area on or before the fifth anniversary of the effective date of the 26
27 first initial participating area established under this unit agreement, shall be 27
28 eliminated automatically from this agreement, effective as of said fifth anniver- 28
29 sary, and such lands shall no longer be a part of the unit area and shall no longer 29
30 be subject to this agreement, unless diligent drilling operations are in progress 30
31 on unitized lands not entitled to participation on said fifth anniversary, in which 31
32 event all such lands shall remain subject hereto for so long as such drilling oper- 32
33 ations are continued diligently, with not more than 90 days' time elapsing between 33
34 the completion of one such well and the commencement of the next such well. All 34
35 legal subdivisions of lands not entitled to be in a participating area within 10 35

1 years after the effective date of the first initial participating area approved 1
2 under this agreement shall be automatically eliminated from this agreement as of 2
3 said tenth anniversary. All lands proved productive by diligent drilling operations 3
4 after the aforesaid 5-year period shall become participating in the same manner as 4
5 during said 5-year period. However, when such diligent drilling operations cease, 5
6 all nonparticipating lands shall be automatically eliminated effective as of the 6
7 91st day thereafter. The Unit Operator shall within 90 days after the effective date 7
8 of any elimination hereunder, describe the area so eliminated to the satisfaction 8
9 of the Supervisor and the Commissioner and promptly notify all parties in interest. 9

10 If conditions warrant extension of the 10-year period specified in this sub- 10
11 section 2(e), a single extension of not to exceed 2 years may be accomplished by con-11
12 sent of the owners of 90% of the working interests in the current non-participating 12
13 unitized lands and the owners of 60% of the basic royalty interests (exclusive of 13
14 the basic royalty interests of the United States) in nonparticipating unitized lands 14
15 with approval of the Director and the Commissioner, provided such extension appli- 15
16 cation is submitted to the Director and the Commissioner not later than 60 days 16
17 prior to the expiration of said 10-year period. 17

18 Any expansion of the unit area pursuant to this section which embraces lands 18
19 theretofore eliminated pursuant to this subsection 2(e) shall not be considered 19
20 automatic commitment or recommitment of such lands. 20

21 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement 21
22 shall constitute land referred to herein as "unitized land" or "land subject to this 22
23 agreement." All oil and gas in any and all formations of the unitized land are uniti-23
24 zed under the terms of this agreement and herein are called "unitized substances." 24

25 4. UNIT OPERATOR. Corinne Grace is hereby designated as Unit Operator and by 25
26 signature hereto as Unit Operator agrees and consents to accept the duties and 26
27 obligations of Unit Operator for the discovery, development, and production of uni- 27
28 tized substances as herein provided. Whenever reference is made herein to the Unit 28
29 Operator, such reference means the Unit Operator acting in that capacity and not 29
30 as an owner of interest in unitized substances, and the term "working interest owner"30
31 when used herein shall include or refer to Unit Operator as the owner of a working 31
32 interest when such an interest is owned by it.. 32

33 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right 33
34 to resign at any time prior to the establishment of a participating area or areas 34
35 hereunder, but such resignation shall not become effective so as to release Unit 35

1 Operator from the duties and obligations of Unit Operator and terminate Unit 1
 2 Operator's rights as such for a period of 6 months after notice of intention to 2
 3 resign has been served by Unit Operator on all working interest owners and the 3
 4 Supervisor and the Commissioner, and until all wells then drilled hereunder are 4
 5 placed in a satisfactory condition for suspension or abandonment whichever is 5
 6 required by the Supervisor, as to the wells on Federal lands, the Commissioner as 6
 7 to the wells on State lands, unless a new Unit Operator shall have been selected and 7
 8 approved and shall have taken over and assumed the duties and obligations of Unit 8
 9 Operator prior to the expiration of said period. 9
 10 Unit Operator shall have the right to resign in like manner and subject to 10
 11 like limitations as above provided at any time a participating area established 11
 12 hereunder is in existence, but, in all instances of resignation or removal, until 12
 13 a successor Unit Operator is selected and approved as hereinafter provided, the 13
 14 working interest owners shall be jointly responsible for performance of the duties 14
 15 of Unit Operator, and shall not later than 30 days before such resignation or removal 15
 16 becomes effective appoint a common agent to represent them in any action to be taken 16
 17 hereunder. 17
 18 The resignation of Unit Operator shall not release Unit Operator from any 18
 19 liability for any default by it hereunder occurring prior to the effective date of 19
 20 its resignation. 20
 21 The Unit Operator may, upon default or failure in the performance of its 21
 22 duties or obligations hereunder, be subject to removal by the same percentage vote 22
 23 of the owners of working interests as herein provided for the selection of a new 23
 24 Unit Operator. Such removal shall be effective upon notice thereof to the Supervisor 24
 25 and the Commissioner. 25
 26 The resignation or removal of Unit Operator under this agreement shall not 26
 27 terminate its right, title, or interest as the owner of a working interest or other 27
 28 interest in unitized substances, but upon the resignation or removal of Unit Oper- 28
 29 ator becoming effective, such Unit Operator shall deliver possession of all wells, 29
 30 equipment, materials, and appurtenances used in conducting the unit operations to 30
 31 the new duly qualified successor Unit Operator or to the common agent, if no such 31
 32 new Unit Operator is elected, to be used for the purpose of conducting unit opera- 32
 33 tions hereunder. Nothing herein shall be construed as authorizing removal of any 33
 34 material, equipment and appurtenances needed for the preservation of any wells. 34

