

OIL and GAS MANUAL

Oil, Gas, and Minerals Division



**New Mexico State Land Office
Santa Fe, New Mexico
JULY 2014**

OIL AND GAS MANUAL



NEW MEXICO STATE LAND OFFICE

Oil, Gas, and Minerals Division

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Publication Note

Beginning with the May 1, 2002 publication,
references to *seismic*
were replaced by *geophysical*.

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NEW MEXICO STATE LAND OFFICE OIL AND GAS STAFF DIRECTORY

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RELATED AREAS:

Lease Payment Inquiry – Accounting office...827-5704

Rights of Way – Melissa Armijo...827-5728

Lease Files, Copies – Records Management...827-5716

Salt Water Disposal – Nick Jaramillo...827-5773

Caliche permits – Hobbs office ...392-8736 or 392-3697

Business Leases – Jeanette Salazar...827-5724

ACCESS ONLINE

You can download oil and gas forms from the State Land Office's website

www.nmstatelands.org

The forms are available in Adobe Acrobat. You are able to enter required information directly onto the electronic forms, "Save As" into your computer, print out and sign the form, have it notarized if necessary, and mail it to the State Land Office. We plan to be able to receive your electronic signatures soon, although if the form needs notarization, that would require you to print your form. We hope you find that the ability to enter information directly into a computer form will ease your office's workload.

The State Land Office staff continues to make available to the public electronic information that is useful in doing business with us. We have worked with New Mexico Tech in Socorro to have available information from the state's Oil and Natural Gas Accounting and Revenue Database, better known as ONGARD. Members of the Industry Service and Outreach Group at NM Tech's Petroleum Recovery Research Center are translating ONGARD tables into user-friendly internet screens. If you need assistance with the websites, call our Chief Geologist, Stephen Wust at 505-827-5748.

There are two sites that you can access for different kinds of information:

<http://octane.nmt.edu> Updated bi-weekly.

This takes you to NM Tech's GO-TECH site. At this site you can obtain information made available through the work done by NM Tech's Petroleum Recovery Research Center (PRRC) that provides the public information about statewide land and lease status.

You can find information on leases by entering company names, you can search land ownership throughout the state, you can find contact information on operations, you can identify terms for particular leases, and you can find information on Communitizations. Once you are at the GO-TECH homepage, click on "**State Land Office Data**" in the header menu. This will take you to a page listing all the different searches you can perform.

<http://www.ongard.state.nm.us> Updated in real time.

This takes you directly to the state's ONGARD system. At this site you find information for oil and gas development. On the homepage, click on the "Industry Access" button, and then go to the "Trust Land Lease Inquiry." There you can search "Active Oil & Gas Leases" and "Oil & Gas Open Acreage."

MAPS

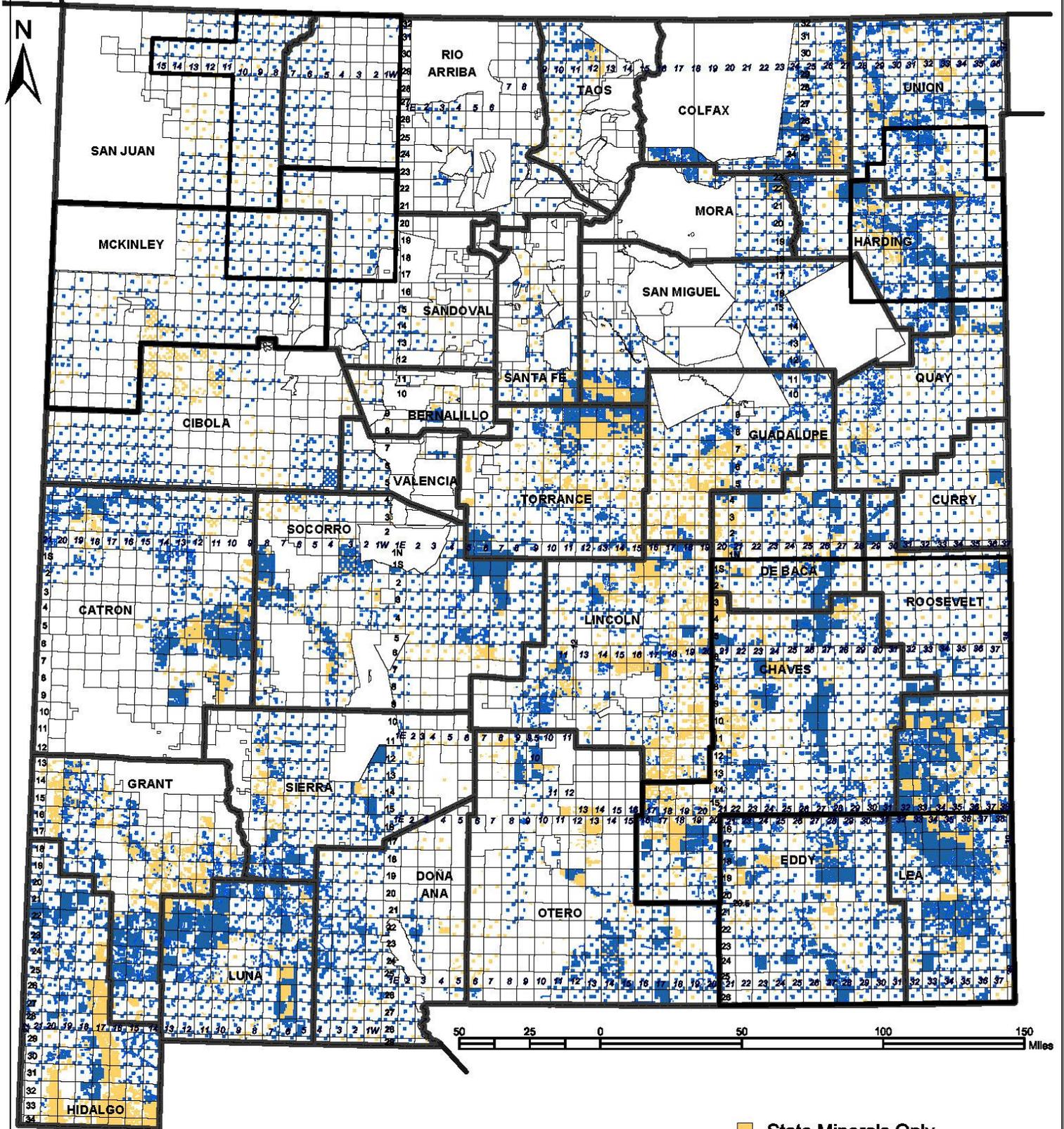
On the following two pages you will find maps of interest for oil and gas exploration and production.

The first map – State Minerals and Dual Estate Ownership – shows the 9 million acres in which the State owns BOTH surface and mineral and the 13 million acres of subsurface (mineral estate) acres.

The second map – Rental Map – shows the rental rate per acre. The rates are \$1.00, \$0.50, and \$0.25.

For questions concerning the maps, contact Stephen Wust, Geologist in the Oil, Gas, and Minerals Division at 505-827-5748.

STATE MINERALS AND DUAL ESTATE OWNERSHIP



Created in ArcGIS 8.3 by Eleanore Nesterode, Geologist
 New Mexico State Land Office
 Oil, Gas, and Minerals Division

Projection: State Plane NAD27, Zone 13

UTAH

COLORADO

OKLAHOMA

ARIZONA

TEXAS

TEXAS

No plats for: T.16, 17, 18, 19, 20 S
R.22 E

MEXICO

RENTAL MAP

EFFECTIVE 1/2/84 12:00 NOON

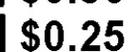
EFFECTIVE DATE OF EXPANSION OF EXISTING
RESTRICTED AREA AND THE CREATION OF NEW
RESTRICTED AREA IN N.E. QUADRANT JULY 25,
1986 - 11:59 A.M.

COMMISSIONER OF PUBLIC LANDS



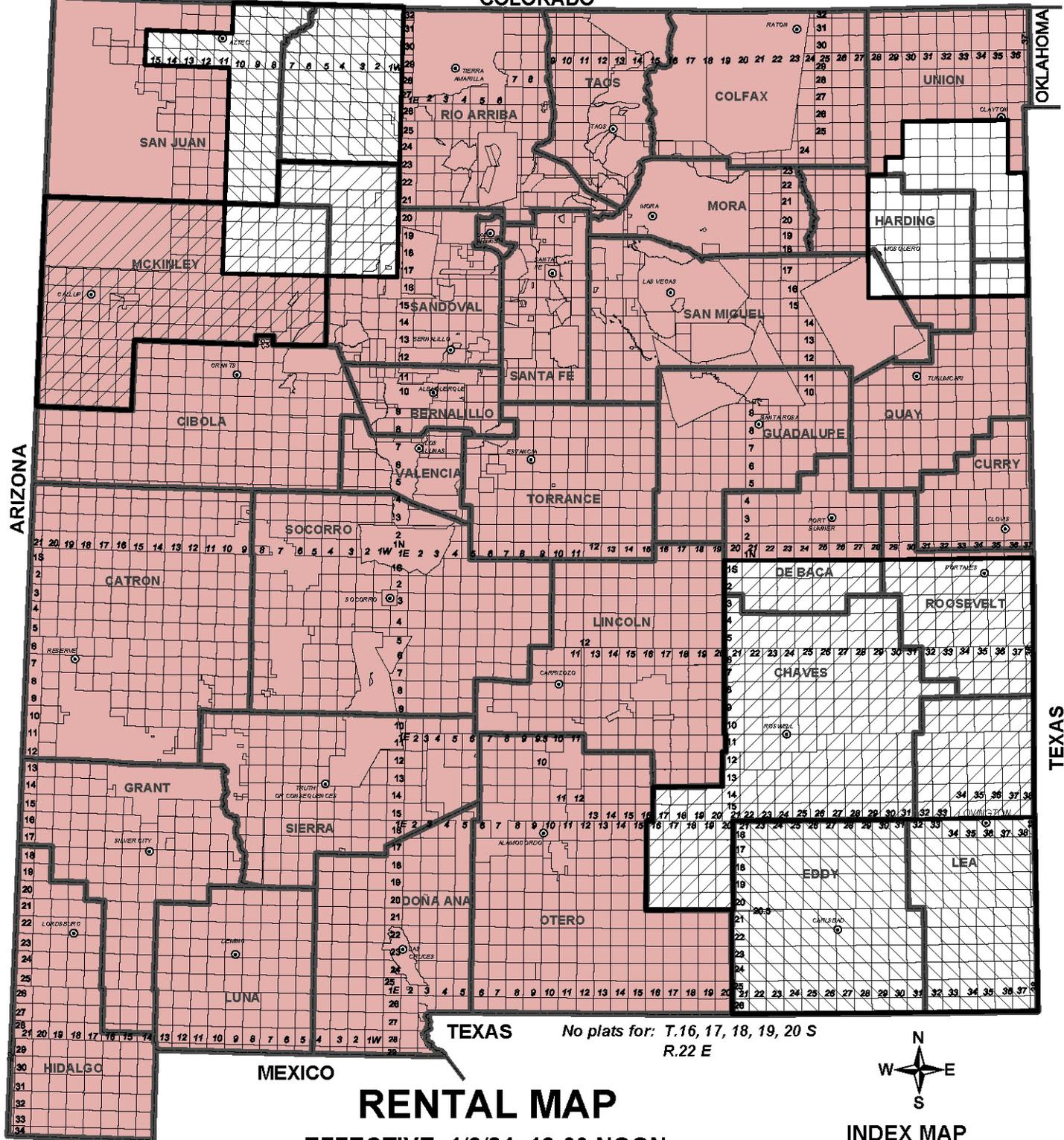
INDEX MAP
STATE OF
NEW MEXICO

Land Office
Geographic Information Center

-  \$1.00
-  or  \$0.50
-  or  \$0.25

RESTRICTED AREAS
ARE REPRESENTED BY
WHITE BACKGROUND.

Created with ArcView 3.2a by Eleanore Nesterode, Geologist
OGMD, New Mexico State Land Office 10/29/2003
Projection: UTM NAD27, Zone 13



New Mexico State Land Office Oil, Gas, and Minerals Division



Mission Statement

**“OPTIMIZE REVENUES WHILE
PROTECTING OUR HERITAGE
and OUR FUTURE.”**



DEFINITIONS

COMMERCIAL QUANTITIES: Production in sufficient quantity to repay the costs of drilling, completion, and production operations, with a reasonable profit.

COMMUNITIZATION (“COM”): A cooperative agreement signed by lessees of record to fulfill spacing requirements for production, as determined on a pool or area basis, by the Oil Conservation Division.

JOINT OWNERSHIP: All titleholders share ownership in a lease. If there are more than two titleholders, no more than two owners act as attorneys-in-fact for all interest owners in a lease.

PAYING QUANTITIES: Production in sufficient quantity to repay operating expenses of a well, with a reasonable profit.

SEGREGATION CLAUSES: Apply to state leases where only part of the lease is within a post-1985 unit boundary. Under the terms of **strict segregation clauses in state/fee exploratory units**, production from the unit, even if the wells are on that portion of the lease inside the unit, will **NOT** hold the portion of the lease outside of the unit boundary.

Under the terms of **modified segregation clauses in the state/federal/fee exploratory unit**, production from a well on a portion of the lease inside the unit area will hold that portion of the lease outside the unit boundary.

Under the terms of **modified segregation clauses in the state/federal/fee or state/fee waterflood unit**, production from the portion of the lease, or production allocated to the portion of the lease, inside the unit area will hold that portion of the lease outside the unit boundary.

Please refer to your unit agreement and the unit portion of the *Oil & Gas Manual* for specific information.

SHUT-IN ROYALTY: Payment in lieu of actual production royalty from a well capable of producing gas in commercial quantities, when non-production is due to lack of market or lack of a pipeline connection.

SPECIAL SALE: These are tracts in one of the monthly oil and gas lease sales that are geographically located in what are known as Unrestricted Districts. These are the districts that are in areas where there is not yet commercial production and where oil and gas reserves are unknown.

REGULAR SALE: These are tracts that are geographically located in the Restricted Districts. These are the districts that encompass areas of known production of oil and gas.

UNDIVIDED INTEREST – Ownership in an oil and gas lease that is less than 100%.

UNITIZATION: A cooperative agreement for the development or operation of state lands under agreements made by lessees for operation or development of part or all of any oil or gas pool, field or area; for reduction of gas-oil ratios; for repressuring or secondary recovery operations; or for the storing of gas regardless of where such gas is produced.

New Mexico State Land Office
RULES AND REGULATIONS FOR OIL AND GAS

TITLE 19 NATURAL RESOURCES AND WILDLIFE
CHAPTER 2 STATE TRUST LANDS
PART 100 RELATING TO OIL AND GAS LEASES

19.2.100.1 ISSUING AGENCY: Commissioner of Public Lands, New Mexico State Land Office, PO Box 1148, Santa Fe, New Mexico 87504-1148.

[19.2.100.1 NMAC – Rn, SLO Rule 1, 12/13/2002]

19.2.100.2 SCOPE: [Reserved]

19.2.100.3 STATUTORY AUTHORITY: [Reserved]

19.2.100.4 DURATION: [Reserved]

19.2.100.5 EFFECTIVE DATE: June 24, 1985.

[19.2.100.5 NMAC – Rn, SLO Rule 1, 12/13/2002]

19.2.100.6 OBJECTIVE: [Reserved]

19.2.100.7 DEFINITIONS: [Reserved]

19.2.100.8 PRODUCTS INCLUDED: The commissioner is authorized to execute and issue oil and gas leases covering state common school and institutional trust lands as lessor in the name of the state of New Mexico. The form of basic lease is statutory and includes carbon dioxide. All leases issued after June 9, 1963, include helium. Leases issued on or before June 9, 1963, do not include helium gas unless stipulated as provided in 19.2.100.55 NMAC. All forms are provided by the land office.

[19.2.100.8 NMAC – Rn, SLO Rule 1, Section 1.001, 12/13/2002]

19.2.100.9 CLASSIFICATION INTO DISTRICTS: There are two types of districts, known respectively as restricted districts and non or unrestricted districts. A restricted district comprises an area usually in a proven oil and gas area and is created by statute or by authority of the commissioner. A non- or unrestricted district includes all lands outside the exterior boundaries of restricted districts.

[19.2.100.9 NMAC – Rn, SLO Rule 1, Section 1.002, 12/13/2002]

19.2.100.10 LANDS SUBJECT TO LEASE: All state lands presently open for oil and gas lease purposes, or lands which may become open in the future due to the cancellation or expiration of leases, or for any other reason, may be leased only by competitive bid after public notice in accordance with 19.2.100.25 NMAC hereof, except as provided in 19.2.100.12 NMAC.

[19.2.100.10 NMAC – Rn, SLO Rule 1, Section 1.003, 12/13/2002]

19.2.100.11 RESTRICTED DISTRICTS – LEASING:

A. All lands within a restricted district are classified as restricted lands and no tract of such lands shall be leased without being further categorized by the commissioner as either regular or premium based upon five factors: oil and gas trends; oil and gas traps; reservoir volume and recovery rating; lease bonus rating; and exploration and activity. A percentage of zero percent to twenty percent shall be allocated to each factor. In allocating percentages, the following procedures and criteria shall be used:

(1) Oil and gas trends, i.e., where depositional and structural conditions are favorable for accumulation of oil and gas, shall be determined as accurately as possible by the commissioner upon the advice of a qualified geologist using drilling patterns, geological society data, well records and logs, available seismic surface and subsurface geological information and structural maps;

(2) The likelihood of locating structural or stratigraphic oil and gas traps necessary for the accumulation of oil or gas in commercial quantities shall be determined by the commissioner upon the advice of a qualified geologist and a petroleum engineer based upon available seismic and geological data;

(3) Reservoir volume and recovery rating shall be determined considering the nearest known reservoir conditions which may be reasonably assumed to be applicable. Known porosity, permeability, water

saturation, pressures and recovery factors shall be included when available and shall be utilized by a qualified petroleum engineer in recommending a reservoir volume and recovery rating;

(4) Lease bonus rating shall be based upon all available recent leasing data which may be reasonably assumed to be applicable. In the absence of sufficient recent leasing data, drilling patterns, geological trends, available seismic data and known or reasonably assumed structural features may be considered in determining the lease bonus rating; and

(5) Exploration and drilling activity shall be determined considering all available information which may include drilling patterns, approved drilling permits, progress reports of drilling wells, workover notices and other information which may be reasonably assumed to be applicable.

B. If the total percentage of all factors for a tract of land is less than seventy-five percent, the tract shall be categorized as regular. If the total percentage of all factors for a tract of land is seventy-five percent or more, the tract shall be categorized as premium.

[19.2.100.11 NMAC – Rn, SLO Rule 1, Section 1.004, 12/13/2002]

19.2.100.12 UNRESTRICTED DISTRICTS: Lands in an unrestricted district are ordinarily leased by offering them for sale at public auction to the highest and best bidder, as hereinafter explained and in accordance with 19.2.100.25 NMAC et seq. However, such lands may be leased on application without bidding if, in the opinion of the commissioner, the best interests of the trust will be served by so doing.

[19.2.100.12 NMAC – Rn, SLO Rule 1, Section 1.005, 12/13/2002]

19.2.100.13 TERM AND FORM OF LEASES: The commissioner shall issue oil and gas leases upon one of three statutory forms as follows, the form and royalty rate to be specified in the regular notice of public lease sale:

A. For lands classified as non-restricted lands under Section 19-10-3 NMSA 1978 and 19.2.100.9 NMAC, the commissioner shall use the exploratory lease form as set forth in Section 19-10-4.1 NMSA 1978.

B. For lands classified as restricted lands and categorized as regular under Section 19-10-3 NMSA 1978 and 19.2.100.11 NMAC, the commissioner, in his discretion, may use the exploratory lease form as set forth in Section 19-10-4.1 NMSA 1978 or the discovery lease form as set forth in Section 19-10-4.2 NMSA 1978.

C. For lands classified as restricted lands and categorized as premium under Section 19-10-3 NMSA 1978 and 19.2.100.11 NMAC, the commissioner, in his discretion, may use the exploratory lease form as set forth in Section 19-10-4.1 NMSA 1978, the discovery lease form as set forth in Section 19-10-4.2 NMSA 1978 or the development lease form as set forth in Section 19-10-4.3 NMSA 1978; provided, that in using the development lease form for a tract receiving less than ninety total percentage points under Section 19-10-3 NMSA 1978 and 19.2.100.11 NMAC, the royalty rate shall not exceed three-sixteenths.

[19.2.100.13 NMAC – Rn, SLO Rule 1, Section 1.006, 12/13/2002]

19.2.100.14 ANNUAL RENTAL – PRIMARY AND SECONDARY TERM: All leases issued by the commissioner shall provide for an annual rental to be paid by the lessee, whether or not a lease is producing oil or gas. The initial rental shall be fixed by the commissioner, but in no case shall the initial amount be less than twenty-five cents (\$0.25) nor more than one dollar (\$1.00) per acre. For ten-year leases, if production in paying quantities is obtained during the primary term of the first five years, then the initial rental rate shall be applicable as long as the lease is held by such production. If no production in paying quantities is obtained during the primary term and the lease enters the secondary term of five years, the rental for the remaining life of the lease shall be either double that of the primary term or the highest rate of rental prevailing in the area at the commencement of the secondary term, whichever is higher.

[19.2.100.14 NMAC – Rn, SLO Rule 1, Section 1.007, 12/13/2002]

19.2.100.15 MINIMUM CHARGE: The minimum initial charge for any lease shall be one hundred dollars (\$100.00) or the minimum rental rate, whichever is greater, plus a thirty-dollar (\$30.00) application fee. Minimum rental rate is computed by multiplying the rental rate by the acreage in each advertised tract.

[19.2.100.15 NMAC – Rn, SLO Rule 1, Section 1.008, 12/13/2002]

19.2.100.16 LIMITATION OF ACREAGE: Unless otherwise approved and granted by the commissioner, no oil and gas lease shall be issued to cover more than the total number of acres of two sections of land to be wholly or partially included in the lease, regardless of the number of acres within those sections, provided that the lease may incorporate lands within more than two different sections of land.

[19.2.100.16 NMAC – Rn, SLO Rule 1, Section 1.009, 12/13/2002]

19.2.100.17 DIFFERENT RENTAL DISTRICTS – HIGHEST RENTAL PREVAILING: Where part of the lands in any lease are situated in one rental district and part thereof in another, or other districts, the lessee shall pay the rental prevailing in the district wherein part of the lands affected are situated having the highest rental.

[19.2.100.17 NMAC – Rn, SLO Rule 1, Section 1.010, 12/13/2002]

19.2.100.18 [Reserved]

[19.2.100.18 NMAC – Rn, SLO Rule 1, Section 1.011, 12/13/2002]

19.2.100.19 CLEAR-LIST OF LANDS FROM UNITED STATES ESSENTIAL BEFORE ISSUANCE OF LEASE: Ordinarily, leases will not be issued for selected lands which have not been clear-listed or for any lands where the records of the state land office show the title of the state to be in question, controversy or dispute.

[19.2.100.19 NMAC – Rn, SLO Rule 1, Section 1.012, 12/13/2002]

19.2.100.20 LIMITATION TO NOT MORE THAN TWO PERSONS OR LEGAL ENTITIES – TRUST LIMITATIONS – WAIVERS: As a matter of administration and without affecting property rights in oil and gas leases, whenever more than two persons or legal entities apply for the issuance of an oil and gas lease, the commissioner shall grant the lease in the names of no more than two persons acting as attorneys-in-fact for all potential interest owners. In the case of a trust, the trust must be express and a copy of the creating document filed with the commissioner. If more than two trustees are named, a lease shall be granted in the names of no more than two trustees acting as attorneys-in-fact for all trustees. The limitations in this rule may be waived by the commissioner for good cause.

[19.2.100.20 NMAC – Rn, SLO Rule 1, Section 1.013, 12/13/2002]

19.2.100.21 LEASE WITHIN 25 MILES SQUARE – RIGHT OF COMMISSIONER: No one lease may be issued for lands which will not fall within the area of a square twenty-five miles long by twenty-five miles wide; however, this requirement may be waived by the commissioner in any proper case.

[19.2.100.21 NMAC – Rn, SLO Rule 1, Section 1.014, 12/13/2002]

19.2.100.22 LIMITATION TO NOT MORE THAN ONE BENEFICIARY INSTITUTION: Leases will not be issued covering lands belonging to more than one beneficiary institution.

[19.2.100.22 NMAC – Rn, SLO Rule 1, Section 1.015, 12/13/2002]

19.2.100.23 SURETY TO PROTECT SURFACE PURCHASER AND LESSEE – WAIVERS:

A. Before any lessee shall commence development or operations, including any and all prospecting activities upon the lands, such lessee or operator shall execute and file with the commissioner a good and sufficient bond or other surety, in an amount to be fixed by the commissioner but not less than ten thousand dollars (\$10,000) in favor of the state of New Mexico for the benefit of the appropriate trust beneficiary and the state's contract purchasers, patentees and surface lessees, to secure payment to the extent allowed by law for such damage to their interests and tangible improvements upon such lands as may be suffered by reason of development, use and occupation of the lands by the oil and gas lessee.

B. A bond or other surety in the minimum amount of ten thousand dollars (\$10,000) for each lease shall be deemed sufficient unless and until the commissioner determines, or one or more surface lessees or purchasers show the commissioner, that such an amount is not adequate in a given case. Provided, however, that if a lessee holds more than one oil and gas lease, a blanket bond or other surety in the amount of twenty thousand dollars (\$20,000) will be acceptable unless and until the commissioner determines, or one or more surface lessees or purchasers show the commissioner, that such an amount is not adequate in a given case. Provided further, that if any purchaser, patentees or surface lessees shall file with the commissioner a waiver duly executed and acknowledged by him of his right to require such bond or other surety pursuant to Section 19-10-26 NMSA 1978 the development, occupation and use of the lands by the oil and gas lessee may in the discretion of the commissioner be permitted without said surety.

C. With the approval of the commissioner, in lieu of the single and blanket bonds for oil and gas lessees, a twenty-five thousand dollar (\$25,000) bond or other surety may be used at the option of lessee for the use and benefit of the commissioner, to secure surface improvement damage and the performance of the lessee

under one or more state leases or permits for minerals, oil and gas, coal or geothermal resources or as holder under one or more state rights of way or easements which the lessee has executed with the commissioner. The lessee will be obligated to perform and keep all terms, covenants, conditions and requirements of all state leases for minerals, oil and gas, coal or geothermal resources and of all state rights of way and easements executed with the commissioner, including the payment of royalties when due and compliance with all established mining plans and reclamation requirements.

[19.2.100.23 NMAC – Rn, SLO Rule 1, Section 1.016, 12/13/2002]

19.2.100.24 [Reserved]

[19.2.100.24 NMAC - Rn, SLO Rule 1, Section 1.017, 12/13/2002]

19.2.100.25 COMPETITIVE BIDDING ON ALL LANDS WITHIN RESTRICTED DISTRICTS:

No oil and gas leases upon any state lands within any restricted district will be issued except to the highest and best bidder after competitive offers by sealed bids or a public auction. Regularly advertised sales covering lands within restricted areas are held on the third Tuesday of each month, or on the next business day following where the third Tuesday falls on a legal holiday, unless the commissioner decides not to hold a sale. Lands outside the restricted districts may also be offered on said third Tuesday when it is deemed advisable. The commissioner may, in his discretion, hold oil and gas lease sales, as aforesaid, by a combination of the methods set out above, and may also hold any sale at the county seat of the county where the lands or the greater part thereof are situated.

[19.2.100.25 NMAC – Rn, SLO Rule 1, Section 1.018, 12/13/2002]

19.2.100.26 NOTICE OF SALE: On or before ten days prior to the date of any such sale, notice of the same shall be posted in a conspicuous place in the state land office specifying the place, date and hour of the sale, and containing a description of the lands to be offered for lease, with a statement of the minimum bid which will be accepted.

[19.2.100.26 NMAC – Rn, SLO Rule 1, Section 1.019, 12/13/2002]

19.2.100.27 ACCEPTANCE OF BIDS: Up to the hour set for such sale, the commissioner will receive sealed bids for an oil and gas lease upon any tract of land described in the posted notice. All sealed bids submitted will be opened at the hour mentioned in the notice, and the lease will be awarded to the highest and best bidder, subject to the discretionary right of the commissioner to reject any bid.

[19.2.100.27 NMAC – Rn, SLO Rule 1, Section 1.020, 12/13/2002]

19.2.100.28 WHERE NO SEALED BIDS RECEIVED: Each of said tracts described in the notice on which no sealed bids are received may be offered for lease at public auction to the highest and best bidder, for cash, and lease will be awarded to such highest and best bidder if the offer shall be deemed acceptable. If no sealed bids or other bids are received for any tract described in the notice, such tract will be withdrawn until further notice at the discretion of the commissioner.

[19.2.100.28 NMAC – Rn, SLO Rule 1, Section 1.021, 12/13/2002]

19.2.100.29 APPLICATION UNDER OATH – FEES: Application for lease accompanying sealed bids shall be executed under oath by the applicant, or by his agent or attorney, duly authorized in writing, or by an officer or attorney-in-fact of a corporation, if application is by a corporation, and must be accompanied by a bid fee of thirty dollars (\$30.00) (applied toward application fee for successful bidder) and the amount of the first year's rental and bonus offered. Unless approval of the commissioner for use of non-certified exchange is obtained, payment shall be made in cash, money order or certified check on a solvent bank. The land office furnishes application blanks upon request.

[19.2.100.29 NMAC – Rn, SLO Rule 1, Section 1.022, 12/13/2002]

19.2.100.30 TIE BIDS: When two or more sealed highest and best bids received for the same tract of land are equal, the commissioner (if such highest and best bidders are present and cannot agree, by stipulation in writing, on how such tract shall be disposed of) shall call such equal highest and best bidders before him in the state land office (or if such sale is held in the county in which such lands are located, the person conducting such sale shall call such equal highest and best bidders before him) on the same day such bids are opened, and again offer such tracts at auction to such bidders only, and grant such lease to the then highest and best bidder. If such bidders are not present when such bids are opened, then the commissioner will notify such bidders to submit

sealed proposals within ten days next following the date of the sale at which such bids were determined to be equal.

[19.2.100.30 NMAC – Rn, SLO Rule 1, Section 1.023, 12/13/2002]

19.2.100.31 RIGHT TO REJECT ANY AND ALL BIDS – WITHHOLDING FROM LEASING: The commissioner reserves the right to reject any and all bids not in conformity with law and the posted notice of sale, and to require higher rentals, impose additional restrictions and requirements and to withhold lands from leasing whenever, in his discretion, he shall deem it to be for the best interests of the trust to do so.

[19.2.100.31 NMAC – Rn, SLO Rule 1, Section 1.024, 12/13/2002]

19.2.100.32 TRANSFER AND ASSIGNMENT OF OIL AND GAS LEASES: Any transfer of an oil and gas lease or assignment is considered to convey an interest in real property and is therefore required to be formally executed by the proper parties and upon prescribed forms furnished by the state land office before such transfer or assignment shall be approved by the commissioner. Ordinarily, leases shall be transferred or assigned in the names of no more than two persons or legal entities as provided in 19.2.100.20 NMAC.

[19.2.100.32 NMAC – Rn, SLO Rule 1, Section 1.025, 12/13/2002]

19.2.100.33 JOINT TENANTS: Where an oil and gas lease is held in joint tenancy with the right of survivorship and a tenant dies, the lease shall be considered as belonging to the survivor or survivors and shall be so transferred upon presentation of a certified copy of the death certificate of the deceased tenant and payment of the proper rentals and fees.

[19.2.100.33 NMAC – Rn, SLO Rule 1, Section 1.026, 12/13/2002]

19.2.100.34 RESIDENT DECEDENT: To effect transfer of regular interest in state oil and gas leases of a deceased person resident in New Mexico, proper probate proceedings should be had in the county of residence of the deceased and certified copies of such proceedings, showing proper legal authority to transfer, should be filed with the commissioner.

[19.2.100.34 NMAC – Rn, SLO Rule 1, Section 1.027, 12/13/2002]

19.2.100.35 FOREIGN DECEDENT: In the event a decedent owner of a lease was resident of a state other than New Mexico, the estate must be probated in the state of such residence and ancillary proceedings conducted in the proper New Mexico court, and certified copies of such proceedings showing proper legal authority to transfer must be filed with the commissioner. Provided, however, where the decedent died on or after July 1, 1976, the lease may be transferred upon the foreign personal representative's compliance with the provisions of the New Mexico Probate Code.

[19.2.100.35 NMAC – Rn, SLO Rule 1, Section 1.028, 12/13/2002]

19.2.100.36 CO-OPERATIVE AGREEMENTS: Assignments of acreage committed to unit or co-operative agreements shall meet the requirements of Subsection G of 19.2.100.51 NMAC.

[19.2.100.36 NMAC – Rn, SLO Rule 1, Section 1.029, 12/13/2002]

19.2.100.37 [Reserved]

[19.2.100.37 NMAC – Rn, SLO Rule 1, Section 1.030, 12/13/2002]

19.2.100.38 LEASE CONTINUED BY PRODUCTION IN PAYING QUANTITIES: Except as otherwise provided in a co-operative agreement, production in paying quantities upon any part of the acreage included in any state oil and gas lease continues the lease upon every subdivision thereof (whether the same remains in the original lease or is assigned before or after production is had) subject, however, to the continued payment of rentals at the rate in effect at the time of production, and further subject to the implied covenants of development contained in any such lease.

[19.2.100.38 NMAC – Rn, SLO Rule 1, Section 1.031, 12/13/2002]

19.2.100.39 ASSIGNMENTS TO BE IN TRIPLICATE – ACKNOWLEDGMENT REQUIRED: Assignments of oil and gas leases shall be filed in triplicate in the office of the commissioner and must be executed and acknowledged in the manner provided for transfer of real estate in New Mexico. The original copy of each assignment will be recorded and filed as a public record in the state land office and one copy returned to the person entitled to same.

[19.2.100.39 NMAC – Rn, SLO Rule 1, Section 1.032, 12/13/2002]

19.2.100.40 ASSIGNMENTS TO BE RECORDED IN THE LAND OFFICE: Assignments must be filed with the commissioner for approval within one hundred days after having been signed by the assignor as shown upon the face of the instrument, accompanied by a filing fee of thirty dollars (\$30.00). Those presented after expiration of that time shall not be approved unless it can be shown to the satisfaction of the commissioner that extreme hardship will result to one or more of the parties and that no prejudice to the rights of the state will occur. An additional fee of seventy-five dollars (\$75.00) will be charged for each such assignment (or each group of assignments if the same basic facts are involved) to cover expense of investigation and records search.
[19.2.100.40 NMAC – Rn, SLO Rule 1, Section 1.033, 12/13/2002]

19.2.100.41 RESTRICTIONS: Assignments shall not be accepted nor approved by the commissioner:

- A. For less than assignor's entire interest in any legal subdivision (except where transfer is by operation of law).
- B. For less than a legal subdivision.
- C. In the names of more than two persons or legal entities. (See 19.2.100.20 NMAC).
- D. In the name of a trusteeship unless the trust is expressly set forth and not more than two persons are named as trustee.
- E. After lis pendens is filed.
- F. For any assignment containing any language other than the approved form.
- G. Where the assignment covers acreage included in more than one lease.
- H. If the lease is not in good standing.
- I. Unless the assignor covenants to the assignee and the commissioner that the assigned leasehold estate is valid and subsisting and that all rental and royalties due thereunder have been properly paid.

[19.2.100.41 NMAC – Rn, SLO Rule 1, Section 1.034, 12/13/2002]

19.2.100.42 APPROVAL AND FILING WITHHELD:

- A. When assignments are accompanied by personal checks, the commissioner reserves the right to withhold approval of any and all assignments until checks are cleared and rentals on the lease from which assignments are made must be fully paid before assignments are subject to filing in the state land office.
- B. When an assignment is presented to the commissioner for approval and the address of record of the assignee thereon is the same as that of the assignor, or when such address had not been established on the records of the state land office, or when the approved assignment is to be returned to the assignor, the commissioner reserves the right to withhold approval and filing of the assignment until the assignee has verified, under oath, the address and his acceptance of the assignment of the lease.

[19.2.100.42 NMAC – Rn, SLO Rule 1, Section 1.035, 12/13/2002]

19.2.100.43 EFFECT OF COMMISSIONER'S APPROVAL – MISCELLANEOUS INSTRUMENTS: Upon approval by the commissioner, the assignor shall be relieved from all obligations owing to the state with respect to the lands embraced in the assignment, and the state shall be likewise relieved from all obligations to the assignor as to the said lands, and the assignee shall succeed to all of the rights and privileges of the assignor and assumes all of the duties and obligations of the assignor as to the said lands. Provided, however, any record owner of any lease may enter into any contract for development of the leasehold premises or any portion thereof, or may create overriding royalties or obligations payable out of production, or enter into any other agreements with respect to the development of the leasehold premises or disposition of the production therefrom, and it shall not be necessary for any such contracts, agreements or other instruments to be approved by the commissioner, but nothing contained in these items shall relieve the record title owner of such lease from complying with any of the terms or provisions thereof, and the commissioner shall look solely and only to such record owner for compliance therewith, and in any controversy respecting any such contracts, agreements or other instruments entered into by the lessee with other persons, neither the state of New Mexico nor the commissioner shall be a necessary party. All such contracts and other instruments may be filed either in the office of the commissioner or recorded in the office of the county clerk wherein the lands are situated, and the filing or recording thereof shall constitute notice to all the world of the existence and contents of the instrument so filed. The fee for filing such miscellaneous instruments in the office of the commissioner shall be ten dollars (\$10.00) per instrument.
[19.2.100.43 NMAC – Rn, SLO Rule 1, Section 1.036, 12/13/2002]

19.2.100.44 [Reserved]
[19.2.100.44 NMAC – Rn, SLO Rule 1, Section 1.037, 12/13/2002]

19.2.100.45 TRANSFER OF RIGHTS BY CORPORATE ENTITIES – BY PURCHASE: Transfer of oil and gas interests by corporations shall be formally executed, as in the case of transfer of real estate in New Mexico, in conformity with statute and by payment of proper fees as provided in this Rule.
[19.2.100.45 NMAC – Rn, SLO Rule 1, Section 1.038, 12/13/2002]

19.2.100.46 TRANSFER OF RIGHTS BY CORPORATE ENTITIES – BY CONSOLIDATION: In cases where corporations consolidate, transfer of oil and gas interests to the newly created corporation shall be accomplished pursuant to 19.2.100.39 through 19.2.100.45 NMAC.
[19.2.100.46 NMAC – Rn, SLO Rule 1, Section 1.039, 12/13/2002]

19.2.100.47 TRANSFER OF RIGHTS BY CORPORATE ENTITIES – BY MERGER: In cases where two or more corporations merge, transfer of oil and gas interests to the surviving corporation shall be accomplished by filing with the commissioner a copy of the merger agreement or certificate of merger. Thereafter, the oil and gas lease shall be transferred on the books of the land office in the name of the surviving corporation.
[19.2.100.47 NMAC – Rn, SLO Rule 1, Section 1.040 12/13/2002]

19.2.100.48 TRANSFER OF RIGHTS BY CORPORATE ENTITIES – BY REORGANIZATION: Where the assets of any corporation are taken over under court order by a corporation, the procedure will follow the provisions of the court order, which should direct separate assignments to be executed and filed for approval in the state land office.
[19.2.100.48 NMAC – Rn, SLO Rule 1, Section 1.041, 12/13/2002]

19.2.100.49 NOTICE OF PENDENCY OF SUIT FEES – EFFECT ON THE ABILITY TO ASSIGN LEASE: At the time of filing of any suit affecting an oil and gas lease or the interest of any person therein, or at any time thereafter before judgment, the plaintiff may file with the commissioner a notice of pendency of suit containing the names of the parties thereto, the object of the action and a description of the lands affected, and upon filing of such notice and payment of the required fees the land affected by such suit will not be subject to assignment or other disposition until such suit shall be finally determined and disposed of.
[19.2.100.49 NMAC – Rn, SLO Rule 1, Section 1.042, 12/13/2002]

19.2.100.50 CANCELLATION FOR DEFAULT: The commissioner may cancel any lease or assignment thereof for default upon giving the lessee or assignee notice by registered mail (certified mail if the lease so provides) of his intention to cancel, specifying the default and, unless the lessee or assignee remedies the default within thirty days of the mailing date, the commissioner may cancel the lease or assignment. Proof of receipt of notice is not necessary or required before a valid cancellation may be entered.
[19.2.100.50 NMAC – Rn, SLO Rule 1, Section 1.043, 12/13/2002]

19.2.100.51 CO-OPERATIVE AND UNIT AGREEMENTS:

A. Purpose – Consent: The commissioner may consent to and approve agreements made by lessees of state lands for any of the purposes enumerated in Section 19-10-45 NMSA 1978.