1 6. SUCCESSION UNIT OPERATOR. Whenever the Unit Operator shall tender his or 1
2 its resignation as Unit Operator or shall be removed as hereinabove provided, or a 2
3 change of Unit Operator is negotiated by working interest owners, the owners of the 3
4 working interests in the participating area or areas according to their respective 4
5 acreage interests in such participating area or areas, or, until a participating 5
6 area shall have been established, the owners of the working interests according to 6
7 their respective acreage interests in all unitized land, shall by majority vote 7
8 select a successor Unit Operator: Provided, That, if a majority but less than 75 8
9 per cent of the working interests qualified to vote are owned by one party to this 9
10 agreement, a concurring vote are owned by one party to this agreement, a concurring 10
11 vote of one or more additional working interest owners shall be required to select 11
12 a new operator. Such selection shall not become effective until 12
13 (a) a Unit Operator so selected shall accept in writing the duties and 13
14 responsibilities of Unit Operator, and 14
15 (b) the selection shall have been approved by the Supervisor and the 15
16 Commissioner. 16
17 If no successor Unit Operator is selected and qualified as herein provided, 17
18 the Director and the Commissioner at their election may declare this unit agreement 18
19 terminated. 19
20 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is 20
21 not the sole owner of working interests, costs and expenses incurred by Unit Operator 21
22 in conducting unit operations hereunder shall be paid and apportioned among and 22
23 borne by the owners of working interests, all in accordance with the agreement or 23
24 agreements entered into by and between the Unit Operator and the owners of working 24
25 interests, whether one or more, separately or collectively. Any agreement or 25
26 agreements entered into between the working interest owners and the Unit Operator 26
27 as provided in this section, whether one or more, are herein referred to as the 27
28 "unit operating agreement." Such unit operating agreement shall also provide the 28
29 manner in which the working interest owners shall be entitled to receive their 29
30 respective proportionate and allocated share of the benefits accruing hereto in 30
31 conformity with their underlying operating agreements, leases, or other independent 31
32 contracts, and such other rights and obligations as between Unit Operator and the 32
33 working interest owners as may be agreed upon by Unit Operator and the working 33
34 interest owners; however, no such unit operating agreement shall be deemed either 34
35 to modify any of the terms and conditions of this unit agreement or to relieve the 35

1 Unit Operator of any right or obligation established under this unit agreement, 1
2 and in case of any inconsistency or conflict between this unit agreement and the 2
3 unit operating agreement, this unit agreement shall govern. Three true copies of 3
4 any unit operating agreement executed pursuant to this section should be filed with 4
5 the Supervisor and two true copies with the Commissioner, prior to approval of this 5
6 unit agreement. 6

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

19 9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, 19
20 the Unit Operator shall begin to drill an adequate test well at a location approved 20
21 by the Supervisor if such location is upon lands of the United States, and if upon 21
22 State lands, such location shall be approved by the Commissioner, unless on such 22
23 effective date a well is being drilled conformably with the terms hereof, and there- 23
24 after continue such drilling diligently until the Barnett shale of the Mississippian 24
25 age has been penetrated and all formations of the Pennsylvanian age have been tested, 25
26 or until at a lesser depth unitized substances shall be discovered which can be 26
27 produced in paying quantities (to wit: quantities sufficient to repay the costs or 27
28 drilling, completing, and producing operations, with a reasonable profit) or the 28
29 Unit Operator shall at any time establish to the satisfaction of the Supervisor as 29
30 to wells on Federal lands, or to the Commissioner as to wells on State lands, that 30
31 further drilling of said well would be unwarranted or impracticable, provided, how- 31
32 ever, that Unit Operator shall not in any event be required to drill said well to a 32
33 depth in excess of 12,600 feet. Until the discovery of a deposit of unitized sub- 33
34 stances capable of being produced in paying quantities, the Unit Operator shall 34
35 continue drilling one well at a time, allowing not more than 6 months between the 35

1 completion of one well and the beginning of the next well, until a well capable of 1
2 producing unitized substances in paying quantities is completed to the satisfaction 2
3 of said Supervisor and Commissioner or until it is reasonably proved that the unit- 3
4 ized land is incapable of producing unitized substances in paying quantities in the 4
5 formation drilled hereunder. Nothing in this section shall be deemed to limit the 5
6 right of the Unit Operator to resign as provided in Section 5, hereof, or as 6
7 requiring Unit Operator to commence or continue any drilling during the period pend- 7
8 ing such resignation becoming effective in order to comply with the requirements of 8
9 this section. The Supervisor and the Commissioner may modify the drilling require- 9
10 ments of this section by granting reasonable extensions of time when, in their 10
11 opinion, such action is warranted. 11

12 Upon failure to commence any well provided for in this section within the 12
13 time granted by the Supervisor and the Commissioner, this agreement will automati- 13
14 cally terminate; upon failure to continue drilling diligently any well commenced 14
15 hereunder, the Supervisor and Commissioner may, after 15 days' notice to the Unit 15
16 Operator, declare this unit agreement terminated. 16

17 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion 17
18 of a well capable of producing unitized substances in paying quantities, the Unit 18
19 Operator shall submit for the approval of the Supervisor and the Commissioner an 19
20 acceptable plan of development and operation for the unitized land which, when 20
21 approved by the Supervisor and the Commissioner shall constitute the further drill- 21
22 ing and operating obligations of the Unit Operator under this agreement for the 22
23 period specified therein. Thereafter, from time to time before the expiration of any 23
24 existing plan, the Unit Operator shall submit for the approval of the Supervisor 24
25 and the Commissioner a plan for an additional specified period for the development 25
26 and operation of the unitized land. 26

27 Any plan submitted pursuant to this section shall provide for the explor- 27
28 ation of the unitized area and for the diligent drilling necessary for determination 28
29 of the area or areas thereof capable of producing unitized substances in paying 29
30 quantities in each and every productive formation and shall be as complete and 30
31 adequate as the Supervisor and the Commissioner may determine to be necessary for 31
32 timely development and proper conservation of the oil and gas resources of the 32
33 unitized area and shall 33

34 (a) specify the number and locations of any wells to be drilled and the 34
35 proposed order and time for such drilling; and 35

1 (b) to the extent practicable specify the operating practices regarded as 1
2 necessary and advisable for proper conservation of natural resources. Separate 2
3 plans may be submitted for separate productive zones, subject to the approval of 3
4 the Supervisor and the Commissioner. 4