B. Application – Requisites of Agreements: Formal application shall be filed with the commissioner for approval of a co-operative or unit agreement at least twenty days in advance of the New Mexico oil conservation division's hearing date. The filing fee therefor shall be thirty dollars (\$30.00) for each section or fractional part thereof, whether the acreage is federal, state or privately owned. A unit agreement presented must have a unique unit name that will identify the agreement for so long as the agreement remains in effect and only under extraordinary circumstances will a unit name change be allowed after initial approval is granted. Applications for approval shall contain a statement of facts showing:

(1) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.

(2) That under the proposed unit operation, the state of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.

(3) That each beneficiary institution of the state of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.

(4) That such unit agreement is in other respects for the best interest of the trust.

C. Information to be Furnished:

(1) Complete geological and engineering data shall be presented with the application and the information offered for the commissioner's action must be in clear and understandable form. Such data shall be kept confidential by the commissioner pursuant to Section 19-1-2.1 NMSA 1978 for a period of six months or until the unit agreement is approved, whichever first occurs. Then such data will be made a permanent part of the records and open for public inspection. If for any reason such proposed agreement is not approved, then at the request of the applicant, the data shall be returned to the applicant.

(2) Use of Fresh Water: The use of fresh water in waterflood units is discouraged in the cases where salt water is practical. If an operator plans to use fresh water in a proposed unit, the following specific information should also be provided:

(a) Laboratory analyses of water compatibility tests (fresh vs. salt water).

(b) Reservoir analyses for swelling clays and soluble salts.

I Estimate of monthly make-up water required for operations.

(d) Location and depth of area salt water wells or quantities of produced water available for injection.

D. Decision Postponed: In any matter respecting co-operative and unit agreements, the commissioner may postpone his decision pending action by the oil conservation division and may use any information obtained by his own investigators, or obtained by the oil conservation division to enable him to act properly on the matter. The applicant shall deposit with the commissioner a sum of money estimated to be sufficient to meet the actual and necessary expenses of any investigation or inspection by representatives of the state land office.

E. Leases Conformed: When any co-operative or unit agreement has been approved by the commissioner and executed by the lessee, the terms and provisions of the lease, so far as they apply to lands within the unit area, are automatically amended to conform to the terms and provisions of the co-operative agreement; otherwise, said terms and provisions shall remain in full force and effect.

F. Posting to tract books: In every case where a co-operative unit agreement is finally approved by the commissioner such agreement and the application therefore shall be entered upon the tract books of the state land office, filed and recorded, together with any order respecting the same issued by the New Mexico oil conservation division; any modification or dissolution of such co-operative or unit agreement shall be likewise entered and filed. The fees therefore shall be those regularly charged by the state land office for similar services.

G. Assignments: No assignment of acreage under lease within any unitized or co-operative area will be approved by the commissioner unless the assignment is subject to the provisions of the co-operative or unit agreement covering the area within which the acreage sought to be assigned lies, or unless the commissioner and all parties to the co-operative agreement agree, in writing, that such acreage is not needed for proper co-operative operations.

H. Form of Agreement: No specific forms for the various types of co-operative or unit operating agreements are required; however, sample forms of agreements now in operation will be furnished for guidance upon request, if available. Agreements submitted for approval must be submitted in duplicate. At least one copy must contain original signatures, which copy, after approval of the agreement, will be retained by the commissioner as the approved copy.

[19.2.100.51 NMAC – Rn, SLO Rule 1, Sections 1.044, 1.045, 1.046, 1.046.1, 1.047, 1.048, 1.049, 1.050, 1.051, 12/13/2002]

19.2.100.52 FORCED POOLING – OIL CONSERVATION DIVISION ORDER:

A. The record owner or operator of all oil and gas leases covering the state owned lands forced pooled by order of the New Mexico oil conservation division, either under Section 70-2-17 (gas proration unit) or under Section 70-7-1 NMSA 1978 (statutory unitization act for secondary recovery), shall file with the commissioner the following information:

(1) One copy of application for hearing for forced pooling at least ten days prior to date set for hearing.

(2) State lease number, record owner and legal description of all state lands forced pooled.

(3) Oil conservation division order number and date.

(4) Legal description and type (federal, fee, or Indian) of all lands included in forced pooling order.

(5) Location, formation, and depth of well.

(6) Oil conservation division approved copies of forms numbered C-101, C-102, C-103, C-104 and C-105. These are to be filed at same time as filed with oil conservation division.

(7) Date production commenced.

(8) A copy of the agreement for unit operations involving state lands approved in writing by the oil conservation division, and signed by parties required by the agreement to initially pay at least seventy-five percent of unit operating costs, and by owners of at least seventy-five percent of the non-cost bearing interests such as royalties, overriding royalties and production payments.

B. This Rule has no application to a situation wherein all parties have voluntarily executed a communitization agreement covering all lands in a proration unit or a secondary recovery unit and such agreement has been approved by the commissioner.

[19.2.100.52 NMAC – Rn, SLO Rule 1, Section 1.052, 12/13/2002]

19.2.100.53 COMMINGLING AND OFF-LEASE STORAGE OF OIL AND GAS ON STATE TRUST LANDS:

A. Commingling Prohibited: Unless approved pursuant to Subsection B of 19.2.100.53 NMAC, the commingling, confusion or the intercommunication of oil or gas production from any state well with any production from any other well, whether state or non-state, by the use of common tankage facilities or central delivery points, is strictly prohibited.

B. Commingling Allowed – Off-Lease Storage:

(1) Commingling of oil and gas production, including downhole commingling, if properly metered or allocated and accounted for, may be permitted within the discretion of the commissioner only after his receipt of a written application containing the information specified in Subsection C of 19.2.100.53 NMAC and application fee as set in 19.2.100.65 NMAC.

(2) Off-lease storage of production may be permitted if properly metered or allocated and accounted for, within the discretion of the commissioner only after his receipt of a written application containing the information specified in Subsection C of 19.2.100.53 NMAC and an application fee as set in 19.2.100.65 NMAC.

C. Application for Permission to Commingle or Off-Lease Store Production. Applications for permission to commingle or off-lease store production shall be directed to the commissioner and shall include:

(1) Formal application stating the type of permission desired and the reasons therefore, accompanied by an application fee of thirty dollars (\$30.00).

(2) Plat showing the location of leases, wells, flow lines, metering facilities and common tankage. All plats and diagrams should differentiate between surface and underground pipe.

(3) A list of the involved leases arranged by their state land office lease number, their legal description and including state beneficiaries.

(4) A designation of the pool from which each well produces.

(5) An economic analysis of proposed operation showing profit or loss to the state of New Mexico.

(6) Schematic diagram of entire system from production manifold to pipeline connection showing position of all components of flow stream.

(7) Description of the operating sequence explaining the complete operation.

(8) The applicant's proposal for allocating or metering production so that all production is properly accounted for at the well.

(9) Any other pertinent data that will assist the commissioner in deciding upon the application.

[19.2.100.53 NMAC – Rn, SLO Rule 1, Sections 1.053, 1.054, 1.055, 12/13/2002]

19.2.100.54 ACREAGE TAKEN FOR MILITARY PURPOSES – WAIVER OF DEVELOPMENT REQUIREMENTS:

A. Where the use of lands embraced in any state oil and gas lease is taken by the United States government for military purposes, under such circumstances as will prevent drilling and development by the lessee, the commissioner may, on application by the lessee, waive compliance with the drilling and development requirements of any such lease during the period of such use and for six months thereafter, but in no event for more than five years from the beginning of such use by the United States. Where the use of only part of the lands embraced in such oil and gas lease is taken, any waiver shall extend only to the lands the use of which is so taken.

B. In all cases, the lessee shall continue to pay rentals at the rate which is in effect at the time of taking, and failure to so pay rentals subjects the lease to the regular cancellation procedure.

C. Waivers, when executed and approved, relate back to the date of the notice of taking by the United States.

[19.2.100.54 NMAC – Rn, SLO Rule 1, Section 1.056, 12/13/2002]

19.2.100.55 STIPULATION TO CURRENT LEASE PROVISIONS:

A. The owner of any oil and gas lease issued by the commissioner which does not contain all of the provisions of the current applicable five- or ten-year lease form or which does not include helium gas within its terms may file an application to include all the provisions of such applicable lease form and to include helium gas, provided the lease has been maintained in good standing according to the terms and conditions thereof and all applicable statutes and regulations.

B. The application for stipulation shall be made in duplicate and on a form prescribed and furnished by the commissioner and shall be filed in duplicate, accompanied by a fee of seventy-five dollars (\$75.00).

C. Upon filing of such an application and determination by the commissioner that the application conforms to the governing statutes and this Rule, the commissioner shall execute a stipulation and thereupon the provisions of the current applicable five- or ten-year lease form and inclusion of helium gas will be part of said existing lease with the like effect as if originally incorporated therein; provided, however, that no such stipulation shall be effective or binding on any of the parties until each and every working interest owner and record owner of the original lease or approved assignment thereof has signed the stipulation.

D. One executed copy of the stipulation will be attached to the original lease in the files of the commissioner. The remaining copy will be forwarded to the applicant with the receipt of the state land office evidencing payment of the filing fee.

[19.2.100.55 NMAC – Rn, SLO Rule 1, Section 1.057, 12/13/2002]

19.2.100.56 CONTINUATION OF LEASE AFTER EXPIRATION OF TERM:

A. The payment in advance of rentals for the lease year commencing at the expiration of the secondary term in a ten-year lease or at the expiration of the five-year term in a five-year lease shall be a prerequisite for relying upon current bona fide drilling or reworking operations to extend the lease beyond such term. There will be no refund by the state land office of any sum received by it as rental under the terms of any oil and gas lease issued by the commissioner, whether in the primary or secondary term or subsequent to the expiration thereof.

B. The owner of any oil and gas lease proposing to conduct drilling or reworking operations and proposing to rely upon such operations to extend the lease beyond the fixed term in accordance with the provisions thereof shall file in the oil and gas division of the state land office, prior to the expiration of the secondary term of a ten-year lease or the primary term of a five-year lease, a statement in writing of the location of the proposed well, the drilling or reworking of which will be relied upon to continue said lease in effect, the depth to which it is proposed to drill said well, the reworking operations which, if any, are contemplated and the name and address of the drilling contractor or other persons who will conduct such operations. The approval by the commissioner of the operations so proposed will normally be evidenced by the signature of the commissioner on a copy of such statement, but any such proposed operation, about which a statement has been filed in accordance with this item, shall be conclusively presumed to have been approved by the commissioner prior to the expiration of the lease to which it relates, unless the commissioner shall, prior to the expiration of said lease, advise the applicant, in writing, of his disapproval and the reasons therefore.

C. The owner of an oil and gas lease who, subsequent to the expiration of the secondary term in a ten-year lease or the primary term in a five-year lease, is engaged in drilling or reworking operations on lands embraced therein, and who proposes to rely upon such operations as extending said lease in accordance with the provisions thereof shall file a report of the status of such operations for each thirty day period during which they are continued. It shall contain a statement of the depth of said well, the status of any reworking operations at the end of said thirty day period, a general statement of the drilling or reworking operations that have been accomplished during the preceding thirty days, and the fact, if it is a fact, that such operations are bona fide in progress and will be continued. Status reports filed in the office of the commissioner within fifteen days after the close of such a thirty day period shall meet the requirements of the lease. If operations have ceased during any period covered by a status report, such report shall state the date of cessation and the reason therefore, and the date of resumption of operations, if any.

D. Each application and stipulation filed under Subsection B of 19.2.100.56 NMAC shall be signed by the lease owner, if an individual; and if a partnership or corporation, by a responsible official thereof. The application shall be verified under oath and the stipulation shall be acknowledged. Each statement of

operations and status report filed under this Rule shall be signed by the lease owner, if an individual, or by a responsible official, if a partnership or corporation, and shall be verified by affidavit of the signer.

E. Operations conducted by any person under the terms of an oil and gas lease issued by the commissioner, including all operations conducted pursuant to this Rule shall be subject to inspection at all reasonable times by representatives of the state land office.

[19.2.100.56 NMAC – Rn, SLO Rule 1, Section 1.058, 12/13/2002]

19.2.100.57 CALCULATING AND REMITTING OIL AND GAS ROYALTIES:

A. Payment of Royalties – Appeal to commissioner: Payment shall be made in the time and in the manner described below:

(1) Each lessee whose average monthly state royalty payment for the twelve months ending with the latest March 31, was twenty-five thousand dollars (\$25,000) or less shall pay royalties on or before the twenty-fifth day of the second month following the month for which royalties are due. Unless the remitter elects to pay royalties by means of electronic funds transfer, payment shall be made by check payable to the commissioner of public lands. Payment shall be mailed or delivered to the taxation and revenue department along with any paper report. If the remitter elects to pay royalties by means of electronic funds transfer, payment shall be made in accordance with option 1 or option 2 in Paragraph (4) of Subsection A of 19.2.100.57 NMAC and shall conform with the special instructions on electronic transmission of state royalty payments for separate oil and gas royalty reporting in the ONGARD system.

(2) Unless an election is timely made to pay royalties pursuant to Paragraph (3) of this Subsection, each lessee whose average monthly state royalty payment for the twelve months ending with the latest March 31, was greater than twenty-five thousand dollars (\$25,000) shall pay royalties on or before the twentieth day of the month following the month for which the royalties are due. Payment shall be made in accordance with Paragraph (4) of this Subsection.

(3) In lieu of paying royalties within the time specified by Paragraph (2) of this Subsection, a lessee may submit to the lessor, in writing, an election to pay royalties within the time frames specified for state severance taxes. Royalties paid by any lessee making the election under this Paragraph shall be due on the twenty-fifth day of the second month following the month for which the royalties are due. However, on or before the twenty-fifth day of the month in which the election is made and on or before the twenty-fifth day of each month thereafter, the lessee shall also make an advance royalty payment. Beginning with royalties initially paid under this Paragraph and each month thereafter, the previous month's advance royalty payment shall be taken as a credit. The amount of the advance royalty payment shall be adjusted by July 25 of each year and shall equal the average monthly royalty paid during the twelve months ending with the latest March 31. Payment shall be made in accordance with Paragraph (4) of this Subsection.

(4) Lessees remitting royalties under the provisions of Paragraphs (2) and (3) of this Subsection shall make payments in accordance with one of the four options listed below. For payment to be considered timely, the state land office must have access to funds on the due date for royalty remittances. Payment shall be made in accordance with the instructions on special payment procedures. Such payment can only be utilized with the separate oil and gas royalty reporting in the new ONGARD system.

(a) Option 1: automated clearinghouse (ACH) deposit.

(b) Option 2: fedwire transfer.

I Option 3: check drawn on any New Mexico financial institution. Payment shall be made in the manner prescribed by the provisions of this Rule.

(d) Option 4: check drawn on any domestic non-New Mexico financial institution.

Payment shall be made in the manner prescribed by the provisions of this Rule.

(e) "Financial institution" means any state- or nationally-chartered federally-insured financial institution.

(5) Irrespective of whether a lessee pays royalties pursuant to Paragraph (1), (2) or (3) of this Subsection, all royalty information shall be reported on forms prescribed by the lessor and shall be submitted on or before the twenty-fifth day of the second month following the month for which royalties are due. The lessee shall indicate in the space provided if payment accompanies the report or if payment is made by separate check, fedwire or ACH transfer.

B. Effective Date: The provisions of 19.2.100.57 NMAC shall be used to calculate, report and remit royalties for oil and gas produced on or after January 1, 1990.

[19.2.100.57 NMAC – Rn, SLO Rule 1, Section 1.059, 12/13/2002]

19.2.100.58 O.C.D. REPORTS: The producer or lessee of producing state lands shall file in the New Mexico state land office, Santa Fe, New Mexico, at the time of filing with the New Mexico oil conservation division, reports labeled C-101 through C-105.

[19.2.100.58 NMAC – Rn, SLO Rule 1, Section 1.060, 12/13/2002]

19.2.100.59 WAIVER OF DEVELOPMENT IN POTASH OR OTHER MINERAL AREAS:

Application for waiver of compliance with exploratory drilling development or production requirements of a lease, or to extend the term thereof, where exploration and development operations of the oil and gas lease are inconsistent with the exploration and development operations of a state mineral lease, and where waste will occur, must be made in writing and accompanied by a filing and approval fee of seventy-five dollars (\$75.00). Such applications must be filed in the state land office at least thirty days before expiration date of the oil and gas lease. No waivers or extension shall be granted by the commissioner for more than five years. Ordinarily, waivers will be granted by the commissioner only as to the legal subdivisions upon which the conflict exists.

[19.2.100.59 NMAC – Rn, SLO Rule 1, Section 1.061, 12/13/2002]

19.2.100.60 WATER WELLS:

A. Water wells drilled on all state oil and gas leases for temporary use on the lease and for purposes directly connected with operations shall be in compliance with the provisions of Sections 72-12-1 through 72-12-21 NMSA 1978, as amended, with the regulations of the state engineer, and with 19.2.12 NMAC.

B. Within thirty days after completion of said well, the lessee shall furnish in writing to the commissioner a report containing the following information:

(1) Location of well.

(2) Depth, log and casing record production data.

[19.2.100.60 NMAC – Rn, SLO Rule 1, Section 1.062, 12/13/2002]

19.2.100.61 SALT WATER DISPOSAL: Lessees are expected to comply with all lawful Rules of the New Mexico oil conservation division pertaining to prevention of waste, which includes disposal of produced salt water or brine. If state lands are needed for a salt water disposal operation, then application for a salt water disposal easement site shall be made to the “oil and gas division” or application for a business lease shall be made to the “land surface division” of the state land office, depending upon whether underground or surface disposal, respectively, is desired. Ordinarily, water produced on lease may be disposed of on lease without the commissioner’s permission if the disposal operation otherwise meets the approval of the oil conservation division and is otherwise reasonable and accepted practice in the industry.

[19.2.100.61 NMAC – Rn, SLO Rule 1, Section 1.063, 12/13/2002]

[Applications for a salt water disposal easement or a business lease shall be made to the commercial division of the state land office]

19.2.100.62 ROYALTY PURCHASE – PREFERENCE RIGHT: Requests made by petroleum refineries within the state to the commissioner to purchase state royalty oil as a preference right under the provisions of Sections 19-10-64 through 19-10-70 NMSA 1978 shall be accompanied by an order or ruling of the New Mexico oil conservation division determining that the applicant is qualified and otherwise entitled to such preference. Requests to purchase state royalty oil on a bid basis may be made directly to the commissioner in letter form. In either case, the applicant must identify the wells from which he desires to purchase the royalty oil.

[19.2.100.62 NMAC – Rn, SLO Rule 1, Section 1.064, 12/13/2002]

19.2.100.63 RESERVATION OF RIGHT TO PURCHASE PRODUCTION: The state reserves a continuing option to purchase at any time and from time to time, at the market price prevailing in the area on the date of purchase, all or part of the oil and gas that may be produced from the lands embraced in all leases issued on or after June 11, 1973.

[19.2.100.63 NMAC – Rn, SLO Rule 1, Section 1.065, 12/13/2002]

19.2.100.64 APPEALS FROM DECISION OF THE COMMISSIONER: Any party aggrieved by any ruling or decision of the commissioner affecting such party’s interest in any oil and gas lease may appeal to the appropriate district court within sixty days after such ruling or decision is rendered pursuant to Section 19-10-23 NMSA 1978.

[19.2.100.64 NMAC – Rn, SLO Rule 1, Section 1.066, 12/13/2002]

[An amendment to Section 19-10-23, effective September 1, 1998, reduced the appeal period to thirty days]

19.2.100.65 FEES:

- A.** Filing each application for oil and gas lease: thirty dollars (\$30.00).
- B.** Filing each set of lease assignments. (If assignments are over one hundred days old, an additional charge of seventy-five dollars (\$75.00) will be made.) (See 19.2.100.40 NMAC): thirty dollars (\$30.00).
- C.** Filing co-operative or unit agreements or expansions, and orders for forced pooling, per section or fraction thereof: thirty dollars (\$30.00).
- D.** Filing of probate and other court papers affecting title, overriding, drilling and side agreements, death certificates and miscellaneous instruments (per instrument): ten dollars (\$10.00).
- E.** Accepting and filing each notice of pendency of suit, on basis of each separate lease involved: ten dollars (\$10.00).
- F.** Copies of records, plats, maps and certificates as true copies: cost
- G.** Blank forms approved by the land office: no charge
- H.** Filing of each stipulation form (includes potash stipulation), helium stipulation and amendment of lease): seventy-five dollars (\$75.00).
- I.** Application fee for commingling (additional fee may be charged for investigation and administration at the discretion of the commissioner with the prior approval of the applicant): thirty dollars (\$30.00).
- J.** Off lease storage approval: thirty dollars (\$30.00).

[19.2.100.65 NMAC – Rn, SLO Rule 1, Section 1.067, 12/13/2002]

19.2.100.66 SURFACE OPERATIONS ON STATE OIL AND GAS LEASES:

- A.** Purpose and Application of 19.2.100.66 NMAC: The purpose of 19.2.100.66 NMAC is to establish minimum procedures for protecting the surface affected by operation and development activities on state oil and gas leases. 19.2.100.66 NMAC applies to all operations conducted after its effective date on state oil and gas leases, the surface of which is held in trust by the commissioner of public lands.
- B.** Operation Requirements:
 - (1)** Surface Trash and Debris: All operators shall remove all surface trash and debris caused by their operations from the lease and shall keep such premises free and clear of such trash and debris. As used in 19.2.100.66 NMAC, “surface trash and debris” means all nonoperational and/or nonessential equipment resulting from the drilling and/or producing operation of oil and gas leases and includes, but is not limited to, garbage, rubbish, junk or scrap.
 - (2)** Pits:
 - (a)** Pits shall not be located in, or hazardously near, water drainages. Pits shall be constructed to prevent contamination of the surface and the subsurface by seepage or flowage; including, if necessary, lining with impermeable materials as provided by Rules and regulations of the oil conservation division. Under no circumstances shall pits be used for disposal, dumping or storage of off-lease fluids. Subject to all applicable state and federal laws, and if the operator agrees to accept all liability therefore; garbage, junk, waste or other inorganic debris may be disposed of in the caliche or burn pit located on the side of the reserve pit when the reserve pit is reclaimed.
 - (b)** All pits shall be fenced. The type of fence used must be specific to the class of livestock in the area. Fencing shall remain in place for the life of the pit and be maintained to keep livestock out. All fences shall be braced or constructed in such a manner as to keep wires tight with no sagging between posts. State land office personnel will inspect and, if necessary, notify operators or lessees of necessary repairs or requirements for maintaining the required condition of all fences associated with leases. Fencing shall comply with all other state and federal requirements.
 - I** If a pit is lined, the liner shall be installed and maintained to prevent ingestion by livestock and wildlife.
 - (d)** Drilling fluids and drill cuttings shall be disposed of in a manner to prevent contamination to the surface. Rules of the oil conservation division which relate to the disposal of drilling fluids and drill cuttings shall be complied with.
 - (3)** Site Development:
 - (a)** All access roads shall be built, maintained and reclaimed in accordance with 19.2.20 NMAC.

(b) All trees and/or wood over three inches in diameter removed for site preparation shall be disposed of on site as determined by the state land office.

I Where required by the federal Clean Water Act, other applicable federal or state law, or regulations promulgated pursuant thereto, production and storage tanks shall be surrounded with an earthen berm in compliance with such applicable law and regulations. In addition, such a berm may be required by the state land office if a particular tank has a history of repeated leaks.

(4) Spills:

(a) All new spills shall be treated and cleaned up immediately. All surface affected by such spills and leaks shall be reclaimed. Reclamation of the area involved shall be implemented in consultation with the state land office.

(b) All spills shall be reported in accordance with the regulations of the oil conservation division.

(5) Pipelines: If practicable, lines placed on top of the surface shall be placed to take advantage of existing roads and/or alongside other lines already on top of the ground. If regular maintenance and inspection by vehicle is necessary, and a permanent road required, the road shall be constructed and maintained in accordance with 19.2.20 NMAC. All other traffic shall be kept to a minimum.

C. Closeout and Operation Plan:

(1) A reclamation and/or operation plan may be submitted to the state land office for review. If approved, the plan shall substitute for the reclamation and/or operation requirements of 19.2.100.66 NMAC and/or 19.2.100.67 NMAC.

(2) The plan shall consist of reclamation and operation specifics for compliance with the regulations concerning reclamation and operations, with an additional section that sets out the schedule of implementation on a continuing basis during the life of the lease relative to operation, maintenance, spills, leaks, cleanup and revegetation.

D. Review and Inspection:

(1) State land office personnel and/or oil conservation division personnel may, from time to time, recommend actions necessary to comply with reasonable use of the surface and prudent operator standards.

(2) These recommendations shall be made either to state land office administrators and/or the commissioner's office, or to the lessee directly.

E. Exemptions and Appeal Procedure:

(1) The commissioner, or his qualified designated representative, may grant an exemption to any or all of the requirements of this Rule when a lessee provides a state land office approved reclamation and/or operation plan, or demonstrates that compliance would be impracticable or has occurred naturally. Any such exemption granted shall be in writing addressed to the lessee or operator requesting the exemption.

(2) Any lessee or operator aggrieved or adversely affected by a determination or interpretation of the state land office under 19.2.100.66 NMAC may, within sixty days of the receipt of such determination or interpretation, request a hearing before the commissioner of public lands. Within thirty days after receiving such a request, the commissioner shall convene a hearing at which the lessee or operator and the commissioner's staff may present evidence. Within fifteen days of the hearing, the commissioner shall enter his decision on the matter. Any decision of the commissioner may be appealed pursuant to Section 19-10-23 NMSA 1978.

[19.2.100.66 NMAC – Rn, SLO Rule 1, Section 1.068, 12/13/2002]

19.2.100.67 SURFACE RECLAMATION ON STATE OIL AND GAS LEASES:

A. Purpose and Application of 19.2.100.67 NMAC:

(1) The purpose of 19.2.100.67 NMAC is to establish minimum procedures to follow in reclaiming surface disturbances resulting from development and production on state oil and gas leases, the surface of which is held in trust by the commissioner of public lands.

(2) 19.2.100.67 NMAC applies to areas disturbed by operations conducted under all existing and future leases. However, current lessees will not be held responsible for reclaiming areas disturbed under a lease which has previously expired or been terminated and for which the current lessee is not a successor-in-interest. Also, a prudent operator standard will be applied to the reclamation of other conditions existing on the effective date of this Rule. In this regard, lessees are expected to comply with all requirements concerning removal of debris and improvements; however, specific requirements relating to ripping and reseedling will be developed by consultation and planning between the lessee and the state land office, using accepted industry standards such as those established by the bureau of land management.

B. Definitions, as used in 19.2.100.67 NMAC:

(1) “temporary abandonment” occurs if a well is no longer usable for beneficial purposes; has been continuously inactive for more than one year; and has been approved for temporary abandonment by the oil conservation division.

(2) “permanent abandonment” occurs if a well is no longer usable for beneficial purposes; has been continuously inactive for more than one year; and has not been approved for temporary abandonment by the oil conservation division.

C. Reclamation Requirements:

(1) Surface Sites and Off-Lease Storage Areas:

(a) Surface sites and off-lease storage areas, upon temporary or permanent abandonment, shall be cleared of junk and debris and, if necessary, be bermed or water-barred in order to stabilize the site and prevent erosion. Within one year of permanent abandonment, the sites and areas shall be ripped through to the underlying material and reseeded.

(b) Where available, topsoil removed from surface sites shall be stored for use in future reclamation of the site. Pads, within one year of permanent abandonment, shall have all caliche ripped through to the underlying material, any remaining stored topsoil replaced and the site reseeded.

(2) Roads: Roads shall be left in place only if authorized by the state land office. If any road is not needed, then, within one year of permanent abandonment, it shall be ripped, reseeded, bermed (closed) at the entrance, and water bars shall be constructed as directed or approved by the state land office. 19.2.20 NMAC shall be followed for specifics relating to road construction, maintenance and reclamation.

(3) Spills and Leaks: Within one year of permanent abandonment, all surface affected by spills and leaks shall be reclaimed. Reclamation of the area involved shall be implemented in consultation with the state land office.

(4) Pits (Operating/Drilling and Other):

(a) All pits, within one year of permanent abandonment or within a reasonable time of nonuse, shall be dried and leveled to restore as much of the original contour as is practical to minimize erosion. The pits shall be reseeded as required by this Section.

(b) All lining materials (plastics or otherwise) shall be removed from the surrounding area, cut off and permanently buried below the surface or removed from the area.

(5) Pipelines:

(a) Buried pipelines may be left in place and the surface ripped, water-barred and reseeded according to the specifics of the site.

(b) Within one year of permanent abandonment, surface lines shall be removed and the surface reclaimed as specified in Subparagraph (a) of Paragraph (5) of Subsection C of 19.2.100.67 NMAC.

(6) Debris: All oil and gas lease related surface trash and debris shall be removed upon temporary or permanent abandonment or disposed of in the manner permitted in 19.2.100.66 NMAC. As used in 19.2.100.67 NMAC, “surface trash and debris” means all nonoperational and/or nonessential equipment resulting from the drilling and/or producing operation of oil and gas leases and includes, but is not limited to, garbage, rubbish, junk or scrap.

(7) Revegetation:

(a) For all reseeded required by this Section, the state land office will approve seeding rates and seed mixtures, or approve site-specific recommendations. When possible, the state land office will recommend such approved rates and mixtures, but will not require seed varieties in its mixtures which are not in common use in the area.

(b) All required reseeded shall be planned and completed with a goal of revegetation consistent with local natural vegetation density. After a failed attempt to revegetate an area, a second reseeded may be required by the state land office, but in no event shall such second reseeded be required more than two years after the initial one.

(8) Lessee’s Improvements: The lessee or operator shall remove all improvements placed or erected on the premises within sixty days after the expiration or termination of an oil and gas lease. Any improvements remaining at the end of such sixty-day period shall be deemed abandoned for the purposes of Sections 19-7-14 and 19-10-28 NMSA 1978 and no payments shall be due for such remaining improvements pursuant to those Sections.

D. Release Upon Permanent Abandonment and Grant of Access: Upon state land office approval and release, a lessee’s reclamation responsibilities are terminated. The state land office shall issue a reclamation permit for access to complete reclamation after expiration or termination of an oil and gas lease. The reclamation permit shall be a standard form developed after consultation with interested industry groups.

E. Closeout and Operation Plan:

(1) A reclamation and/or operation plan may be submitted to the state land office for review. If approved, the plan shall substitute for the reclamation and/or operation requirements of this Section and/or 19.2.100.66 NMAC.

(2) The plan shall consist of reclamation and operation specifics for compliance with the regulations concerning reclamation and operations, with an additional section that sets out the schedule of implementation on a continuing basis during the life of the lease relative to operation, maintenance, spills, leaks, cleanup and reseeded.

F. Exemptions and Appeal Procedure:

(1) The commissioner, or his qualified designated representative, may grant an exemption to any or all of the requirements of 19.2.100.67 NMAC when a lessee provides a state land office approved reclamation and/or operation plan, or demonstrates that compliance would be impracticable or has occurred naturally. Any such exemption granted shall be in writing addressed to the lessee or operator requesting the exemption.

(2) Any lessee or operator aggrieved or adversely affected by a determination or interpretation of the state land office under 19.2.100.67 NMAC may, within sixty days of the receipt of such determination or interpretation, request a hearing before the commissioner of public lands. Within thirty days after receiving such a request, the commissioner shall convene a hearing at which the lessee or operator and the commissioner's staff may present evidence. Within fifteen days of the hearing, the commissioner shall enter his decision on the matter. Any decision of the commissioner may be appealed pursuant to Section 19-10-23 NMSA 1978.

G. Temporary Provision – Phase-In: Lessees or operators of leases which contain conditions existing on the effective date of 19.2.100.67 NMAC, otherwise requiring immediate reclamation under 19.2.100.67 NMAC, shall have five years to complete reclamation of such conditions if they demonstrate steady progress toward such completion pursuant to an approved reclamation plan or the requirements of 19.2.100.67 NMAC.

[19.2.100.67 NMAC – Rn, SLO Rule 1, Section 1.069, 12/13/2002]

19.2.100.68 AMENDMENT OF LEASE TO LOWER ROYALTY RATE FOR OIL WELLS UNDER CERTAIN CONDITIONS:

A. Purpose – Eligibility: The records owner of an oil and gas lease issued by the commissioner of public lands whose lease is maintained in good standing according to the terms and conditions of the lease and all applicable statutes and regulations, may apply to the commissioner for an amendment to the lease for the purpose of changing the royalty rate on oil produced from a specified oil well. Any well that produces on a lease basis or as a communitized or unitized property is eligible for the lower rate. Multiple wells from the same lease, communitization or unit may be submitted for approval under one application. Communitized or unit wells must qualify individually for the lower royalty rate.

B. Application, Requirements, and Information to be Furnished. An application for a change in royalty rate shall be on a form prescribed by the commissioner and shall be accompanied by a forty-dollar (\$40.00) application fee. For each oil well, the application shall:

(1) show that the oil well has produced oil attributable to a communitization, unit or lease premises, and:

(a) if the production is from formations shallower than five thousand feet, has produced less than an average of three barrels of oil per day during the preceding twelve months and has not averaged over five barrels per day for any month during the preceding twelve months; or

(b) if the production is from formations five thousand feet deep or deeper, has produced less than an average of six barrels of oil per day during the preceding twelve months and has not averaged over ten barrels of oil per day for any month during the preceding twelve months; and

(2) include a statement that to the best of the applicant's knowledge and experience the well is not capable of sustained production limits specified in Paragraph (1) of this Subsection.

(3) provide data and describe efforts to:

(a) negotiate lower rates paid to other royalty owners and overriding royalty owners in the oil well; and

(b) minimize the costs of operating the well; and

(4) include any other fact which may justify a lower royalty rate.

C. Commissioners Approval. Upon receipt of an application, the commissioner shall review the information submitted as well as other, independent information obtained by the commissioner and shall agree to amend the lease to a lower royalty rate for oil produced from the oil well if, in his sole discretion, he finds that:

(1) the operator has taken reasonable steps to minimize his costs of operating the oil well;

(2) the oil well will likely be plugged and abandoned in the near future, with a resulting loss of reserves, if operating costs are not reduced further;

(3) the oil well will produce for a longer period, and the amount of oil produced will ultimately be larger, if the royalty rate is lowered; and

(4) a lower royalty rate will actually maximize revenue to the trust beneficiaries.

D. Applicable Royalty Rate, Effective Date. The lower royalty rate agreed to under this Section shall be equal to five percent and, except as provided in Subsection G of this Section, shall be valid for a period of three years, after which time the record owner of the oil and gas lease may submit a written request for an extension which, if approved pursuant to Subsection C of this Section, shall be valid for an additional three year term.

E. Accounting and Reporting of Oil Royalties. Production, royalties and taxes for oil produced from any well for which a lower royalty rate has been granted under this Section shall be reported separately from other oil wells, under the PUN-lease business rules of the oil and gas royalty filer's kit utilized by the oil and natural gas administration and revenue database (ONGARD) system.

F. Form of Application. Applications for a lower royalty rate under this Section shall be submitted on a form provided by the commissioner.

G. Termination of Lower Rate. The effective period for a lower royalty rate, approved pursuant to this Section, shall terminate and the royalty rate specified in the lease shall be applicable if the commissioner determines, in his sole discretion, that the oil production has significantly increased through well workover, recompletion or other means, so that the well would no longer qualify on an annual basis for a lower royalty rate. [19.2.100.68 NMAC – Rn, SLO Rule 1, Section 1.070, 12/13/2002]

19.2.100.69 PAYMENT OF STATE ROYALTIES:

A. Objective and Application:

(1) This Section shall apply to oil and condensate ("oil kind") and natural gas and natural gas products ("gas kind") produced and saved from state oil and gas leases and marketed or utilized in any manner.

(2) In order to ensure that all royalties have been paid, to properly account for all revenues, to promote uniformity of accounting and reporting, to provide for the most efficient management of state oil and gas leases and to comply with the intent and letter of New Mexico law, it is the policy of the state land office that royalties owed under state oil and gas leases be paid monthly on all production deemed to be produced from each state lease during that month.

(a) Gas Kind:

(i) Payment on Entitlement Basis. For leases included in mixed agreements or in units or communitized tracts which do not contain uniform royalty rates or uniform beneficiaries, gas kind royalties shall be paid monthly on the production allocated to each lease under the unit or communitization agreement on the entitlement basis.

(ii) Payment on Takes Basis. For individual producing leases or state leases within one hundred percent state agreements which contain leases with uniform royalty rates and uniform beneficiaries, gas kind royalties shall be paid monthly on all production deemed to be produced from the lease on a takes basis.

(b) Oil Kind: Royalties on oil production are based on each working interest owner's proportionate share of production from the lease, unit or communitization agreement. As a result, no problem exists with regard to the current process for paying such royalties.

(3) As stated above, the purpose of this Section is to ensure that all royalties due under state oil and gas leases are paid and accounted for in a timely manner. Nothing herein relieves any lessee of record, operator, working interest owner or other person of any legal obligation to pay royalties. The commissioner of public lands reserves the right to seek payment of any deficient royalties from any such person.

(4) **Effective Date.** This policy will become effective six months after the effective date of this Section (the "effective date").

B. Gas Deemed to be Produced from State Leases within Mixed Agreements or Units or Communitized Tracts which do not Contain Uniform Royalty Rates or Uniform Beneficiaries:

(1) For gas deemed to be produced from state leases in mixed agreements or in units or communitized tracts which do not contain uniform royalty rates or uniform beneficiaries, gas kind royalties must be paid on each working interest owner's entitled share of the produced volume from the agreement. If the working interest owner did not take any gas from the agreement, the value of the entitled share of production for royalty purposes shall be the benchmark entitlement value.

(2) Lessees in a unit or communitized tracts may contractually agree to assign reporting and payment responsibility among themselves in any manner which insures that entitled royalty volumes allocable to state leases are reported and paid each month.

C. Gas Deemed to be Produced from Individual Leases and one hundred percent State Agreements which Contain Leases with Uniform Royalty Rates and Uniform Beneficiaries:

(1) For leases producing on an individual basis or on one hundred percent state agreements which contain leases with uniform royalty rates and uniform beneficiaries, royalties are due on all of the natural gas and natural gas products deemed to be produced. Unless notice has been given to the state land office under the following Paragraph, royalties will be paid by each working interest owner on the amount of natural gas and natural gas products actually taken and sold by such owner. Any notices of volume variances shall be sent to the property operator of the lease.

(2) Upon written notification to the state land office by the property operator that all interest owners in the property have elected to pay gas kind royalties on an entitlements basis, notice of volume variances will be sent to those working interest owners who are entitled to the production, as shown by state land office records. If a working interest owner does not sell all of the production to which he or she is entitled, then royalty payments on such untaken but entitled share are to be paid on the benchmark entitlement value. Failure to remit royalties based on benchmark entitlement value will result in assessments being issued and interest charges being assessed for the underpaid amount.

D. Adjustments of Prior Periods:

(1) Adjustments of prior period reports for under-reported or over-reported volumes made necessary by the promulgation of this Section shall be completed within eighteen months from the effective date. Adjustments must be reported by specific time period for each affected property. The state land office may grant specific remitters an extension of this deadline for good cause.

(2) In making adjustments under this Subsection, a remitter shall report the difference between the take and the entitlement basis volumes or vice-versa on a production month basis for each affected property.

(a) For convenience, a remitter may group volume differences on a calendar year basis, at the mid-point of the year, and apply a product valuation to the volume difference which is representative of the weighted average product values for that year. Such volume differences for the past will be reported as detail line entries into the ONGARD system in the PUN-lease format, etc., on forms OGR-1, OGR-2 and OGR-2c.

(b) In the alternative, a remitter may make a one-time cumulative adjustment for all past periods for each affected property by providing to the state land office a valuation proposal which estimates a fair average value of gas under-reported or over-reported for the period during which the imbalance occurred for the affected properties. Upon approval of such valuation proposal, or upon agreement of the remitter and the state land office to utilize different values, the remitter may make adjustments on the basis of such valuations.

(3) Irrespective of any applicable statute of limitations, credits for previously over-reported natural gas volumes may be taken if:

(a) the adjustment is caused by the promulgation of this Section by the state land office;

(b) the adjustment is made within the time period specified in Paragraph 1 of this

Subsection; and,

I the credit is taken for subsequent royalties owed on the same production unit number (property) for which the volumes were over reported or any other property with the same trust beneficiary as the affected property.

E. Definitions:

(1) "average value received" means the value required by law to be used for the calculation of royalties.