5 Plans shall be modified or supplemented when necessary to meet changed con- 5
6 ditions or to protect the interests of all parties to this agreement. Reasonable 6
7 diligence shall be exercised in complying with the obligations of the approved plan 7
8 of development. The Supervisor and the Commissioner are authorized to grant a 8
9 reasonable extension of the 6-month period herein prescribed for submission of an 9
10 initial plan of development where such action is justified because of unusual con- 10
11 ditions or circumstances. After completion hereunder of a well capable of producing 11
12 any unitized substance in paying quantities, no further wells, except such as may be 12
13 necessary to afford protection against operations not under this agreement and such 13
14 as may be specifically approved by the Supervisor and the Commissioner, shall be 14
15 drilled except in accordance with a plan of development approved as herein provided. 15

16 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of pro- 16
17 ducing unitized substances in paying quantities or as soon thereafter as required by 17
18 the Supervisor and the Commissioner, a schedule, based on subdivisions of the public-18
19 land survey or aliquot parts thereof, of all land then regarded as reasonably proved 19
20 to be productive in paying quantities; all lands in said schedule on approval of the 20
21 Supervisor and the Commissioner to constitute a participating area, effective as of 21
22 the date of completion of such well or the effective date of the unit agreement, 22
23 whichever is later. The acreages of both Federal and non-Federal lands shall be based 23
24 upon appropriate computations from the courses and distances shown on the last app- 24
25 roved public-land survey as of the effective date of each initial participating area. 25
26 Said schedule shall also set forth the percentage of unitized substances to be 26
27 allocated as herein provided to each tract in the participating area so established, 27
28 and shall govern the allocation of production commencing with the effective date of 28
29 the participating area. A separate participating area shall be established for each 29
30 separate pool or deposit of unitized substances or for any group thereof which is 30
31 produced as a single pool or zone, and any two or more participating areas so 31
32 established may be combined into one, on approval of the Supervisor, and the Comm- 32
33 issioner. When production from two or more participating areas, so established, is 33
34 subsequently found to be from a common pool or deposit said participating areas shall 34
35 be combined into one effective as of such appropriate date as may be approved or 35

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

15 It is the intent of this section that a participating area shall represent 15
16 the area known or reasonably estimated to be productive in paying quantities; but, 16
17 regardless of any revision of the participating area, nothing herein contained shall 17
18 be construed as requiring any retroactive adjustment for production obtained prior 18
19 to the effective date of the revision of the participating area. 19

20 In the absence of agreement at any time between the Unit Operator, the 20
21 Supervisor and the Commissioner as to the proper definition or redefinition of a 21
22 participating area, or until a participating area has, or areas have, been estab- 22
23 lished as provided herein, the portion of all payments affected thereby shall be 23
24 impounded in a manner mutually acceptable to the owners of working interests and 24
25 the Supervisor and the Commissioner. Royalties due the United States and the State 25
26 of New Mexico shall be determined by the Supervisor and the Commissioner, respec- 26
27 tively, and the amount thereof shall be deposited, as directed by the Supervisor and 27
28 the Commissioner, respectively, to be held as unearned money until a participating 28
29 area is finally approved and then applied as earned or returned in accordance with 29
30 a determination of the sum due as Federal and State royalty on the basis of such 30
31 approved participating area. 31

32 Whenever it is determined, subject to the approval of the Supervisor, as to 32
33 the wells on Federal lands, and the Commissioner as to wells on State lands, that 33
34 a well drilled under this agreement is not capable of production in paying quantities 34
35 and inclusion of the land on which it is situated in a participating area is un- 35
36 warranted, production from such well shall, for the purposes of settlement among all 36

1 parties other than working interest owners, be allocated to the land on which the 1
2 well is located unless such land is already within the participating area established 2
3 for the pool or deposit from which such production is obtained. Settlement for work- 3
4 ing interest benefits from such a well shall be made as provided in the unit operat- 4
5 ing agreement. 5

6 12. ALLOCATION OF PRODUCTION. All unitized substances produced from each 6
7 participating area established under this agreement, except any part thereof used in 7
8 conformity with good operating practices within the unitized area for drilling, oper- 8
9 ating, camp and other production or development purposes, for repressuring or 9
10 recycling in accordance with a plan of development approved by the Supervisor and 10
11 the Commissioner, or unavoidably lost, shall be deemed to be produced equally on an 11
12 acreage basis from the several tracts of unitized land of the participating area 12
13 established for such production and, for the purpose of determining any benefits 13
14 accruing under this agreement, each such tract of unitized land shall have allocated 14
15 to it such percentage of said production as the number of acres of such tract includ- 15
16 ed in said participating area bears to the total acres of unitized land in said 16
17 participating area, except that allocation of production hereunder for purposes 17
18 other than for settlement of the royalty, overriding royalty, or payment out of 18
19 production obligations of the respective working interest owners, shall be on the 19
20 basis prescribed in the unit operating agreement whether in conformity with the 20
21 basis of allocation herein set forth or otherwise. It is hereby agreed that pro- 21
22 duction of unitized substances from a participating area shall be allocated as 22
23 provided herein regardless of whether any wells are drilled on any particular part 23
24 or tract of said participating area. If any gas produced from one participating 24
25 area is used for repressuring or recycling purposes in another participating area, 25
26 the first gas withdrawn from such last-mentioned participating area for sale during 26
27 the life of this agreement shall be considered to be the gas so transferred until 27
28 an amount equal to that transferred shall be so produced for sale and such gas shall 28
29 be allocated to the participating area from which initially produced as such area 29
30 was last defined at the time of such final production. 30

31 13. DEVELOPMENT OR OPERATION OF NONPARTICIPATING LAND OR FORMATIONS. Any party 31
32 hereto owning or controlling the working interest in any unitized land having thereon 32
33 a regular well location may with the approval of the Supervisor, as to locations on 33
34 Federal lands, and the Commissioner as to locations on Federal lands, and the Comm- 34
35 issioner as to locations on State lands, at such party's sole risk, costs, and 35

1 expense, drill a well to test any formation for which a participating area has not 1
2 been established or to test any formation for which a participating area has been 2
3 established if such location is not within said participating area, unless within 90 3
4 days of receipt of notice from said party of his intention to drill the well the 4
5 Unit Operator elects and commences to drill such a well in like manner as other 5
6 wells are drilled by the Unit Operator under this agreement. 6

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

13 If any well drilled as aforesaid by a working interest owner obtains produc- 13
14 tion in quantities insufficient to justify the inclusion of the land upon which 14
15 such well is situated in a participating area, such well may be operated and 15
16 produced by the party drilling the same subject to the conservation requirements 16
17 of this agreement. The royalties in amount or value of production from any such well 17
18 shall be paid as specified in the underlying lease and agreements affected. 18

19 14. ROYALTY SETTLEMENT. The United States and the State of New Mexico and any 19
20 royalty owner, who is entitled to take in kind a share of the substances now uni- 20
21 tized substances, and Unit Operator, or the working interest owner as herein pro- 21
22 vided for in special cases, shall make deliveries of such royalty share taken in 22
23 kind in conformity with the applicable contracts, laws, and regulations. Settlement 23
24 for royalty interest not taken in kind shall be made by working interest owners 24
25 responsible therefor under existing contracts, laws, and regulations, or by the Unit 25
26 Operator on or before the last day of each month for unitized substances produced 26
27 during the preceding calendar month; provided, however, that nothing herein 27
28 contained shall operate to relieve the lessees of any land from their respective 28
29 lease obligations for the payment of any royalties due under their leases. 29

30 If gas obtained from lands not subject to this agreement is introduced into 30
31 any participating area hereunder, for use in repressuring, stimulation of production, 31
32 or increasing ultimate recovery, in conformity with a plan of operations approved by 32
33 the Supervisor and the Commissioner, a like amount of gas, after settlement as here- 33
34 in provided for any gas transferred from any other participating area and with app- 34
35 ropriate deduction for loss from any cause, may be withdrawn from the formation into 35

1 which the gas is introduced, royalty free as to dry gas, but not as to any products 1
2 which may be extracted therefrom; provided that such withdrawal shall be at such time 2
3 as may be provided in the approved plan of operations or as may otherwise be con- 3
4 sented to by the Supervisor and the Commissioner as conforming to good petroleum 4
5 engineering practice; and provided further, that such right of withdrawal shall 5
6 terminate on the termination of this unit agreement; 6

7 Royalty due the United States shall be computed as provided in the operating 7
8 regulations and paid in value or delivered in kind as to all unitized substances on 8
9 the basis of the amounts thereof allocated to unitized Federal land as provided 9
10 herein at the rates specified in the respective Federal leases, or at such lower 10
11 rate or rates as may be authorized by law or regulation; provided, that for leases 11
12 on which the royalty rate depends on the daily average production per well, said 12
13 average production shall be determined in accordance with the operating regulations 13
14 as though each participating area were a single consolidated lease. Royalty due the 14
15 State of New Mexico shall be computed and paid on the basis of the amounts allocated 15
16 to unitized State land as provided herein at the rate specified in the State Oil and 16
17 Gas Lease. 17

18 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed here-18
19 to shall be paid by working interest owners responsible therefor under existing 19
20 contracts, laws, and regulations, provided that nothing herein contained shall 20
21 operate to relieve the lessees of any land from their respective lease obligations 21
22 for the payment of any rental or minimum royalty due under their leases. Rental or 22
23 minimum royalty for lands of the United States subject to this agreement shall be 23
24 paid at the rate specified in the respective leases from the United States unless 24
25 such rental or minimum royalty is waived, suspended, or reduced by law or by approval 25
26 of the Secretary or his duly authorized representative. Rentals on State of New 26
27 Mexico lands subject to this agreement shall be paid at the rates specified in the 27
28 respective leases, or may be reduced and suspended upon the order of the Commissio- 28
29 ner of Public Lands of the State of New Mexico pursuant to applicable laws and 29
30 regulations. 30

31 With respect to any lease on non-Federal land containing provisions which 31
32 would terminate such lease unless drilling operations are commenced upon the land 32
33 covered thereby within the time therein specified or rentals are paid for the 33
34 privilege of deferring such drilling operations, the rentals required thereby shall 34
35 notwithstanding any other provision of this agreement, be deemed to accrue and become 35

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 the Commissioner deem appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement.

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

(a) The development and operation of lands subject to this agreement under the terms 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.

1 (c) Suspension of drilling or producing operations on all unitized lands 1
2 pursuant to direction or consent of the Secretary or his duly authorized represen- 2
3 tative, and on all unitized lands of the State of New Mexico pursuant to the consent 3
4 of the Commissioner, or his duly recognized representative, shall be deemed to 4
5 constitute such suspension pursuant to such direction or consent as to each and 5
6 every tract of unitized land. A suspension of drilling or producing operations 6
7 limited to specified lands shall be applicable only to such lands. 7

8 (d) Each lease, sublease or contract relating to the exploration, drilling, 8
9 development or operation for oil or gas of lands other than those of the United 9
10 States and the State of New Mexico committed to this agreement, which, by its terms 10
11 might expire prior to the termination of this agreement, is hereby extended beyond 11
12 any such terms so provided therein so that it shall be continued in full force and 12
13 effect for and during the term of this agreement. 13

14 (e) Any Federal lease for a fixed term of twenty (20) years or any renewal 14
15 thereof or any part of such lease which is made subject to this agreement shall 15
16 continue in force beyond the term provided therein until the termination hereof. 16
17 Any other Federal lease committed hereto shall continue in force beyond the term 17
18 so provided therein or by law as to the land committed so long as such lease remains 18
19 subject hereto, provided that production is had in paying quantities under this unit 19
20 agreement prior to the expiration date of the term of such lease, or in the event 20
21 actual drilling operations are commenced on unitized land, in accordance with the 21
22 provisions of this agreement, prior to the end of the primary term of such lease and 22
23 are being diligently prosecuted at that time, such lease shall be extended for two 23
24 years and so long thereafter as oil or gas is produced in paying quantities in 24
25 accordance with the provisions of the Mineral Leasing Act Revision of 1960. 25