(2) "benchmark entitlement value" means:

(a) An amount equal to the average value received by the working interest owner for production from: the unit or communitized area; or state leases within one hundred percent state units or communitized areas where entitlements are elected under Paragraph (2) of Subsection C of 19.2.100.69 NMAC; or, individual state leases where entitlements are elected Paragraph (2) of Subsection C of 19.2.100.69 NMAC, in which the working interest owner's production is located during the production month, so long as the working interest owner took at least fifty percent of its entitled share of production for their unprocessed or processed gas. In the event that this Sub-paragraph (a) is not applicable, then the benchmark entitlement value shall be:

(b) In the event that the working interest owner sold less than fifty percent of its entitled share, or sold no gas from: the unit or communitized area; or, state leases within one hundred percent state units or communitized areas where entitlements are elected under Paragraph (2) of Subsection C of 19.2.100.69 NMAC; or, individual state leases where entitlements are elected under Paragraph (2) of Subsection C of

19.2.100.69 NMAC, the value of the untaken but entitled share shall equal the average value received by the working interest owner for like quality gas produced in the same producing basin in that production month for their unprocessed or processed gas. In the event that sub-Paragraphs (a) or (b) do not apply, then the benchmark entitlement value shall be:

I In the event that the working interest owner does not take any like quality gas in the same producing basin during a production month, the benchmark entitlement value shall be a valid index price, less a location differential, multiplied by the total mmbtu's produced at the field for unprocessed gas or similar index prices, less a location differential, multiplied by the mmbtu's produced applicable to the residue gas portion, plus a valid index price for natural gas liquids, less an estimated processing deduction for the portion of the processed gas converted to equivalent mmbtu value, and less a location differential, multiplied by the mmbtu's produced applicable to such natural gas liquids portion.

(3) "Like Quality Gas" means gas produced from the same pool, as defined by the New Mexico oil conservation division from time to time.

(4) "Location Differential" shall be equal to the costs incurred by the working interest owner to move gas from the field to the index point in the most recent month of production.

(5) "Valid Index Price" means:

(a) in the case of natural gas, an average of two or more price indices for interstate pipelines transporting natural gas from producing regions that are located entirely or partially within New Mexico, based on acceptable survey techniques, appearing in a publication recognized in the oil and gas industry as a reputable source of such price information (e.g., Inside FERC, Gas Daily, Natural Gas Weekly).

(b) in the case of natural gas liquids, the price for individual products produced from natural gas (e.g. ethane, propane, butanes (iso- and normal), natural gasoline, etc.) based on acceptable survey techniques, appearing in a publication recognized in the oil and gas industry as a reputable source of such price information (e.g., Oil Price Information Service).

[19.2.100.69 NMAC – Rn, SLO Rule 1, Section 1.071, 12/13/2002]

[The effective date of 19.2.100.69 is December 30, 1995]

19.2.100.70 REPORTING AND ROYALTY RENDITION FORMS:

A. Purpose and Application

(1) The purpose of this Section is to adopt forms for the reporting and rendition of oil and gas royalties under the oil and natural gas administration and revenue database (ONGARD) system. Payment of royalties is further described in 19.2.100.57 NMAC.

(2) This Section applies to the reporting and rendition of oil and gas royalties and is enacted pursuant to Sections 19-10-56 through 19-10-59 NMSA 1978.

(3) This Section applies to the reporting and remittance of oil and gas royalties, beginning with the May, 1995 reporting month for the sales month of March, 1995, and any amendments for prior to March, 1995 or to the June, 1995 reporting month for the sales month of April, 1995 and any amendments for sales months prior to April, 1995. Correspondence has been issued to remitting companies instructing them of which sales month such remitters are to begin reporting.

B. Forms and Instructions:

(1) The reporting and remittance of state oil and gas royalties shall be made on forms OGR-1, OGR-2 and OGR-2c. Each payment must be accompanied by an original OGR-1 remittance document. Copies of such forms and instructions are attached to and made a part of this Rule.

(2) Claims for refund shall be made on either form OGR-1 (for distributed royalty payments) or on form OGR-2 (for non-distributed royalty payments). Copies of such forms and instructions are attached to and made a part of this Rule.

(3) The application for lease credits (greater than \$25,000) of distributed funds regarding the erroneous payment of oil and gas royalties will be handled by special form OGRLC-1. Reference is made to Section 19-7-59 NMSA 1978. Copies of such forms and instructions are attached to and made a part of this Rule.

(4) Property product disposition data for lease communitization or unitization properties and the entitlement versus take reporting method for natural gas on lease properties shall be submitted on form OGR-PD-1. Such data will be requested as needed. Copies of such form and instructions are attached to and made a part of this Rule.

(5) Special form (schedule 1) and a letter request will be utilized for the product classification (intermediate/sweet or sour) as it applies to oil and condensate from state trust lands. Such data will be requested as needed. Copies of such form and request are attached to and made a part of this Rule.

C. Under the prior (pre-ONGARD) combined production tax and state royalty reporting system, any person obligated to pay royalties pursuant to a producing oil and gas lease shall continue to make reports and remittance of state oil and gas royalties through the New Mexico taxation and revenue department (TRD), as agent for the commissioner of public lands and the state land office on TRD forms O-1 and O-2 or P-1 and P-2. Such reporting and remittance will continue until ONGARD reporting is implemented as stated in Paragraph (3) of Subsection A of 19.2.100.70 NMAC above. In connection with outstanding billings (debits and credits) or suspense amounts generated by the combined system, such items will be accounted for separately in the old combined system by filing appropriate TRD forms O-1 and O-2 or P-1 and P-2 subsequent to the implementation of ONGARD. As a result, reports and remittance will continue to be made on TRD forms O-1 and O-2 or P-1 and P-2 to resolve old outstanding items only.

[19.2.100.70 NMAC – Rn, SLO Rule 1, Section 1.072, 12/13/2002]

NEW MEXICO STATE LAND OFFICE
OIL & GAS ROYALTY REMITTANCE REPORT (OGR-1)

1. Date Submitted (Month/Day/Year): / /

2. Ogrid Number:

3. Final Return ("Yes" or "No"):

4. Remitted Return ("Yes" or "No"):

5. Accelerated Royalty Payment: Sale Month/Year: /

Amount:

6. Total Oil/Gas Royalties: (Total of 'State Royalty' Column in OGR-2):
.....

7. Total Oil/Gas Interest: (Total of 'Interest' Column in OGR-2C):
.....

8. Total Assessments Paid (Attach Assessment Remittance Documents):
.....

9. Total Royalty and Interest Reported:
.....

10. Total Regular Credit Taken (Attach Invoice Remittance Documents):

11. Total Lease Credit Taken ⊗ Total of 'Lease Credit Amount Used' Column in OGR-2C)

12. Use Accelerated Royalty Sale Month/Year: /

Payment Previously Remitted: Amount:

13. Total Credit Taken:
.....

14. Net advance payment or (credit) – See instructions

15. Total Remittance:

16. Type of Payment (Check box below):

(1) Fedwire (2) ACH Credit (3) ACH Debit (4) Check (5) Cash

FOR OFFICE USE ONLY	
Postmark Date:	Validated Remittance Amount:
<input type="text"/>	<input type="text"/>
Receipt Date:	In\Out State Check:
<input type="text"/>	<input type="text"/>

This Report Submitted By:

Company Name: _____ Telephone Number (____) _____

Address: _____

City: _____ State: _____ Zip Code: _____

This Report, for the month(s) of ___ 19__ through ___ 19__ consisting of _____ OGR-2 pages, has been examined by me and to the best of my knowledge and belief it is true, complete and pursuant to law and regulation.

Name _____ Title _____ Date _____

Signature _____

NEW MEXICO STATE LAND OFFICE

GENERAL INSTRUCTIONS

Oil & Gas Royalty Remittance Report-OGR-1

WHO MUST REPORT AND REMIT STATE ROYALTY:

Each responsible royalty remitter, by express or implied agreement with the operator or the lessee of record, must report monthly on OGR-1 and OGR-2 Forms, as long as the property (lease, communitization, or unitization) continues to produce. The OGR-1 and OGR-2 forms will also be used to submit amended line entries. The OGR-1 Form is to be used to summarize the royalty remittance detail line entries shown on the OGR-2 (detail) Form, and to identify other remittance such as: Accelerated Royalty Payments, Interest Payments, Assessments Paid, Credit(s) Taken and Advance Payment. Each filer is required to submit a Royalty Remittance Document identifying total payment submitted by check or cash remittances.

DUE DATE OF THE REPORT AND REMITTANCE:

The oil and gas royalty remittance reports and accompanying remittances are due as follows:

Payment and accompanying remittance OGR-1 and OGR-2 Forms are due on or before the 25th of the second month succeeding the month of production (55th day) for small producers or large producers who have elected the advance payment method. For large producers who have elected the accelerated royalty payment method, the payment and accompanying remittance report is due on or before the 20th day of the first month succeeding the month of production. The accelerated royalty remitter shall submit the required OGR-2 detailed forms on or before the 25th day of the second month succeeding the month of production (55th day).

WHERE TO FILE: EDI - ONGARD NETWORK PROVIDER

PAPER REPORT – must be mailed to: New Mexico State Land Office
C/O New Mexico Taxation and Revenue Department
P.O.Box 2308
Santa Fe, New Mexico 87504-2308

INTEREST: Interest on past due state royalty payments will be computed at the rate of one and one-quarter percent (1.25%) per month or any fraction thereof. Reference is made to New Mexico Statute –56-8-3 NMSA 1978 as amended.

DETAIL INSTRUCTIONS –OGR-1

ITEM 1 **DATE SUBMITTED** (Month/Day/Year): Enter the date this form (OGR-1) is submitted.

ITEM 2 **OGRID NUMBER:** Enter your assigned Oil and Gas Remittance Identification Number.

ITEM 3 **FINAL RETURN** (Yes or No): Enter Yes if this is your FINAL Return; NO, if this is not your final return, if this Line remains blank, the default is NO.

ITEM 4 **REMITTED RETURN** (Yes or No):

YES, if remittance is due.

No, if no remittance is due. Non-remittance will involve the submission of OGR-1 and OGR-2, when the whole stream accounting entries portion, which do not give rise to royalty payments are submitted under Rule 1.059.

ITEM 5 **ACCELERATED ROYALTY PAYMENT** (No OGR-2 required for this item): SALE MONTH/YEAR: Enter the Sale month and year (sale month/year the product is produced and sold/entitled) for which the Accelerated Royalty Payment is being reported.
AMOUNT: Enter the total Accelerated Royalty Payment amount submitted.

ITEM 6 **TOTAL OIL/GAS ROYALTIES:** Enter the Grand Total of the State Royalty Column on the last page of the OGR-2 Form.

ITEM 7 **TOTAL OIL/GAS INTEREST:** Enter the Grand Total of the Interest Column on the last page of the OGR-2C Form.

ITEM 8 **TOTAL ASSESSMENTS PAID:** Enter the total amount paid on the attached Assessments Remittance Documents. Identify the allocation of cash to the detail line entries of the assessment if a partial payment is made.

ITEM 9 **TOTAL ROYALTY AND INTEREST REPORTED:** Enter the amount total of lines 5, 6, 7 and 8.

ITEM 10 **TOTAL REGULAR CREDIT TAKEN:** Enter the total amount of all attached Regular Credit(s) taken.

ITEM 11 **TOTAL LEASE CREDIT(s) TAKEN:** Enter the total of the Lease Credit Amount Used Column in the OGR-2C Form. An established lease credit invoice number must be associated with each credit taken.

ITEM 12 **ACCELERATED ROYALTY APPLIED:**
SALE MONTH/YEAR: Enter the Sale Month and Year for the previously submitted accelerated royalty payment.
AMOUNT: Enter the previously submitted accelerated royalty payment.

ITEM 13 **TOTAL CREDIT TAKEN:** Enter the sum of Items 10, 11, and 12.

ITEM 14 **ADVANCE PAYMENT (OR CREDIT):**
Enter the Advance Payment amount, a credit applied or adjustment as required.
Generally, the advance payment amount will be adjusted in July of each year, based on royalty payments made in the 12 consecutive months ending March 31 of that year under the advance payment method.

ITEM 15 **TOTAL REMITTANCE:** Enter the remainder between the amount in item 9 less the amount in item 13 less or add amount in item 14.

ITEM 16 **TYPE OF PAYMENT:** Check the appropriate Item, which identifies the type of Payment being submitted. Only one type of payment is acceptable per return.

****ALL CHECKS MUST BE MADE PAYABLE TO: THE COMMISSIONER OF PUBLIC LANDS****

FOR OFFICE USE ONLY: This section should be left blank.
THIS REPORT SUBMITTED BY: Complete this section as requested.
[19.2.100.71 NMAC, Rn, SLO Rule 1, Section 1.072, 12/13/2002]

**NEW MEXICO STATE LAND OFFICE
OIL & GAS ROYALTY DETAIL REPORT (OGR-2)**

Company Name: _____
OGRID Number: _____

Page _____ **of** _____
Sale Mo./Yr ____ / ____

Line	PUN	Lease No.	Product Code	Txn Code	Arms Length	Volume BBL/MCF	NGL Gallons	BTU Content Of Gas	Gross Proceeds	Transport Deductions	Gas Marketing Prep/Other	Gas Processing Deductions	State Royalty
1													
2													
3													
4													
5													
6													
7													
8													
Page Total													
Grand Total													

NOTE: Round the dollar amounts to nearest whole dollar. DO NOT use commas to designate thousands. Oil / Condensate to the nearest barrel. Gas / Gas Products to the nearest MCF (15.025 P.S.I.A). NGL to nearest Gallon.

NEW MEXICO STATE LAND OFFICE

INSTRUCTIONS FOR OIL AND GAS ROYALTY DETAIL REPORT – OGR-2 FORM

COMPANY NAME, PAGE NUMBER:

Enter your company name and page number.
Number pages in sequence by sale month.

OGRID NUMBER: Enter your assigned Oil and Gas Remittance Identification Number.

SALE MONTH AND YEAR:

Enter the sale month and year the product is produced and sold/entitled. You must submit a separate OGR-2 (2-C) form for each sale month reported.

PRODUCTION UNIT NUMBER (PUN), AND LEASE NUMBER COLUMNS:

Each line entry on the report must show the related number as assigned by the State of New Mexico.

PRODUCT CODE: Enter the product code assigned by the State to indicate the type of hydrocarbon being sold.

TRANSACTION CODE: Enter the transaction code as assigned by the State.

ARMS LENGTH TRANSACTION:

Enter:

Y if the reported sale is an Arm's Length Transaction (if left blank, the transaction will default to Y) as defined by State Land Office Regulation.

N if the reported sale was a Non-Arm's Length Transaction.

VOLUME-BBL/MCF:

Report Oil and Condensate to the nearest whole barrel. Report Natural Gas to the nearest MCF metered at the wellhead at 15.025 psia at 60 degree Fahrenheit for unprocessed gas transaction. Report to the nearest MCF for Residue Gas and the equivalent MCF of the reported Natural Gas Liquids for processed gas.

NGL-GALLONS: Report the Natural Gas Liquids (all component products in total) to the nearest gallon.

BTU Content of Gas:

Report the BTU (settled basis-15.025 psia) content of Residue Natural Gas (after processing) for Non-Arms Length Transactions Only. In addition, report BTU content of Residue Natural Gas (after processing) for Arms length transactions, other than percent of proceeds (POP) contracts.

GROSS PROCEEDS:

Enter to the nearest whole dollar the value/actual price received for products from the production unit (property) before deductions.

TRANSPORT DEDUCTIONS:

Enter to the nearest whole dollar those cost(s), incurred to transport:

a) oil or condensate or

b) natural gas, gas plant products or residue gas to market. Natural Gas mainline transportation deductions are limited to mainline charges incurred from the tailgate of the gas plant or mainline entry connection point to the point of sale.

GAS MARKETING PREPARATION/OTHER TRANSPORTATION DEDUCTIONS:

Enter to the nearest whole dollar those cost(s) incurred in non-field activities by the lessee to prepare produced Natural Gas, Gas Plant Products, or Residue Gas for market, including such cost incurred under an arm's length contract or allowable cost deductions for non-arm's length transactions . Other Transportation Deductions shall be cost(s) (to the nearest whole dollar) incurred from the boundary of the field to the mainline connection point or the processing plant.

GAS PROCESSING DEDUCTIONS:

Enter to the nearest whole dollar those costs incurred under an arm's length processing contract or those costs (imposed or approved by the lessor) incurred under non-arm's length contract, under Section F of Rule 1.059, and which are incurred to remove gas plant products from natural gas. This does not include costs incurred to physically separate liquid hydrocarbons from natural gas at or near the wellhead or costs normally incurred within the field.

STATE ROYALTY:

From the amount shown in the GROSS PROCEEDS column deduct any amounts shown in the deduction columns, and add the amount from the Natural Gas Liquid (NGL) Credit addition column (OGR-2C Form), and multiply the remainder by the applicable royalty rate.

PAGE TOTAL : Enter the required page totals for the last five columns of each OGR-2 Form page.

GRAND TOTAL: Enter the grand total of all pages on last page of report and transfer to applicable line on OGR-1 Form
[19.2.100.72, Rn, SLO Rule 1, Section 1.072, 12/13/2002]

NEW MEXICO STATE LAND OFFICE

Instructions for Oil & Gas Royalty Remittance Report – OGR-2C FORM

COMPANY NAME, PAGE NUMBER:

Enter your company name and page number.
Number pages in sequence by sale month.

OGRID NUMBER:

Enter your assigned Oil and Gas Remittance Identification Number.

SALE MONTH AND YEAR:

Enter the sale month and year the product is produced and sold/entitled.

INTEREST:

Enter the interest amount calculated for this detailed line entry and remitted with this report. Enter the grand total amount on OGR-1 Form.

NGL CREDIT ADDITIONS:

Enter any Natural Gas Liquid Credit amount issued to your company by the natural gas gatherer or transporter.

LEASE CREDIT NUMBER:

Enter the Lease Credit Invoice Number assigned by the state which you are applying to your detail line entries on this Form.

LEASE CREDIT AMOUNT USED:

Enter the Lease Credit Invoice Amount which you are applying to your detail line entries on this Form. This amount must be applied to a state lease with the same beneficiary.

REPORTER'S USE ONLY:

This column is for the Reporter's use when the Royalty Remittance Detail Form(s) are submitted by electronic media or paper returns. The remitter should report its matching company property number to the reported Pun/lease number.

PAGE TOTAL: Enter the required page totals for the OGR-2C FORM.

GRAND TOTAL: Enter the grand total of all pages on last page of report and transfer to applicable line on OGR-1 Form.

[19.2.100.73 NMAC, Rn, SLO Rule 1, Section 1.072, 12/13/2002]

New Mexico State Land Office
Royalty Management Division

Claim for Refund
Oil and Gas Royalties – Erroneous Payment
Distributed Funds

Commissioner of Public Lands
New Mexico State Land Office
P. O. Box 1148
Santa Fe, New Mexico 87504-1148

Dear Sir:

Whereas, _____ Dollars (\$_____) were erroneously paid for oil and/or gas royalties by _____ OGRID NO. _____ to the Commissioner of Public Lands on account of Lease No. _____ and PUN _____.

Whereas, to the best of the knowledge of such applicant, such payment is not carried in any suspense fund by the State Land Office or its agent (if any) but has been distributed to the state permanent fund.

Applicant states that the reasons why such payment was erroneously made are, as follows:

Now, therefore, the undersigned makes a claim for refund of said payment(s) from that part of the State Lands Maintenance Fund distributable to the fund into which such payment(s) was (were) erroneously made.

Claimant petitions the Commissioner of Public Lands to investigate the facts herein and endorse his approval of this claim and take action thereon, as provided by Section 19-7-59 et seq, NMSA 1978, as amended.

Applicant/Claimant

_____ (Applicant) being duly sworn states that the foregoing claim is made in good faith and the facts stated herein are true.

Subscribed and sworn to before me this _____ day of _____.

My commission expires: _____
Notary Public

SEAL

Approved ()
Disapproved () this the _____ day of _____, _____.

Commissioner of Public Lands

New Mexico State Land Office
Royalty Management Division

Claim for Refund
Oil and Gas Royalties – Erroneous Payment
Distributed Funds

Instructions

Purposes:

This form is to be used for applying for a refund from the New Mexico State Land Office for oil and gas royalties which have been paid and distributed to a permanent fund.

Amended Data:

If you are changing any information for prior reporting periods (sales months, by product), you must submit an amended report for each period affected. Note: Failure to submit the required amended report(s) will prevent the processing of your application and will result in a delay of your oil and gas royalty claim for refund.

Letter of Explanation:

Attach a letter of explanation if the space provided for reason for an erroneous payment is insufficient.

Signature:

This form must be signed by the oil or gas royalty payor or an authorized agent.

State District Court Involvement:

If this claim for refund exceeds \$2,000, approval or disapproval must also be obtained from the State District Court for Santa Fe County by the Commissioner of Public Lands, prior to any disbursement of state funds.

Authority – Claimant Time Limitation:

Section 37-1-23 (NMSA, 1978, as amended) Contractual Liability; statute of limitations provides that an action must be based on a valid written contract (e.g. oil and gas lease) and each claim permitted by this section shall be barred forever unless brought within two years from the time of accrual. Such accrual time relates to the time the erroneous payment was made.

Lease credits previously established through the Section 37-1-23 process can later be subject a claim for refund, without a time limit.

Presumption of Distribution:

If the remitter has not received notification from SLO of suspended funds within one month of the payment for which the credit is requested, the applicant can assume such payment(s) is/are not carried in a suspense account.

Subject to Audit

Refunds are still subject to audit at the discretion of the Commissioner of Public Lands.

Registered Notification – Time Limitation:

If the Commissioner of Public Lands discovers an erroneous payment, notice is to be given, by registered mail, to the last recorded address of the person making such erroneous payment. All claims for refund of money shall be filed within ninety days after notice. All claims for refund not filed with the Commissioner of Public Lands within the time prescribed shall be forever barred. (Section 19-7-60).

PUN/Lease – Report Line Entries:

The applicant should submit separate PUN/Lease – Report Line Entries by a separate report so that the ONGARD system can validate the line entries.

The claim for refund application will then be verified by the Royalty Management Division of the State Land Office to the above processed data, as a part of the approval process.
[19.2.100.74 NMAC – Rn, SLO Rule 1, Section 1.072, 12/13/2002]

New Mexico State Land Office
Royalty Management Division

Claim for Refund
Oil and Gas Royalties – Erroneous Payment
Non-Distributed Funds

Commissioner of Public Lands
New Mexico State Land Office
P. O. Box 1148
Santa Fe, New Mexico 87504-1148

Dear Sir:

Whereas, _____ Dollars (\$ _____) were erroneously paid for oil and gas
royalties by _____ (OGRID NO.) _____ to the Commissioner of Public Lands on account of Lease No.
_____ and PUN _____, or such amounts are represented by Credit Invoice No. _____ for
suspended cash _____, suspended detail _____ or other (describe) _____.

Whereas, such payment is carried in an oil and gas royalty suspense fund by the State Land Office or its
agent (if any) but has not been distributed to the state permanent fund.

Applicant states that the reasons why such payment was erroneously made are, as follows:

Now, therefore, the undersigned makes a claim for refund of said payment from the oil and gas royalty
suspense fund into which such payment was erroneously made.

Claimant petitions the Commissioner of Public Lands to investigate the facts herein and endorse his
approval of this claim and take action thereon.

Applicant/Claimant

_____ (Applicant) being duly sworn states that the foregoing claim
is made in good faith and the facts stated herein are true.

Subscribed and sworn to before me this _____ day of _____ of _____.

SEAL

My Commission Expires: _____ Notary Public

Approved ()
Disapproved () this the _____ day of _____, _____.

Commissioner of Public Lands

**New Mexico State Land Office
Royalty Management Division**

**Claim for Refund
Oil and Gas Royalties – Erroneous Payment
Non-Distributed Funds**

Instructions

Purposes:

This form is to be used for applying for a refund from the New Mexico State Land Office for oil and gas royalties which have been paid but not distributed to a permanent fund. State notifications of such suspense fund payments should be in the possession of the applicant.

Amended Data:

If you are changing any information for prior reporting periods (sales months, by product), you must submit an amended report for each period affected. Note: Failure to submit the required amended report(s) will prevent the processing of your application and will result in a delay of your oil and gas royalty claim for refund.

Letter of Explanation:

Attach a letter of explanation if the space provided for reason for an erroneous payment is insufficient.

Signature

This form must be signed by the oil or gas royalty payor or an authorized agent.

Authority – Claimant Time Limitation:

Section 37-1-23 (NMSA, 1978, as amended) Contractual Liability; statute of limitations provides that an action must be based on a valid written contract (e.g. oil and gas lease) and each claim permitted by this section shall be barred forever unless brought within two years from the time of accrual. Such accrual time relates to the time the erroneous payment was made.

Subject to Audit:

Refunds are still subject to audit at the discretion of the Commissioner of Public Lands.

Registered Notification – Time Limitation:

If the Commissioner of Public Lands discovers an erroneous payment, notice is to be given, by registered mail, to the last recorded address of the person making such erroneous payment. All claims for refund of money shall be filed within ninety days after notice. All claims for refund not filed with the Commissioner of Public Lands within the time prescribed shall be forever barred. (Section 19-7-60.)

[19.2.100.75 NMAC – Rn, SLO Rule 1.072, 12/13/2002]

19.2.100.76 OGRLC-1
08/94

New Mexico State Land Office
Royalty Management Division

Application for Lease Credit
(greater than \$25,000)
Oil and Gas Royalties – Erroneous Payment
Distributed Funds

Commissioner of Public Lands
New Mexico State Land Office
P. O. Box 1148
Santa Fe, New Mexico 87504-1148

Dear Sir:

Whereas, _____ Dollars \$ _____ were
erroneously paid for oil and/or gas royalties by _____ (OGRID No.) _____
to the Commissioner of Public Lands on account of Lease No. _____ and PUN _____.

Whereas, to the best of the knowledge of such applicant, such payment(s) is/are not carried in any
suspense account by the State Land Office or its agent (if any) but has been distributed to the state permanent
fund.

Applicant states that the reason(s) why such payment was/were erroneously made are, as follows:

Now, therefore, the undersigned makes application for a Lease Credit (greater than \$25,000.00). It is
understood that upon approval of the Commissioner, the applicant will plan to recoup such money by deducting
up to an equivalent amount from subsequent royalty payments due for the same lease.

Applicant petitions the Commissioner of Public Lands to investigate the facts herein and endorse his
approval of this application for Lease Credit and take action thereon, as provided by Section 19-7-59 et seq,
NMSA 1978, as amended.

Applicant

Approved ()
Disapproved () this the _____ day of _____, _____.

Commissioner of Public Lands

**New Mexico State Land Office
Royalty Management Division**

**Application for Lease Credit
(greater than \$25,000)
Oil and Gas Royalties – Erroneous Payment
Distributed Funds**

Instructions

Purposes:

This form is to be used for applying for an oil and gas royalty lease credit (greater than \$25,000), which must be approved in advance by the Commissioner of Public Lands.

Authority:

Reference is made to Section 19-7-59. Prepayment of money erroneously paid on lease or purchase contract after distribution. Such statute reads as follows:

“A. Any money erroneously paid on account of any lease or sale of state lands, which money is not carried in any suspense fund but has been distributed to the proper income or permanent fund, shall be repaid in the manner prescribed in this section.

B. If the money erroneously paid was for royalty due under any lease, then, subject to subsequent audit by the commissioner of public lands or his agent, the money may be recouped by deducting an equivalent amount from subsequent royalty payments due for the same lease; provided that, if the amount to be recouped under this paragraph is greater than twenty-five thousand dollars (\$25,000) for any lease, then no deduction from subsequent payments shall be made without the prior approval of commissioner of public lands.”

Presumption of Distribution – If the remitter has not received notification from SLO of suspended funds within one month of the payment for which the credit is requested, the applicant can assume such payment(s) is/are not carried in a suspense account.

Letter of Explanation:

Attach a letter of explanation if the space provided for reason for an erroneous payment is insufficient.

Signature:

This form must be signed by the oil or gas royalty payor or an authorized agent.

Subject to Audit:

An approval for a lease credit is still subject to audit at the discretion of the Commissioner of Public Lands.

Allowable Credits:

Lease Credits Established in a timely basis (within two years of accrual of such erroneous payment(s), can later be subject to claim for refund through the Section 37-1-23 process, without a time limit.

Authority – Claimant Time Limitation:

Section 37-1-23 (NMSA, 1978, as amended) Contractual Liability; statute of limitations provides that an action must be based on a valid written contract (e.g. oil and gas lease) and each claim permitted by this section shall be barred forever unless brought within two years from the time of accrual. Such accrual time relates to the time the erroneous payment was made.

PUN/Lease – Report Line Entries:

The applicant should obtain approval prior to the filing of PUN/Lease – Report Line Entries to the ONGARD system.
[19.2.100.76 NMAC – Rn, SLO Rule 1, Section 1.072, 12/13/2002]

STATE OF NEW MEXICO
STATE LAND OFFICE
PROPERTY DISPOSITION DATA – OIL & GAS ROYALTIES
FORM OGR-PD-1
GENERAL INSTRUCTIONS

PURPOSE:

The purpose of Form OGR-PD-1 is to identify the Gross Working Interest Owners and responsible remitters (if available) by lease for oil and gas royalties due the State of New Mexico under a PUN-Lease.

AUTHORITY:

The authority is contained in NMSA 1978 Section 19-10-11 through Section 19-10-22, and regulations relating thereto, which allows the commissioner to prescribe forms for the reporting of royalties.

WHO MUST REPORT:

Each operator of a producing state oil and gas lease shall submit an OGR-PD-1 Form indicating the Gross Working Interest Owners and responsible remitter or remitters (if available) of royalties due on production from the lease, **unless the operator is the sole remitter – no report required.**

WHEN IS THE REPORT DUE:

The OGR-PD-1 Form is due by August 25, 1995, and within 30 days of the assignment of a new PUN-Lease number by SLO.

HOW IS DATA REPORTED:

Each operator shall report the decimal interest (.xxxxxxx) by lease of each Gross Working Interest Owner or responsible royalty remitter for oil condensate and natural gas for each lease he/she operates.

The total decimal interest for each lease shall equal 1.00000000.

An OGR-PD-1 shall be submitted by product if the responsible owners are different or the decimal interests are not the same for all products.

**STATE OF NEW MEXICO
STATE LAND OFFICE
PROPERTY DISPOSITION DATA – OIL & GAS ROYALTIES**

DETAIL INSTRUCTIONS FOR COMPLETING FORM OGR-PD-1

1. DATE SUBMITTED:

This is the date the form is submitted to the Royalty Management Division of the State Land Office.

2a. TYPE OF PROPERTY AGREEMENT:

This refers to the type of agreement being utilized on the state leases(s).

- (a) Lease – Operated as an individual lease.
- (b) Unit – Included in a unit and participating in the unit's production.
- I Unit – N/P – Included in the unit land area, but not participating in the unit's production.
- (d) COMM – Included in a Communitization Agreement with other leases.

2b. REPORTING METHOD:

This refers to the reporting method of natural gas and natural gas products for state royalties on properties operated as individual leases only.

- (a) Entitlement
- (b) Takes

3a. OGRID:

This is a number that has been assigned by the State ONGARD System. OGRID is the Oil and Gas Reporting I.D.

3b. OPERATOR NAME:

The OGRID name that corresponds to item 3a. above.

4a. PUN/LEASE:

This is an alpha-numeric identifier(s) that has been assigned to the particular property and lease, as assigned by the state.

4b. PROPERTY NAME:

This is the name the operator uses to identify the lease(s), unit(s) or comm(s), as designated by the operator.

4c. UNIT PHASE NO. OR UNIT EXPANSION NO:

This applies to the development phase of the unit at the time the production report or sale/entitlement is settled, or the expansion number (within the developmental phase, if applicable) of the unit.

5. REPORTED DECIMAL STARTING MM/YY:

Enter applicable date(s) the responsible owners were liable for remitting royalties, based on the participation decimal, on the state lease(s) being reported. If ending date is unknown indicate MM/YY.

6. PRODUCT:

This refers to the type of product being produced from specific leases. If the lease produces more than one product, and the responsible owners are different, please submit one form for each product, copies accepted, unless the percentages are the same for all products.

7. LEASE NUMBER:

This is a six digit alpha-numeric number assigned to all state leases, by the state.

8. UNIT TRACT NO. (OPT.):

This column refers to the tract number assigned a state lease(s) that is (are) participating in a reported unit.

If this information is known by the operator, it should be reported to the State.

9. OGRID NUMBER (OPT.):

This is a number that has been assigned by the State ONGARD System. OGRID is the Oil and Gas Reporting I.D.

If this information is known by the operator, it should be reported to the State.

10. GROSS WORKING INTEREST OWNER NAME:

The name of the Gross Working Interest Owner or responsible royalty remitter (if known) for the lease being reported.

11. GROSS WORKING INTEREST OWNER DECIMAL:

The Gross Working Interest Owner or responsible remitter's decimal portion of lease/tract that they are obligated to report.

12. LEASE/TRACT TOTAL:

This column should equal 1.00000000 for every lease being reported.
[19.2.100.77 NMAC – Rn, SLO Rule 1, Section 1.072, 12/13/2002]

19.2.100.78 Product Classification Request

OGRID NAME:

OGRID ADDRESS:

Dear Ladies and Gentlemen:

This is our request to you, as an operator of oil properties, for certain data regarding crude oil or condensate produced involving State Trust Lands.

The following is our Product Classification Definition:

Production Classification applies to oil and condensate, the designation given by the industry for sales purposes, based on sulphur content:

- a. Intermediate/Sweet
- b. Sour

Identify the sulphur content, by weight, in gravity and state such in percentages (i.e., .5%, or less will be intermediate/sweet crude oil and greater than .5% will be sour crude oil.)

If you have questions call _____, of our staff at _____

Please submit this data to the Royalty Management Division as soon as practical, but no later than 30 days from the receipt of this letter.

Sincerely,

Kurt McFall, Director
Royalty Management Division

Enclosures

TITLE 19 NATURAL RESOURCES AND WILDLIFE
CHAPTER 2 STATE TRUST LANDS
PART 17 GEOPHYSICAL EXPLORATION ON UNLEASED STATE TRUST LANDS

19.2.17.1 ISSUING AGENCY: Commissioner of Public Lands - New Mexico State Land Office 310 Old Santa Fe Trail - P.O. Box 1148 - Santa Fe, New Mexico 87501.
[19.2.17.1 NMAC – N, 09/14/2000]

19.2.17.2 SCOPE: Future geophysical exploration permits of state trust lands, excluding exploration for minerals which may be leased under 19.2.17 NMAC. This part does not apply to geophysical exploration related to oil and gas operations on trust lands that are currently under an oil and gas lease in good standing; any geophysical exploration on those lands shall be conducted under the terms of the existing oil and gas lease.
[19.2.17.2 NMAC – N, 09/14/2000]

19.2.17.3 STATUTORY AUTHORITY: N.M. Const. Art. XIII; NMSA 1978 Section 19-10-1.
[19.2.17.3 NMAC – N, 09/14/2000]

19.2.17.4 DURATION : Permanent.
[19.2.17.4 NMAC – N, 09/14/2000]

19.2.17.5 EFFECTIVE DATE: September 14, 2000.
[19.2.17.5 NMAC – N, 09/14/2000]

19.2.17.6 OBJECTIVE: The objective of this part is to provide the general terms and conditions for the geophysical exploration of state trust lands.
[19.2.17.6 NMAC – N, 09/14/2000]

19.2.17.7 DEFINITIONS:

A. “commissioner” means the New Mexico commissioner of public lands, and his appointees under Section 19-1-7 NMSA 1978 acting within the scope of their authority. Except for the decision to cancel or otherwise terminate a lease, the commissioner may delegate to state land office staff the performance of functions required of the commissioner under this part.

B. “geophysical exploration” means the quantitative physical study of the earth by reflection and refraction seismic (including dynamite sources), gravity, magnetic, electrical, electromagnetic or radiation methods.

C. “geophysical exploration permit” or “permit” means a permit approved by the commissioner for geophysical exploration of trust lands.

D. “schedule of fees” means the list of fees that must be paid to the commissioner for performance of certain administrative functions identified in this part. The schedule of fees is subject to change without notice and is available upon request.

E. “state land office” means the New Mexico State Land Office.

F. “trust” means the trust created by congress under the New Mexico Enabling Act of June 20, 1910, and accepted by the state of New Mexico under Articles XIII and XIV of the New Mexico constitution.

G. “trust lands” means those lands, their natural products and all assets derived from them, which are under the care, custody and control of the commissioner.

[19.2.17.7 NMAC – N, 09/14/2000]

19.2.17.8 PROHIBITION: Notwithstanding the issuance of a geophysical exploration permit, no person shall conduct any geophysical activity or associated surveys on trust lands unless the activity is conducted in conformity with all applicable local, state, and federal laws and regulations, and all necessary permits have been obtained.

[19.2.17.8 NMAC – N, 09/14/2000]

19.2.17.9 LANDS SUBJECT TO A GEOPHYSICAL EXPLORATION PERMIT: Geophysical exploration permits are required on all trust lands on which there is no valid existing oil and gas lease, specifically:

A. On all trust lands in which both the surface and mineral estate are held in trust, even if other surface leases are in existence.

B. On all trust lands in which only the mineral estate is held in trust. Such permit will allow the permittee to conduct geophysical investigations throughout the mineral estate; however, any access to the surface estate will be coordinated between the permittee and the surface owner.

C. On all trust lands in which only the surface estate is held in trust, even if other surface leases are in existence. Such permit will allow the permittee physical access to the surface for the purpose of conducting geophysical investigations; however, any access to the mineral estate shall be coordinated between the permittee and the mineral estate owner.

[19.2.17.9 NMAC – N, 09/14/2000]

19.2.17.10 APPLICATION FOR A PERMIT:

A. Applicants for a geophysical exploration permit must contact the oil, gas and minerals division of the state land office in Santa Fe to verify that the trust lands of interest are available to permit. Interested applicants shall then submit a complete application for permit on forms prescribed and furnished by the commissioner, and shall include, without limitation, the following:

(1) A check made payable to the commissioner for the appropriate fees in accordance with the schedule of fees adopted by the commissioner. Fees will be assessed for each individual or portion of a geophysical exploration line considered as a single entry, and will reflect rates according to trust surface and mineral ownership and locations within restricted districts or unrestricted areas as determined by the commissioner;

(2) A topographic map of suitable scale, identified by county, township, range and section, showing the approximate location of all survey lines which are proposed to cross the applicable trust lands. The map shall be verified as to correctness by the applicant or his duly authorized representative; and,

(3) A proposed survey operations plan which shall include, without limitation, a description of the methods to be used in conducting the survey, a description of equipment to be used, a description of ingress and egress locations and a spill prevention and control plan.

B. When the proposed survey method will include the use of explosives, the application for a geophysical exploration permit shall also include the following:

(1) A topographic map showing shot hole patterns, depth of shot hole, size of charge and location in relation to buildings, wells, roads, pipelines, power lines, drainages and any other cultural feature; and

(2) Contingency plans for control and mitigation of blowouts and unexploded shot holes.

[19.2.17.10 NMAC – N, 09/14/2000]

19.2.17.11 PERMIT ISSUANCE:

A. If the commissioner approves an application and determines that a permit will be in the best interest of the trust, a geophysical exploration permit will be issued. The application documents will be incorporated into the permit by reference and the provisions of the approved application documents will be enforceable in the same manner as any other condition of the permit. Any changes to operations approved under a permit must be approved in advance in writing by the commissioner.

B. Following approval of an application, the commissioner shall prepare a geophysical exploration permit in accordance with this part, in duplicate, and mail the two originals to the applicant. If the applicant agrees to all terms and conditions of the proposed permit, the applicant shall sign the originals before a notary public and return both originals to the commissioner. The commissioner shall thereafter approve and execute the geophysical exploration permit and return one fully executed original to the permittee.

[19.2.17.11 NMAC – N, 09/14/2000]

19.2.17.12 PERMIT TERMS AND CONDITIONS:

A. The permit shall be valid for ninety days from the date of its approval by the commissioner; provided, that an extension may be approved by the commissioner upon a showing by the permittee that reasonable work delays occurred because of conditions beyond the permittee's control.

B. No later than one hundred and fifty calendar days after the expiration date of a permit, the permittee shall furnish to the commissioner, a map of suitable scale, identified by county, township, range and section, showing the location and depth of shot holes or station points on the permitted land. This map shall include the locations of source (vibrator) lines and receiver lines. The map shall be of a quality sufficient to

enable visual inspection of the permitted lands after the project is completed. The map shall be verified as to correctness by the permittee or his duly authorized representative.

C. Source lines and receiver lines shall be no greater than one hundred feet in width.

D. Motorized vehicles are not allowed off established ranch roads or off the permitted and surveyed source and receiver lines. The commissioner will allow limited and reasonable drive-arounds when justified and located on submitted updated maps. Areas between the permitted survey lines are not permitted and entry thereon will be considered trespass, which may result in cancellation of a permit.

E. The permittee shall at all times keep the permit area free and clear of trash and debris resulting from the permittee's occupation of the lands. Hazardous or toxic wastes or petroleum products may not be disposed of on the permit premises, and all such materials used in the operations must be removed from the permitted land prior to expiration of the permit. Due care shall be used to prevent leaks and spills of such materials; the clean-up of any spills and reclamation of the area shall be performed in consultation with the commissioner.