26 (f) Each sublease or contract relating to the operation and development of 26
27 unitized substances from lands of the United States committed to this agreement, 27
28 which by its terms would expire prior to the time at which the underlying lease, 28
29 as extended by the immediately preceding paragraph, will expire, is hereby extended 29
30 beyond any such term so provided therein so that it shall be continued in full force 30
31 and effect for and during the term of the underlying lease as such term is herein 31
32 extended. 32

33 (g) The segregation of any Federal lease committed to this agreement is 33
34 governed by the following provision in the fourth paragraph of Sec. 17(j) of the 34
35 Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): 35

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

8 (h) Any lease embracing lands of the State of New Mexico which is made 8
9 subject to this agreement shall continue in force beyond the term provided therein 9
10 as to the lands committed hereto until the termination hereof. 10

11 (i) Any lease embracing lands of the State of New Mexico having only a 11
12 portion of its lands committed hereto, shall be segregated as to that portion 12
13 committed and that not committed, and the terms of such lease shall apply separately 13
14 to such segregated portions commencing as of the effective date hereof. Provided, 14
15 however, notwithstanding any of the provisions of this agreement to the contrary, 15
16 such lease shall continue in full force and effect beyond the term provided therein 16
17 as to all lands embraced in such lease, if oil or gas is, or has heretofore been 17
18 discovered in paying quantities from some part of the lands embraced in such lease 18
19 committed to this agreement or, so long as a portion of the unitized substances 19
20 produced from the unit area is, under the terms of this agreement, allocated to the 20
21 portion of the lands covered by such lease committed to this agreement, or, at any 21
22 time during the term hereof, as to any lease that is then valid and subsisting and 22
23 upon which the lessee or the Unit Operator is then engaged in bona fied drilling, 23
24 reworking, or secondary recovery operations on any part of the lands embraced in 24
25 such lease, then the same as to all lands embraced therein shall remain in full 25
26 force and effect so long as such operations are diligently prosecuted, and if they 26
27 result in the production of oil or gas, said lease shall continue in full force and 27
28 effect as to all of the lands embraced therein, so long thereafter as oil or gas in 28
29 paying quantities is being produced from any portion of said lands. 29

30 (j) Any lease, other than a Federal lease, having only a portion of its 30
31 lands committed hereto shall be segregated as to the portion committed and the 31
32 portion not committed, and the provisions of such lease shall apply separately 32
33 to such segregated portions commencing as of the effective date hereof. In the event 33
34 any such lease provides for a lump-sum rental payment, such payment shall be prorated 34
35 between the portions so segregated in proportion to the acreage of the respective 35
36 tracts. 36

1 19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be 1
2 covenants running with the land with respect to the interest of the parties hereto 2
3 and their successors in interest until this agreement terminates, and any grant, 3
4 transfer, or conveyance, of interest in land or leases subject hereto shall be 4
5 and hereby is conditioned upon the assumption of all privileges and obligations 5
6 hereunder by the grantee, transferee, or other successor in interest. No assignment 6
7 of transfer of any working interest, royalty, or other interest subject hereto shall 7
8 be binding upon Unit Operator until the first day of the calendar month after Unit 8
9 Operator is furnished with the original, photostatic, or certified copy of the 9
10 instrument of transfer. 10

11 20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon 11
12 approval by the Secretary and the Commissioner or their duly authorized represen- 12
13 tatives and shall terminate five (5) years from said effective date unless 13

14 (a) such date of expiration is extended by the Director and Commissioner, or 14
15 (b) it is reasonably determined prior to the expiration of the fixed term 15
16 or any extension thereof that the unitized land is incapable of production of uniti- 16
17 zed substances in paying quantities in the formations tested hereunder and after 17
18 notice of intention to terminate the agreement on such ground is given by the Unit 18
19 Operator to all parties in interest at their last known addresses, the agreement 19
20 is terminated with the approval of the Supervisor and the Commissioner, or 20

21 (c) a valuable discovery of unitized substances has been made or accepted 21
22 on unitized land during said initial term or any extension thereof, in which event 22
23 the agreement shall remain in effect for such term and so long as unitized 23
24 substances can be produced in quantities sufficient to pay for the cost of produc- 24
25 ing same from wells on unitized land within any participating area established 25
26 hereunder and, should production cease, so long thereafter as diligent operations 26
27 are in progress for the restoration of production or discovery of new production 27
28 and so long thereafter as the unitized substances so discovered can be produced as 28
29 aforesaid, or 29

30 (d) it is terminated as heretofore provided in this agreement. 30
31 This agreement may be terminated at any time by not less than per centum, on an 31
32 acreage basis, of the working interest owners signatory hereto, with the approval 32
33 of the Supervisor and the Commissioner; notice of any such approval to be given by 33
34 the Unit Operator to all parties hereto. 34

1 21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The Director is hereby 1
2 vested with authority to alter or modify from time to time in his discretion the 2
3 quantity and rate of production under this agreement when such quantity and rate is 3
4 not fixed pursuant to Federal or State law or does not conform to any statewide 4
5 voluntary conservation or allocation program, which is established, recognized, and 5
6 generally adhered to by the majority of operators in such State, such authority 6
7 being hereby limited to alteration or modification in the public interest, the 7
8 purpose thereof and the public interest to be served thereby to be stated in the 8
9 order of alteration or modification. Without regard to the foregoing, the Director 9
10 is also hereby vested with authority to alter or modify from time to time in his 10
11 discretion the rate of prospecting and development and the quantity and rate of 11
12 production under this agreement when such alteration or modification is in the 12
13 interest of attaining the conservation objectives stated in this agreement and is 13
14 not in violation of any applicable Federal or State law; provided, further, no such 14
15 alteration or modification shall be effective as to any land of the State of New 15
16 Mexico as to the rate of prospecting and development in the absence of the specific 16
17 written approval thereof by the Commissioner and as to lands of the State of New 17
18 Mexico or privately owned lands subject to this agreement as to the quantity and 18
19 rate of production in the absence of specific written approval thereof by the 19
20 Commissioner. 20

21 Powers in this section vested in the Director shall only be exercised after 21
22 notice to Unit Operator and opportunity for hearing to be held not less than 15 days 22
23 from notice. 23