F. Unless authorized by the commissioner in writing, a permit does not authorize the use of trust lands for operation staging areas or for vehicle maintenance yards.

G. No access is granted to trust lands for any purpose without valid permits or agreements. Copies of permits and agreements must be in the possession of any representatives or subcontractors of geophysical permittees at all times when on trust lands. State land office representatives may order an immediate shut-down of operations until proof of a valid permit or agreement is on site.

H. Permits may contain specific requirements for reclamation, such as bank stabilization for watercourses and road repair.

I. The permittee shall comply with all applicable laws, regulations, rules, ordinances and requirements of city, county, state and federal authorities and agencies, in all matters and things affecting the permit area and operations, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology.

[19.2.17.12 NMAC – N, 09/14/2000]

19.2.17.13 RECLAMATION AND RESTORATION: Any person who enters upon trust lands for purposes of geophysical exploration shall take all steps necessary to preserve and protect the natural environmental conditions of such lands. The permittee shall remove all stakes, markers, cables, ropes, wires or debris from disturbed areas, and shall restore and reclaim all areas disturbed by his operations at the conclusion of the operations, in accordance with the approved permit and standards established by the commissioner.

[9.2.17.13 NMAC – N, 09/14/00]

19.2.17.14 FINANCIAL ASSURANCE:

A. Improvements; Waivers. Before commencement of geophysical exploration activity, the permittee shall execute and provide financial assurance to secure payment for potential injuries to tangible improvements upon the permitted area that may result from a permittee's activity. The commissioner shall fix the amount of such financial assurance in an amount not less than five thousand dollars (\$5,000.00) for each section or portion of a section of trust lands covered by the permit. The financial assurance instrument shall be in favor of the state, but held for the benefit of the state's contract purchasers, patentees, and surface lessees with pre-existing rights within the permitted area. Provided that, in lieu of said financial assurance, the commissioner may accept a waiver of financial assurance, duly executed or acknowledged by the owners of all improvements in the permitted land.

B. Blanket Bonds. The permittee may, with the approval of the commissioner, provide one instrument ("megabond") to cover financial assurance requirements under multiple permits or other instruments that authorize the permittee to enter trust lands. The commissioner shall fix the amount of the megabond, which shall be no less than twenty-five thousand dollars (\$25,000.00).

C. Reclamation Bonds. Notwithstanding the provision of financial assurance under this part, the commissioner may require a permittee to provide for additional financial assurance to guarantee performance of reclamation requirements promulgated under state land office rules.

D. Form of Financial Assurance Instruments. Forms for all financial assurance instruments shall either be prescribed and furnished by the commissioner, or be in a form approved by the commissioner. Self-insurance, in any form, shall not be allowed.

[19.2.17.14 NMAC – N, 09/14/2000]

19.2.17.15 SURFACE LESSEES :

A. Fees paid to the commissioner pursuant to this part for permits to conduct geophysical exploration on lands in which the surface is held in trust are consideration for access to use the surface for reasonable geophysical activity. State land office surface lessees are not entitled to compensation from permittees for access across trust land.

B. Permittees must settle with and compensate state land office surface lessees for actual damage to or loss of livestock, authorized improvements, range, crops, and other valid existing rights recognized by law. [19.2.17.15 NMAC – N, 09/14/2000]

HISTORY of 19.2.17 NMAC:

Pre-NMAC History:

Material in this part was derived from that previously filed with the state records center and archives:
SLO Rule 17, Relating To Seismic Exploration On Unleased State Lands, filed 08/03/88

History of Repealed Material:

SLO Rule 17, Relating to Seismic Exploration On Unleased State Lands, 09/14/2000.

**STATE OF NEW MEXICO
COMMISSIONER OF PUBLIC LANDS**

Permit No.:

**Ray Powell
Commissioner**

**P.O. Box 1148
Santa Fe, New Mexico
87504-1148**

Oil, Gas, & Minerals Division
APPLICATION FOR PERMIT

TO CONDUCT GEOPHYSICAL EXPLORATION ON UNLEASED STATE LANDS

DATE: _____

OGRID: _____

PERMITTING COMPANY NAME: _____

STREET ADDRESS: _____

CITY/STATE/ZIPCODE: _____

The Commissioner of Public Lands administers all or part of the lands described below, which are at this time unleased for oil and gas, or which are state surface estate only:

TOWNSHIP	RANGE	SECTION	LAND DESCRIPTION	VALUE	BENE INST

Attach additional sheets if listing exceeds the space provided.

Applicant requests the privilege of conducting geophysical exploration upon all or part of the lands described above, upon terms and conditions which follow.

- If a permit is issued, it will be effective for a period of ninety (90) days, commencing on the _____ day of _____, 20____ for exploration with geophysical instruments.
- Applicant agrees to pay in advance all applicable fees as listed in this application.
- Permittee shall execute and provide financial assurance to secure payment for potential injuries to tangible improvements upon the permitted area that may result from a permittee's activity. This financial assurance shall be in the form of a bond approved by the Commissioner, or in lieu of that bond, a waiver of financial assurance, duly executed or acknowledged by the owners of all improvements in the permitted land. (19.2.17.14 NMAC)
- A topographic map of suitable scale, identified by county, township, range and section showing the approximate location of all proposed survey lines which shall cross the applicable lands **MUST BE RECEIVED AND ACCEPTED** by the New Mexico State Land Office before this application will be processed.
- Permittee shall submit a proposed survey operations plan which shall include, without limitation, a description of the methods to be used in conducting the survey, a description of equipment to be used, a description of ingress and egress locations and a spill prevention and control plan.
- Motorized vehicles are not allowed off established ranch roads or off the permitted and surveyed source and receiver lines. Limited and reasonable drive-arounds are permitted when justified and located on submitted maps. Source lines and receiver lines shall not exceed one hundred feet in width. Areas in between the permitted geophysical lines are not considered permitted; entry thereon will be considered trespass which will result in cancellation of the permit. Unless authorized by the Commissioner in writing, a permit does not authorize the use of trust lands for operation staging areas or for vehicle maintenance yards.
- The Permittee shall ensure that the land will be returned to its condition as it existed prior to the geophysical work. At the discretion of the Commissioner, this may include blading rutted roads and replanting compacted source lines. Permits may contain specific requirements for reclamation, such as bank stabilization for watercourses and road repair.

- The Permittee shall furnish to the Commissioner, not later than one hundred fifty (150) days after the expiration date of the permit, a map of suitable scale. The map shall identify county, township, range and section and show the location and surface elevation of station points used in each survey made. The location, surface elevation and depth of all shot holes drilled must be included. Station point maps will include source (vibrator) lines and receiver lines. This map shall be in a form allowing the Commissioner or his representative to visually inspect the permitted lands after the project is completed.
- Plans for potential and explosive field methods used in conjunction with geophysical acquisition operations are allowed at the discretion of the Commissioner and will be incorporated into a geophysical permit by reference.
- All plats and location maps shall be verified as to correctness by Permittee or his duly authorized representative and shall be identified by county, township, range and section.
- Any person who enters upon state land for purposes of geophysical exploration shall take all steps necessary to preserve and protect the natural environmental conditions of the land. The Permittee shall be liable and agrees to pay the State Land Office for all damages to the surface caused by the Permittee's operations on the lands or, at the option of the Commissioner, to restore and reclaim the surface to the preexisting condition.
- The Permittee must settle with and compensate state land office surface lessees for actual damage to or loss of livestock, authorized improvements, range, crops, and other valid existing rights recognized by law (19.2.17.15(B) NMAC). A permit in no way waives the Permittee's responsibilities and liabilities to surface lessees.
- The Permittee shall comply with all applicable laws, regulations, rules, ordinances and requirements of city, county, state and federal authorities and agencies, in all matters and things affecting the permit area and operations, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. (19.2.17.12(I) NMAC)

Fees are set forth as follows:

District type (See notes below)	Estate held by the state of New Mexico	Fee per entry into state lands
Restricted	Surface only	\$200.00
	Surface and unleased subsurface	\$200.00
	Unleased subsurface only	\$ 60.00
Unrestricted	Surface only	\$100.00
	Surface and unleased subsurface	\$100.00
	Unleased subsurface only	\$ 60.00

Notes:

- ◇ Districts are defined in SLO Rule 1.002 as follows: "A restricted district comprises an area usually in a proven oil and gas area and is created by statute or by authority of the Commissioner. A non or unrestricted district includes all lands outside the exterior boundaries of restricted districts."
- ◇ If survey methods for this permit application utilize explosives, include the following with this application:
 1. A topographic map showing shot hole patterns, depth of shot hole, size of charge and location in relation to buildings, wells, roads, pipelines, power lines, drainages and any other cultural feature, and
 2. Contingency plans for control and mitigation of blowouts and unexploded shot holes.
- ◇ No access to New Mexico state lands for any purpose is granted without relevant and current permits, agreements or leases, signed and sealed by the Commissioner, in place. Any and all representatives or subcontractors of geophysical permittees shall have a copy of relevant, approved and current permits, agreements or leases in their possession when on state lands.
- ◇ The New Mexico State Land Office does not participate in any negotiations needed between permittees and private surface owners as to access or survey operations.

.....
 Permittee (Company name; please print or type)

Authorized agent (Responsible person; please print or type)

State Land Office Use Only

Total Value Received for Permit \$ _____ . 00

Permittee dbw _____

Operator _____

Address _____



Sample

PERMIT NO.: SP0xxx

DATE:

PERMIT TO CONDUCT GEOPHYSICAL EXPLORATION ON UNLEASED STATE LANDS

This agreement made and entered into by and between the Commissioner of Public Lands, hereinafter called the "Commissioner" and

**PERMITTEE NAME
PERMITTEE STREET ADDRESS
CITY, STATE ZIP**

hereinafter called the "Permittee", WITNESSETH:

WHEREAS, The Commissioner administers all or part of the lands described below, which are at this time unleased for oil and gas,

<u>TOWNSHIP</u>	<u>RANGE</u>	<u>SECTION</u>	<u>DESCRIPTION</u>	<u>VALUE</u>
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WHEREAS, Permittee desires the privilege of conducting geophysical exploration upon all or part of the lands described above, and the Commissioner is willing to grant said privilege upon the terms and conditions hereinafter set out.

NOW THEREFORE, the Commissioner does hereby grant to Permittee for the lands described above for a period of ninety (90) days commencing on the **XX day of Month, 2004**, permission to explore with geophysical instruments. An extension of the permit may be granted by the Commissioner for work delays due to conditions beyond the Permittee's control, and deemed reasonable by the Commissioner.

Permittee agrees to pay in advance all applicable fees as listed in the New Mexico State Land Office Application for Geophysical Permit.

Issuance of this permit is contingent upon proof of financial assurance or waiver of financial assurance, as approved by the Commissioner. (19.2.17.14 NMAC)

Motorized vehicles are not allowed off established ranch roads or off the permitted and surveyed source and receiver lines. Limited and reasonable drive-arounds are permitted when justified and located on submitted maps. Source lines and receiver lines shall not exceed one hundred feet in width. Areas in between the permitted geophysical lines are not considered permitted; entry thereon will be considered trespass which will result in cancellation of the permit. Unless authorized by the commissioner in writing, this permit does not authorize the use of trust lands for operation staging areas or for vehicle maintenance yards.

The Permittee shall be liable and agrees to pay the State Land Office for all damages to the surface caused by the Permittee's operations on the lands or, at the option of the Commissioner, to restore and reclaim the surface to the preexisting condition. At the discretion of the Commissioner, this may include replanting compacted source lines, bank

Acknowledgment in an Individual Capacity

State of _____)
County of _____) ss

This instrument was acknowledged before me on _____ Date

by _____
Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in a Representative Capacity

State of _____)
County of _____) ss

This instrument was acknowledged before me on _____ Date

by _____
Name(s) of Person(s)

as _____ of _____
Type of authority, e.g., officer, trustee, etc Name of party on behalf of whom instrument was executed

(Seal)

Signature of Notarial Officer

My commission expires: _____

State Land Office Use Only

Total Value Received for Permit \$ **00.00**

Permittee dbw _____
Operator

Address

TITLE 19 NATURAL RESOURCES AND WILDLIFE
CHAPTER 2 STATE TRUST LANDS
PART 20 RELATING TO CONSTRUCTION, MAINTENANCE AND RECLAMATION OF
ROADS

19.2.20.1 ISSUING AGENCY: Commissioner of Public Lands, New Mexico State Land Office, 310 Old Santa Fe Trail, P. O. Box 1148, Santa Fe, New Mexico 87501, Phone: (505) 827-5713.
[12/31/99; 19.2.20.1 NMAC – Rn, 19 NMAC 2. SLO 20.1, 09/30/02]

19.2.20.2 SCOPE: This Rule pertains to the construction, maintenance and reclamation of roads on those lands held in trust by the commissioner of public lands under the terms of the Enabling Act and subsequent legislation. There are certain exceptions to this Rule as follows: certain new temporary roads are exempted as set out below in Subsection A of 19.2.20.9 NMAC.
[12/31/99; 19.2.20.2 NMAC – Rn, 19 NMAC 2. SLO 20.2, 09/30/02]

19.2.20.3 STATUTORY AUTHORITY: The commissioner's authority to manage the state trust lands is found in N.M. Const., art. XIII, Section 2, and in Section 19-1-1 NMSA 1978. The authority to promulgate this Rule is found in Section 19-1-2 NMSA 1978.
[12/31/99; 19.2.20.3 NMAC – Rn, 19 NMAC 2. SLO 20.3, 09/30/02]

19.2.20.4 DURATION: Permanent.
[12/31/99; 19.2.20.4 NMAC – Rn, 19 NMAC 2. SLO 20.4, 09/30/02]

19.2.20.5 EFFECTIVE DATE: November 19, 1990, unless a later date is cited at the end of a section or paragraph. Reformatted in NMAC format effective December 31, 1999.
[12/31/99; 19.2.20.5 NMAC – Rn, 19 NMAC 2. SLO 20.5, 09/30/02]

19.2.20.6 OBJECTIVE: The objective of 19.2.20 NMAC is to provide for the orderly and lawful construction, maintenance and reclamation of roads on state trust lands.
[12/31/99; 19.2.20.6 NMAC – Rn, 19 NMAC 2. SLO 20.6, 09/30/02]

19.2.20.7 DEFINITIONS: [Reserved]
[12/31/99; 19.2.20.7 NMAC – Rn, 19 NMAC 2. SLO 20.7, 09/30/02]

19.2.20.8 PURPOSE AND APPLICATION OF RULE: This Rule shall apply to all roads constructed on state trust lands administered by the commissioner of public lands (commissioner), and will be effective on the date of its filing with the state records center. This Rule is issued to implement minimum standards for road construction, maintenance, and rehabilitation so as to minimize the impact of roads on the various vegetational ecosystems involved.
[12/31/99; 19.2.20.8 NMAC – Rn, 19 NMAC 2. SLO 20.8, 09/30/02]

19.2.20.9 RULE REQUIREMENTS:

A. All roads constructed on state trust lands administered by the New Mexico state land office shall be constructed and maintained in accordance with this Rule. Roads built on state trust land that will cross adjacent land administered by the bureau of land management (BLM) will be constructed and maintained in concert with the BLM new road policy effective January 1, 1988. Roads built on state trust land only shall be constructed in accordance with the minimum standards described in 19.2.20.10 NMAC and maintained in accordance with the standards described in 19.2.20.11 NMAC, unless local conditions warrant exceptions. Such exceptions shall be approved by the state land office district land use specialist (SLO LUS).

B. Certain new temporary roads are exempted from the construction requirements of this Rule. The roads exempted are those that will provide access for a seasonal or temporary activity and/or for a temporary business use. However, these types of roads are subject to maintenance and/or rehabilitation requirements required by the SLO LUS.

C. Roads built on state trust lands shall be constructed and maintained by a right-of-way grantee in accordance with the requirements set forth in the right-of-way grant if those requirements are different than the

requirements of this Rule. Construction and maintenance of these roads will be done in a manner that insures that authorized traffic remains within the right-of-way and erosion damage is mitigated.

D. When roads built on state trust lands are no longer needed, as determined by the lessee or right of way grantee and by the commissioner, they will be abandoned and rehabilitated according to 19.2.20.12 NMAC. However, the New Mexico state land office may determine that such a road is still needed for other purposes, and if so, it shall notify the lessee or grantee in writing of this determination, at which time the lessee or grantee shall be released from all responsibility for maintenance and rehabilitation.

[12/31/99; 19.2.20.9 NMAC – Rn, 19 NMAC 2. SLO 20.9, 09/30/02]

19.2.20.10 ROAD CONSTRUCTION STANDARDS:

A. Width. The preferred minimum standard for roads built on state trust lands is a fourteen (14) –foot width for single-lane roads and a twenty (20) –foot width for double-lane roads, provided that the local situation doesn't dictate that it be wider. The maximum allowable grade without an engineering design is ten percent (10%).

B. Drainage. Drainage control shall be ensured through the use of drainage dips, outsloping, insloping, natural rolling topography, ditch turnouts, or culverts. Spacing of dips, broad-based drainage dips, culverts and turnout ditches will depend on cross slope, road grade and soil type. Drainages will be constructed in such frequency necessary to prevent headcuts or other forms of accelerated erosion or damage on adjacent areas.

C. Culverts. Culvert pipes shall be used for cross drains on grades in excess of ten percent (10%) gradient and on all major drainages. Roadbed culverts shall be used to drain road ditches when drainage dips are not feasible. All culvert sizing must be in accordance with accepted engineering practices (i.e., Talbot chart, etc.). The minimum size culvert in any installation is eighteen (18) inches.

D. Road Surfacing:

(1) Surfacing (i.e. caliche, gravel, soil stabilizer, sand, cinders, etc.) shall be required on all roads built on state trust lands where all weather access is needed, if the natural soil does not have the bearing capacity for heavy vehicles in both wet and dry weather and if these materials are economically available.

(2) The roadbed should be reasonably smooth, free of ruts, chuckholes, rocks, slides, washboards, dust pockets, soft spots or other driving hazards or nuisances.

E. Cattleguards and Fencing. Cattleguards are required for all fence lines crossing roads built on state trust lands, unless a wire or metal gate is approved by the SLO LUS and surface lessee.

(1) All cattleguard grid designs and foundation designs shall meet AASTHO load rating H-20, although AASTHO U-80 is required where heavy loads exceeding H-20 loading are anticipated.

(2) All cattleguard grids shall meet or exceed the road width, but shall not be less than fourteen (14) feet wide.

(3) Approach ramps (if needed) shall not be less than fifty (50) feet on each side of cattle guards and shall provide smooth transitions.

(4) Gates shall be installed on one (1) side of cattleguards. Gate construction will conform to the specifics set out in 19.2.20.11 NMAC.

(5) Fencing, if required, is to be a four (4) strand barbwire fence with twelve (12) inch spacing between strands.

F. Vegetation. All vegetation removed from roadbeds as a result of construction shall be disposed of by the grantee or lessee, by a method approved by the SLO LUS. Road standards may be modified to meet local conditions. Suggested reference material for road construction and maintenance practices is "Reducing Erosion from Unpaved Rural Roads in New Mexico," published by the New Mexico energy, minerals and natural resources department soil and water conservation bureau.

[12/31/99; 19.2.20.10 NMAC – Rn, 19 NMAC 2. SLO 20.10, 09/30/02]

19.2.20.11 ROAD MAINTENANCE STANDARDS: "Maintenance" is the upkeep necessary for the safe and efficient utilization of roads on state trust lands. Right-of-way grantees and lessees shall be responsible for preventative and/or corrective road maintenance of the relevant road until assignment or abandonment and rehabilitation of the road. This maintenance may include, but not be limited to, the items listed below:

A. Roadbed.

(1) Roadbeds shall be reasonably smooth and reasonably free of ruts, dust pockets, soft spots, chuckholes, rocks, slides and washboards.

(2) No berms shall be permitted along shoulders.

(3) The integrity of the surfacing material shall be maintained.

(4) Roadbed width shall be kept to the approximate original dimensions.

B. Shoulders. Road shoulders shall be straight and present a uniform line with the surface free from large rocks, limbs or stumps.

C. Ditches, Culverts and Drainage Dips.

(1) Original cross section of roads shall be maintained. Drainage area shall be kept clear of rocks, slides and sediments.

(2) Vegetation or sedimentation shall not restrict ditch or culvert flow or reduce the waterway area.

(3) Ditch bottoms shall be stable and not excessively eroded.

(4) Back-sloped areas above ditches shall be stable terrain.

(5) Drainage dips shall be maintained to constructed design.

D. Other Related Road Features. Right of ways shall be free of excessive or objectional litter, signs, etc. as determined by the SLO LUS in concert with the grantee.

E. Fences, Gates and Cattleguards.

(1) Posts are to be sound, plumb and secure.

(2) Wire shall be tight and securely fastened to the posts.

(3) Stays shall be uniformly spaced and vertical between posts and affixed to keep the strands properly spaced.

(4) Rock deadmen shall be properly secured to the fence.

(5) Gates shall be adequate to turn the class of livestock in the pasture at the time the road was first constructed and easily opened and closed.

(6) Cattleguard pits shall be clean and functional. End wings shall be securely fastened and serviceable. Guards and bases must be maintained in serviceable condition.

(7) Cattleguard approaches shall be maintained to provide a smooth transition.

F. Ford and Low Crossings.

(1) There shall be a smooth transition between roads and fords.

(2) No excessive erosion adjacent to fords shall be allowed.

(3) The surface of fords shall be clear of debris, brush, rocks and sediment.

(4) Bottoms of ford crossings shall be level with the stream bottoms.

G. Safety and Hazard Control.

(1) Travel way and ditches shall be kept free of shrubs, trees and other obstacles and shall be free of overhanging trees and limbs. No down trees or branches shall be in the ditch area.

(2) Unstable material above roadways shall be removed or stabilized.

[12/31/99; 19.2.20.11 NMAC – Rn, 19 NMAC 2. SLO 20.11, 09/30/02]

19.2.20.12 ROAD ABANDONMENT AND RECLAMATION: All roads no longer needed, as determined by the grantee or lessee and the commissioner, shall be reclaimed to approximate natural contours, unless, as provided herein, the New Mexico state land office elects to allow a road to remain based on recommendations from the SLO LUS. Upon reclamation all road improvements and debris shall be removed, unless approved otherwise by the SLO LUS. Reclaimed roads will have the roadbeds ripped, scarified and otherwise roughened as directed by the SLO LUS to ensure increased water infiltration and a properly prepared seedbed; and then reseeded. Parallel-road berms are to be removed and recontoured. Berms or gates will be used to block access to the reclaimed road. Water bars will be used on sloping surfaces and spaced so as to minimize erosion and control surface runoff. For reseeding, the New Mexico state land office will approve seeding rates and seed mixtures or approve site-specific recommendations. When possible, the New Mexico state land office will recommend such approved rates and mixtures, but will not require seed varieties in its mixtures which are not in common use in the area. Reseeding shall be planned and completed with a goal of revegetation consistent with local natural vegetation density. After a failed attempt to revegetate an area, a second reseeding may be required by the New Mexico state land office, but in no event shall such second reseeding be required more than two (2) years after the initial one. Reclamation responsibility of a grantee or lessee terminates upon acceptance of the reclamation of a site by the SLO LUS.

[12/31/99; 19.2.20.12 NMAC – Rn, 19 NMAC 2. SLO 20.12, 09/30/02]

HISTORY OF 19.2.20 NMAC:

Pre-NMAC History: The material in this Part was derived from that previously filed with the State Records Center and Archives under:

SLO Rule 20, Relating to Construction Maintenance And Reclamation of Roads, filed 11/19/90.

History of Repealed Material: [Reserved]

CULTURAL PROPERTIES ACT

The New Mexico law that covers this subject appears in Sections 18-6-1 through 18-6-17 NMSA 1978. Below, we have excerpted some of the passages that may be pertinent to oil and gas activities. To be fully informed, please read the entire law.

18-6-8.1 Protection of a registered cultural property

...The head of any state agency or department having direct or indirect jurisdiction over any land or structure modification which may affect a registered cultural property shall afford the state historic preservation officer a reasonable and timely opportunity to participate in planning such undertaking so as to preserve and protect, and to avoid or minimize adverse effects on, registered cultural properties.

18-6-9. Criminal damage to property

...

C. Whoever commits criminal damage to property pursuant to the provisions of this section and the value of the property excavated, injured or destroyed is:

(1) less than one thousand dollars (\$1,000) is guilty of a petty misdemeanor and shall be sentenced according to the provisions of Section 31-19-1 NMSA 1978; or

(2) one thousand dollars (\$1,000) or more is guilty of a fourth degree felony and shall be sentenced according to the provisions of Section 31-18-15 NMSA 1978.

18-6-9.1 Unauthorized appropriation; larceny.

A. Any person who knowingly appropriates cultural property located on state land without a permit is guilty of larceny.

...

D. Whoever commits larceny pursuant to the provisions of this section and the value of the property appropriated is:

(1) less than one hundred dollars (\$100) is guilty of a petty misdemeanor and shall be sentenced pursuant to the provisions of Section 31-19-1 NMSA 1978;

(2) over one hundred dollars (\$100) but less than two hundred fifty dollars (\$250) is guilty of a misdemeanor and shall be sentenced pursuant to the provisions of Section 31-19-1 NMSA 1978;

(3) two hundred dollars (\$200) or more but less than two thousand five hundred (\$2,500) is guilty of a fourth degree felony and shall be sentenced pursuant to the provision of Section 31-18-15 NMSA 1978; or

(4) two thousand five hundred dollars (\$2,500) or more but less than twenty thousand dollars (\$20,000) is guilty of a third degree felony and shall be sentenced pursuant to the provisions of Section 31-18-15 NMSA 1978; or

(5) more than twenty thousand dollars (\$20,000) is guilty of a second degree felony and shall be sentenced pursuant to the provisions of Section 31-18-15 NMSA 1978.

18-6-9.2. Civil penalties

Any person violating the provisions of the Cultural Properties Act [18-6-1 to 18-6-17 NMSA 1978] shall be liable for civil damages to the state agency, department, institution or political subdivision having jurisdiction over the cultural property in an amount equal to the cost or, in the discretion of the

court, in an amount equal to twice the cost of restoration, stabilization and interpretation of the cultural property.

18-6-9.3 Forfeiture of instruments

A. Any instrument, vehicle, tool or equipment used or intended to be used to violate the provisions of the Cultural Properties Act is subject to forfeiture;...

...

F. Except as otherwise specifically provided by law, property forfeited due to a violation of the Cultural Properties Act shall be sold at public auction pursuant to a court order. ...

(1) on lands controlled by the commissioner of public lands, one-half of the proceeds from the sale shall accrue to the state agency of which the law enforcement officer seizing that property is a member, and on-half shall be deposited in the cultural properties restoration fund;...

18-6-11.2. Unmarked burials, penalty

A. Each human burial in the state interred in any unmarked burial ground is accorded the protection of law and shall receive appropriate and respectful treatment and disposition.

B. A person who knowingly, willfully and intentionally excavates, removes, disturbs or destroys any human burial ... is guilty of a fourth degree felony and shall be punished by a fine not to exceed five thousand dollars (\$5,000) or by imprisonment for a definite term of eighteen month, or both....

Supplement 18-6A-1 through 18-6A-6 Cultural Properties Protection

18-6A-5 Professional surveys

The [state historic preservation] officer shall, in cooperation with the heads of state agencies, establish a system of professional surveys of cultural properties on state lands. State agencies shall cooperate with the officer and exercise due caution to ensure that cultural properties are not inadvertently damaged or destroyed.

NOTE

The Cultural Properties Act 18-6-1 through 18-6-17 NMSA 1978 protects registered cultural properties and establishes fines.

The Cultural Properties Protection Act 18-6A-1 through 18-6A-6 NMSA 1978 protects cultural properties not on the register and also provides for professional surveys.

OIL AND GAS LEASES

The next pages contain the following information:

1. A brief **history** of New Mexico oil and gas leases.
2. An oil and gas lease **prefix** and **royalty rate** cross-reference list.
3. **Samples** of the five oil and gas lease forms currently used in New Mexico:
 - a. 5 year exploratory lease form
 - b. 10 year exploratory lease form
 - c. 5 year development form (3/16 royalty)
 - d. 5 year development form (1/5 royalty)
 - e. 5 year discovery form

***** **Special Reminder** *****

Unlike some other states, New Mexico requires that ***BOTH annual rentals and royalties*** be paid on oil and gas leases, regardless of the production status.

Please refer to your lease contract for details, or contact the Oil, Gas, and Minerals Division at (505) 827-5730.

1. A BRIEF HISTORY OF NEW MEXICO'S OIL AND GAS LEASES

1922 – Lease form provided for undivided interest.

1928 – Gas royalty on net proceeds, no “take in-kind” provision.

1929 – No statutory lease form, but the statute provided for a fixed term, cessation of production provisions, 1/8 royalty, and taking of production in-kind at the option of the Commissioner.

1930 – Lease form eliminated the undivided interest provision of 1922.

1931 – Basic lease form is established. Provided for take in-kind for oil, market value for oil, net proceeds at wellhead for gas and net proceeds for casinghead gas, except market value for casinghead gas.

1945 – Inserted market value provision for gas, added drilling extension clause.

1947 – Rewrote gas royalty provision in its current form, except for in-kind.

1957 – Wrote current drainage provision, and amended cessation of production provision.

1967 – Added “losing or junking hole” provision to drilling lease extension.

1972 – Added gas in-kind royalty provision.

1977 – 5 year lease form.

1985 – Three separate lease forms adopted, provision for varying royalty rates.

Statutes not amending lease form, but affecting it:

1931 – One-dollar (\$1.00) maximum rental set.

1941 – Carbon dioxide included within natural gas definition.

1963 – Helium included within natural gas definition.

1973 – Authorization for Commissioner to purchase entire working interest.

1975 – Five year 1/6 royalty leases authorized.

1987 – Authorization for Commissioner to allow oil wells to be shut-in under certain circumstances. Also authorized five year 1/8 leases.

2. OIL AND GAS LEASE PREFIXES, NUMBERS, AND ROYALTY RATES

Oil and gas leases in New Mexico are assigned a two-part number which consists of:

- 1) a two-character alphabetic or alpha-numeric prefix, and
- 2) a four-digit number.
 - The prefix indicates the date the lease was issued, its royalty rate, and the term of the lease, whether 5 year or 10 year.
 - The number after the prefix is the number of the lease within each prefix series.
 - The following number, if any, is the assignment number.

The cross-reference table below can help you determine what type of lease you have. For example, if you have New Mexico oil and gas lease **OG-0103-0002**, you will find, using the table, that:

- The lease was issued between 1956 and 1959.
- The lease has a 1/8 royalty.
- The term of the lease is 10 years.
- It is the 103rd lease issued in that series, the OG series.
- It is the second assignment.

Oil & Gas Leases

DATES OF ISSUE, PREFIXES, ROYALTY RATES, and TERMS

DATES ISSUED	PREFIX	ROYALTY RATE	LEASE TERM
1922	X0	1/8	10 years
1928 – 1931	A0	1/8	10 years
1928 – 1944	B0, BA, BH, B1	1/8	10 years
1937	C (carbon dioxide)	1/8	10 years
1945 – 1956	E0, E1	1/8	10 years
1956 – 1959	OG	1/8	10 years
1959 – 1967	K0	1/8	10 years
1967 – 1972	L0	1/8	10 years
1972 – 1981	LG	1/8	10 years
1981 – Present	LH	1/8	10 years
1975 – Present	V0	1/6	5 years
1984 – Present	VA	1/8	5 years
1985 – Present	VB	3/16	5 years
1986 – Present	VC	1/5	5 years

3. SAMPLE OIL AND GAS LEASE FORMS

Following this page are samples of the five kinds of oil and gas leases currently issued in New Mexico:

1. Ten-Year Exploratory Lease – LH prefix

This lease is issued for exploration outside of the Restricted Area. It has a ten-year term and a $1/8$ royalty.

2. Five-Year Exploratory Lease – VA prefix

This lease is issued for exploration within the Restricted Area. It has a five-year term and a $1/8$ royalty.

3. Five-Year Discovery – V0 prefix

This lease is issued for drilling within the Restricted Area and is assigned a five-year term and a $1/6$ royalty.

4. Five-Year Development Lease – VB prefix

This lease is issued for development drilling inside the Restricted Area along established, productive trends. It has a five-year term and a $3/16$ royalty.

5. Five-Year Development Lease – VC prefix

This lease is issued for development drilling inside the Restricted Area along established, productive trends. It has a five-year term and a $1/5$ royalty.

LH TYPE 0000 – 10 YEAR TERM, 1/8TH ROYALTY – EXPLORATORY FORM

OIL AND GAS LEASE

Application No:

THIS AGREEMENT, dated **EFFECTIVE LEASE DATE** between the state of New Mexico, acting by and through its commissioner of public lands, hereinafter called the “lessor”, and

LESSEE OF RECORD
LESSEE’S STREET/MAILING ADDRESS
ADDITIONAL ADDRESS LINE
LESSEE’S CITY /STATE /ZIP CODE
 hereinafter called the “lessee”,

SAMPLE FORM

WITNESSETH:

WHEREAS, the lessee has filed in the office of the commissioner of public lands an application for an oil and gas lease covering the lands hereinafter described and has tendered therewith the required first payment; and

WHEREAS, all of the requirements of law relative to the application and tender have been duly complied with;

THEREFORE, in consideration of the premises as well as the sum of **BONUS AMOUNT [TEXT] (BONUS AMOUNT NUMBERS)**, the same being the amount of the tender above mentioned, and the further sum of \$30.00 filing fee, and of the covenants and agreements hereinafter contained, the lessor does hereby grant, demise, lease and let unto the said lessee, exclusively, for the sole and only purpose of exploration, development and production of oil or gas (including carbon dioxide and helium), or both thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by the lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone lines, tanks, power houses, stations, gasoline plants and fixtures for producing, treating and caring for such products, and housing and boarding employees, and any and all rights and privileges necessary, incident to or convenient for the economical operation of said land, for oil and gas, with right for such purposes to the free use of oil, gas, casing-head gas or water from said lands, but not from lessor's water wells, and with the rights of removing either during or after the term hereof, all and any improvements placed or erected on the premises by the lessee, including the right to pull all casing, subject, however, to the covenants and conditions hereinafter set out, the following described land situated in the count(y)(ies) of **COUNTY NAME**, state of New Mexico, and more particularly described as follows:

Subdivisions	Sect	Twp	Rge	Acres	Institution

Said lands having been awarded to lessee and designated as Tract No. **LH SALE TRACT** at public sale held by the commissioner of public lands on **SALE DATE**.

To have and to hold said land, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term of five years from the date hereof, and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land by lessee, subject to all of the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty one- eighth part of the oil produced and saved from the leased premises or the cash value thereof, at the option of the lessor, such value to be the price prevailing the day oil is run into a pipeline, if the oil be run into a pipeline, or into storage tanks, if the oil is stored.
2. Subject to the free use without royalty, as hereinbefore provided, at the option of the lessor at any time and from time to time, the lessee shall pay the lessor as royalty one-eighth part of the gas produced and saved from the leased premises, including casing-head gas. Unless said option is exercised by lessor, the lessee shall pay the lessor as royalty one-eighth of the cash value of the gas, including casing-head gas, produced and saved from the leased premises and marketed or utilized, such value to be equal to the net proceeds derived from the sale of such gas in the field; provided, however, the cash value

for royalty purposes of carbon dioxide gas and of hydrocarbon gas delivered to a gasoline plant for extraction of liquid hydrocarbons shall be equal to the net proceeds derived from the sale of such gas, including any liquid hydrocarbons recovered therefrom.

Notwithstanding the foregoing provisions, the lessor may require the payment of royalty for all or any part of the gas produced and saved under this lease and marketed or utilized at a price per m.c.f. equal to the maximum price being paid for gas of like kind and quality and under like conditions in the same field or area or may reduce the royalty value of any such gas (to any amount not less than the net proceeds of sale thereof, in the field) if the commissioner of public lands shall determine such action to be necessary to the successful operation of the lands for oil or gas purposes or to encouragement of the greatest ultimate recovery of oil or as or to the promotion of conservation of oil or gas or in the public interest.

This lease shall not expire at the end of either the primary or secondary term hereof if there is a well capable of producing gas in paying quantities located upon some part of the lands embraced herein, or upon lands pooled or communitized herewith, where such well is shut-in due to the inability of the lessee to obtain a pipeline connection or to market the gas therefrom and if the lessee timely pays an annual royalty on or before the annual rental paying date next ensuing after the expiration of ninety days from the date said well was shut-in and on or before said rental date thereafter. The payment of said annual royalty shall be considered for all purposes the same as if gas were being produced in paying quantities and upon the commencement of marketing of gas from said well or wells the royalty paid for the lease year in which the gas is first marketed shall be credited upon the royalty payable hereunder to the lessor for such year. The provisions of this section shall also apply where gas is being marketed from said leasehold premises and through no fault of the lessee, the pipeline connection or market is lost or ceases, in which case this lease shall not expire so long as said annual royalty is paid as herein provided. The amount of any annual royalty payable under this section shall equal twice the annual rental due by the lessee under the terms of this lease but not less than three hundred twenty dollars (\$320) per well per year, provided, however, that any such annual royalty for any year beginning on or after fifteen years from the date hereof shall equal four times the annual rental due by the lessee under the terms of this lease but not less than two thousand dollars (\$2,000) per well per year; provided further that no annual royalty shall be payable under this section if equivalent amounts are timely paid pursuant to another lease issued by lessor and if such other lease includes lands communitized with lands granted hereunder for the purpose of prorationally sharing in the shut-in well. Notwithstanding the provisions of this section to the contrary, this lease shall not be continued after ten years from the date hereof for any period of more than ten years by the payment of said annual royalty unless, for good cause shown, the commissioner of public lands, in his discretion, grants such a continuance.

3. Lessee agrees to make full settlement on the twentieth day of each month for all royalties due to the lessor for the preceding month, under this lease, and to permit the lessor or its agents, at all reasonable hours, to examine lessee's books relating to the production and disposition of oil and gas produced. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. An annual rental at the rate of \$ _____ per acre shall become due and payable to the lessor by the lessee upon each acre of the land above described and then claimed by such lessee, and the same shall be due and payable in advance to the lessor on successive anniversary dates of this lease, but the annual rental on any assignment shall in no event be less than forty dollars (\$40.00).

In the event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the lessor a duly executed release thereof and in event said lease has been recorded then he shall upon request furnish and deliver to the lessor a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the lessor all amounts then due as provided herein and the further sum of forty dollars (\$40.00), surrender and cancel this lease insofar as the same covers all or any portion of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinbefore provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law or equity by the lessee, lessor or any assignee, to enforce this lease, or any of its terms expressed or implied.

6. All payments due hereunder shall be made on or before the day such payment is due, at the office of the commissioner of public lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor shall have the rights to assign this lease in whole or in part. Provided, however, that no assignment of an undivided interest in the lease or in any part thereof nor any assignment of less than a legal subdivision shall be recognized or approved by the lessor. Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tracts, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as to such tracts.

8. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land which is draining the leased premises, lessee shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances, provided that no such offset well shall be required if compensatory royalties are paid pursuant to an agreement between the lessor and the lessee.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the lessor.

If any lands embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operation shall be commenced on any such lands so sold unless and until the lessee shall have filed a good and sufficient bond with the lessor as required by law, to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when lessor deems it to the interest of the beneficiaries of the lands granted hereunder to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agree to pay of all damages to the range, livestock, growing crops or improvements caused by lessee's operations on said lands. When requested by the lessor the lessee shall bury pipelines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of Paragraph 10 above.

13. Upon failure or default of the lessee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee so defaulting, by registered or certified mail, addressed to the post-office address of such lessee as shown by the records of the state land office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within thirty days from the date of mailing said notice the said lessee shall remedy the default specified in said notice, cancellation shall not be made.

14. If the lessee shall have failed to make discovery of oil or gas in paying quantities during the primary term hereof or if such discovery shall have been made and production shall have ceased for any reason, the lessee may continue this lease in full force and effect for an additional term of five years and as long thereafter as oil and gas in paying quantities or either of them is produced for the leased premises by paying each year in advance, as herein provided, double the rental provided herein for the primary term, or the highest rental prevailing at the commencement of the secondary term in any rental district, or districts in which the lands, or any portion thereof, may be situated, if it be greater than double the rental provided for in the primary term; provided, however, such rental shall be paid within the time provided by Section 13 hereof. If oil or gas in paying quantities should be discovered during the secondary term hereof but production should cease during said secondary term, this lease shall continue for the remainder of said secondary term of five years so long as rental is paid and if oil or gas in paying quantities is being produced at the end of the secondary term of five years so long thereafter as oil and gas in paying quantities or either of them is produced from the leased premises.