24 22. APPEARANCES. Unit Operator shall, after notice to other parties affected, 24
25 have the right to appear for and on behalf of any and all interests affected hereby 25
26 before the Department of the Interior and to appeal from orders issued under the 26
27 regulations of said Department or to apply for relief from any of said regulations 27
28 or in any proceedings relative to operations before the Department of the Interior, 28
29 the Commissioner, the Commission or any other legally constituted authority; 29
30 provided, however, that any other interested party shall also have the right at at 30
31 his own expense to be heard in any such proceeding. 31

32 23. NOTICES. All notices, demands or statements required hereunder to be given 32
33 or rendered to the parties hereto shall be deemed fully given in writing and 33
34 personally delivered to the party or sent by postpaid registered or certified mail, 34
35 addressed to such party or parties at their respective addresses set forth in connec-35
36 tion with the signatures hereto or to the ratification or consent hereof or to such 36

1 other address as any such party may have furnished in writing to party sending the 1
2 notice, demand or statement. 2

3 24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall be 3
4 construed as a waiver by any party hereto of the right to assert any legal or 4
5 constitutional right or defense as to the validity or invalidity of any law of the 5
6 State wherein said unitized lands are located, or of the United States, or regula- 6
7 tions issued thereunder in any way affecting such party, or as a waiver by any such 7
8 party of any right beyond his or its authority to waive. 8

9 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit 9
10 Operator to commence or continue drilling or to operate on or produce unitized 10
11 substances from any of the lands covered by this agreement shall be suspended while 11
12 the Unit Operator, despite the exercise of due care and diligence, is prevented from 12
13 complying with such obligations, in whole or in part, by strikes, acts of God, 13
14 Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable 14
15 delays in transportation, inability to obtain necessary materials in open market, 15
16 or other matters beyond the reasonable control of the Unit Operator whether similar 16
17 to matters herein enumerated or not. No unit obligation which is suspended under 17
18 this section shall become due less than thirty (30) days after it has been determined 18
19 that the suspension is no longer applicable. Determination of creditable "Unavoid- 19
20 able Delay" time shall be made by the Unit Operator subject to approval of the Super-20
21 visor and Commissioner. 21

22 26. NONDISCRIMINATION. In connection with the performance of work under this 22
23 agreement, the operator agrees to comply with all the provisions of Section 202 23
24 (1) to (7) inclusive of Executive Order 11346 (30 F.R. 12319) as amended, which are 24
25 hereby incorporated by reference in this agreement. 25

26 27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail 26
27 and the true owner cannot be induced to join in this unit agreement, such tract 27
28 shall be automatically regarded as not committed hereto and there shall be such read-28
29 justment of future costs and benefits as may be required on account of the loss of 29
30 such title. In the event of a dispute as to title as to any royalty, working 30
31 interest, or other interests subject thereto, payment or delivery on account thereof 31
32 may be withheld without liability for interest until the dispute is finally settled; 32
33 provided, that, as to Federal and State land or leases, no payments of funds due the 33
34 United States or the State of New Mexico should be withheld, but such funds shall be 34
35 deposited as directed by the Supervisor and the Commissioner, respectively, to be 35

1 held as unearned money pending final settlement of the title dispute, and then 1
2 applied as earned or returned in accordance with such final settlement. 2

3 Unit Operator as such is relieved from any responsibility for any defect or 3
4 failure of any title hereunder. 4

5 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial 5
6 interest in a tract within the unit area fails or refuses to subscribe or consent 6
7 to this agreement, the owner of the working interest in that tract may withdraw 7
8 said tract from this agreement by written notice delivered to the Supervisor, the 8
9 Commissioner and the Unit Operator prior to the approval of this agreement by the 9
10 Supervisor and the Commissioner. Any oil or gas interests in lands within the unit 10
11 area not committed hereto prior to submission of this agreement for final approval 11
12 may thereafter be committed hereto by the owner or owners thereof subscribing or 12
13 consenting to this agreement, and, if the interest is a working interest, by the 13
14 owner of such interest also subscribing to the unit operating agreement. After 14
15 operations are commenced hereunder, the right of subsequent joinder, as provided in 15
16 this section, by a working interest owner is subject to such requirements or 16
17 approvals, if any, pertaining to such joinder, as may be provided for in the unit 17
18 operating agreement. After final approval hereof, joinder by a non-working interest 18
19 owner must be consented to in writing by the working interest owner committed hereto 19
20 and responsible for the payment of any benefits that may accrue hereunder in behalf 20
21 of such non-working interest. A non-working interest may not be committed to this 21
22 unit agreement unless the corresponding working interest is committed hereto. 22
23 Joinder to the unit agreement by a working-interest owner, at any time, must be 23
24 accompanied by appropriate joinder to the unit operating agreement, if more than 24
25 one committed working interest owner is involved, in order for the interest to be 25
26 regarded as committed to this unit agreement. Except as may otherwise herein be 26
27 provided, subsequent joinders to this agreement shall be effective as of the first 27
28 day of the month following the filing with the Supervisor and the Commissioner of 28
29 duly executed counterparts of all or any papers necessary to establish effective 29
30 commitment of any tract to this agreement unless objection to such joinder is duly 30
31 made within 60 days by the Supervisor or the Commissioner; provided that, as to 31
32 State lands all subsequent joinders must be approved by the Commissioner. 32

33 29. COUNTERPARTS. This agreement may be executed in any number of counterparts 33
34 no one which needs to be executed by all parties or may be ratified or consented 34
35 to by separate instrument in writing specifically referring hereto and shall be 35

1 binding upon all those parties who have executed such a counterpart, ratification 1
2 or consent hereto with the same force and effect as if all such parties had signed 2
3 the same document and regardless of whether or not it is executed by all other 3
4 parties owning or claiming an interest in the lands within the above-described unit 4
5 area. 5