15. If this lease shall have been maintained in accordance with the provisions hereof and if at the expiration of the secondary term provided for herein oil or gas is not being produced on said land but lessee is then engaged in bona fide drilling or reworking operations thereon, this lease shall remain in full force and effect so long as such operations are diligently prosecuted and, if they result in the production of oil or gas, so long thereafter as oil and gas in paying quantities, or either of them, is produced from said land; provided, however, such operations extending beyond the secondary term shall be approved by the lessor upon written application filed with the lessor on or before the expiration of said secondary term, and a report of the status of all such operations shall be made by the lessee to the lessor every thirty days and a cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

If during the drilling or reworking of any well under this section, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations, then within twenty days after the abandonment of said operations, lessee may commence another well within three hundred thirty feet of the lost or junked hole or well and drill the same with due diligence.

Operations commenced and continued as herein provided shall extend this lease as to all lands as to which the same is in full force and effect as of the time said drilling operations are commenced; provided, however, this lease shall be subject to cancellation in accordance with Paragraph 13 hereof for failure to pay rentals or file reports which may become due while operations are being conducted hereunder.

16. Should production of oil and gas or either of them in paying quantities be obtained while this lease is in force and effect and should thereafter cease from any cause after the expiration of ten years from the date hereof this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty days after the cessation of such production and shall remain in full force and effect so long as such operations are prosecuted in good faith with no cessation of more than twenty consecutive days, and if such operations result in the production of oil or gas in paying quantities, so long thereafter as oil or gas in paying quantities is produced from said land; provided, however, written notice of intention to commence such operations shall be filed with the lessor within thirty days after the cessation of such production, and a report of the status of such operations shall be made by the lessee to the lessor every thirty days, and the cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

17. Lessee, including their heirs, assigns, agents and contractors shall at their own expense fully comply with all laws, regulations, rules, ordinances and requirements of the city, county, state, federal authorities and agencies, in all matters and things affecting the premises and operations thereon which may be enacted or promulgated under the governmental police powers pertaining to public health and welfare, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. Such agencies are not to be deemed third party beneficiaries hereunder, however, this clause is enforceable by the lessor in any manner provided in this lease or by law.

18. Should lessor desire to exercise its rights to take in-kind its royalty share of oil, gas or associated substances or purchase all or any part of the oil, gas or associated substances produced from the lands covered by this lease, the lessee hereby irrevocably consents to the lessor exercising its right. Such consent is consent to the termination of any supplier/purchaser relationship between the lessor and the lessee deemed to exist under federal regulations. Lessee further agrees that it will require any purchaser of oil, gas or associated substance to likewise waive any such rights.

19. Lessor reserves a continuing option to purchase at any time and from time to time, at the market price prevailing in the area on the date of purchase, all or any part of the minerals (oil and gas) that will be produced from the lands covered by this lease.

20. Lessor reserves the right to execute leases for geothermal resource development and operation thereon; the right to sell or dispose of the geothermal resources of such lands; and the right to grant rights-of-way and easements for these purposes.

21. All terms of this agreement shall extend to and bind the heirs, executors, administrator, successors and assigns of the parties hereto.

In witness whereof, the party of the first part has hereunto signed and caused its name to be signed by its commissioner of public lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year first above written.

STATE OF NEW MEXICO

By: _____
Commissioner of Public Lands, Lessor

_____ (Seal)
Lessee

(PERSONAL ACKNOWLEDGMENT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

_____ as attorney-in-fact in behalf of

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____,

by _____, _____ of _____
(Name) (Title) (Corporation)

a _____ corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

**VA TYPE 0000 – 5 YEAR TERM 1/8 ROYALTY – 5 YEAR EXPLORATORY FORM
OIL AND GAS LEASE**

Application No:

THIS AGREEMENT, dated **EFFECTIVE LEASE DATE** between the state of New Mexico, acting by and through its commissioner of public lands, hereinafter called the “lessor”, and

**LESSEE OF RECORD
LESSEE’S STREET/MAILING ADDRESS
ADDITIONAL ADDRESS LINE
LESSEE’S CITY /STATE /ZIP CODE**

hereinafter called the “lessee”,

SAMPLE FORM

WITNESSETH:

WHEREAS, the lessee has filed in the office of the commissioner of public lands an application for an oil and gas lease covering the lands hereinafter described and has tendered therewith the required first payment; and

WHEREAS, all of the requirements of law relative to the application and tender have been duly complied with;

THEREFORE, in consideration of the premises as well as the sum of **BONUS AMOUNT [TEXT] (BONUS AMOUNT NUMBERS)**, the same being the amount of the tender above mentioned, and the further sum of \$30.00 filing fee, and of the covenants and agreements hereinafter contained, the lessor does hereby grant, demise, lease and let unto the said lessee, exclusively, for the sole and only purpose of exploration, development and production of oil or gas (including carbon dioxide and helium), or both thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by the lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone lines, tanks, power houses, stations, gasoline plants and fixtures for producing, treating and caring for such products, and housing and boarding employees, and any and all rights and privileges necessary, incident to or convenient for the economical operation of said land, for oil and gas, with right for such purposes to the free use of oil, gas, casing-head gas or water from said lands, but not from lessor's water wells, and with the rights of removing either during or after the term hereof, all and any improvements placed or erected on the premises by the lessee, including the right to pull all casing, subject, however, to the covenants and conditions hereinafter set out, the following described land situated in the count(y)(ies) of **COUNTY NAME**, state of New Mexico, and more particularly described as follows:

Subdivisions	Sect	Twp	Rge	Acres	Institution

Said lands having been awarded to lessee and designated as Tract No. **VA SALE TRACT** at public sale held by the commissioner of public lands on **SALE DATE**.

To have and to hold said land, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term of five years from the date hereof, and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land by lessee, subject to all of the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty one- eighth part of the oil produced and saved from the leased premises or the cash value thereof, at the option of the lessor, such value to be the price prevailing the day oil is run into a pipeline, if the oil be run into a pipeline, or into storage tanks, if the oil is stored.
2. Subject to the free use without royalty, as hereinbefore provided, at the option of the lessor at any time and from time to time, the lessee shall pay the lessor as royalty one-eighth part of the gas produced and saved from the leased premises, including casing-head gas. Unless said option is exercised by lessor, the lessee shall pay the lessor as royalty one-eighth of the cash value of the gas, including casing-head gas, produced and saved from the leased premises and marketed or utilized, such value to be equal to the net proceeds derived from the sale of such gas in the field; provided, however, the cash value for royalty purposes of carbon dioxide gas and of hydrocarbon gas delivered to a gasoline plant for extraction of liquid hydrocarbons shall be equal to the net proceeds derived from the sale of such gas, including any liquid hydrocarbons recovered therefrom.

Notwithstanding the foregoing provisions, the lessor may require the payment of royalty for all or any part of the gas produced and saved under this lease and marketed or utilized at a price per m.c.f. equal to the maximum price being paid for gas of like kind and quality and under like conditions in the same field or area or may reduce the royalty value of any such gas (to any amount not less than the net proceeds of sale thereof, in the field) if the commissioner of public lands shall determine such action to be necessary to the successful operation of the lands for oil or gas purposes or to encouragement of the greatest ultimate recovery of oil or gas or to the promotion of conservation of oil or gas or in the public interest.

This lease shall not expire at the end of the primary term hereof if there is a well capable of producing gas in paying quantities located upon some part of the lands embraced herein, or upon lands pooled or communitized herewith, where such well is shut-in due to the inability of the lessee to obtain a pipeline connection or to market the gas therefrom and if the lessee timely pays an annual royalty on or before the annual rental paying date next ensuing after the expiration of ninety days from the date said well was shut-in and on or before said rental date thereafter. The payment of said annual royalty shall be considered for all purposes the same as if gas were being produced in paying quantities and upon the commencement of marketing of gas from said well or wells the royalty paid for the lease year in which the gas is first marketed shall be credited upon the royalty payable hereunder to the lessor for such year. The provisions of this section shall also apply where gas is being marketed from said leasehold premises and through no fault of the lessee, the pipeline connection or market is lost or ceases, in which case this lease shall not expire so long as said annual royalty is paid as herein provided. The amount of any annual royalty payable under this section shall equal twice the annual rental due by the lessee under the terms of this lease but not less than three hundred twenty dollars (\$320) per well per year, provided, however, that any such annual royalty for any year beginning on or after fifteen years from the date hereof shall equal four times the annual rental due by the lessee under the terms of this lease but not less than two thousand dollars (\$2,000) per well per year; provided further that no annual royalty shall be payable under this section if equivalent amounts are timely paid pursuant to another lease issued by lessor and if such other lease includes lands communitized with lands granted hereunder for the purpose of prorationally sharing the shut-in well. Notwithstanding the provisions of this section to the contrary, this lease shall not be continued after five years from the date hereof for any period of more than ten years by the payment of said annual royalty unless, for good cause shown, the commissioner of public lands, in his discretion, grants such a continuance.

3. Lessee agrees to make full settlement on the twentieth day of each month for all royalties due to the lessor for the preceding month, under this lease, and to permit the lessor or its agents, at all reasonable hours, to examine lessee's books relating to the production and disposition of oil and gas produced. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. An annual rental at the rate of \$ _____ per acre shall become due and payable to the lessor by the lessee upon each acre of the land above described and then claimed by such lessee, and the same shall be due and payable in advance to the lessor on successive anniversary dates of this lease, but the annual rental on any assignment shall in no event be less than forty dollars (\$40.00).

In the event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the lessor a duly executed release thereof and in event said lease has been recorded then he shall upon request furnish and deliver to the lessor a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the lessor all amounts then due as provided herein and the further sum of forty dollars (\$40.00), surrender and cancel this lease insofar as the same covers all or any portion of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinbefore provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law or equity by the lessee, lessor or any assignee, to enforce this lease, or any of its terms expressed or implied.

6. All payments due hereunder shall be made on or before the day such payment is due, at the office of the commissioner of public lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor shall have the rights to assign this lease in whole or in part. Provided, however, that no assignment of an undivided interest in the lease or in any part thereof nor any assignment of less than a legal subdivision shall be recognized or approved by the lessor. Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tracts, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as to such tracts.

8. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land which is draining the leased premises, lessee shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances, provided that no such offset well shall be required if compensatory royalties are paid pursuant to an agreement between the lessor and the lessee.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the lessor.

If any lands embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operation shall be commenced on any such lands so sold unless and until the lessee shall have filed a good and sufficient bond with the lessor as required by law, to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when lessor deems it to the interest of the beneficiaries of the lands granted hereunder to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agree to pay of all damages to the range, livestock, growing crops or improvements caused by lessee's operations on said lands. When requested by the lessor the lessee shall bury pipelines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of Paragraph 10 above.

13. Upon failure or default of the lessee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee so defaulting, by registered or certified mail, addressed to the post-office address of such lessee as shown by the records of the state land office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within thirty days from the date of mailing said notice the said lessee shall remedy the default specified in said notice, cancellation shall not be made.

14. If this lease shall have been maintained in accordance with the provisions hereof and if at the expiration of the primary term provided for herein oil or gas is not being produced on said land but lessee is then engaged in bona fide drilling or reworking operations thereon, this lease shall remain in full force and effect so long as such operations are diligently prosecuted and, if they result in the production of oil or gas, so long thereafter as oil and gas in paying quantities, or either of them, is produced from said land; provided, however, such operations extending beyond the primary term shall be approved by the lessor upon written application filed with the lessor on or before the expiration of said term, and a report of the status of all such operations shall be made by the lessee to the lessor every thirty days and a cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

If during the drilling or reworking of any well under this section, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations, then within twenty days after the abandonment of said operations, lessee may commence another well within three hundred thirty feet of the lost or junked hole or well and drill the same with due diligence.

Operations commenced and continued as herein provided shall extend this lease as to all lands as to which the same is in full force and effect as of the time said drilling operations are commenced; provided, however, this lease shall be subject to cancellation in accordance with Paragraph 13 hereof for failure to pay rentals or file reports which may become due while operations are being conducted hereunder.

15. Should production of oil and gas or either of them in paying quantities be obtained while this lease is in force and effect and should thereafter cease from any cause after the expiration of five years from the date hereof this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty days after the cessation of such production and shall remain in full force and effect so long as such operations are prosecuted in good faith with no cessation of more than twenty consecutive days, and if such operations result in the production of oil or gas in paying quantities, so long thereafter as oil or gas in paying quantities is produced from said land; provided, however, written notice of intention to commence such operations shall be filed with the lessor within thirty days after the cessation of such production, and a report of the status of such operations shall be made by the lessee to the lessor every thirty days, and the cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

16. Lessee, including their heirs, assigns, agents and contractors shall at their own expense fully comply with all laws, regulations, rules, ordinances and requirements of the city, county, state, federal authorities and agencies, in all matters and things affecting the premises and operations thereon which may be enacted or promulgated under the governmental police powers pertaining to public health and welfare, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. Such agencies are not to be deemed third party beneficiaries hereunder, however, this clause is enforceable by the lessor in any manner provided in this lease or by law.

17. Should lessor desire to exercise its rights to take in-kind its royalty share of oil, gas or associated substances or purchase all or any part of the oil, gas or associated substances produced from the lands covered by this lease, the lessee hereby irrevocably consents to the lessor exercising its right. Such consent is a consent to the termination of any supplier/purchaser relationship between the lessor and the lessee deemed to exist under federal regulations. Lessee further agrees that it will require any purchaser of oil, gas or associated substance to likewise waive any such rights.

18. Lessor reserves a continuing option to purchase at any time and from time to time, at the market price prevailing in the area on the date of purchase, all or any part of the minerals (oil and gas) that will be produced from the lands covered by this lease.

19. Lessor reserves the right to execute leases for geothermal resource development and operation thereon; the right to sell or dispose of the geothermal resources of such lands; and the right to grant rights-of-way and easements for these purposes.

20. All terms of this agreement shall extend to and bind the heirs, executors, administrator, successors and assigns of the parties hereto.

In witness whereof, the party of the first part has hereunto signed and caused its name to be signed by its commissioner of public lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year first above written.

STATE OF NEW MEXICO

By: _____
Commissioner of Public Lands, Lessor

_____(Seal)
Lessee

(PERSONAL ACKNOWLEDGMENT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

_____ as attorney-in-fact in behalf of

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____,

by _____, _____ of _____
(Name) (Title) (Corporation)
a _____ corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

**VO TYPE 0000 – 5 YEAR TERM 1/6 ROYALTY – DISCOVERY FORM
OIL AND GAS LEASE**

Application No:

THIS AGREEMENT, dated **EFFECTIVE LEASE DATE** between the state of New Mexico, acting by and through its commissioner of public lands, hereinafter called the “lessor”, and

**LESSEE OF RECORD
LESSEE’S STREET /MAILING ADDRESS
ADDITIONAL ADDRESS LINE
LESSEE’S CITY /STATE /ZIP CODE**

SAMPLE FORM

hereinafter called the “lessee”,

WITNESSETH:

WHEREAS, the lessee has filed in the office of the commissioner of public lands an application for an oil and gas lease covering the lands hereinafter described and has tendered therewith the required first payment; and

WHEREAS, all of the requirements of law relative to the application and tender have been duly complied with;

THEREFORE, in consideration of the premises as well as the sum of **BONUS AMOUNT [TEXT] (BONUS AMOUNT NUMBERS)**, the same being the amount of the tender above mentioned, and the further sum of \$30.00 filing fee, and of the covenants and agreements hereinafter contained, the lessor does hereby grant, demise, lease and let unto the said lessee, exclusively, for the sole and only purpose of exploration, development and production of oil or gas (including carbon dioxide and helium), or both thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by the lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone lines, tanks, power houses, stations, gasoline plants and fixtures for producing, treating and caring for such products, and housing and boarding employees, and any and all rights and privileges necessary, incident to or convenient for the economical operation of said land, for oil and gas, with right for such purposes to the free use of oil, gas, casing-head gas or water from said lands, but not from lessor's water wells, and with the rights of removing either during or after the term hereof, all and any improvements placed or erected on the premises by the lessee, including the right to pull all casing, subject, however, to the covenants and conditions hereinafter set out, the following described land situated in the count(y)(ies) of **COUNTY NAME**, state of New Mexico, and more particularly described as follows:

Subdivisions	Sect	Twp	Rge	Acres	Institution

Said lands having been awarded to lessee and designated as Tract No. **VO SALE TRACT** at public sale held by the commissioner of public lands on **SALE DATE**

To have and to hold said land, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term of five years from the date hereof, and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land by lessee, subject to all of the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty one-sixth part of the oil produced and saved from the leased premises or the cash value thereof, at the option of the lessor, such value to be the price prevailing the day oil is run into a pipeline, if the oil be run into a pipeline, or into storage tanks, if the oil is stored.
2. Subject to the free use without royalty, as hereinbefore provided, at the option of the lessor at any time and from time to time, the lessee shall pay the lessor as royalty one-sixth part of the gas produced and saved from the leased premises, including casing-head gas. Unless said option is exercised by lessor, the lessee shall pay the lessor as royalty one-sixth of the cash value of the gas, including casing-head gas, produced and saved from the leased premises and marketed or utilized, such value to be equal to the net proceeds derived from the sale of such gas in the field; provided, however, the cash value for royalty purposes of carbon dioxide gas and of hydrocarbon gas delivered to a gasoline plant for extraction of liquid hydrocarbons shall be equal to the net proceeds derived from the sale of such gas, including any liquid hydrocarbons recovered therefrom.

Notwithstanding the foregoing provisions, the lessor may require the payment of royalty for all or any part of the gas produced and saved under this lease and marketed or utilized at a price per m.c.f. equal to the maximum price being paid for gas of like kind and quality and under like conditions in the same field or area or may reduce the royalty value of any such gas (to any amount not less than the net proceeds of sale thereof, in the field) if the commissioner of public lands shall determine such action to be necessary to the successful operation of the lands for oil or gas purposes or to encouragement of the greatest ultimate recovery of oil or gas or to the promotion of conservation of oil or gas or in the public interest.

This lease shall not expire at the end of the primary term hereof if there is a well capable of producing gas in paying quantities located upon some part of the lands embraced herein, or upon lands pooled or communitized herewith, where such well is shut-in due to the inability of the lessee to obtain a pipeline connection or to market the gas therefrom and if the lessee timely pays an annual royalty on or before the annual rental paying date next ensuing after the expiration of ninety days from the date said well was shut-in and on or before said rental date thereafter. The payment of said annual royalty shall be considered for all purposes the same as if gas were being produced in paying quantities and upon the commencement of marketing of gas from said well or wells the royalty paid for the lease year in which the gas is first marketed shall be credited upon the royalty payable hereunder to the lessor for such year. The provisions of this section shall also apply where gas is being marketed from said leasehold premises and through no fault of the lessee, the pipeline connection or market is lost or ceases, in which case this lease shall not expire so long as said annual royalty is paid as herein provided. The amount of any annual royalty payable under this section shall equal twice the annual rental due by the lessee under the terms of this lease but not less than three hundred twenty dollars (\$320) per well per year, provided, however, that any such annual royalty for any year beginning on or after ten years from the date hereof shall equal four times the annual rental due by the lessee under the terms of this lease but not less than two thousand dollars (\$2,000) per well per year; provided further that no annual royalty shall be payable under this section if equivalent amounts are timely paid pursuant to another lease issued by lessor and if such other lease includes lands communitized with lands granted hereunder for the purpose of prorationally sharing in the shut-in well. Notwithstanding the provisions of this section to the contrary, this lease shall not be continued after five years from the date hereof for any period of more than ten years by the payment of said annual royalty unless, for good cause shown, the commissioner of public lands, in his discretion, grants such a continuance.

3. Lessee agrees to make full settlement on the twentieth day of each month for all royalties due to the lessor for the preceding month, under this lease, and to permit the lessor or its agents, at all reasonable hours to examine lessee's books relating to the production and disposition of oil and gas produced. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. An annual rental at the rate of **\$ RENTAL RATE** per acre shall become due and payable to the lessor by the lessee upon each acre of the land above described and then claimed by such lessee, and the same shall be due and payable in advance to the lessor on successive anniversary dates of this lease, but the annual rental on any assignment shall in no event be less than forty dollars (\$40.00).

In the event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the lessor a duly executed release thereof and in event said lease has been recorded then he shall upon request furnish and deliver to the lessor a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the lessor all amounts then due as provided herein and the further sum of forty dollars (\$40.00), surrender and cancel this lease insofar as the same covers all or any portion of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinbefore provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law or equity by the lessee, lessor or any assignee, to enforce this lease, or any of its terms expressed or implied.

6. All payments due hereunder shall be made on or before the day such payment is due, at the office of the commissioner of public lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor shall have the rights to assign this lease in whole or in part. Provided, however, that no assignment of an undivided interest in the lease or in any part thereof nor any assignment of less than a legal subdivision shall be recognized or approved by the lessor. Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tracts, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as to such tracts.

8. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land which is draining the leased premises, lessee shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances, provided that no such offset well shall be required if compensatory royalties are paid pursuant to an agreement between the lessor and the lessee.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the lessor.

If any lands embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operation shall be commenced on any such lands so sold unless and until the lessee shall have filed a good and sufficient bond with the lessor as required by law, to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when lessor deems it to the interest of the beneficiaries of the lands granted hereunder to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agree to pay of all damages to the range, livestock, growing crops or improvements caused by lessee's operations on said lands. When requested by the lessor the lessee shall bury pipelines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of Paragraph 10 above.

13. Upon failure or default of the lessee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee so defaulting, by registered or certified mail, addressed to the post-office address of such lessee as shown by the records of the state land office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within thirty days from the date of mailing said notice the said lessee shall remedy the default specified in said notice, cancellation shall not be made.

14. If this lease shall have been maintained in accordance with the provisions hereof and if at the expiration of the primary term provided for herein oil or gas is not being produced on said land but lessee is then engaged in bona fide drilling or reworking operations thereon, this lease shall remain in full force and effect so long as such operations are diligently prosecuted and, if they result in the production of oil or gas, so long thereafter as oil and gas in paying quantities, or either of them, is produced from said land; provided, however, such operations extending beyond the primary term shall be approved by the lessor upon written application filed with the lessor on or before the expiration of said term, and a report of the status of all such operations shall be made by the lessee to the lessor every thirty days and a cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

If during the drilling or reworking of any well under this section, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations, then within twenty days after the abandonment of said operations, lessee may commence another well within three hundred thirty feet of the lost or junked hole or well and drill the same with due diligence.

Operations commenced and continued as herein provided shall extend this lease as to all lands as to which the same is in full force and effect as of the time said drilling operations are commenced; provided, however, this lease shall be subject to cancellation in accordance with Paragraph 13 hereof for failure to pay rentals or file reports which may become due while operations are being conducted hereunder.

15. Should production of oil and gas or either of them in paying quantities be obtained while this lease is in force and effect and should thereafter cease from any cause after the expiration of five years from the date hereof this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty days after the cessation of such production and shall remain in full force and effect so long as such operations are prosecuted in good faith with no cessation of more than twenty consecutive days, and if such operations result in the production of oil or gas in paying quantities, so long thereafter as oil or gas in paying quantities is produced from said land; provided, however, written notice of intention to commence such operations shall be filed with the lessor within thirty days after the cessation of such production, and a report of the status of such operations shall be made by the lessee to the lessor every thirty days, and the cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

16. Lessee, including their heirs, assigns, agents and contractors shall at their own expense fully comply with all laws, regulations, rules, ordinances and requirements of the city, county, state, federal authorities and agencies, in all matters and things affecting the premises and operations thereon which may be enacted or promulgated under the governmental police powers pertaining to public health and welfare, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. Such agencies are not to be deemed third party beneficiaries hereunder, however, this clause is enforceable by the lessor in any manner provided in this lease or by law.

17. Should lessor desire to exercise its rights to take in-kind its royalty share of oil, gas or associated substances or purchase all or any part of the oil, gas or associated substances produced from the lands covered by this lease, the lessee hereby irrevocably consents to the lessor exercising its right. Such consent is a consent to the termination of any supplier/purchaser relationship between the lessor and the lessee deemed to exist under federal regulations. Lessee further agrees that it will require any purchaser of oil, gas or associated substance to likewise waive any such rights.

18. Lessor reserves a continuing option to purchase at any time and from time to time, at the market price prevailing in the area on the date of purchase, all or any part of the minerals (oil and gas) that will be produced from the lands covered by this lease.

19. Lessor reserves the right to execute leases for geothermal resource development and operation thereon; the right to sell or dispose of the geothermal resources of such lands; and the right to grant rights-of-way and easements for these purposes.

20. All terms of this agreement shall extend to and bind the heirs, executors, administrator, successors and assigns of the parties hereto.

In witness whereof, the party of the first part has hereunto signed and caused its name to be signed by its commissioner of public lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year first above written.

STATE OF NEW MEXICO

By: _____
Commissioner of Public Lands, Lessor

_____ (Seal)
Lessee

(PERSONAL ACKNOWLEDGMENT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

_____ as attorney-in-fact in behalf of

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

_____, _____ of _____
(Name) (Title) (Corporation)
a _____ corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

**VB TYPE 0000 – 5 YEAR TERM 3/16 ROYALTY – DEVELOPMENT FORM
OIL AND GAS LEASE**

APPLICATION NO:

THIS AGREEMENT, dated **EFFECTIVE LEASE DATE** between the state of New Mexico, acting by and through its commissioner of public lands, hereinafter called the “lessor”, and

LESSEE OF RECORD
LESSEE’S STREET/MAILING ADDRESS
ADDITIONAL ADDRESS LINE
LESSEE’S CITY /STATE /ZIP CODE

hereinafter called the “lessee”,

SAMPLE FORM

WITNESSETH:

WHEREAS, the lessee has filed in the office of the commissioner of public lands an application for an oil and gas lease covering the lands hereinafter described and has tendered therewith the required first payment; and

WHEREAS, all of the requirements of law relative to the application and tender have been duly complied with;

THEREFORE, in consideration of the premises as well as the sum of **BONUS AMOUNT [TEXT] (BONUS AMOUNT NUMBERS)**, the same being the amount of the tender above mentioned, and the further sum of \$30.00 filing fee, and of the covenants and agreements hereinafter contained, the lessor does hereby grant, demise, lease and let unto the said lessee, exclusively, for the sole and only purpose of exploration, development and production of oil or gas (including carbon dioxide and helium), or both thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by the lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone lines, tanks, power houses, stations, gasoline plants and fixtures for producing, treating and caring for such products, and housing and boarding employees, and any and all rights and privileges necessary, incident to or convenient for the economical operation of said land, for oil and gas, with right for such purposes to the free use of oil, gas, casing-head gas or water from said lands, but not from lessor's water wells, and with the rights of removing either during or after the term hereof, all and any improvements placed or erected on the premises by the lessee, including the right to pull all casing, subject, however, to the covenants and conditions hereinafter set out, the following described land situated in the count(y)(ies) of **COUNTY NAME** state of New Mexico, and more particularly described as follows:

Subdivisions	Sect	Twp	Rge	Acres	Institution

Said lands having been awarded to lessee and designated as Tract No. **VB SALE TRACT** at public sale held by the commissioner of public lands on **SALE DATE**.

To have and to hold said land, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term of five years from the date hereof, and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land by lessee, subject to all of the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty three-sixteenth part of the oil produced and saved from the leased premises or the cash value thereof, at the option of the lessor, such value to be the price prevailing the day oil is run into a pipeline, if the oil be run into a pipeline, or into storage tanks, if the oil is stored.
2. Subject to the free use without royalty, as hereinbefore provided, at the option of the lessor at any time and from time to time, the lessee shall pay the lessor as royalty three-sixteenth part of the gas produced and saved from the leased premises, including casing-head gas. Unless said option is exercised by lessor, the lessee shall pay the lessor as royalty three-sixteenth of the cash value of the gas, including casing-head gas, produced and saved from the leased premises and marketed or utilized, such value to be equal to the net proceeds derived from the sale of such gas in the field; provided, however, the cash value for royalty purposes of carbon dioxide gas and of hydrocarbon gas

delivered to a gasoline plant for extraction of liquid hydrocarbons shall be equal to the net proceeds derived from the sale of such gas, including any liquid hydrocarbons recovered therefrom.

Notwithstanding the foregoing provisions, the lessor may require the payment of royalty for all or any part of the gas produced and saved under this lease and marketed or utilized at a price per m.c.f. equal to the maximum price being paid for gas of like kind and quality and under like conditions in the same field or area or may reduce the royalty value of any such gas (to any amount not less than the net proceeds of sale thereof, in the field) if the commissioner of public lands shall determine such action to be necessary to the successful operation of the lands for oil or gas purposes or to encouragement of the greatest ultimate recovery of oil or gas or to the promotion of conservation of oil or gas or in the public interest.

This lease shall not expire at the end of the primary term hereof if there is a well capable of producing gas in paying quantities located upon some part of the lands embraced herein, or upon lands pooled or communitized herewith, where such well is shut-in due to the inability of the lessee to obtain a pipeline connection or to market the gas therefrom and if the lessee timely pays an annual royalty on or before the annual rental paying date next ensuing after the expiration of ninety days from the date said well was shut-in and on or before said rental date thereafter. The payment of said annual royalty shall be considered for all purposes the same as if gas were being produced in paying quantities and upon the commencement of marketing of gas from said well or wells the royalty paid for the lease year in which the gas is first marketed shall be credited upon the royalty payable hereunder to the lessor for such year. The provisions of this section shall also apply where gas is being marketed from said leasehold premises and through no fault of the lessee, the pipeline connection or market is lost or ceases, in which case this lease shall not expire so long as said annual royalty is paid as herein provided. The amount of any annual royalty payable under this section shall equal twice the annual rental due by the lessee under the terms of this lease but not less than three hundred twenty dollars (\$320) per well per year, provided, however, that any such annual royalty for any year beginning on or after ten years from the date hereof shall equal four times the annual rental due by the lessee under the terms of this lease but not less than two thousand dollars (\$2,000) per well per year; provided further that no annual royalty shall be payable under this section if equivalent amounts are timely paid pursuant to another lease issued by lessor and if such other lease includes lands communitized with lands granted hereunder for the purpose of prorationally sharing in the shut-in well. Notwithstanding the provisions of this section to the contrary, this lease shall not be continued after five years from the date hereof for any period of more than ten years by the payment of said annual royalty unless, for good cause shown, the commissioner of public lands, in his discretion, grants such a continuance.

3. Lessee agrees to make full settlement on the twentieth day of each month for all royalties due to the lessor for the preceding month, under this lease, and to permit the lessor or its agents, at all reasonable hours, to examine lessee's books relating to the production and disposition of oil gas produced. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. An annual rental at the rate of **\$ RENTAL RATE** per acre shall become due and payable to the lessor by the lessee upon each acre of the land above described and then claimed by such lessee, and the same shall be due and payable in advance to the lessor on successive anniversary dates of this lease, but the annual rental on any assignment shall in no event be less than forty dollars (\$40.00).

In the event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the lessor a duly executed release thereof and in event said lease has been recorded then he shall upon request furnish and deliver to the lessor a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the lessor all amounts then due as provided herein and the further sum of forty dollars (\$40.00), surrender and cancel this lease insofar as the same covers all or any portion of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinbefore provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law or equity by the lessee, lessor or any assignee, to enforce this lease, or any of its terms expressed or implied.

6. All payments due hereunder shall be made on or before the day such payment is due, at the office of the commissioner of public lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor shall have the rights to assign this lease in whole or in part. Provided, however, that no assignment of an undivided interest in the lease or in any part thereof nor any assignment of less than a legal subdivision shall be recognized or approved by the lessor. Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tracts, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as to such tracts.

8. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land which is draining the leased premises, lessee shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances, provided that no such offset well shall be required if compensatory royalties are paid pursuant to an agreement between the lessor and the lessee.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the lessor.

If any lands embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operation shall be commenced on any such lands so sold unless and until the lessee shall have filed a good and sufficient bond with the lessor as required by law, to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when lessor deems it to the interest of the beneficiaries of the lands granted hereunder to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agree to pay of all damages to the range, livestock, growing crops or improvements caused by lessee's operations on said lands. When requested by the lessor the lessee shall bury pipelines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of Paragraph 10 above.

13. Upon failure or default of the lessee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee so defaulting, by registered or certified mail, addressed to the post-office address of such lessee as shown by the records of the state land office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within thirty days from the date of mailing said notice the said lessee shall remedy the default specified in said notice, cancellation shall not be made.

14. If this lease shall have been maintained in accordance with the provisions hereof and if at the expiration of the primary term provided for herein oil or gas is not being produced on said land but lessee is then engaged in bona fide drilling or reworking operations thereon, this lease shall remain in full force and effect so long as such operations are diligently prosecuted and, if they result in the production of oil or gas, so long thereafter as oil and gas in paying quantities, or either of them, is produced from said land; provided, however, such operations extending beyond the primary term shall be approved by the lessor upon written application filed with the lessor on or before the expiration of said term, and a report of the status of all such operations shall be made by the lessee to the lessor every thirty days and a cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

If during the drilling or reworking of any well under this section, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations, then within twenty days after the abandonment of said operations, lessee may commence another well within three hundred thirty feet of the lost or junked hole or well and drill the same with due diligence.

Operations commenced and continued as herein provided shall extend this lease as to all lands as to which the same is in full force and effect as of the time said drilling operations are commenced; provided, however, this lease shall be subject to cancellation in accordance with Paragraph 13 hereof for failure to pay rentals or file reports which may become due while operations are being conducted hereunder.

15. Should production of oil and gas or either of them in paying quantities be obtained while this lease is in force and effect and should thereafter cease from any cause after the expiration of five years from the date hereof this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty days after the cessation of such production and shall remain in full force and effect so long as such operations are prosecuted in good faith with no cessation of more than twenty consecutive days, and if such operations result in the production of oil or gas in paying quantities, so long thereafter as oil or gas in paying quantities is produced from said land; provided, however, written notice of intention to commence such operations shall be filed with the lessor within thirty days after the cessation of such production, and a report of the status of such operations shall be made by the lessee to the lessor every thirty days, and the cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

16. Lessee, including their heirs, assigns, agents and contractors shall at their own expense fully comply with all laws, regulations, rules, ordinances and requirements of the city, county, state, federal authorities and agencies, in all matters and things affecting the premises and operations thereon which may be enacted or promulgated under the governmental police powers pertaining to public health and welfare, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. Such agencies are not to be deemed third party beneficiaries hereunder, however, this clause is enforceable by the lessor in any manner provided in this lease or by law.

17. Should lessor desire to exercise its rights to take in-kind its royalty share of oil, gas or associated substances or purchase all or any part of the oil, gas or associated substances produced from the lands covered by this lease, the lessee hereby irrevocably consents to the lessor exercising its right. Such consent is a consent to the termination of any supplier/purchaser relationship between the lessor and the lessee deemed to exist under federal regulations. Lessee further agrees that it will require any purchaser of oil, gas or associated substance to likewise waive any such rights.

18. Lessor reserves a continuing option to purchase at any time and from time to time, at the market price prevailing in the area on the date of purchase, all or any part of the minerals (oil and gas) that will be produced from the lands covered by this lease.

19. Lessor reserves the right to execute leases for geothermal resource development and operation thereon; the right to sell or dispose of the geothermal resources of such lands; and the right to grant rights-of-way and easements for these purposes.

20. All terms of this agreement shall extend to and bind the heirs, executors, administrator, successors and assigns of the parties hereto.

In witness whereof, the party of the first part has hereunto signed and caused its name to be signed by its commissioner of public lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year first above written.

STATE OF NEW MEXICO

By: _____
Commissioner of Public Lands, Lessor

_____(Seal)
Lessee

(PERSONAL ACKNOWLEDGMENT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

_____ as attorney-in-fact in behalf of

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____,

by _____, _____ of _____
(Name) (Title) (Corporation)
a _____ corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

**VC TYPE 0000 – 5 YEAR TERM 1/5 ROYALTY – DEVELOPMENT FORM
OIL AND GAS LEASE**

Application No:

THIS AGREEMENT, dated **EFFECTIVE LEASE DATE** between the state of New Mexico, acting by and through its commissioner of public lands, hereinafter called the “lessor”, and

**LESSEE OF RECORD
LESSEE’S STREET /MAILING ADDRESS
ADDITIONAL ADDRESS LINE
LESSEE’S CITY /STATE /ZIP CODE**
hereinafter called the “lessee”,

SAMPLE FORM

WITNESSETH:

WHEREAS, the lessee has filed in the office of the commissioner of public lands an application for an oil and gas lease covering the lands hereinafter described and has tendered therewith the required first payment; and

WHEREAS, all of the requirements of law relative to the application and tender have been duly complied with;

THEREFORE, in consideration of the premises as well as the sum of **BONUS AMOUNT [TEXT] (BONUS AMOUNT NUMBERS)**, the same being the amount of the tender above mentioned, and the further sum of \$30.00 filing fee, and of the covenants and agreements hereinafter contained, the lessor does hereby grant, demise, lease and let unto the said lessee, exclusively, for the sole and only purpose of exploration, development and production of oil or gas (including carbon dioxide and helium), or both thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by the lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone lines, tanks, power houses, stations, gasoline plants and fixtures for producing, treating and caring for such products, and housing and boarding employees, and any and all rights and privileges necessary, incident to or convenient for the economical operation of said land, for oil and gas, with right for such purposes to the free use of oil, gas, casing-head gas or water from said lands, but not from lessor's water wells, and with the rights of removing either during or after the term hereof, all and any improvements placed or erected on the premises by the lessee, including the right to pull all casing, subject, however, to the covenants and conditions hereinafter set out, the following described land situated in the count(y)(ies) of **COUNTY NAME** state of New Mexico, and more particularly described as follows:

Subdivisions	Sect	Twp	Rge	Acres	Institution

Said lands having been awarded to lessee and designated as Tract No. **VC SALE TRACT** at public sale held by the commissioner of public lands on **SALE DATE**.

To have and to hold said land, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term of five years from the date hereof, and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land by lessee, subject to all of the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty one-fifth part of the oil produced and saved from the leased premises or the cash value thereof, at the option of the lessor, such value to be the price prevailing the day oil is run into a pipeline, if the oil be run into a pipeline, or into storage tanks, if the oil is stored.
2. Subject to the free use without royalty, as hereinbefore provided, at the option of the lessor at any time and from time to time, the lessee shall pay the lessor as royalty one-fifth part of the gas produced and saved from the leased premises, including casing-head gas. Unless said option is exercised by lessor, the lessee shall pay the lessor as royalty one-fifth of the cash value of the gas, including casing-head gas, produced and saved from the leased premises and marketed or utilized, such value to be equal to the net proceeds derived from the sale of such gas in the field; provided, however, the cash value for royalty purposes of carbon dioxide gas and of hydrocarbon gas delivered to a gasoline plant for extraction of liquid hydrocarbons shall be equal to the net proceeds derived from the sale of such gas, including any liquid hydrocarbons recovered therefrom.

Notwithstanding the foregoing provisions, the lessor may require the payment of royalty for all or any part of the gas produced and saved under this lease and marketed or utilized at a price per m.c.f. equal to the maximum price being paid for gas of like kind and quality and under like conditions in the same field or area or may reduce the royalty value of any such gas (to any amount not less than the net proceeds of sale thereof, in the field) if the commissioner of public lands shall determine such action to be necessary to the successful operation of the lands for oil or gas purposes or to encouragement of the greatest ultimate recovery of oil or gas or to the promotion of conservation of oil or gas or in the public interest.

This lease shall not expire at the end of the primary term hereof if there is a well capable of producing gas in paying quantities located upon some part of the lands embraced herein, or upon lands pooled or communitized herewith, where such well is shut-in due to the inability of the lessee to obtain a pipeline connection or to market the gas therefrom and if the lessee timely pays an annual royalty on or before the annual rental paying date next ensuing after the expiration of ninety days from the date said well was shut-in and on or before said rental date thereafter. The payment of said annual royalty shall be considered for all purposes the same as if gas were being produced in paying quantities and upon the commencement of marketing of gas from said well or wells the royalty paid for the lease year in which the gas is first marketed shall be credited upon the royalty payable hereunder to the lessor for such year. The provisions of this section shall also apply where gas is being marketed from said leasehold premises and through no fault of the lessee, the pipeline connection or market is lost or ceases, in which case this lease shall not expire so long as said annual royalty is paid as herein provided. The amount of any annual royalty payable under this section shall equal twice the annual rental due by the lessee under the terms of this lease but not less than three hundred twenty dollars (\$320) per well per year, provided, however, that any such annual royalty for any year beginning on or after ten years from the date hereof shall equal four times the annual rental due by the lessee under the terms of this lease but not less than two thousand dollars (\$2,000) per well per year; provided further that no annual royalty shall be payable under this section if equivalent amounts are timely paid pursuant to another lease issued by lessor and if such other lease includes lands communitized with lands granted hereunder for the purpose of prorationally sharing in the shut-in well. Notwithstanding the provisions of this section to the contrary, this lease shall not be continued after five years from the date hereof for any period of more than ten years by the payment of said annual royalty unless, for good cause shown, the commissioner of public lands, in his discretion, grants such a continuance.