6 30. SURRENDER. Nothing in this agreement shall prohibit the exercise by any 6
7 working interest owner of the right to surrender vested in such party by any lease, 7
8 sublease, or operating agreement as to all or any part of the lands covered thereby, 8
9 provided that each party who will or might acquire such working interest by such 9
10 surrender or by forfeiture as hereafter set forth, is bound by the terms of this 10
11 agreement. 11

12 If as a result of any such surrender the working interest rights as to such 12
13 lands become vested in any party other than the fee owner of the unitized substances, 13
14 said party may forfeit such rights and further benefits from operation hereunder 14
15 as to said land to the party next in the chain of title who shall be and become the 15
16 owner of such working interest. 16

17 If as a result of any such surrender or forfeiture working interest rights 17
18 become vested in the fee owner of the unitized substances, such owner may: 18

19 (1) Accept those working interest rights subject to this agreement and the 19
20 unit operating agreement; or 20

21 (2) Lease the portion of such land as is included in a participating area 21
22 established hereunder subject to this agreement and the unit operating agreement; 22

23 (3) Provide for the independent operation of any part of such land that is 23
24 not then included within a participating area established hereunder. 24

25 If the fee owner of the unitized substances does not accept the working 25
26 interest rights subject to this agreement and the unit operating agreement or lease 26
27 such lands as above provided within six (6) months after the surrender or forfeited 27
28 working interest rights become vested in the fee owner, the benefits and obligations 28
29 of operations accruing to such lands under this agreement and the unit operating 29
30 agreement shall be shared by the remaining owners of unitized working interests in 30
31 accordance with their respective working interest ownerships, and such owners of 31
32 working interests shall compensate the fee owner of unitized substances in such 32
33 lands by paying sums equal to the rentals, minimum royalties, and royalties 33
34 applicable to such lands under the lease in effect when the lands were unitized. 34

1 An appropriate accounting and settlement shall be made for all benefits accruing 1
2 to or payments and expenditures made or incurred on behalf of such surrendered or 2
3 forfeited working interest subsequent to the date of surrender of forfeiture, and 3
4 payment of any moneys found to be owing by such an accounting shall be made as 4
5 between the parties within thirty (30) days. In the event no unit operating agree- 5
6 ment is in existence and a mutually acceptable agreement between the proper parties 6
7 thereto cannot be consummated, the Supervisor and the Commissioner may prescribe 7
8 such reasonable and equitable agreement as they deem warranted under the circum- 8
9 stances. 9

10 The exercise of any right vested in a working interest owner to reassign such 10
11 working interest to the party from whom obtained shall be subject to the same con- 11
12 ditions as set forth in this section in regard to the exercise of a right to 12
13 surrender. 13

14 31. TAXES. The working interest owners shall render and pay for their account 14
15 and the account of the royalty owners all valid taxes on or measured by the unitized 15
16 substances in and under or that may be produced, gathered and sold from the land 16
17 subject to this contract after the effective date of this agreement, or upon the 17
18 proceeds or net proceeds derived therefrom. The working interest owners on each 18
19 tract shall and may charge the proper proportion of said taxes to the royalty owners 19
20 having interests in said tract, and may currently retain and deduct sufficient of 20
21 the unitized substances or derivative products, or net proceeds thereof from the 21
22 allocated share of each royalty owner to secure reimbursement for the taxes so paid. 22
23 No such taxes shall be charged to the United States or to the State of New Mexico 23
24 or to any lessor who has a contract with his lessee which requires the lessee to 24
25 pay such taxes. 25

26 32. NO PARTNERSHIP. It is expressly agreed that the relation of the parties 26
27 hereto is that of independent contractors and nothing in this agreement contained, 27
28 expressed or implied, nor any operations conducted hereunder, shall create or be 28
29 deemed to have created a partnership or association between the parties hereto or 29
30 any of them. 30

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 & WORKING INTEREST OWNER

Corinne Grace

Date: _____

Address: 1141 East Bethany Home Road
; Phoenix, Arizona 85014

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this _____

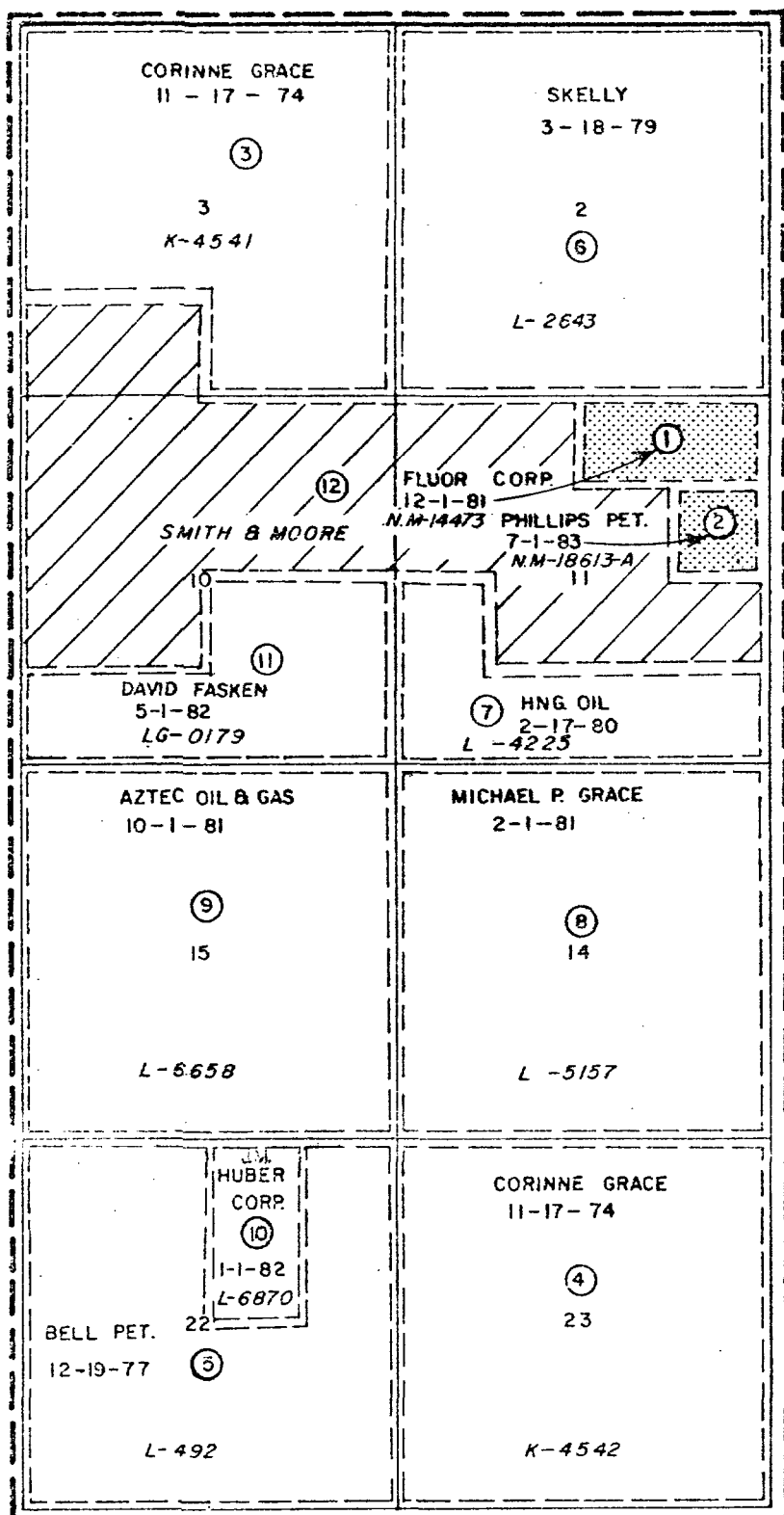
day of _____, 1974, by _____ Corinne Grace