3. Lessee agrees to make full settlement on the twentieth day of each month for all royalties due to the lessor for the preceding month, under this lease, and to permit the lessor or its agents, at all reasonable hours, to examine lessee's books relating to the production and disposition of oil and gas produced. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. An annual rental at the rate of **\$ RENTAL RATE** per acre shall become due and payable to the lessor by the lessee upon each acre of the land above described and then claimed by such lessee, and the same shall be due and payable in advance to the lessor on successive anniversary dates of this lease, but the annual rental on any assignment shall in no event be less than forty dollars (\$40.00).

In the event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the lessor a duly executed release thereof and in event said lease has been recorded then he shall upon request furnish and deliver to the lessor a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the lessor all amounts then due as provided herein and the further sum of forty dollars (\$40.00), surrender and cancel this lease insofar as the same covers all or any portion of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinbefore provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law or equity by the lessee, lessor or any assignee, to enforce this lease, or any of its terms expressed or implied.

6. All payments due hereunder shall be made on or before the day such payment is due, at the office of the commissioner of public lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor shall have the rights to assign this lease in whole or in part. Provided, however, that no assignment of an undivided interest in the lease or in any part thereof nor any assignment of less than a legal subdivision shall be recognized or approved by the lessor. Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tracts, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as to such tracts.

8. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land which is draining the leased premises, lessee shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances, provided that no such offset well shall be required if compensatory royalties are paid pursuant to an agreement between the lessor and the lessee.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the lessor.

If any lands embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operation shall be commenced on any such lands so sold unless and until the lessee shall have filed a good and sufficient bond with the lessor as required by law, to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when lessor deems it to the interest of the beneficiaries of the lands granted hereunder to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agree to pay of all damages to the range, livestock, growing crops or improvements caused by lessee's operations on said lands. When requested by the lessor the lessee shall bury pipelines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of Paragraph 10 above.

13. Upon failure or default of the lessee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee so defaulting, by registered or certified mail, addressed to the post-office address of such lessee as shown by the records of the state land office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within thirty days from the date of mailing said notice the said lessee shall remedy the default specified in said notice, cancellation shall not be made.

14. If this lease shall have been maintained in accordance with the provisions hereof and if at the expiration of the primary term provided for herein oil or gas is not being produced on said land but lessee is then engaged in bona fide drilling or reworking operations thereon, this lease shall remain in full force and effect so long as such operations are diligently prosecuted and, if they result in the production of oil or gas, so long thereafter as oil and gas in paying quantities, or either of them, is produced from said land; provided, however, such operations extending beyond the primary term shall be approved by the lessor upon written application filed with the lessor on or before the expiration of said term, and a report of the status of all such operations shall be made by the lessee to the lessor every thirty days and a cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

If during the drilling or reworking of any well under this section, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations, then within twenty days after the abandonment of said operations, lessee may commence another well within three hundred thirty feet of the lost or junked hole or well and drill the same with due diligence.

Operations commenced and continued as herein provided shall extend this lease as to all lands as to which the same is in full force and effect as of the time said drilling operations are commenced; provided, however, this lease shall be subject to cancellation in accordance with Paragraph 13 hereof for failure to pay rentals or file reports which may become due while operations are being conducted hereunder.

15. Should production of oil and gas or either of them in paying quantities be obtained while this lease is in force and effect and should thereafter cease from any cause after the expiration of five years from the date hereof this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty days after the cessation of such production and shall remain in full force and effect so long as such operations are prosecuted in good faith with no cessation of more than twenty consecutive days, and if such operations result in the production of oil or gas in paying quantities, so long thereafter as oil or gas in paying quantities is produced from said land; provided, however, written notice of intention to commence such operations shall be filed with the lessor within thirty days after the cessation of such production, and a report of the status of such operations shall be made by the lessee to the lessor every thirty days, and the cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

16. Lessee, including their heirs, assigns, agents and contractors shall at their own expense fully comply with all laws, regulations, rules, ordinances and requirements of the city, county, state, federal authorities and agencies, in all matters and things affecting the premises and operations thereon which may be enacted or promulgated under the governmental police powers pertaining to public health and welfare, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. Such agencies are not to be deemed third party beneficiaries hereunder, however, this clause is enforceable by the lessor in any manner provided in this lease or by law.

17. Should lessor desire to exercise its rights to take in-kind its royalty share of oil, gas or associated substances or purchase all or any part of the oil, gas or associated substances produced from the lands covered by this lease, the lessee hereby irrevocably consents to the lessor exercising its right. Such consent is a consent to the termination of any supplier/purchaser relationship between the lessor and the lessee deemed to exist under federal regulations. Lessee further agrees that it will require any purchaser of oil, gas or associated substance to likewise waive any such rights.

18. Lessor reserves a continuing option to purchase at any time and from time to time, at the market price prevailing in the area on the date of purchase, all or any part of the minerals (oil and gas) that will be produced from the lands covered by this lease.

19. Lessor reserves the right to execute leases for geothermal resource development and operation thereon; the right to sell or dispose of the geothermal resources of such lands; and the right to grant rights-of-way and easements for these purposes.

20. All terms of this agreement shall extend to and bind the heirs, executors, administrator, successors and assigns of the parties hereto.

In witness whereof, the party of the first part has hereunto signed and caused its name to be signed by its commissioner of public lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year first above written.

STATE OF NEW MEXICO

By: _____
Commissioner of Public Lands, Lessor

_____ (Seal)
Lessee

(PERSONAL ACKNOWLEDGMENT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

_____ as attorney-in-fact in behalf of

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____,

by _____ of _____
(Name) (Title) (Corporation)
a _____ corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

O - 24 06/14/1985

New Mexico State Land Office

OIL & GAS LEASE SALE PROCESS

PROCEDURES FOR MONTHLY SALES OF OIL & GAS LEASES

Sales of available oil and gas leases are held the third Tuesday of each month at 9:30 a.m. in Morgan Hall at the Edward J. Lopez State Land Office, 310 Old Santa Fe Trail, Santa Fe, New Mexico, unless otherwise posted in the monthly sale notice. Sales are by sealed bid and/or public auction, as specified in the sale notice published on or about the Friday after the monthly sale. Requests for inclusion on the mailing list for free sale notices should be addressed to the State Land Office, Oil, Gas, & Minerals Division, P. O. Box 1148, Santa Fe, New Mexico 87504-1148, or call (505) 827-5748. The sale notice is also available online at www.nmstatelands.org

The State Land Office uses the ONGARD computer system, which requires an Oil and Gas Revenue Identifier (OGRID) number for every company that participates in the oil and gas lease sales. After each participant is assigned an OGRID number, it will be the participant's responsibility to present that OGRID number for purposes of data coordination when doing business with the State Land Office. This responsibility includes registering your OGRID number with the State Land Office the morning of the sale for bidding purposes. This computer system will facilitate the coordination of information and enhance the efficiency of State Land Office sales and data maintenance.

The monthly sale of oil and gas leases is conducted in accordance with the following terms and conditions:

No bids will be considered for less than the whole of any tract, nor for less than the specified minimum acceptable bid (which in no case is less than \$100), plus a \$30.00 application fee. Separate bids must be made for each tract, with a separate application fee remittance for each bid.

Sealed bids must be plainly marked "Oil and Gas Sealed Bid" on the outside of the envelope and must show the date and hour to be opened. Sealed bids may be submitted by mail, express delivery, or in person to the Commissioner of Public Lands. All bids submitted will be opened at 9:30 a.m. for the Regular Sale and at the specified time for the Special Sale. The lease will be awarded to the highest bidder, if the offer made is deemed to be satisfactory.

A sealed bid must be submitted on the proper bid application form with the bidder's OGRID number entered in the upper right hand corner, and must be accompanied by a check, money order or certified check drawn on a solvent bank. This payment must include the amount bid, plus the application fee of \$30.00. All money tendered by bidders will be returned if their bids are unsuccessful.

Sight drafts submitted with bids for oil and gas leases sold under both the sealed and oral sections of the sale will not be accepted by the State Land Office, unless it is impossible to make arrangements to pay by check, and only through the following procedure:

Wells Fargo, the State Land Office's fiscal agent, will process a sight draft if the draft drawn on the bidder's company is made payable through or care of Wells Fargo. The draft must be paid within 48 hours after the sale date.

The bidder must initiate all action necessary to pay the draft, as the bank will not advise anyone that the draft is in his or her bank being held for collection. The bidder must advise the bank as to whom the paid draft is to be delivered.

If you have any questions regarding this procedure, please contact the State Land Office Accounting Division; telephone (505) 827-5705.

Any tract on which no sealed bid is received in the Special Sale may be offered for oral bidding at the public auction, and awarded to the highest bidder.

In all cases, leases will be made on the specific lease form as set forth in the sale notice.

In every case of oral bidding, the successful bidder will be required to deposit cash or a check, money order, or certified check drawn on a solvent bank for the amount bid plus the application fee of \$30.00, and to file an application in due form before the close of business on sale day. Advance application forms will be mailed upon request. Bid application forms must accompany sealed bids. The bid application form, a sample of which is found two pages forward in this manual, is applicable to all lease forms advertised in the sale notice.

All applications received will be deemed to have been filed simultaneously. In case of a tie between sealed bids, [State Land Office Rule 19.2.100.30](#), found in the early pages of this manual, specifies the procedures to be used to award the lease.

The Commissioner reserves the right to reject any and all bids.

INSTRUCTIONS FOR WIRE TRANSFER OF FUNDS

1. Indicate the amount of the funds being transferred.
2. Indicate the routing number of the bank to which the funds are being transferred. In this case the routing number is: *(please contact the State Land Office Accounting Division; telephone (505) 827-5705)*
3. Give the name of the bank to which the funds are being transferred. In this case the name of the bank is: **Wells Fargo.**
4. Give the name of the customer to whose account the money will be credited and the account number:

Name: **State Land Commissioner**

Account No. *(please contact the State Land Office Accounting Division; telephone (505) 827-5705)*

5. Include any special instructions.

Note: Wells Fargo will receive wire transfers up to 4:30 p.m. Mountain Time.

**HOW TO MAKE A FEDWIRE DEPOSIT TO
NEW MEXICO STATE LAND OFFICE**

**Direct any questions concerning this type of payment to Margaret Sena in the State
Land Office Accounting Office at 505-827-5705**

Fedwire is a payment service operated by the Federal Reserve System as a private wire network for transfers between financial institutions having accounts at the Federal Reserve Bank. The Fedwire is payable to the New Mexico State Treasurer and deposited with the state fiscal agent:

Wells Fargo

The transit and routing number (or ABA number) is the numeric address for Wells Fargo in Albuquerque within the Federal Reserve System.

To obtain the ABA Number and the Account Number, *please contact the State Land Office Accounting Division; telephone (505) 827-5705*

* * * * *

NOTE : When you intend to pay by a wire transfer, please let the SLO Accounting Office know by filling out the form below. You can include the form inside any sealed bid you offer to the SLO. You can include the form inside any sealed bid you offer to the SLO. You can get copies of the form by calling the Accounting Office at (505) 827-5719. A draft must be paid within 48 hours of the oil and gas sale date.

ONLINE VERSION

NEW MEXICO STATE LAND OFFICE
DRAFT FOR OIL & GAS SALE – Single Tract

DATE _____ 20__

PAY TO THE
ORDER OF **COMMISSIONER OF PUBLIC LANDS**
\$ _____ DOLLARS

TRACT # _____
Wells Fargo **COMPANY NAME** _____

ACCOUNT #
ABA #

For the Account of :
State of New Mexico Office of the Treasurer/
Commissioner of Public Lands

AUTHORIZED AGENT

Filling out the Bid Application Form

This guide follows the blanks on the Bid Application Form from top to bottom.

OGRID No. Enter your OGRID number here. If you do not have one, contact Ramona Marcus at (505) 827-5714 or plucero@slo.state.nm.us.

Name of legal entity or personal name – This is the name in which the lease will be issued; it will be the lessee of record. This can be the name of a company or of an individual.

Mailing address – This is the address of the potential leaseholder.

The following five blanks require information to be recorded exactly as you find in the SLO monthly Oil and Gas Lease Sale Notice. The information includes the tract number in the sale, the name of the county in which it lies, the legal land description describing the tract on which you are bidding, whether it is a regular sale or special sale, and how many acres the tract contains. Note that some of the portions are already filled in, to give you a guide to proper annotation.

EXAMPLE: 001 S12 T13S R28E
 V0-001 Description W2NW4, SE4NW4, SW4

The amount of dollars that you enter in the next blank is your bid. Notice that your first year's rental is included in your bid. Your bid on a 320-acre tract may be \$10,000; if the rental rate on that tract is \$1/acre, we will apply \$320 of your \$10,000 to the first year's rental.

The amount of dollars that you enter in the "Total remittance" blank is your bid plus the \$30.00 application fee. In the above example, you would remit \$10,030.

Name of applicant or agent – This blank is for the printed name of either the applicant or the agent of the applicant.

Signature – The form must be signed in the presence of a notary public. The signature here is of the person named in the previous, "printed name" blank.

Acknowledgment section – Your notary public will complete the remainder of the form.

Remember that the bid application and your remittance must be in the Accounting office of the State Land Office before 9:30 a.m. the day of the oil and gas lease sale.

NEW MEXICO STATE LAND OFFICE
BID APPLICATION
FOR A STATE OF NEW MEXICO OIL AND GAS LEASE

OGRID No. _____

TO: Commissioner of Public Lands
P.O. Box 1148
Santa Fe, New Mexico 87504-1148

(Please print the name of the legal entity, or, if applying as an individual, the personal name.)

whose address is _____,
(mailing address) (city) (state) (zip code)

a corporation qualified to do business in New Mexico, OR a citizen (or eligible to become a citizen) of the United States, over the age of twenty-one years hereby makes application for an oil and gas lease for the exploration, development and production of oil and natural gas thereon, upon the following described

land situated in the County of _____, State of New Mexico, to-wit:

<u>TRACT NUMBER</u>	<u>COUNTY</u>	<u>LAND DESCRIPTION</u>	<u>REGULAR SALE</u>	<u>SPECIAL SALE</u>
0 ___	S ___ T ___ R ___		<input type="checkbox"/>	<input type="checkbox"/>
___ - 0 ___	Description _____			

containing _____ acres, more or less.

Tendered herewith as bonus and first year's rental thereon is the sum of \$ _____, plus an application fee of **\$30.00**;
(a) (b)

Total remittance sum of *(a)* and *(b)*.....\$ _____.

I, _____
(Please print name of applicant or of attorney in fact / authorized agent.)

do solemnly swear that every statement made in this application is true and correct to the best of my knowledge and belief.

(Signature of individual or of attorney in fact / authorized agent)

Acknowledgment in an Individual Capacity:

State of _____)
) SS)
County of _____)

This instrument was acknowledged before me on _____
Date

By _____
Name of Person

(Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in a Representative Capacity:

State of _____)
) SS)
County of _____)

This instrument was acknowledged before me on _____
Date

By _____
Name(s) of Person(s)

as _____ of _____
Type of authority; e.g., officer, trustee, etc. Name of party on behalf of whom instrument was executed

(Seal)

Signature of Notarial Officer

My commission expires: _____

NOMINATIONS OF TRACTS FOR SALE

Tracts of available state land may be nominated for the lease sale in person, over the telephone, by letter or by email. All nominations are held confidential by the State Land Office. A sample nomination letter is found on the following page. Nominations may be made for no less than a legal subdivision of a section, and the tract should be nominated for either sealed bid or oral auction. When mailing your nomination, please mark the envelope "PERSONAL & CONFIDENTIAL" and mail to the *Attention of S. Wust*. You may also highlight the words "Personal & Confidential."

The deadline for nominations for the following month is the Friday prior to the sale on the third Tuesday of the current month. In the event Friday is a national holiday, the Monday before the sale becomes the deadline for the following month's lease sale notice.

Availability of state lands for nomination to any oil and gas lease sale depend upon a number of variables. These include *but are not limited to*:

- Existence of a current geophysical permit;
- Land restrictions caused by existence of airports, cemeteries and other infrastructure;
- Imminent potential for exchange consideration;
- Withdrawals by Order of the Commissioner.

Special sale tracts are those falling within the Unrestricted Districts (see SLO Rule 100.12 on page 12 of this manual). SLO Field Division personnel will evaluate each tract classified as "special" for leasability. Their evaluation examines, but is not limited to, existing land use, other resource value, biological communities, threatened and endangered species, critical watershed functions, important and sensitive habitats, and cultural and paleontological resources. Placement in any given lease sale of these tracts will depend upon receipt of the completed Field Division evaluation and approval, by the Commissioner.

The nominated tract will normally appear in the sale notice published that following week. However, if a tract is available as a result of the recent cancellation or expiration of a lease, a 60-day waiting period from the cancellation or expiration approval date must be observed before the tract can be sold. If a tract is available because a lease has been released, that tract can be offered in the next sale notice.

There is no fee for nominating tracts for sale, but the nominator must tender the minimum bid as stated in the sale notice or future nominations may not be honored. The State Land Office will determine the royalty rate and lease terms.

The Commissioner or his designee will notify nominators by mail as to whether or not the tracts they have nominated will appear in a particular month's oil and gas lease sale, as well as the terms under which the tracts will be offered.

It is the responsibility of potential oil and gas lessees of record to determine ownership of the surface estate, and negotiate operating procedures as necessary with said occupant(s) after receipt of the lease and before initiation of subsequent oil and gas exploration and development operations.

Note: Please mark **Personal and Confidential** on the
outside front of the envelope.

Send Attn: S. Wust



ABC OIL COMPANY



Post Office Box XX
Oilpatch, New Mexico ZIP00

June 12, 2003

Commissioner of Public Lands
Post Office Box 1148
Santa Fe, NM 87504-1148

Dear Sir:

We respectfully request that you place the following [tract or tracts] in
the next available oil and gas lease sale:

NE4 Section 36, Township 25N, Range 6W

We would prefer to have this tract offered as [a sealed or an oral] bid.
Please treat this nomination as confidential information.

Sincerely,

John Doe
Chief Landman

JD/hs

FORMS USED TO MODIFY LEASES

In the following pages, you will find FORMS used to modify leases. These forms are provided here as a service to the public. In the event of any inconsistencies between these forms and the official printed version, all parties agree to remain bound by the language of the official forms set forth by the State Land Office.

You can download the forms from the State Land Office website:

<http://www.nmstatelands.org/>

Assignment of Oil and Gas Lease If used for an Assignment other than changing record title, the form will be filed as a Miscellaneous Instrument

Change of Annual Rental Payor The Lessee of Record may agree to have annual rental payment notices sent to a third party who agrees to pay the rental fees. If a Lessee has assigned operating rights to another entity, that entity may want to have the rental notices sent to his office. This change does NOT, however, relieve the Lessee of Record of the payment obligation to the SLO.

General Relinquishment Release, and Quitclaim Deed of Oil and Gas Lease

Stipulation Amending older Oil and Gas Lease to current lease terms

Waiver and Consent Lessee waives requirement of a 30 day registered notice from the State Land Office of intention to cancel.

Change of Address Written request required changing address as recorded in the Office of the Commissioner. Written request shows old, official address and new, official address.

OIL AND GAS ASSIGNMENTS and MISCELLANEOUS INSTRUMENTS – PROCEDURES FOR APPROVALS

The issues of Undivided Interest and Joint Ownership

When in the course of lease ownership, it becomes attractive to share...how one sells interest to another depends on the age of the lease involved. The earliest oil and gas leases sold by the State Land Office permitted assignment of record title ownership by dividing ownership of formations and of surface descriptions. Current owners of these older leases may still request approval of such assignments. The several owners are considered record-title-owners of each division.

After December 17, 1924 the leases sold by the State Land Office no longer permitted undivided interest activity.

The question has been asked: “On these post-1924 leases, why does the Commissioner refuse to approve assignments of undivided interest, and why does he provide that no more than two lessees own a lease jointly and not severally?”

There are two answers.

1. The first is that New Mexico law is most specific about the Commissioner’s responsibility as the trust officer of public lands, and
2. The second is the practical matter of maintaining a clear chain-of-title.

The key section of the law is Section 19-10-13 NMSA 1978 which is discussed below. Prior to that discussion, however, let it be noted that clear echoes of that section appear in Section 7 of the basic oil and gas lease; in Item 7 of the Assignment of Oil and Gas Lease forms; and, in State Land Office Rule 19.2.100.41. They read as follows:

1. Section 7, Oil and Gas Lease: “The lessee shall have the right to assign this lease in whole or part. Provided, however, that no assignment of an undivided interest in the lease or in any part thereof...shall be recognized or approved by the lessor (Commissioner of Public Lands).”
2. Item 7, Assignment of Oil and Gas Lease: “An assignment will not be approved when it is made...for undivided interest...”
3. SLO Rule 19.2.100.41: “Assignments shall not be accepted nor approved by the Commissioner...for less than assignor’s entire interest in any legal subdivision (except where transfer is by operation of law).”

Discussion of Section 19-10-13 NMSA 1978

The section begins by stating what the Commissioner may not do:

“All leases issued under the provision of this act shall be assignable in whole or in part; provided, however, that no assignment of an undivided interest in the lease or any part thereof, or any assignment of less than a legal subdivision shall be recognized or approved by the Commissioner.”

The section goes on to describe the formal relationship the Commissioner shall have with the lessees:

“Upon approval by the Commissioner of an assignment, the assignor shall stand relieved from all obligations to the state with respect to the lands embraced in the assignment and the state shall likewise be relieved from all obligations to the assignor as to such tract or tracts, and thereupon the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the state as to such tracts.”

Having been strict about the Commissioner’s and lessee’s relationship, the section continues by recognizing that the business world has relationships within itself which are quite apart from the trust functions exercised by the Commissioner.

“Provided, however, the record owner of any oil and gas lease may enter into any contract for the development of the leasehold premises or any portion thereof, or may create overriding royalties or obligations payable out of production, or enter into any other agreements with respect to the development of the leasehold premises or disposition of the production therefrom, and it shall not be necessary for any such contracts, agreements or other instruments to be approved by the commissioner of public lands; but nothing herein shall relieve the record title owner of such lease from complying with any of the terms or provisions thereof, and the commissioner shall look solely and only to such record owner for compliance therewith and in any controversy respecting any such contracts, agreements or other instruments entered into by such lessee with other persons, the State of New Mexico or the commissioner shall not be a necessary party.”

The section then puts together the state trust function and the working of the business world.

“All such contracts and other instruments may be filed either in the office of the commissioner of public lands or recorded in the office of the county clerk of the county where the lands are situated, and the filing or recording thereof shall constitute notice to all the world of the existence and contents of the instruments so filed or recorded.”

The law clearly intends that the mutual obligations of the state and the lessee to each other shall be kept direct, simple and responsible. While the various complexities of the business world are readily available through filing and recording, they shall not be allowed to cloud or complicate the basic trust function nature of the relationship of landlord and tenant strictly defined for the Commissioner and the lessee.

Since the Commissioner shall look solely and only to such record owner for compliance, it is absolutely necessary that the chain-of-title be clear, direct and immediately apparent on its face. The following three scenarios will provide examples of our procedures and what a different procedure might create by way of questions and confusion.

Scenario 1

If the original lessee assigns the lease duly numbered LH-0001 to Joseph Doe and John Smith, under our assignment approval process and with the Commissioner’s approval, this assignment becomes a lease assignment wholly independent of the original lease contract. It is identified, under our system of Tract Books and the ONGARD system for the collection of rentals and royalties, as Assignment 1: LH-0001-0001.

Scenario 2

Joseph Doe decides to convey his right, title and interest to David Rice. In order to retain the chain-of-title intact and to preserve the ownership in one assignment, we require that Joseph Doe and John Smith join in the assignment as Assignors and that the assignment list David Rice and John Smith as the Assignees. By following this procedure, the chain-of-title has been maintained and the ownership preserved intact without creating an individual interest in the new Assignment 2: LH-0001-0002.

Scenario 3

If the Commissioner were to disregard Scenarios 1 and 2, the following situation would evolve: Joseph Doe decides to convey his right, title and interest in Assignment 1 to David Rice, but John Smith does not join as an assignor. In this event, John Smith owns an undivided interest in and to the same lands assigned to David Rice in the assignment which is now listed as Assignment 2. Potential legal questions arise:

- a. Who is responsible for payment of annual rental, Assignee 1 or Assignee 2?
- b. Who is responsible for payment of royalties, Assignee 1 or Assignee 2?
- c. If one Assignee pays his one-half of the rent and the Assignee becomes delinquent, how can we proceed to cancel the lease assignment?

These are just a few of the problems that would develop if we did not follow the steps outlined in Scenarios 1 and 2.

The alternative to filing an “undivided interest assignment” – which cannot be approved by the SLO for leases issued after 1924 – is to file a **Miscellaneous Instrument** (MI). MI’s may be filed for agreements between private parties such as assignments and bills of sale, overriding royalty interest assignments, operating rights assignments, and undivided interest assignments. Also, MI’s are used for mergers and name changes, as well as last wills and testaments to maintain clear chain-of-title.

MI documents are to be submitted to the SLO in triplicate; one copy will be returned. Miscellaneous instruments will not be “approved”, but given a recordation number from the register of miscellaneous instruments and that number is posted to the Oil and Gas Miscellaneous Instrument Record Sheet which is filed with the active lease or assignment for those lands. Filing in the County Clerk’s office may be required under the New Mexico Oil and Gas Act.

Direct your questions on assignments to either Kenda Montoya 505-827-5749 or Rubel Salazar 505-827-5730. Direct your questions on miscellaneous instruments to Kenda Montoya 505-827-5749.

Their email addresses are: kmontoya@slo.state.nm.us, rsalazar@slo.state.nm.us.

From Lease Number _____

To Lease Number _____

NEW MEXICO STATE LAND OFFICE
ASSIGNMENT OF OIL AND GAS LEASE
Please check one – Assignment or Miscellaneous Instrument

Assignment

Miscellaneous Instrument

Full Record Title (100%) / Partial Assignment

FOR VALUE RECEIVED, _____, OGRID No. _____
Assignor Name (include name of spouse, if any; or type of business entity)

("Assignor" whether one or more), assigns and conveys to: _____, OGRID No. _____
Assignee

("Assignee" whether one or more), whose mailing address is _____ ZIP _____

the entire interest and title in and to Oil and Gas Lease No. _____ ("the Lease") initially made by the New Mexico State Land Office to:

_____, Dated _____, insofar as the Lease covers the following

ORIGINAL LESSEE

land in _____ County, New Mexico:

Township Range Section Description:

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

together with the rights incident thereto, and improvements thereon, if any.

Assignee assumes and agrees to perform all duties and obligations to the Commissioner of Public Lands including payment of rentals and royalties, and to do such other acts as are required by the Lease, to the same extent and in the same manner as if the provisions of the Lease were fully set out herein.

Assignor warrants the leasehold estate herein assigned, except as to any valid overriding royalty, production payment, operating agreement or sub-lease, if any, now of legal record, and covenants to the Assignee and the Commissioner of Public Lands that the leasehold estate assigned is valid, and that all rentals and royalties due under the Lease have been paid in full, and that all other Lease obligations presently due have been fully performed.

EXECUTED this _____ day of _____, 20 _____.

By: _____
Assignor

Spouse, if any, OR Title, if signing in representative capacity

ACKNOWLEDGMENT

STATE OF _____)
COUNTY OF _____)ss

This Assignment was acknowledged before me this _____ day of _____, 20 _____.

by _____,
Title, if signing in representative capacity

NOTARY SEAL

Notary Public
My commission expires _____

ASSIGNEE'S ACCEPTANCE

The undersigned Assignee named above hereby agrees to be bound by all of the terms, covenants, and conditions of the Lease and this Assignment and shall succeed to the rights and benefits under the Lease.

EXECUTED this _____ day of _____, 20 _____.

By: _____
Assignee

Title, if signing in representative capacity

ACKNOWLEDGMENT

STATE OF _____ }ss
COUNTY OF _____

This Assignee's Acceptance was acknowledged before me this _____ day of _____, 20 _____

By _____
Title, if signing in representative capacity

NOTARY SEAL

Notary Public
My commission expires _____

APPROVAL OF THE COMMISSIONER

Office of the Commissioner of Public Lands
Santa Fe, New Mexico

I hereby certify that this Assignment was filed in my office on _____ and was approved by me

and shall be effective as to the State of New Mexico on _____.

COMMISSIONER OF PUBLIC LANDS

INSTRUCTIONS AND INFORMATION

1. ANNUAL RENTAL: The annual rental for the land in this Assignment is _____ per acre. The rental is due in advance and shall be paid to the Commissioner of Public Lands on the anniversary date of the original Lease agreement. The date of this Assignment does not change the annual rental due date. For any Assignment of any Lease initially issued prior to June 15, 1985, the annual rental shall not be less than six dollars (\$6.00). For any Assignment of any Lease initially issued after June 14, 1985, or of any Lease which has been stipulated to the new ten year Lease, the minimum rental is forty dollars (\$40.00).
2. FIXED TEN-YEAR LEASE: This Lease provides for a fixed ten-year term, and for so long as oil or gas is produced in paying quantities. The ten-year period is divided into a primary term of five years, followed by a secondary term of five years. If no production is had during the primary term, the rental for the secondary term is double the rental of the primary term, or equal to the highest prevailing rental rate in the district, whichever is higher. Rentals continue even though production is had.
3. FIXED FIVE-YEAR LEASE: This Lease provides for a fixed five-year term, and for so long as oil and gas is produced in paying quantities. The fixed five-year Lease has no secondary term. Rentals continue even though production is had.
4. FILING: All Assignments must be filed in the State Land Office in triplicate, with original signatures on all three copies, within one hundred days from the date of signing, and must be accompanied by the recording fee.
5. RECORDING FEE: The recording fee for each Assignment is thirty dollars (\$30.00). If, however, the Assignment is filed more than one hundred days from the date of signing, an additional fee of seventy-five dollars (\$75.00) is charged.
6. PERSONAL CHECKS: When an Assignment is accompanied by a personal check, the Commissioner of Public Lands reserves the right to withhold approval of the Assignment until the check is paid.
7. ASSIGNMENT DISAPPROVAL: An Assignment will not be approved when it is made:
 - A. to more than two persons;
 - B. for less than a regular subdivision. "Regular subdivision" means forty acres or a tract described by lot number, which tract may be more or less than forty acres;
 - C. for an undivided interest;
 - D. in the name of a trusteeship, unless the trust document is attached or on file, and not more than two persons are named as trustee;
 - E. after a lis pendens is filed;
 - F. including any change or addition to the language contained in the Assignment form;
 - G. where surety requirements have not been met; or
 - H. where the lease is not in good standing; provided, however, that approval by the Commissioner does not waive any rights or claims the Commissioner may have to rentals, royalties, or other obligations due to the Commissioner by the Assignor under the lease. Approval of the assignment by the Commissioner does not guarantee the lease is in good standing.
8. COMPLETE ADDRESS: An Assignment must show the complete mailing address of the Assignee.
9. ACKNOWLEDGMENT: An Assignment must be executed before an officer authorized to take acknowledgments of deeds. Persons executing on behalf of a corporation or other business entity must indicate title or authority to execute.
10. MARITAL STATUS: An Assignment must show whether the Assignors are married or single; if married, both husband and wife must sign the Assignment. The Certificates of Acknowledgment must show the marital status of the Assignors.
11. BLANKET ASSIGNMENTS: Must have an Exhibit A attached that includes lease number, original lessee of record, lease issue date, county, and land description. Provide a copy of the original assignment form and the exhibit for every lease.
12. BLANKET ASSIGNMENTS: Will **only** be approved for record title. All other types of assignments (operating rights, depth limitations, undivided interests, etc.) will be filed as miscellaneous instrument documents for record purposes only.
13. COMMUNICATIONS: All official business, letters and communications must be addressed directly to the Commissioner of Public Lands; Oil, Gas, and Minerals Division.
14. PAYMENT: Make all payments for annual rental, recording, and approval of fees to:

COMMISSIONER OF PUBLIC LANDS
P.O. Box 1148
Santa Fe, NM 87504-1148

New Mexico State Land Office
Oil, Gas, and Minerals Division
REQUEST FOR CHANGE OF ANNUAL RENTAL PAYER
Designating Third Party as Payer



We, _____ **Lessee of Record** of leases(s)
numbered _____

[attach additional page if necessary] to which this request applies,

and _____ **Third Party**, do hereby

concur and agree that future billings from the New Mexico State Land Office (SLO) for annual rentals of the specific leases identified above be sent for payment directly to this Third Party designee:

Attention: _____ Telephone _____

Company: _____

Address: _____

City ST Zip: _____

I, the **LESSEE OF RECORD**, understand that this designation **DOES NOT** relieve me as Lessee of Record of any payment obligations under my leases(s), and any nonpayment of SLO billings or invoices by the **THIRD PARTY** designee shall be deemed as nonpayment by me, the Lessee of Record. As Lessee of Record I acknowledge that the changing of billing to a third party designee is done strictly as an administrative convenience for the Lessee of Record and is not a waiver by the SLO of any performance obligations of the Lessee of Record under the terms of the leases identified above with the SLO.

Signatures below indicate mutual agreement and concurrence of Lessee and Third Party.

LESSEE OF RECORD

THIRD PARTY – COMPANY NAME

By _____
PRINT NAME

By _____
PRINT NAME

Title _____

Title _____

SIGNATURE DATE

SIGNATURE DATE

NOTE: both parties may want to consider filing an assignment of record title ownership for the lease(s) referred to in this agreement.

NEW MEXICO STATE LAND OFFICE
Oil, Gas, & Minerals Division
STIPULATION

AMENDING STATE OF NEW MEXICO OIL AND GAS LEASE NUMBER: _____
ASSIGNMENT NUMBER: _____ TO CONFORM TO LEASE FORM REFERENCED IN SUBSECTION "A" OR
"B", OF SECTION 19-10-5 NMSA 1978. (LAWS 1985 CH. 195)

WHEREAS, _____

(is) (are) the record title owner (s), and _____

(is) (are) the working interest owner (s) of the oil and gas lease set out in the caption hereof; and

WHEREAS, said lease is in good standing according to its terms and conditions and all applicable statutes and regulations including all payment obligations with no reduction in royalty payments for field related expenses (i.e. field compression, field dehydration and field transportation,) or expenses incurred to place the product in a marketable condition (i.e. treating) and location;

NOW, THEREFORE, pursuant to authority granted by Subsections A or B of Section 19-10-5 NMSA 1978, as applicable, it is hereby stipulated and agreed that the terms and conditions of said oil and gas lease and of all assignments thereof are amended to conform to the terms and conditions of the current lease form prescribed by Section 19-10-4.1 NMSA 1978 (for leases having a primary and secondary term of 10 years), or Section 19-10-4.2 NMSA 1978 (for leases having a primary term of 5 years), as if said form had been the original.

Record Title Owner(s) Signature(s):

Working Interest Owner(s) Signature(s)

Approved this _____ day of _____, 20 _____

COMMISSIONER OF PUBLIC LANDS

Acknowledgment in an Individual Capacity

State of _____)

County of _____) SS)

This instrument was acknowledged before me on _____ Date

BY _____
Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____

[OVER]

Revised July 2004

Acknowledgment in a Representative Capacity

State of _____)

County of _____) SS)

This instrument was acknowledged before me on _____ Date

BY _____
Name(s) of Person(s)

AS _____ OF _____
Type of authority, e.g., officer, trustee, etc Name of party on behalf of whom instrument was executed

(Seal)

Signature of Notarial Officer

My commission expires: _____

FOR STATE LAND OFFICE USE ONLY

Legal Description of the lease and assignment being stipulated:

Section _____, Township _____, Range _____

Term of original lease; please check one: 5 year (___) 10 year (___)

New lease term in effect as of the stipulation approval date:

LH (___) V0 (___)

New rental rate per acre: _____

Based on prevailing rental rate, from the rental map, for the acreage in this lease and assignment.

**New Mexico State Land Office
Oil, Gas, and Minerals Division
WAIVER AND CONSENT**

Know All Men By These Presents:

That _____, Record Lessee of State of New Mexico Oil and Gas lease No. _____, Assignment No. _____, covering the following described lands, situated in _____ County, State of New Mexico, to-wit:

hereby waives the requirement of a thirty (30) day registered notice of intention to cancel, for failure to pay rentals, in accordance with the terms of said Oil and Gas lease (as provided in Paragraph 13 of the Oil and Gas lease, Section 19-10-20, New Mexico Statutes Annotated, 1978 Compilation), and consents and agrees that the same may be canceled without further or additional notice.

By _____
SIGNATURE

Acknowledgment in an Individual Capacity

State of _____)

County of _____) SS)

This instrument was acknowledged before me on _____ Date

By _____
Name(s) of Person(s)

(Notary Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in a Representative Capacity

State of _____)

County of _____) SS)

This instrument was acknowledged before me on _____ Date

By _____
Name(s) of Person(s)

as _____ of _____
Type of authority, e.g., officer, trustee, etc Name of party on behalf of whom instrument was executed

(Notary Seal)

Signature of Notarial Officer

My commission expires: _____

BONDING AND SURETY REQUIREMENTS

NM State Land Office - Oil, Gas, and Minerals Division

Levels of bonding and Instructions for filing a Surface Improvement

Damage Bond

- 1) **Single lease damage bond** in the amount of \$10,000.00 will provide coverage for only one oil and gas lease. Both an officer of the surety provider and an officer/representative of the principal must complete this form. All signatures must be notarized.
- 2) **Multi-lease (blanket) damage bond** in the amount of \$20,000.00 will provide coverage for two or more oil and gas leases. Both an officer of the surety provider and an officer/representative of the principal must complete this form. All signatures must be notarized.
- 3) **Mega-bond** in the amount of \$25,000.00 will provide coverage for state leases for oil and gas, minerals, coal or geothermal resources and right-of-way easements. Both an officer of the surety provider and an officer/representative of the principal must complete this form. All signatures must be notarized.
- 4) **Assignment of Cash Collateral Form** may suffice in lieu of a surety damage bond. It should be for the sum of \$10,000.00 or \$20,000.00, depending on the number of leases it will cover. The financial institution must be a federally insured bank or savings institution within the state of New Mexico. Both an officer of the financial institution and an officer/representative of the principal must complete this form. All signatures must be notarized. Please note that the respective damage bond form must be completed, signed and notarized by the principal only and filed in conjunction with the assignment of Cash Collateral Form.
- 5) **Request for Waiver of Bond.** The waiver of bond may be filed by a lessee where there is no surface disturbance or occupation of the leased land and it also serves as an acknowledgement that the lessee must file a sufficient bond with our office before any operations commence or the applicable lease(s) may be cancelled. The waiver must be signed by the lessee and notarized.

Please contact the Oil, Gas and Minerals Division for assistance at (505) 827-5744

Once completed, please return the properly executed forms to the address below for filing.

ADDRESSES THAT MUST BE USED FOR SENDING FORMS

Post Office Address, US Postal Service

ATTN: RAMONA MARCUS
OIL GAS & MINERALS DIVISION
NM STATE LAND OFFICE
POB 1148
SANTA FE NM 87504-1148

Physical address for direct delivery to the office – FedEx, etc.

ATTN: RAMONA MARCUS
OIL GAS & MINERALS DIVISION
NM STATE LAND OFFICE
310 OLD SANTA FE TRAIL
SANTA FE NM 87501-2708

TELEPHONE 505-827-5744

NM STATE LAW PERTAINING TO OIL & GAS LANDS - BONDING

Statutes/Statutory Chapters in New Mexico Statutes Annotated 1978/

CHAPTER 19 PUBLIC LANDS/ ARTICLE 10 LEASE OF OIL AND GAS LANDS/ 19-10-26.

**[Lands sold with reservation of minerals; lease; bond to protect purchaser; waiver.]
(1979)**

State lands sold heretofore, or which may be sold hereafter on any deferred payment plan under contract containing a reservation to the state of the minerals therein contained, may be leased by the state for oil, gas or other mineral development or exploitation, as provided by law in the same manner as other state lands.

Provided, that before any lessee of minerals on state lands so sold shall commence development or operations thereon such lessee or the operator (being any third party conducting exploratory or development operations authorized by the lessee within the authority granted to the lessee under the provisions of Section 19-10-13 NMSA 1978) shall execute and file with the commissioner of public lands a good and sufficient bond or undertaking in an amount to be fixed by the commissioner, but not less than two thousand dollars (\$2,000), in favor of the state of New Mexico for the use and benefit of the purchaser holding purchase contract or deed to such lands on which such development is about to be commenced, his grantees or successors in interest to secure the payment for such damage to the livestock range, water, crops or tangible improvements on such lands as may be suffered by such purchaser or his successors in interest by reason of such development, use and occupation of such lands by such lessee.

And provided further, that if any such purchaser shall file with the commissioner of public lands a waiver duly executed and acknowledged by him of his right to require such bond, such development, occupation and use of the lands by a mineral lessee may be permitted without the bond herein required.

History: Laws 1925, ch. 137, § 5; 1929, ch. 45, § 1; C.S. 1929, § 132-423; 1941 Comp., § 8-1119; 1953 Comp., § 7-11-20; Laws 1979, ch. 60, § 1.

NM STATE LAND OFFICE RULE PERTAINING TO BONDING – 100.23

19.2.100.23 Surety to Protect Surface Purchaser and Lessee - Waivers:

A. Before any lessee shall commence development or operations, including any and all prospecting activities upon the lands, such lessee or operator shall execute and file with the commissioner a good and sufficient bond or other surety, in an amount to be fixed by the commissioner but not less than ten thousand dollars (\$10,000) in favor of the state of New Mexico for the benefit of the appropriate trust beneficiary and the state's contract purchasers, patentees and surface lessees, to secure payment to the extent allowed by law for such damage to their interests and tangible improvements upon such lands as may be suffered by reason of development, use and occupation of the lands by the oil and gas lessee.

B. A bond or other surety in the minimum amount of ten thousand dollars (\$10,000) for each lease shall be deemed sufficient unless and until the commissioner determines, or one or more surface lessees or purchasers show the commissioner, that such an amount is not adequate in a given case. Provided, however, that if a lessee holds more than one oil and gas lease, a blanket bond or other surety in the amount of twenty thousand dollars (\$20,000) will be acceptable unless and until the commissioner determines, or one or more surface lessees or purchasers show the commissioner, that such an amount is not adequate in a given case. Provided further, that if any purchaser, patentees or surface lessees shall file with the commissioner a waiver duly executed and acknowledged by him of his right to require such bond or other surety pursuant to Section 19-10-26 NMSA 1978 the development, occupation and use of the lands by the oil and gas lessee may in the discretion of the commissioner be permitted without said surety.

C. With the approval of the commissioner, in lieu of the single and blanket bonds for oil and gas lessees, a twenty-five thousand dollar (\$25,000) bond or other surety may be used at the option of lessee for the use and benefit of the commissioner, to secure surface improvement damage and the performance of the lessee under one or more state leases or permits for minerals, oil and gas, coal or geothermal resources or as holder under one or more state rights of way or easements which the lessee has executed with the commissioner. The lessee will be obligated to perform and keep all terms, covenants, conditions and requirements of all state leases for minerals, oil and gas, coal or geothermal resources and of all state rights of way and easements executed with the commissioner, including the payment of royalties when due and compliance with all established mining plans and reclamation requirements.

[19.2.100.23 NMAC – Rn, SLO Rule 1, Section 1.016, 12/13/2002]

BOND AND SURETY SAMPLE FORMS

On the following pages you will samples of the following forms:

Single lease bond	\$10,000
Multi-lease blanket bond	\$20,000
Megabond	\$25,000

Assignment of Cash Collateral
Irrevocable Letter of Credit – New Mexico Bank
Irrevocable Letter of Credit – Foreign Bank

Request Waiver for Bond by operator
Bond Waiver by surface owner or lessee

New Mexico State Land Office -- Oil, Gas, & Minerals Division
IMPROVEMENT DAMAGE BOND FOR OIL & GAS LEASE
SINGLE LEASE BOND

BOND NO. _____
(For use of Surety Company)

BOND NO. _____
(For use of Land Office)

LEASE NO. _____

KNOW ALL MEN BY THESE PRESENTS :

That _____, (an individual) (a partnership) (a corporation organized in the State of _____, with its principal office in the City of _____ State of _____, and authorized to do business in the State of New Mexico), as **PRINCIPAL**, and _____, a corporation organized and existing under the laws of the State of _____, and authorized to do business in the State of New Mexico as **SURETY**, are held firmly bound unto the State of New Mexico, for the use and benefit of the New Mexico State Land Office and its lessees holding grazing or patent to state lands, with minerals reserved, their grantees and successors in interest, pursuant to Section 19-10-26 NMSA 1978, as amended, in the sum of **Ten Thousand (\$10,000)** lawful money of the United States, for the payment of which well and truly to be made, said **PRINCIPAL AND SURETY** hereby bind themselves, their successors and assigns, jointly and severally, firmly by these presents.

The conditions of this obligation are such that:

WHEREAS, the above principal has heretofore or may hereafter enter into an oil and gas lease with the State of New Mexico; and

WHEREAS, said lease was entered into by the said principal, subject to the requirements of the provisions of Section 19-10-26 NMSA 1978, as amended; and

WHEREAS, all or part of the lands embraced in said oil and gas lease has been leased for grazing or agricultural purposes or has been sold, with minerals reserved to the State of New Mexico, to various purchasers who hold limited patents from the State of New Mexico or State purchase contracts; and

WHEREAS, the above principal, individually, or in association with one or more other parties, has commenced or may commence development or operations upon the land embraced in the aforesaid oil and gas lease.

NOW THEREFORE, if the above bounden principal and surety or either of them or their successors or assigns, or any of them, upon demand shall make good and sufficient recompense, satisfaction or payment unto the New Mexico State Land Office and its holders of State grazing or agricultural leases, State purchase contracts, or State patents, with minerals reserved to the State, and their heirs, executors, administrators, successors and assigns, for all damages to livestock, range, water, crops, or tangible improvements on such lands as may be suffered by the New Mexico State Land Office and its lessees and purchasers or their successors in interest, by reason of such development, use or occupancy of such lands by such principal, or for such damages including attorneys' fees as a court of competent jurisdiction may determine and fix in any action brought on this bond.

THEN THEREFORE, this obligation shall be null and void; otherwise and in default of complete compliance with any and all of said obligations, the same shall remain in full force and effect.

SIGNED AND SEALED this _____ day of _____, 20_____.

PRINCIPAL

SURETY

Address

Address

BY _____
Signature

By _____
Attorney-in-Fact

Title _____
(Note: Principal, if corporation, affix corporate seal here.)

(Note: Corporate surety affix corporate seal here.)

[Continued on following page.]

ACKNOWLEDGMENT FORM FOR NATURAL PERSONS

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of _____, 20____, before me personally appeared _____, to me known to be the person(s) described in and who executed the same as his (their) free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.

My Commission Expires Notary Public

ACKNOWLEDGMENT FORM FOR CORPORATION

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of _____, 20____, before me personally appeared _____, to me personally known, who, being by me duly sworn, did say that he is _____ of _____ and that this instrument was signed and sealed on behalf of said corporation by authority of its board of directors, and acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.

My Commission Expires Notary Public

ACKNOWLEDGMENT FORM FOR CORPORATE SURETY

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of _____, 20____, before me personally appeared _____ to me personally known, who, being by me duly sworn, did say that he is _____ of _____ and that this instrument was signed and sealed on behalf of said corporation by authority of its board of directors, and acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.

My Commission Expires Notary Public

(Note: Corporate surety attach power of attorney.)

APPROVED this _____ day of _____, 20____.

COMMISSIONER OF PUBLIC LANDS

NOTE: File with: Commissioner of Public Lands; New Mexico State Land Office;
P.O. Box 1148; Santa Fe, New Mexico 87504-1148
BEFORE any development or operations are commenced.

Revised Feb. 2003

New Mexico State Land Office – Oil, Gas, & Minerals Division
IMPROVEMENT DAMAGE BOND FOR OIL & GAS LEASES
MULTI-LEASE BLANKET BOND

BOND NO. _____
(For use of Surety Company)

BOND NO. _____
(For Land Office Use)

KNOW ALL MEN BY THESE PRESENTS:

That _____, (an individual) (a partnership) (a corporation organized in the State of _____, with its principal office in the City of _____ State of _____ and authorized to do business in the State of New Mexico), as **PRINCIPAL**, and _____, a corporation organized and existing under the laws of the State of _____, and authorized to do business in the State of New Mexico as **SURETY**, are held firmly bound unto the State of New Mexico, for the use and benefit of the New Mexico State Land Office and its lessees holding

grazing or patent to state lands, with minerals reserved, their grantees and successors in interest, pursuant to Section 19-10-26 NMSA 1978, as amended, in the sum of **Twenty Thousand (\$20,000)** lawful money of the United States, for the payment of which well and truly to be made, said **PRINCIPAL and SURETY** hereby bind themselves, their successors and assigns, jointly and severally, firmly by these presents.

The conditions of this obligation are such that:

WHEREAS, the above principal has heretofore or may hereafter enter into one or more oil and gas leases with the State of New Mexico; and

WHEREAS, said leases were entered into by the said principal, subject to the requirements of the provisions of Section 19-10-26 NMSA 1978, as amended; and

WHEREAS, all or part of the lands embraced in said oil and gas leases have been leased for grazing or agricultural purposes or have been sold, with minerals reserved to the State of New Mexico or State purchase contracts; and

WHEREAS, the above principal, individually, or in association with one or more other parties, has commenced or may commence development or operations upon the land embraced in the aforesaid oil and gas lease.

NOW THEREFORE, if the above bounden principal and surety or either of them or their successors or assigns, or any of them, upon demand shall make good and sufficient recompense, satisfaction or payment unto the New Mexico State Land Office and its holders of State grazing or agricultural leases, State purchase contracts, or State patents, with minerals reserved to the State, and their heirs, executors, administrators, successors and assigns, for all damages to livestock, range, water, crops, or tangible improvements on such lands as may be suffered by the New Mexico State Land Office and its lessees and purchasers or their successors in interest, by reason of such development, use or occupancy of such lands by such principal, or for such damages including attorneys' fees as a court of competent jurisdiction may determine and fix in any action brought on this bond.

THEN THEREFORE, this obligation shall be null and void; otherwise and in default of complete compliance with any and all of said obligations, the same shall remain in full force and effect.

SIGNED AND SEALED this _____ day of _____, 20 _____.

PRINCIPAL

SURETY

Address

Address

By _____

By _____

Signature

Attorney-in-Fact

Title _____

(Note: Principal, if corporation, affix corporate seal here.)

(Note: Corporate surety affix corporate seal here.)

[Continued on following page.]

New Mexico State Land Office – Oil, Gas, & Minerals Division
BOND FOR CONTRACT PERFORMANCE AND SURFACE OR IMPROVEMENT DAMAGE
SURFACE IMPROVEMENT DAMAGE MEGABOND

BOND NO. _____
(For use of Surety Company)

BOND NO. _____
(For Land Office Use)

KNOW ALL MEN BY THESE PRESENTS

_____, as Principal, and _____, as Surety, a corporation organized, existing and doing business under and by virtue of the laws of the State of _____ and authorized to transact a surety business in the State of New Mexico, are held and firmly bound unto the New Mexico Commissioner of Public Lands in the sum of Twenty-five Thousand Dollars (\$25,000) for the following uses:

1. For the use and benefit of the Commissioner, to secure the performance of said Principal as lessee under one or more state leases or permits for minerals, oil and gas, coal or geothermal resources or as holder under one or more state rights-of-way or easements which Principal has heretofore executed or may hereafter execute with the Commissioner; and

2. For the use and benefit of the Commissioner, state surface lessees, state land contract purchasers, state patentees, and their successors and assigns, to pay for damages to the surface of lands subject to a state lease or permit for minerals, oil and gas, coal or geothermal resources or a state right-of-way or easement held by Principal, or for damages to surface improvements located thereon, suffered by reason of Principal's operations under a state lease or permit for minerals, oil and gas, coal or geothermal resources or under a state right-of-way or easement.

For the payment of said sum, well and truly to be made, Principal and Surety bind themselves, their heirs, executors, administrators, successors and assigns, jointly and severally.

The conditions of the foregoing obligations are:

1. If the above bound Principal or its successors or assigns shall well and truly perform and keep all terms, covenants, conditions, and requirements of all state leases for minerals, oil and gas, coal or geothermal resources and of all state rights-of-way and easements heretofore or hereafter executed by the Commissioner and Principal, including the payment of royalties when due and compliance with all established mining plans; and

2. If Principal or its successors or assigns shall in all respects make good and sufficient recompense, satisfaction or payment to the Commissioner of Public Lands for damages to the surface of lands subject to a state lease or permit for minerals, oil and gas, coal or geothermal resources or a state right-of-way or easement held by Principal and for damages to livestock, water, crops, tangible improvements or surface improvements of any kind located thereon suffered by reason of Principal's operations under such state lease, permit, right-of-way or easement heretofore or hereafter executed by the Commissioner and Principal;

THEN, the obligation to pay the sum of Twenty-five Thousand Dollars (\$25,000) shall be null and void.

If, however, Principal shall default or otherwise fail in performance under such state lease, permit, right-of-way or easement, including the failure to pay royalties when due or to comply with established mining plans, or if Principal shall fail or refuse to make good and sufficient recompense, satisfaction or payment to the Commissioner for damages to the surface of the above designated lands or to improvements located thereon, then the obligation to pay said sum shall remain in full force and effect.

The liability of Surety upon this bond shall not expire upon the termination of any state lease or permit or any renewal or extension thereof for minerals, oil and gas, coal or geothermal resources or any state right-of-way or easement or any renewal or extension thereof which Principal or its successors or assigns has heretofore executed or

may hereafter execute with the Commissioner, but shall be and remain in full force and effect until released in writing by the Commissioner of Public Lands.

Principal and Surety further agree that in the event an action is brought on this bond and a court of competent jurisdiction determines Principal or Surety is in breach of the agreements contained in this bond, Principal or Surety or both of them shall pay to the Commissioner the costs associated with the recovery of the amounts due hereunder, including reasonable attorneys' fees.

This bond is executed pursuant to the laws of the State of New Mexico, including Sections 19-8-24, 19-9-12, 19-10-26, 19-13-19, and 46-6-1 through -9, NMSA 1978.

The premium for which this bond is written is _____ Dollars.

In witness whereof we hereunto set our hands this _____ day of _____, 20_____.

PRINCIPAL

Address
BY _____
Signature

Title
(Note: Principal, if corporation, affix
Corporate seal here.)

SURETY

Address
BY _____
Attorney-in-Fact

(Note: Corporate surety, affix
Corporate seal here.)

ACKNOWLEDGMENT FORM FOR NATURAL PERSONS

STATE OF _____)
) ss.
COUNTY OF _____)

On this _____ day of _____, 20_____, before me personally appeared _____, to me known to be the person(s) described in and who executed the same as his (their) free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.

My commission expires _____ Notary Public

Signature, notary
(Notary seal)

Acknowledgements on following page.

N.M.State Land Office – Oil, Gas, and Minerals Division

ASSIGNMENT OF CASH COLLATERAL

Must be a federally insured bank or savings institution within the state of New Mexico.

Revised September 2003

Dated _____

Pursuant to the terms of Oil and Gas lease(s) and New Mexico State Land Office Rule 100.23, or successor provisions, _____

(OPERATOR)

of _____ has deposited
(ADDRESS)

with the _____
(NAME OF STATE OR NATIONAL BANK OR SAVINGS ASSN) ("FINANCIAL INSTITUTION" & "TRUSTEE")

of _____
(ADDRESS)

the sum of \$ _____ dollars in Certificate of Deposit or Savings Account Number _____.

Operator hereby assigns and conveys all right, title, and interest in the deposited sum to the Financial Institution in trust for the State of New Mexico. Operator and Financial Institution agree that as to the deposited sum or fund:

- a.** The New Mexico State Land Office acquires by this assignment the entire beneficial interest in the fund, with the right to order the trustee in writing to distribute the fund to the person(s) determined by the Oil, Gas, & Minerals Division of the New Mexico State Land Office to be entitled thereto, including the New Mexico State Land office itself, in amounts determined by the Division, or to the Operator upon proper reclamation and restoration of the area covered by this bond.
- b.** Operator retains no legal or beneficial interest in the fund and has only the right to interest, if any, thereon, and to return of the fund upon written order of the Division.
- c.** The Financial Institution agrees that the fund may not be assigned, transferred, pledged, or distributed except upon written order of the New Mexico State Land Office or a court of competent jurisdiction made in a proceeding in which New Mexico State Land Office is a party. The financial institution waives all statutory or common law liens or rights of set-off against the fund.

Operator agrees that the Financial Institution may deduct from interest due Operator any attorney fees incurred by the Financial Institution if any claim or demand via writ, summons or other process arising from Operator's business is made upon the Financial Institution.

Operator

Financial Institution

(Type name of Operator)

(Type name of Institution)

By: _____
(Signature of Officer)

By: _____
(Signature of Authorized Officer)

its _____
(Officer's Title)

its _____
(Officer's Title)

Acknowledgements on following page.

Acknowledgment in an Individual Capacity

State of _____)

County of _____) SS)

This instrument was acknowledged before me on _____ Date

by _____

Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in a Representative Capacity

State of _____)

County of _____) SS)

This instrument was acknowledged before me on _____ Date

by _____

NAME OF PERSON

as _____ of _____

TYPE OF AUTHORITY; e.g., OFFICER, TRUSTEE, ETC.

NAME OF OPERATOR

(SEAL)

SIGNATURE OF NOTARIAL OFFICER

My commission expires: _____

Acknowledgment in a Representative Capacity

State of _____)

County of _____) SS)

This instrument was acknowledged before me on _____ Date

by _____

NAME OF PERSON

as _____ of _____

TYPE OF AUTHORITY: OFFICER, TRUSTEE, ETC.

NAME OF STATE OR NATIONAL BANK OR SAVINGS ASSOCIATION

(Seal)

SIGNATURE OF NOTARIAL OFFICER

My commission expires: _____

New Mexico State Land Office – Oil, Gas, and Minerals Division
IRREVOCABLE LETTER OF CREDIT - NEW MEXICO BANK

Commissioner of Public Land
New Mexico State Land Office
Oil, Gas, & Minerals Division
Post Office Box 1148
Santa Fe, New Mexico 87504-1148

_____ *Date*

Letter of Credit Number _____

Initial Expiration Date _____

On behalf of _____ *(lessee/operator name)*

(Address) _____ **“OBLIGOR”**

We, _____ *(bank name)*

(Address) _____ **“BANK”**

issue this irrevocable Letter of Credit (LOC) for the full amount of \$_____ for the benefit of the New Mexico Commissioner of Public Lands (Commissioner). By this LOC, we agree that, immediately upon receipt of written demand from the Commissioner for all or a portion of the credit granted by this LOC, we will pay the sum or sums demanded to the Commissioner or as directed by him. This irrevocable LOC is made and issued pursuant to the Uniform Commercial Code, and is accepted in lieu of the bond requirements set out in New Mexico State Land Office Rule 100.23_____. *(Indicate section A, B, or C)*

term: This LOC becomes effective on _____ *(date)*, and shall remain in effect for exactly one year after that date.

renewal: At least 90 days prior to the expiration of any one-year term of this LOC, the Commissioner must receive written notice by registered mail or by courier service from the Bank that it intends not to renew this LOC; and in the absence of such notice, this LOC shall automatically be renewed, extended, or fully replaced without amendment with an identical LOC for another one-year term.

Upon receipt of notice of non-renewal from the Bank, the Commissioner may, before expiration of the term of this LOC, draw upon the Bank up to the amount of this LOC, provided that such draft is accompanied by a statement of the Commissioner on his letterhead that the Obligor has, at that time, failed to provide a satisfactory replacement bond.

documentary requirements: This LOC may be drawn upon by the Commissioner in whole or in part at any time during its term to secure payment for surface improvement damages and performance under the lease as described in New Mexico State Land Office Rule 100.23____ *(A, B, or C)*. Any such drawing by the Commissioner shall be effected by a demand letter from the Commissioner on his letterhead stating that the Obligor has defaulted and that the amount demanded is in partial or full satisfaction of that default.

Drawing may be effected personally, by courier service or by facsimile. If drawing is being effected by facsimile, the Commissioner’s demand letter will be accepted in lieu of an original, provided the letter is immediately preceded or followed by a confirming call from the Commissioner or his designated agent, and provided that the facsimile copy bears either a header or a transmittal page identifying the source as the New Mexico State Land Office. Facsimile presentment must be made to the following number : _____.

adjustments: No partial draft by the Commissioner against this LOC shall extinguish the Bank's obligation to pay any remaining balance upon demand properly made. The outstanding obligation of this LOC shall be reduced by any partial drafts against the credit, provided that the Bank shall promptly notify the Commissioner in writing of the post-draft balance following any such draft and consequent adjustments.

surrender: If, upon demand by the Commissioner, the Bank tenders the full amount represented by this LOC as properly adjusted, the Commissioner shall, upon the request of the Bank, surrender this original LOC and all written adjustments and amendments to the Bank. Similarly, the Commissioner shall surrender this original LOC and all proper, written adjustments upon request at the expiration of this LOC. The Bank otherwise guarantees that the amount represented by this LOC shall in no way be reduced during the original or any subsequent term without the Commissioner’s written approval.

additional terms:

- If the Bank at any time becomes unable to fulfill the terms of this LOC, the Bank shall immediately give written notice to the Commissioner.
- The terms used in this LOC, and any disputes that might arise about this LOC are all governed by New Mexico law.
- If a dispute about this LOC is litigated, it must be done in the First Judicial Court of Santa Fe County, New Mexico.
- Any change in this LOC has to be made in writing and must be signed by both the Bank and the Commissioner.
- If the Commissioner chooses not to enforce a term of this LOC that does not mean the right to enforce that term later has been lost.
- Any notice required to be sent to the Commissioner must be sent to:

Commissioner of Public Lands
 NM State Land Office
 Oil Gas & Minerals Division
 PO Box 1148
 Santa Fe New Mexico 87504-1148

Street address: 310 Old Santa Fe Trail
 Santa Fe, NM 87501-2708

 (Name of Bank)

 DATE

By _____
 PRINT name of authorized, signing bank officer

as _____
 Title

Signature _____

Acknowledgment in a Representative Capacity

State of _____
 ss

County of _____

This Acceptance was acknowledged before me this _____ day of _____, 2_____

by _____
 Name of Person

as _____
 Type of authority

for _____
 Name of party on behalf of whom instrument was executed

 Signature of Notarial Officer

(Notary Seal)

My Commission expires _____

Revised December 2003 – NM State Land Office

New Mexico State Land Office – Oil, Gas, and Minerals Division
IRREVOCABLE LETTER OF CREDIT - FOREIGN BANK

Date _____

Commissioner of Public Lands
New Mexico State Land Office
Oil, Gas, & Minerals Division
Post Office Box 1148
Santa Fe, New Mexico 87504-1148

Letter of Credit No _____

Initial Expiration Date _____

On Behalf of _____ *(lessee/operator name)*

(Address) _____ **“Obligor”**

we, _____ *(bank name)*

(Address) _____ **“Bank”**

issue this irrevocable Letter of Credit (LOC) for the full amount of \$ _____ for the benefit of the New Mexico Commissioner of Public Lands (Commissioner). By this LOC we agree that, immediately upon receipt of written demand, whether in original form or by facsimile copy pursuant to the requirements set out in “DOCUMENTARY REQUIREMENTS” BELOW, from the Commissioner for all or a portion of the credit granted by this LOC, we will pay the sum or sums demanded to the Commissioner or as directed by him. This irrevocable LOC is made and issued pursuant to the Uniform Commercial Code, and is accepted in lieu of the bond requirements set out in New Mexico State Land Office Rule 100.23 ____ *Indicate section A, B, or C.*

term: This LOC becomes effective on _____ *(date)*, and shall remain in effect for exactly one year after that date.

renewal: At least 90 days prior to the expiration of any one-year term of this LOC, the Commissioner must receive written notice by registered mail or by courier service from the Bank that it intends not to renew this LOC; and in the absence of such notice, this LOC shall automatically be renewed, extended, or fully replaced without amendment with an identical LOC for another one-year term.

Upon receipt of notice of non-renewal from the Bank, the Commissioner may, before expiration of the term of this LOC, draw upon the Bank up to the amount of this LOC, provided that such draft is accompanied by a statement of the Commissioner on his letterhead that the Obligor has, at that time, failed to provide a satisfactory replacement bond.

documentary requirements: This LOC may be drawn upon by the Commissioner in whole or in part at any time during its term to secure payment for surface improvement damages and performance under the lease as described in New Mexico State Land Office Rule 100.23 ____ *(A, B, or C)*. Any such drawing by the Commissioner shall be effected by a demand letter from the Commissioner on his letterhead stating that the Obligor has defaulted and that the amount demanded is in partial or full satisfaction of that default.

Drawing may be effected personally, by courier service or by facsimile. If drawing is being effected by facsimile, the Commissioner’s demand letter will be accepted in lieu of an original, provided the letter is immediately preceded or followed by a confirming call from the Commissioner or his designated agent, and provided that the facsimile copy bears either a header or a transmittal page identifying the source as the New Mexico State Land Office. Facsimile presentment must be made to the following number : _____.

adjustments: No partial drawing by the Commissioner against this LOC shall extinguish the Bank’s obligation to pay any remaining balance upon demand properly made. The outstanding obligation of this LOC shall be reduced by any partial drawing against the credit, provided that the Bank shall promptly notify the Commissioner in writing of the post-drawing balance following any such drawing and consequent adjustments.

surrender: If, upon demand by the Commissioner, the Bank tenders the full amount represented by this LOC as properly adjusted, the Commissioner shall, upon the request of the Bank, surrender this original LOC and all written adjustments and amendments to the Bank. Similarly, the Commissioner shall surrender this original LOC and all proper written adjustments and amendments upon request at the expiration of this LOC. The Bank otherwise guarantees that the

New Mexico State Land Office – Oil, Gas, and Minerals Division
SURFACE OWNER/LESSEE WAIVER OF BOND REQUIREMENT

_____ hereby grants waiver of bond to
Surface Owner / Lessee – Print or type name.

_____ proposing to occupy and
Mineral Lessee or Operator - Print or type name

use the tract of land, herein designated, for development of oil and gas operations.

Lease # _____ Assignment # _____

Subdivisions _____ Sect. _____ Twshp _____ Rng _____

Surface Owner/Lessee Representative's Signature

Date

Print or type Company Representative's Name and Title

Acknowledgment in an Individual Capacity

State of _____

ss

County of _____

This instrument was acknowledged before me this _____ day of _____, 20____

By _____,
Name(s) of Person(s)

Signature of Notarial Officer

(Notary Seal)

My commission expires _____

Acknowledgment in a Representative Capacity

State of _____

ss

County of _____

This instrument was acknowledged before me this _____ day of _____, 20____

by _____
Names(s) of Person(s)

as _____ of _____
Type of authority; e.g., officer, trustee, etc. Name of party on behalf of whom instrument was executed

Signature of Notarial Officer

(Notary Seal)

My Commission expires _____

PROVISIONS FOR EXTENDING LEASES BY DRILLING

SAMPLE LETTERS

The four Sample Letters printed on the following pages illustrate the information needed for requesting an extension of oil and gas leases beyond the lease expiration date by drilling or reworking.

The sample approval letters from the State Land Office contain stipulations placed on the extension.

Pretend Oil and Gas Company
Post Office Box 0000
Somewhere, New Mexico ZIP11

February 4, 2004

Commissioner of Public Lands
Attn: Oil, Gas, & Minerals Division
PO Box 1148
Santa Fe NM 87504-1148

Sample

RE: Oil and Gas Lease V0-0000-00

Dear Sir:

Pretend Gas Company, Lessee of Record under the captioned State of New Mexico Oil and Gas Lease V0-0000-00, respectfully requests permission to conduct drilling operations across the expiration date pursuant to paragraph 14 of said lease.

We enclose our company's check #1234 in the sum of \$160, representing the sixth year rental for this lease. We, at the Pretend Company, also agree to furnish your office with the proper notices, including drilling reports, and to abide by the terms of the lease.

Very truly yours,

Claire E. Hughes
Executive Vice President

CEH/wst

Enclosure



RAY POWELL
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

www.nmstatelands.org

February 17, 2004

Pretend Gas Company
Post Office Box 0000
Somewhere, New Mexico ZIP11

Attn: Claire E. Hughes

Re: State of New Mexico Oil and Gas Lease No. V0-0000-00

Dear Ms. Hughes:

Your letter dated February 4, 2003, requesting permission to invoke paragraph 14 of your lease contract is acknowledged.

The Commissioner of Public Lands grants you permission to conduct drilling/testing operations beyond the expiration date of the above lease contingent upon strict compliance with the provisions of paragraph 14 and the following stipulations:

1. Compliance with State Land Office Oil and Gas Rule 100.56 that requires that sixth year delay rentals be paid before operations commence.
2. Compliance with Oil Conservation Division Rule 19 NMAC 15C.103 which requires that the drilling location be conspicuously posted with a sign identifying the operation as to operator, lease name, and location by section, township, and range.
3. Compliance with all other applicable Oil Conservation Division rules.
4. Your submission of a drilling report every thirty days showing the status of operation on each day of the preceding thirty days. The report must be identified by well name, operator, and location.

5. Cessation of operations for more than twenty consecutive days will be considered abandonment and will result in automatic termination of the lease.
6. If, in the opinion of the Land Commissioner, the operator shows a lack of diligence and good faith, permission to continue operations may be revoked following proper notice.
7. You must be operational and drilling ahead or conducting completion operations at midnight of the date on which the lease expires.

If we may be of further help, please do not hesitate to call on us.

Sincerely,

Ray Powell

Commissioner of Public Lands

By:

Larry Roybal

Oil, Gas, and Minerals Division Director

(505) 827-5746

RP/LR/sm

Pretend Oil and Gas Company
Post Office Box 0000
Somewhere, New Mexico ZIP11

March 6, 2004

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Sample

Commissioner of Public Lands
Attn: Oil, Gas, and Minerals Division
PO Box 1148
Santa Fe NM 87504-1148

Re: Oil and Gas Lease LH-0000-00

Dear Sir:

Enclosed is Pretend Oil and Gas Company's check number 1835 in payment of the 11th year rental under the subject lease. We plan to be drilling across the expiration date of the subject lease and by virtue of the above will invoke paragraph 15 of the captioned oil and gas lease.

We will provide you with details concerning the drilling of the well every thirty (30) days.

Thank you for your consideration in this matter. If you have any questions, please call me at (505) 555-1111.

Very truly yours,

Albert P. Hughes
President

APH/evg

Enclosure



RAY POWELL
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE
Phone (505) 827-5760
Fax (505) 827-5766
www.nmstatelands.org

March 19, 2004

Pretend Oil and Gas Company
Post Office Box 0000
Somewhere, New Mexico ZIP11

Attn: Albert P. Hughes

Re: State of New Mexico Oil and Gas Lease Number LH-0000-00

Dear Mr. Hughes:

Your letter dated March 6, 2003 requesting permission to invoke paragraph 15 of your lease contract is acknowledged.

The Commissioner of Public Lands grants you permission to conduct drilling/testing beyond the expiration date of the above lease contingent upon strict compliance with the provisions of paragraph 15 and the following stipulations:

1. Compliance with State Land Office Oil and Gas Rule 100.56 that requires that sixth year delay rentals be paid before operations commence.
2. Compliance with Oil Conservation Division Rule 19.15.3.103 which requires that the drilling location be conspicuously posted with a sign identifying the operation as to operator, lease name, and location by section, township, and range.
3. Compliance with all other applicable Oil Conservation Division rules.
4. Your submission of a drilling report every thirty days showing the status of operation on each day of the preceding thirty days. The report must be identified by well name, operator, and location.
5. Cessation of operations for more than twenty consecutive days will be considered abandonment and will result in automatic termination of the lease.

Sample

6. If, in the opinion of the Land Commissioner, the operator shows a lack of diligence and good faith, permission to continue operations may be revoked following proper notice.
7. You must be operational and drilling ahead or conducting completion operations at midnight of the date on which the lease expires.

If we may be of further help, please do not hesitate to call on us.

Sincerely,

Ray Powell

Commissioner of Public Lands

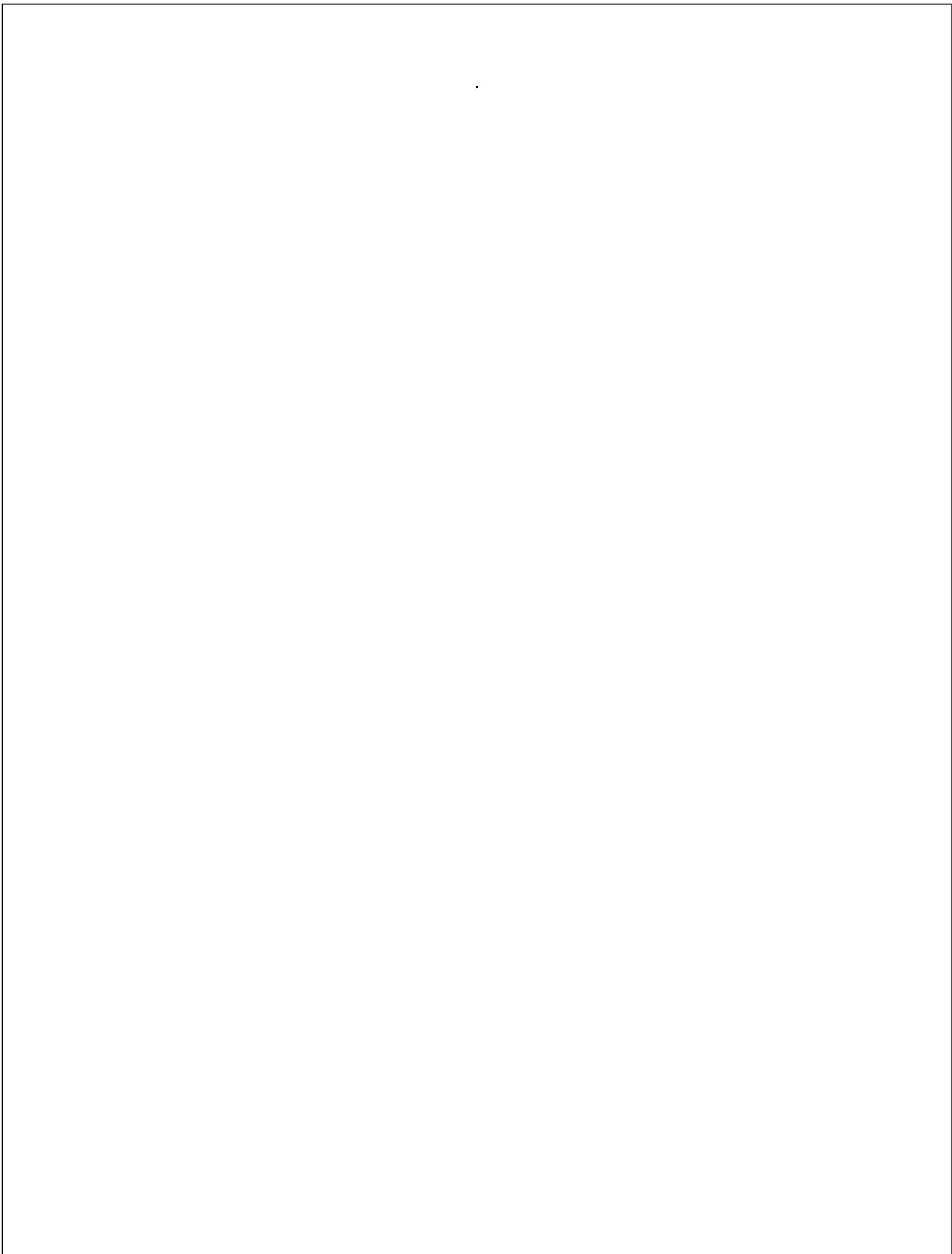
By:

Larry Roybal

Oil, Gas, and Minerals Division Director

(505) 827-5746

RP/LR/sm



SHUT-IN ROYALTY PAYMENTS

SHUT-IN ROYALTY DUE DATES - ILLUSTRATION

SHUT-IN ROYALTY DUE DATE
LEASE DATE > 90 DAYS AFTER SHUT-IN

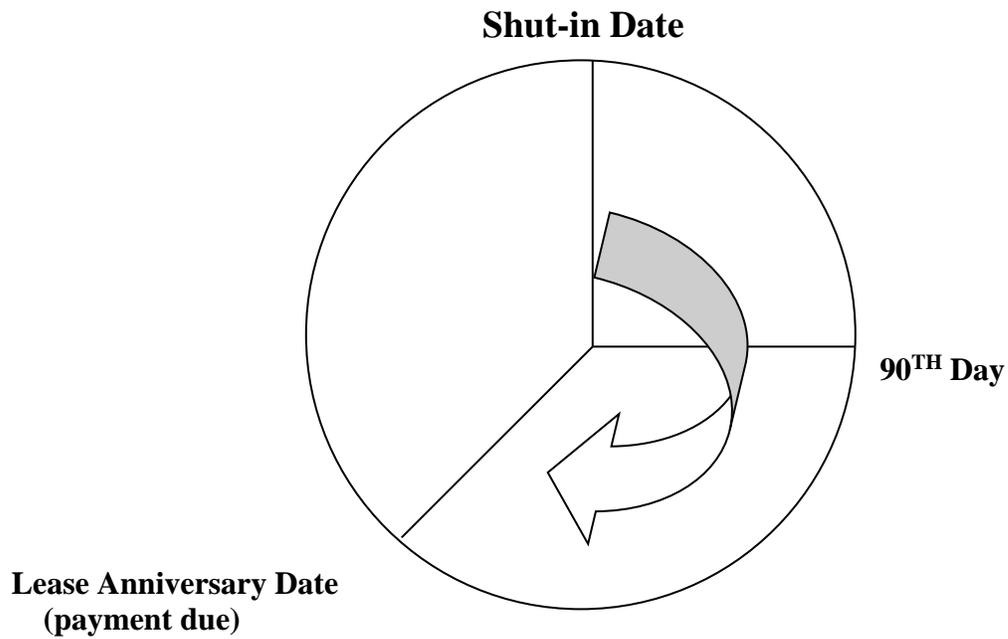


FIGURE 1

SHUT-IN ROYALTY DUE DATE
LEASE DATE < 90 DAYS AFTER SHUT-IN

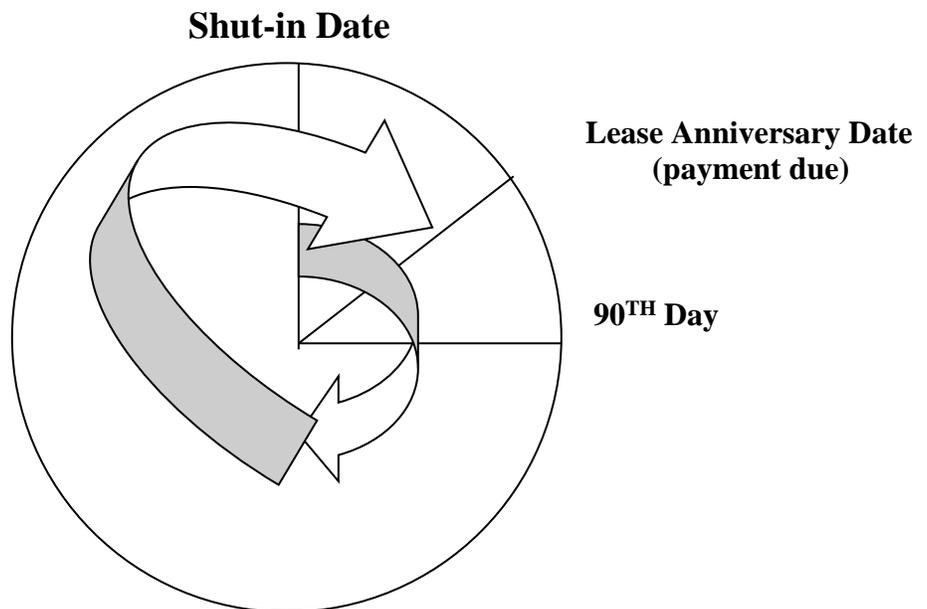


FIGURE 2

GUIDELINES FOR SHUT-IN ROYALTY PAYMENTS

Shut-In Gas Well Royalty

Pursuant to Section 2 of an oil and gas lease, after a well capable of producing gas in paying quantities has been shut-in by an operator due to lack of market or lack of a pipeline connection, a shut-in royalty must be **timely paid** or the lease may automatically expire. To be “timely paid,” the shut-in royalty is due on or before the next lease anniversary date after expiration of ninety days from the date of shut-in. Examples of this requirement follow below.

Leases Issued Prior to June 14, 1985

1. If a lease contract is dated May 19, 1970, and a well capable of producing gas in paying quantities is completed and shut-in on July 18, 1973, the date for timely payment of a shut-in (S-I) royalty is computed as follows: July 18 plus 90 days is October 16, 1973. By the time that the lease anniversary date following 10/16/73 occurs – May 19, 1974 – a S-I payment equal to the rental amount or \$100, whichever is greater, must be submitted. See Figure 1.
2. If the same well were shut-in on April 4, 1974, the S-I payment is due on or before the anniversary date May 19, 1975. This is the anniversary date following July 3, 1974. April 4, 1974 plus 90 days is July 3, 1974. See Figure 2.
3.
 - a. If the well is shut-in on April 4, 1975, the payment is due May 19, 1976; but if the payment is made before the lease anniversary of May 19, 1975 which is the end of the primary term, the lease remains in its primary term and the annual rental does not double.
 - b. If payment is made after May 19, 1975, the lease, in absence of actual production or premature payment of S-I royalty, would go into its secondary term and the rental would double. The S-I royalty would then be equal to the double rental payment or \$100, whichever is greater.
4. In the first three situations, if timely payment of S-I royalty was paid when due and each year thereafter to the end of the secondary term, then the lessee, by continuing to pay S-I royalty may extend the lease after expiration of the 10 year lease term, but for no longer than 5 years after the end of the 10 year expiration date. There have been leases wherein a well was drilled at any time during the 10-year life of the lease, and by timely payment of S-I royalty gained the right to another 5 years for a total of 15 years. Then the lease, having never actually produced, expired under its own terms.