WITNESS my hand and official seal.

My commission expires:

Notary Public

R 27 E



FEDERAL LEASES

Tract No. New Mexico Serials

- ① N.M-14473
- ② N.M 18613 - A

STATE OF NEW MEXICO

- ③ K - 4541
- ④ K - 4542
- ⑤ L - 492
- ⑥ L - 2643
- ⑦ L - 4225
- ⑧ L - 5157
- ⑨ L - 6658
- ⑩ L - 6870
- ⑪ LG- 0179

PATENTED LAND

- ⑫ Smith and Moore

T
24
S

LEGEND:

- BOUNDARY OUTLINE
- TRACT OUTLINE
- ③ TRACT NUMBER

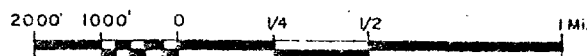
EXHIBIT "A"

BOND DRAW UNIT

T 24 S, R 27 E

EDDY COUNTY, NEW MEXICO

GRAPHIC SCALE



Tract No.	Description of Land	Number of Acres	Lease Number & Expiration Date	Basic Royalty & Owner Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
FEDERAL LAND							
1	Sec. 11: N $\frac{1}{2}$ NE $\frac{1}{4}$	80.00	NM-14473 11-30-81	USA - All	Fluor Corp.	Leroy Esterak 1%	Fluor Corp: 100%
2	Sec. 11: SE $\frac{1}{2}$ NE $\frac{1}{4}$	40.00	NM-18613-A 6-30-83	USA - All	Phillips Petroleum Co.	Wayne S. Ames 2% Central Southwest Oil Corp. 3%	Phillips Petroleum Co.: 100%
2 FEDERAL TRACTS 120 Acres or 2.34% of Unit Area							
NEW MEXICO STATE LAND							
3	Sec. 3: Lots 1,2, 3,4, S $\frac{1}{2}$ N $\frac{1}{2}$, N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$	561.67	K-4541 11-17-74	New Mexico State-All	Corinne Grace	None	Corinne Grace: 100%
4	Sec. 23: All	640.00	K-4542 11-17-74	New Mexico State-All	Corinne Grace	None	Corinne Grace: 100%
5	Sec. 22: S $\frac{1}{2}$, NW $\frac{1}{4}$, E $\frac{1}{2}$ NE $\frac{1}{4}$	560.00	L-492 12-19-77	New Mexico State-All	Bell Petroleum Company	None	Bell Petroleum Company: 100%
6	Sec. 2: Lots 1,2, 3,4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$	641.44	L-2643 3-18-79	New Mexico State-All	Skelly Oil Co.	None	Skelly Oil Co: 100%
7	Sec. 11: S $\frac{1}{2}$ S $\frac{1}{2}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$	200.00	L-4225 12-17-80	New Mexico State-All	HNG Oil Co.	None	HNG Oil Co: 100%
8	Sec. 14: All	640.00	L-5157 2-1-81	New Mexico State-All	Michael P. Grace	None	Michael P. Grace: 100%
9	Sec. 15: All	640.00	L-6658 10-1-81	New Mexico State-All	Aztec Oil & Gas Company	None	Aztec Oil & Gas Company: 100%
10	Sec. 22: W $\frac{1}{2}$ NE $\frac{1}{4}$	80.00	L-6870 1-1-82	New Mexico State-All	J.M. Huber Corp.	None	J.M. Huber Corp: 100%
11	Sec. 10: S $\frac{1}{2}$, N $\frac{1}{2}$ SE $\frac{1}{4}$	240.00	LG-0179 5-1-82	New Mexico State-All	David Fasken	None	David Fasken: 100%
9 STATE TRACTS 4.203.11 Acres or 82.04% of Unit Area							

Tract No.	Description of Land	Number of Acres	Lease Number & Expiration Date	Basic Royalty & Owner Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
PATENTED LAND							
12	Sec. 3: S $\frac{1}{2}$ SW $\frac{1}{4}$						
	Sec. 10: N $\frac{1}{2}$, N $\frac{1}{2}$ SW $\frac{1}{4}$						
	Sec. 11: NW $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$, 800.00 NE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$		Unleased	Wayne Moore: 50% Wilson Smith: 50%	Unleased	None	Wayne Moore: 50% Wilson Smith: 50%
1 PATENTED TRACT 800 Acres or 15.62% of Unit Area							

TOTAL: 12 Tracts - 5,123.11 Acres in the Entire Unit Area.