Note: In all such cases of S-I royalty tendered, the Land Office staff reviews the well tests and records to determine to our satisfaction that the well is capable of producing in paying quantities.

Leases Issued After June 14, 1985

The date for “timely payment” of shut-in royalties on the newer leases is the same as given in the examples above, but the amounts due for S-I royalties have been changed as well as lease continuation terms. The shut-in royalty payments have been changed to an amount equal to twice the annual rental due by the lessee during the term of the lease, and in no case less than \$320 per well.

Discovery, Development, and Five Year Exploratory leases issued after June 14, 1985, provide for extension of the 5 year primary lease term for normally no more than 10 additional years by payment of S-I royalties. Any S-I royalty payment for any year beginning on or after the tenth year of the lease must equal 4 times the annual rental, but not less than \$2000 per well per year.

For all four leases, the Commissioner may grant further extensions of time upon the showing in good cause. All older existing oil and gas leases may be stipulated to include the provisions of the newer leases.

All Oil and Gas Leases

In all cases, if a well capable of producing gas in paying quantities is shut-in with S-I royalties paid, and the well is then produced and then shut-in again, the clock is reset for the “timely payment” of S-I royalties. In other words, the 90 day count and the next anniversary date would be computed from the second date of shut-in. Also, for all leases, if production commences during a year for which shut-in royalties have been paid, then all or a portion of the shut-in royalties will be refunded to the operator. For purposes of shut-in royalties, a year is counted as the time from one lease anniversary date to the next.

In addition to the S-I royalty clause, there are other saving clauses in the lease; such as, the automatic secondary term by doubling rental payments in the older leases and Paragraphs 16 and 17 of a 10 year oil and gas lease. Execution of these saving clauses is the option of the lessee.

Shut-In Oil Wells

Oil wells may NOT be shut-in under the same terms and conditions as wells capable of producing gas in paying quantities. The only conditions for shut-in oil wells are specified in Section 19-10-6 NMSA 1978, which authorizes the Commissioner of Public Lands to promulgate regulations to shut in oil wells when the price of oil is so severely reduced that beneficiaries of state trust lands are better served by non-production. At this time there are no such regulations in effect.

SHUT-IN (SI) ROYALTY PAYMENT SUMMARY

Leases issued AFTER June 14, 1985

Types of Leases: DISCOVERY V- - DEVELOPMENT VB- - and VC- - 5-YEAR EXPLORATORY VA- -	Type of Lease 10-YEAR EXPLORATORY LH- -
Primary term - 5 years. SI royalty = 2 x rental fee or \$320	Primary term - 5 years. SI royalty = 2 x rental fee or \$320
	Secondary term – 5 years. SI royalty = 2 x rental fee or \$320
Extended by production, or to 10 years by SI royalty payment. SI royalty = 2 x rental fee or \$320 *	Extended by production, or 10 years by SI royalty payment. SI = 2 x rental fee or \$320 **

* SI after 10th year of lease = 4 x rental or \$2000/well/year.

** SI after 15th year of lease = 4 x rental or \$2000/well/year.

Leases issued BEFORE June 14, 1985

Type of Lease: 5-YEAR LEASE V-	Types of Leases 10-YEAR LEASE A-, B-, E-, K-, LG-, OG-.
	Older leases such as series A-, B-, & OG-1 thru OG-775 must be stipulated in order to be shut-in.
Primary term – 5 years SI = rental fee or \$100	Primary term – 5 years SI = rental fee or \$100
	Secondary term – 5 years SI = current rental fee or \$100
Extended by production or 5 years by SI royalty payment. SI = rental fee or \$100	Extended by production or 5 years by SI royalty payment SI = current rental fee or \$100

Questions? Contact Kenda Montoya at (505) 827-5749

SHUT-IN GAS ROYALTY PAYMENT FORM
New Mexico State Land Office
Oil, Gas, & Minerals Division

Make check payable to:
NM COMMISSIONER OF PUBLIC LANDS

PAYMENT FOR:

LEASE NUMBER: _____ ASSIGNMENT NUMBER: _____

Well Name: _____ WELL NUMBER: _____

A. P. I. NUMBER: _____

POOL ID NUMBER: _____

Section _____ Township _____ Range _____ Unit/Lot _____

WELL PARTICIPATING IN COMMUNITIZATION AGREEMENT Y N N

IF YES, COMMUNITIZATION AGREEMENT NAME _____

WELL PARTICIPATING IN UNIT AGREEMENT Y_ N N

IF YES, UNIT AGREEMENT NAME _____

SHUT IN REASON _____

DATE OF WELL SHUT-IN _____

IS WELL CAPABLE OF PRODUCING IN PAYING QUANTITIES Y _ N

- **If yes, please provide supporting documentation in order for this application to be processed.**

DATE OF LEASE: _____ DATE OF STIPULATION: _____

SHUT IN AMOUNT PAID: \$ _____

REDUCED ROYALTY RATE FOR MARGINAL OIL WELLS

19.2.100.68 NMAC AMENDMENT OF LEASE TO LOWER ROYALTY RATE FOR OIL WELLS UNDER CERTAIN CONDITIONS:

A. Purpose - Eligibility: The records owner of an oil and gas lease issued by the commissioner of public lands whose lease is maintained in good standing according to the terms and conditions of the lease and all applicable statutes and regulations, may apply to the commissioner for an amendment to the lease for the purpose of changing the royalty rate on oil produced from a specified oil well. Any well that produces on a lease basis or as a communitized or unitized property is eligible for the lower rate. Multiple wells from the same lease, communitization or unit may be submitted for approval under one application. Communitized or unit wells must qualify individually for the lower royalty rate.

B. Application, Requirements, and Information to be Furnished. An application for a change in royalty rate shall be on a form prescribed by the commissioner and shall be accompanied by a forty-dollar (\$40.00) application fee. For each oil well, the application shall:

(1) show that the oil well has produced oil attributable to a communitization, unit or lease premises, and:

(a) if the production is from formations shallower than five thousand feet, has produced less than an average of three barrels of oil per day during the preceding twelve months and has not averaged over five barrels per day for any month during the preceding twelve months; or

(b) if the production is from formations five thousand feet deep or deeper, has produced less than an average of six barrels of oil per day during the preceding twelve months and has not averaged over ten barrels of oil per day for any month during the preceding twelve months; and

(2) include a statement that to the best of the applicant's knowledge and experience the well is not capable of sustained production limits specified in Paragraph (1) of this Subsection.

(3) provide data and describe efforts to:

(a) negotiate lower rates paid to other royalty owners and overriding royalty owners in the oil well; and

(b) minimize the costs of operating the well; and

(4) include any other fact which may justify a lower royalty rate.

C. Commissioners Approval. Upon receipt of an application, the commissioner shall review the information submitted as well as other, independent information obtained by the commissioner and shall agree to amend the lease to a lower royalty rate for oil produced from the oil well if, in his sole discretion, he finds that:

(1) the operator has taken reasonable steps to minimize his costs of operating the oil well;

(2) the oil well will likely be plugged and abandoned in the near future, with a resulting loss of reserves, if operating costs are not reduced further;

(3) the oil well will produce for a longer period, and the amount of oil produced will ultimately be larger, if the royalty rate is lowered; and

(4) a lower royalty rate will actually maximize revenue to the trust beneficiaries.

D. Applicable Royalty Rate, Effective Date. The lower royalty rate agreed to under this Section shall be equal to five percent and, except as provided in Subsection G of this Section, shall be valid for a period of three years, after which time the record owner of the oil and gas lease may submit a written request for an extension which, if approved pursuant to Subsection C of this Section, shall be valid for an additional three year term.

E. Accounting and Reporting of Oil Royalties. Production, royalties and taxes for oil produced from any well for which a lower royalty rate has been granted under this Section shall be reported separately from other oil wells, under the PUN-lease business rules of the oil and gas royalty filer's kit utilized by the oil and natural gas administration and revenue database (ONGARD) system.

F. Form of Application. Applications for a lower royalty rate under this Section shall be submitted on a form provided by the commissioner.

G. Termination of Lower Rate. The effective period for a lower royalty rate, approved pursuant to this Section, shall terminate and the royalty rate specified in the lease shall be applicable if the commissioner determines, in his sole discretion, that the oil production has significantly increased through well workover, recompletion or other means, so that the well would no longer qualify on an annual basis for a lower royalty rate.
[19.2.100.68 NMAC – Rn, SLO Rule 1, Section 1.070, 12/13/2002]

STATE OF NEW MEXICO
OFFICE OF THE COMMISSIONER OF PUBLIC LANDS
OIL, GAS, AND MINERALS DIVISION
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

APPLICATION FOR REDUCED ROYALTY RATE FOR OIL WELLS

NMSA 19-10-5.1 (1994 Repl. Pamp.)

All requested information is mandatory for consideration of this application.

I. Operator: _____
Address: _____
Contact Person: _____ Phone: _____
Fax #: _____

II. Well and Production Data

A.) Complete the following for each well applied for under this application. If there is more than one well, attach additional sheets as necessary.

1.) Well Name: _____

**2.) Record Title Owner of State Oil and Gas Lease: _____

3.) NM State Lease Number and Assignment Number: _____

4.) API Number: _____

5.) Legal Description: SUBDIVISIONS _____

SECTION _____ TOWNSHIP _____ RANGE _____

6.) Completion Formation and Dedicated Acreage as per OCD Form C-102: _____

7.) Pool: _____

Please indicate gross perforation interval: _____

**If communitized or unitized leases are involved with this application, list Record Title Owner(s) for the acreage that is pertinent to each qualified well.

If Record Title Owner is unknown, contact the Oil, Gas and Minerals Division at (505) 827-6628 at the State Land Office to verify ownership.

If applicant is not record title owner, an assignment of Record Title Ownership of the lease may be an option for the applicant. Assignment Forms are available at the State Land Office. Please contact the Oil, Gas, and Minerals Division at (505) 827-5749 if you need Assignment Forms or have any questions.

B.) Operator Monthly Reports: Attach either copies of actual OCD C-115 reports or a spreadsheet showing oil production reported to the OCD for a minimum of the preceding twelve (12) months prior to the application date.

III. Additional Information:

A) A summary of attempts made and successes achieved in negotiating lower rates paid to other royalty, and overriding royalty, owners specific to each oil well. _____

B) A summary of all other steps taken to minimize the costs of operating the oil well. _____

C) A statement that to the best of the applicant's knowledge and experience the well is not capable of sustained production over the production limits specified in the rule. _____

D) Any other fact that may help to justify a reduction in the State royalty rate from the current rate to 5.0%. _____

IV. Application fee. The non-refundable fee of \$40.00 is required for only this initial application for royalty rate reduction per lease or unit. No fee is required when requesting a reduction renewal for an additional three-year period.

V. Certification:

The information above is submitted to the Commissioner of Public Lands as an application for a lower royalty rate under NMSA 19-10-5.1 (1994 Repl. Pamp.)

As applicant, I, _____, representing _____
Print Name Company Name

hereby certify that the information submitted with this application is true and correct to the best of my knowledge and belief.

Signature _____ Title _____ Date _____

Note:

Complete Item VI (next page) for each lease or unit, and submit it along with this initial application. Please place this application form and Item VI in front of all other information you are submitting.

VI. Record Title Owner Ratification

Record title information for well(s) within a single oil and gas lease or unit. Attach additional sheets if necessary with information requested below.

Record Title Owner(s): _____

Lease Number _____ and Assignment Number(s) _____

Legal Description(s):

Subdivisions _____ Section _____ Twnshp _____ Rng _____

I/We, _____
Print Name(s)

representing _____,
Company Name(s)

Record Title Owner(s) of the above-mentioned lease, do hereby certify the information submitted with this application to be true and correct to the best of my knowledge. The oil well(s) applied for in this application do meet the criteria as set forth regarding a lower royalty rate. Therefore, I/we request a lower royalty rate pursuant to NMSA 19-10-5.1 (1994 Repl. Pamp.) and the rules and regulations of the State Land Office, as may apply to the oil well(s) production from the subject lease.

Record Title Owner Signature: _____ Title _____

Date _____

Record Title Owner Signature: _____ Title _____

Date _____

APPLICATION CHECKLIST

THIS FORM DOES NOT NEED TO BE SUBMITTED WITH THE APPLICATION. IT IS FOR THE APPLICANT'S RECORDS/USE ONLY.

After completing the application, please use the following checklist to expedite the review and approval process.

____ 1.) Fill out Item I.

____ Operator's Name, Address, Contact Person and Phone.

____ 2.) Include all information in Item II for each applicable well.

____ Well Name.

____ Record Title Owner.

____ State Lease Number and Assignment Number.

____ API Number.

____ Legal Description.

____ Completion Formation and Dedicated Acreage as per OCD Form C-102.

____ Pool. If the perforations in the well are 5000 feet or deeper, please indicate perforation depths.

____ Forms C-115 for the well for a minimum of twelve months prior to the application date.

____ 3.) Include all information in Item III.

____ A summary of all attempts made and successes achieved in negotiating lower rates paid to other royalty and overriding royalty owners specific to each oil well.

____ A summary of all other steps to taken to minimize the costs of operating the oil well.

____ A statement that to the best of the applicant's knowledge and experience the well is not capable of sustained production over the production limits

____ Any other facts which may help to justify a reduction in the State royalty rate from the current rate to 5.0%.

____ 4.) Enclose application fee, Item IV.

____ Pay the application fee of \$40.00.

____ 5.) Fill out certification in Item V.

____ 6.) Fill out Item VI and obtain signature(s) from the Record Title Owner(s) of lease(s) in application.

If you have any questions, please call Anchor Holm at the Oil, Gas, and Minerals Division at (505) 827-5759.

COMMINGLING OF PRODUCTION FROM STATE TRUST LANDS

COMMINGLING

This section contains information regarding application for approval by the Commissioner of Public Lands for surface or downhole commingling of oil and gas and/or off-lease storage on New Mexico State Trust Lands.

Included are the following:

1. State Land Office Rule 100.53
2. "Commingle Pre-Application" Form

PLEASE NOTE

The State Land Office accepts the same form and information for applications for commingling approval that is required by the Oil Conservation Division (OCD) of the N.M. Energy, Minerals, and Natural Resources Department.

THE STATE LAND OFFICE RULES PERTAINING TO COMMINGLING

19.2.100.53

COMMINGLING AND OFF-LEASE STORAGE OF OIL AND GAS ON STATE TRUST LANDS

A. Commingling Prohibited: Unless approved pursuant to Subsection B of 19.2.100.53 NMAC, the commingling, confusion or the intercommunication of oil or gas production from any state well with any production from any other well, whether state or non-state, by the use of common tankage facilities or central delivery points, is strictly prohibited.

B. Commingling Allowed - Off-Lease Storage:

(1) Commingling of oil and gas production, including downhole commingling, if properly metered or allocated and accounted for, may be permitted within the discretion of the commissioner only after his receipt of a written application containing the information specified in Subsection C of 19.2.100.53 NMAC and application fee as set in 19.2.100.65 NMAC.

(2) Off-lease storage of production may be permitted if properly metered or allocated and accounted for, within the discretion of the commissioner only after his receipt of a written application containing the information specified in Subsection C of 19.2.100.53 NMAC and an application fee as set in 19.2.100.65 NMAC.

C. Application for Permission to Commingle or Off-Lease Store Production. Applications for permission to commingle or off-lease store production shall be directed to the commissioner and shall include:

(1) Formal application stating the type of permission desired and the reasons therefor, accompanied by an application fee of thirty dollars (\$30.00).

(2) Plat showing the location of leases, wells, flow lines, metering facilities and common tankage. All plats and diagrams should differentiate between surface and underground pipe.

(3) A list of the involved leases arranged by their state land office lease number, their legal description and including state beneficiaries.

(4) A designation of the pool from which each well produces.

(5) An economic analysis of proposed operation showing profit or loss to the state of New Mexico.

(6) Schematic diagram of entire system from production manifold to pipeline connection showing position of all components of flow stream.

(7) Description of the operating sequence explaining the complete operation.

(8) The applicant's proposal for allocating or metering production so that all production is properly accounted for at the well.

(9) Any other pertinent data that will assist the commissioner in deciding upon the application. [19.2.100.53 NMAC – Rn, SLO Rule 1, Sections 1.053, 1.054, 1.055, 12/13/2002]

9.2.100.65

FEES

...

I. Application fee for commingling (additional fee may be charged for investigation and administration at the discretion of the commissioner with the prior approval of the applicant): thirty dollars (\$30.00).

...

New Mexico State Land Office – Oil, Gas, & Minerals Division
COMMINGLE PRE-APPLICATION

Please provide the following requested information so that the SLO staff can determine whether or not you qualify to submit a commingle application package.

Name: _____ Company: _____

Address: _____ City _____

Telephone number: _____ Fax _____ State _____ Zip _____

The State Land Office rule that applies to commingling oil and gas production from New Mexico State Trust Lands is Rule 100.53. The rule can be found on the preceding page. If you have any questions, please contact Pete Martinez - Oil, Gas, and Minerals Division at 505-827-5791.

1. Briefly describe what you propose to do. _____

2. Fill in the following information for each well. Attach additional pages if needed.

Well name & number _____ **Lease #** _____

Lessee of Record _____

Legal land description: Subdivisions _____

Section _____ Township _____ Range _____

Pool _____

Well name & number _____ **Lease #** _____

Lessee of Record _____

Legal land description: Subdivisions _____

Section _____ Township _____ Range _____

Pool _____

Well name & number _____ **Lease #** _____

Lessee of Record _____

Legal land description: Subdivisions _____

Section _____ Township _____ Range _____

Pool _____

COMMUNITIZATIONS AND CONSOLIDATIONS

COMMUNITIZATIONS

A communitization agreement may be necessary to fulfill the Oil Conservation Division (OCD) proration unit requirements for well spacing. Whenever separate tracts of state land cannot be independently developed and operated in conformity with an established well spacing program for the field or area, all lessees of record within the proration unit must sign a communitization agreement. The Commissioner of Public Lands must approve this agreement after completion of the well and prior to production. Tentative approval will be given prior to completion of the well but final approval must be issued before the well can be produced. Along with a \$30.00 filing fee, two copies of the agreement must be submitted for approval, one of which must have original, notarized ratifications. Only signatures of the lessees of record are required for approval of the agreement by the Commissioner of Public Lands.

There are five different standard communitization agreement forms. These forms **must** be used for all communitization agreements, and although they may be duplicated, they may not be retyped or altered.

1. The first form in this manual should be used when **State and fee lands, or when two or more State leases with different lessees, are communitized**. The term of this agreement is for one year and so long as communitized substances are produced in commercial quantities. Paragraph 9 of the form provides for payment of shut-in royalties for a communitized well capable of producing gas in paying quantities when there is not production due to a lack of market or pipeline connection. Payment may be made by any of the lessees in the communitized area if their lease contains the shut-in clause in the lease contract or has been stipulated to the newer lease forms. The number of years the well can be shut-in is set forth in the lease contract. Oil wells cannot be shut-in.

2. The second communitization form is used for **State and Federal or State, Federal and Fee communitizations**. The term is for two years and so long as communitized substances are produced or can be produced from the communitized area.

3. The third form is used when **two or more State leases held by the same lessee of record are involved**. This form provides for the partial consolidation of the leases for communitization purposes. The information for the blank "OCD Order #" can be obtained from the OCD.

4. The "Short Term" form is different from the regular form in that it should be used when **the well being drilled will not be completed prior to the expiration date of the shortest-term lease**. The expiration date blank on the fourth page of the form corresponds to the soonest lease expiration date.

5. The fifth form is to be used only when the specific and sole communitized substance will be carbon dioxide (CO₂) and/or helium (He).

If the parties in the proration unit cannot reach an agreement, then an application to force pool the area can be filed with the Oil Conservation Division of the Energy, Minerals, and Natural Resources Department. The OCD may issue an order, setting forth penalties,

reasonable well and operating costs, etc. [State Land Office Rule 100.52](#), “Forced Pooling – Oil Conservation Division Order”, must be followed. See the Rule in the Rules and Regulations in the so-named section in the front of this manual.

All forms should be filled out completely, with assignment numbers shown for the respective leases and all signatures of the lessees of record notarized. After the Commissioner approves the communitization agreement, a Production Unit Number (PUN) should be obtained for the well from the Oil and Gas Processing Division of the NM Department of Taxation and Revenue. If tentative approval for the communitization agreement was given before the well was completed, we also must be notified upon completion so that final approval can be issued.

TERMINATION OF COMMUNITIZATION AGREEMENTS

A communitization agreement will automatically terminate one year from its effective date if no Federal land is involved, if there is no constructive production from the well. Shut-in royalty payments are considered to be constructive production for qualifying wells.

Under the terms of the agreement, a communitization will terminate 1) if a well ceases production for more than 60 days and reworking or drilling operations have not commenced or are not conducted with due diligence; 2) or if shut-in royalty is not timely paid; 3) or if the Commissioner of Public Lands was not notified of the intent to rework the well within 30 days from the cessation of production from the well.

A communitization agreement will terminate if there is a change in the size of the proration unit. If, for example, a 320 acre communitization is formed for a gas well, but the gas well eventually depletes and is reclassified as an oil well, then the 320 acre communitization terminates and the oil pool proration unit becomes effective. If it is an 80-acre oil proration unit, then another communitization agreement will have to be approved if two separate tracts are involved.

If a communitization agreement is terminated, the terms of the original lease contracts are used for determining if the lease will expire. Usually, if a lease has gone beyond its numerical term and there is no other production, or it is not part of another com or unit, it will expire under its own terms. Leases in a communitized area are not segregated; i.e., production from any portion of the lease will hold the entire lease.

SAMPLE COMMUNITIZATION AND CONSOLIDATION FORMS

In the following pages you will find:

- State/State or State/Fee Communitization form
- State/Federal or State/Federal/Fee Communitization form
- Consolidation of State Oil and Gas Leases
- Short Term Communitization Agreement
- Carbon Dioxide or Helium Communitization Agreement

**NM State Land Office
Oil, Gas, & Minerals Division**

STATE/STATE OR STATE/FEE

Revised March 2003

COMMUNITIZATION AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

STATE OF NEW MEXICO)
COUNTY OF _____) SS)

THAT THIS AGREEMENT [which is NOT to be used for carbon dioxide or helium] is entered into as of _____, 20_____, by and between the parties subscribing, ratifying or consenting hereto, such parties hereinafter being referred to as "Parties hereto";

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by the Legislature, as set forth in Sec. 19-10-53, New Mexico Statutes, Annotated, 1978, in the interest of conservation of oil & gas and the prevention of waste to consent to and approve the development or operation of State lands under agreements made by lessees of oil & gas leases thereon, jointly or severally with other oil & gas lessees of State Lands, or oil and gas lessees or mineral owners of privately owned or fee lands, for the purpose of pooling or communitizing such lands to form a proration unit or portion thereof, or well-spacing unit, pursuant to any order, rule or regulation of the New Mexico Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department where such agreement provides for the allocation of the production of oil or gas from such pools or communitized area on an acreage or other basis found by the Commissioner to be fair and equitable.

WHEREAS, the parties hereto, own working, royalty, or other leasehold interests or operating rights under the oil and gas leases and lands subject to this agreement, which leases are more particularly described in the schedule attached hereto, marked Exhibit "A" and made a part hereof, for all purposes; and

WHEREAS, said leases, insofar as they cover the _____ formation (hereinafter referred to as "said formation") in and under the land hereinafter described cannot be independently developed and operated in conformity with the well spacing program established for such formation in and under said lands; and

WHEREAS, the parties hereto desire to communitize and pool their respective interests in said leases subject to this agreement for the purpose of developing, operating and producing hydrocarbons in the said formation in and under the land hereinafter described subject to the terms hereof.

NOW THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the undersigned as follows:

1. The lands covered by this agreement (hereinafter referred to as the "communitized area") are described as follows:

Subdivisions _____ of Section _____

Township _____ Range _____ N. M. P. M. _____ County, NM

containing _____ acres, more or less. It is the judgment of the parties hereto that the communitization, pooling and consolidation of the aforesaid land into a single unit for the development and production of hydrocarbons from the said formation in and under said land is necessary and advisable in order to properly develop and produce the hydrocarbons in the said formation beneath the said land in accordance with the well spacing rules of the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and in order to promote the conservation of the hydrocarbons in and that may be produced from said formation in and under said lands, and would be in the public interest;

AND, for the purposes aforesaid, the parties hereto do hereby communitize for proration or spacing purposes only the leases described in Exhibit "A" hereto insofar as they cover hydrocarbons within and that may be produced from the said formation (hereinafter referred to as "Communitized Substances") beneath the above-described land, into a single communitization, for the development, production, operation and conservation of the hydrocarbons in said formation beneath said lands.

Attached hereto and made a part of this agreement for all purposes, is Exhibit A showing the acreage, and ownership (Lessees of Record) of all leases within the communitized area.

2. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leases described in Exhibit "A" hereto in the proportion that the number of surface acres covered by each of such leases and included within the communitized area bears to the total number of acres contained in the communitized area.

3. Subject to Paragraph 4, the royalties payable on communitized substances allocated to the individual leases and the rentals provided for in said leases shall be determined and paid in the manner and on the basis prescribed in each of said leases. Except as provided for under the terms and provisions of the leases described in Exhibit "A" hereto or as herein provided to the contrary, the payment of rentals under the terms of said leases shall not be affected by this agreement; and except as herein modified and changed or heretofore amended, the oil and gas leases subject to this agreement shall remain in full force and effect as originally issued and amended.

4. The State of New Mexico hereafter is entitled to the right to take in kind its share for the communitized substances allocated to such tract, and Operator shall make deliveries of such royalty share taken in kind in conformity with applicable contracts, laws, and regulations.

5. There shall be no obligation upon the parties hereto to offset any well or wells situated on the tracts of land comprising the communitized area, nor shall the Operator be required to measure separately the communitized substances by reason of the diverse ownership of the separate tracts of land comprising the said communitized area; provided, however, that the parties hereto shall not be released from their obligation to protect the communitized area from drainage of communitized

substances by wells which may be drilled within offset distance (as that term is defined) of the communitized area.

6. The commencement, completion, and continued operation or production of a well or wells for communitized substances on the communitized area shall be considered as the commencement, completion, continued operation or production as to each of the leases described in Exhibit "A" hereto.

7. The production of communitized substances and disposal thereof shall be in conformity with the allocations, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State laws. This agreement shall be subject to all applicable Federal and State laws, executive orders, rules and regulations affecting the performance of the provisions hereof, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if compliance is prevented by or if such failure results from compliance with any such laws, orders, rules and regulations.

8. _____ shall be the Operator of said communitized area and all matters of operation shall be determined and performed by _____.

9. This agreement shall be effective as of the date hereinabove written upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Commissioner of Public Lands, shall remain in full force and effect for a period of one year from the date hereof and as long thereafter as communitized substances are produced from the communitized area in paying quantities; provided, that this agreement shall not expire if there is a well capable of producing gas in paying quantities located upon some part of the communitized area, if such a well is shut-in due to the inability of the operator to obtain a pipeline connection or to market the gas therefrom, and if either: **(a)** a shut-in royalty has been timely and properly paid pursuant to the provisions of one of the State of New Mexico oil and gas leases covering lands subject to this agreement so as to prevent the expiration of such lease; or **(b)** each of the State of New Mexico oil and gas leases covering lands subject to this agreement is in its primary term (if a five-year lease), or in its primary or secondary term (if a ten-year lease), or is held by production from another well. Provided further, however, that prior to production in paying quantities from the communitized area, and upon fulfillment of all requirements of the Commissioner of Public Lands with respect to any dry hole or abandoned well drilled upon the communitized area, this Agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production of communitized substances if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence. As to lands owned by the State of New Mexico, written notice of intention to commence such operations shall be filed with the Commissioner within thirty (30) days after the cessation of such production, and a report of the status of such operations shall be made by the Operator to the Commissioner every thirty (30) days, and the cessation of such operations for more than twenty (20) consecutive days shall be considered as an abandonment of such operations as to any lease from the State of New Mexico included in this agreement.

10. Operator will furnish the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and the Commissioner of Public Lands of the State of New Mexico, with any and all reports, statements, notices and well logs and records which may be required under the laws and regulations of the State of New Mexico.

11. It is agreed between the parties hereto that the Commissioner of Public Lands, or his duly authorized representatives, shall have the right of supervision over all operations under the communitized area to the same extent and degree as provided in the oil and gas leases described in Exhibit "A" hereto and in the applicable oil and gas regulations of the State of New Mexico.

12. If any order of the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, upon which this agreement is predicated or based is in anyway changed or modified, then in such event said agreement is likewise modified to conform thereto.

13. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instruments, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

14. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

OPERATOR _____

BY: _____

LESSEES OF RECORD _____

Attach additional page(s) if needed.

Acknowledgements on following page.

Acknowledgment in an Individual Capacity

State of _____)
County of _____) SS)

This instrument was acknowledged before me on _____
DATE

By _____
Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in a Representative Capacity

State of _____)
County of _____) SS)

This instrument was acknowledged before me on _____
DATE

By _____
Name(s) of Person(s)

as _____ of _____
Type of authority, e.g., officer, trustee, etc Name of party on behalf of whom instrument was

executed

(Seal)

Signature of Notarial Officer

My commission expires: _____

EXHIBIT A

Attached to and made a part of that Communitization Agreement dated _____
by and between _____,
_____, _____ Company covering the
Subdivisions _____,
Section _____, Twnshp _____, Rnge _____, _____ County, NM

OPERATOR of Communitized Area: _____

DESCRIPTION OF LEASES COMMITTED:

TRACT NO. 1

Lessor: State of New Mexico acting by and through its
Commissioner of Public Lands

Lessee of Record: _____

Serial No. of Lease: _____

Date of Lease: _____

Description of Lands Committed: _____

No. of Acres: _____

TRACT NO. 2

Lessor: State of New Mexico acting by and through its
Commissioner of Public Lands

Lessee of Record: _____

Serial No. of Lease: _____

Date of Lease: _____

Description of Lands Committed: _____

No. of Acres: _____

TRACT NO. 3

Lessor: State of New Mexico acting by and through its
Commissioner of Public Lands

Lessee of Record: _____

Serial No. of Lease: _____

Date of Lease: _____

Description of Lands Committed: _____

No. of Acres: _____

TRACT NO. 4

Lessor: State of New Mexico acting by and through its
Commissioner of Public Lands

Lessee of Record: _____

Serial No. of Lease: _____

Date of Lease: _____

Description of Lands Committed: _____

No. of Acres: _____

RECAPITULATION

Tract number	Number of Acres Committed	Percentage of Interest In Communitized Area
No. 1	_____	_____
No. 2	_____	_____
No. 3	_____	_____
No. 4	_____	_____

COMMUNITIZATION AGREEMENT

Contract No. _____

THIS AGREEMENT, entered into as of the date shown in Section 10 hereof by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto,"

WITNESSETH:

WHEREAS, the Act of February 25, 1920, 41 Stat. 437, as amended and supplemented, authorizes communitization or drilling agreements communitizing or pooling a federal oil and gas lease, or any portions thereof, with other lands, whether or not owned by the United States, when separate tracts under such federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area, and such communitization or pooling is determined to be in the public interest; and,

WHEREAS, the Commissioner of Public Lands of the State of New Mexico, herein called "the Commissioner", is authorized to consent to and approve agreements pooling state oil and gas leases or any portion thereof, when separate tracts under such state leases cannot be independently developed and operated economically in conformity with well-spacing and gas proration rules and regulations established for the field or area and such pooling is determined to be in the public interest; and,

WHEREAS, the parties hereto own working, royalty, or other leasehold interests, or operating rights under the oil and gas leases and land subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and,

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of the agreement;

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows: Subdivisions _____, Sect _____, Twnp _____, Rng _____, NMPM, _____ County, NM containing _____ acres, more or less, and this agreement shall include only the _____ formation underlying said lands and the _____ (hereinafter referred to as "communitized substances":) producible from such formation.
2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit "B" designating the operator of the communitized area and showing the acreage, pg.

percentage, and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and three (3) executed copies of a designation of successor operator shall be filed with the Authorized Officer and three (3) additional executed copies thereof shall be filed with the Commissioner.
4. Operator shall furnish the Secretary of the Interior, or his authorized representative, and the Commissioner, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States and the State of New Mexico, as specified in the applicable oil and gas operating regulations.
5. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of leasehold bears to the entire acreage interest committed to this agreement.
6. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued. It is agreed that for any federal lease bearing a sliding-or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day such rate shall be determined by the sum of all communitized production allocated to such a lease plus any noncommunitized lease production.
7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.
8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and ~~dg~~.

operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules, and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or is such failure results from, compliance with any such laws, orders, rules or regulations.
10. The date of this agreement is _____ Month _____ Day, _____ Year, and it shall become effective as of this date or from the onset of production of communitized substances, whichever is earlier upon execution of the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of Interior, or his duly authorized representative, and by the Commissioner or his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are produced or can be produced from the communitized area in paying quantities; provided, that the two-year term of this agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period; provided further that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of Interior, or his duly authorized representative, and all requirements of the Commissioner, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of the capability of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted and prosecuted with reasonable diligence. As to lands owned by the State of New Mexico, written notice of intention to commence such operations shall be filed with the Commissioner within thirty (30) days after the cessation of such capability of production, and a report of the status of such operations shall be made by the Operator to the Commissioner every thirty (30) days, and the cessation of such operations for more than twenty (20) consecutive days shall be considered as an abandonment of such operations as to any lease from the State of New Mexico included in this agreement.
11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal lands shall be subject to approval by the Secretary of the Interior, and as to State of New Mexico lands shall be subject to approval by the Commissioner.
12. It is agreed by the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor, and in the applicable oil and

gas operating regulations of the Department of the Interior. It is further agreed between the parties hereto that the Commissioner shall have the right of supervision over all operations to the same extent and degree as provided in the oil and gas leases under which the State of New Mexico is lessor and in the applicable oil and gas statutes and regulations of the State of New Mexico.

- 13. The agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.
- 14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.
- 15. Nondiscrimination: In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F. R. 12319), as amended which are hereby incorporated by reference in this agreement.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first written and have set opposite their respective names the date of execution.

Operator _____ Lessees of Record _____

By _____
Name of person

TYPE OF AUTHORITY

Attach additional page(s) if needed.

Acknowledgments on following page.

Acknowledgment in an Individual Capacity

State of _____)

County of _____) SS)

This instrument was acknowledged before me on _____

DATE

By _____

Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in a Representative Capacity

State of _____)

County of _____) SS)

This instrument was acknowledged before me on _____

DATE

By _____

Name(s) of Person(s)

as _____ of _____

Type of authority, e.g., officer, trustee, etc

Name of party on behalf of whom instrument was executed

(Seal)

Signature of Notarial Officer

My commission expires: _____

Attach additional page(s) if needed.

EXHIBIT A

To Communitization Agreement dated _____, 20____

Plat of communitized area covering the: Subdivisions _____,

of Sect. _____, T_____, R_____, NMPM, _____ County, NM.

EXHIBIT B

To Communitization Agreement dated _____ 20____, embracing the _____
of Section _____, T _____, R _____, N.M.P.M., _____ County, NM.

Operator of Communitized Area: _____

DESCRIPTION OF LEASES COMMITTED

TRACT NO. 1

Lease Serial No.: _____

Lease Date: _____

Lease Term: _____

Lessor: _____

Original Lessee: _____

Present Lessee: _____

Description of Land Committed: _____, Sect _____, Twnshp _____, Rng _____

Number of Acres: _____

Royalty Rate: _____

Name and Percent ORRI Owners: _____

Name and Percent WI Owners: _____

TRACT NO. 2

Lease Serial No.: _____

Lease Date: _____

Lease Term: _____

Lessor: _____

Original Lessee: _____

Present Lessee: _____

Description of Land Committed: _____, Sect _____, Twnshp _____, Rng _____

Number of Acres: _____

Royalty Rate: _____

Name and Percent ORRI Owners: _____

Name and Percent WI Owners: _____

TRACT NO. 3

Lease Serial No.: _____

Lease Date: _____

Lease Term: _____

Lessor: _____

Original Lessee: _____

Present Lessee: _____

Description of Land Committed: _____, Sect _____, Twnshp _____, Rng _____

Number of Acres: _____

Royalty Rate: _____

Name and Percent ORRI Owners: _____

Name and Percent WI Owners: _____

TRACT NO. 4

Lease Serial No.: _____

Lease Date: _____

Lease Term: _____

Lessor: _____

Original Lessee: _____

Present Lessee: _____

Description of Land Committed: _____, Sect _____, Twnshp _____, Rng _____

Number of Acres: _____

Royalty Rate: _____

Name and Percent ORRI Owners: _____

Name and Percent WI Owners: _____

RECAPITULATION

Tract numbers	Number of Acres Committed	Percentage of Interest in Communitized Area
Tract No.1	_____	_____
Tract No.2	_____	_____
Tract No.3	_____	_____
Tract No.4	_____	_____

**New Mexico State Land Office
Oil, Gas, and Minerals Division**

CONSOLIDATION OF STATE OIL AND GAS LEASES

Revised March 2003

_____, Lessee, record title owner of State Oil and Gas Leases
_____, requests approval of lease
consolidation affecting subdivisions _____ Sect. _____, T _____, R _____, NMPM
to establish a _____ acre proration unit in the _____
_____ formation.

Lessee submits a plat, Exhibit A, showing the subject area, leases involved and the requested consolidation. This plat also delineates the proration unit and locates and designates the completed well and consolidated horizon.

Lessee states that the State of New Mexico, for the assigned beneficiaries, owns the royalty interest under these leases and agrees that the state, at its own election, is entitled to delivery in-kind of its share of all communitized substances produced from the leased area.

Approval is requested pursuant to authority granted by applicable statutes. Approval will promote conservation and is in the best interest of the State.

This consolidation, if approved by the Commissioner of Public Lands, shall be effective _____ (date), and shall continue in effect for _____ days and as long thereafter as communitized substances are produced from the consolidated area in paying quantities; provided, that this agreement shall not expire if there is a well capable of producing gas in paying quantities located upon some part of the consolidated area, if such well is shut-in due to the inability of the operator to obtain a pipeline connection or to market the gas therefrom, and if either:

(a) a shut-in royalty has been timely and properly paid pursuant to the provision of one of the State of New Mexico oil and gas leases covering lands subject to this agreement so as to prevent the expiration of such lease; or

(b) each of the State of New Mexico oil and gas leases covering lands subject to this agreement is in its primary term (if a five-year lease), or is in its primary or secondary term (if a ten-year lease), or is held by production from another well.

Provided further, however, that prior to production in paying quantities from the consolidated area, and upon fulfillment of all requirements of the Commissioner of Public Lands with respect to any dry hole or abandoned well drilled upon the consolidated area, this Consolidation may be terminated at any time by the Lessee. This consolidation shall not terminate upon cessation of production of communitized substances if, within sixty (60) days thereafter, reworking or drilling operations on the consolidated area are commenced and are thereafter conducted and prosecuted with reasonable diligence. Intention to commence such operations shall be filed with the Commissioner within thirty (30) days after the cessation of such production, and a report of the status of such operations shall be made by the Operator to the Commissioner every thirty (30) days, and the cessation of such operations for more than twenty (20) consecutive days shall be considered as an abandonment of such operations as to any lease from the State of New Mexico included in this agreement.

Requesting approval of consolidation of NM state oil and gas leases

Signature For _____
Corporation

Acknowledgment in an Individual Capacity:

State of _____)

SS)

County of _____)

This instrument was acknowledged before me on _____ DATE

by _____

Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in a Representative Capacity:

State of _____)

SS)

County of _____)

This instrument was acknowledged before me on _____ DATE

by _____

Name(s) of Person(s)

as _____ of _____

Type of authority, e.g., officer, trustee, etc.

Name of party on behalf of whom this instrument was executed.

(Seal)

Signature of Notarial Officer

My commission expires: _____

the above-described land, into a single communitization, for the development, production, operation and conservation of the hydrocarbons in said formation beneath said lands.

Attached hereto and made a part of this agreement for all purposes, is Exhibit "A" showing the acreage, and ownership (Lessees of Record) of all leases within the communitized area.

2. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leases described in Exhibit "A" hereto in the proportion that the number of surface acres covered by each of such leases and included within the communitized area bears to the total number of acres contained in the communitized area.

3. Subject to Paragraph 4, the royalties payable on communitized substances allocated to the individual leases and the rentals provided for in said leases shall be determined and paid in the manner and on the basis prescribed in each of said leases. Except as provided for under the terms and provisions of the leases described in Exhibit "A" hereto or as herein provided to the contrary, the payment of rentals under the terms of said leases shall not be affected by this agreement; and except as herein modified and changed or heretofore amended, the oil and gas leases subject to this agreement shall remain in full force and effect as originally issued and amended.

4. The State of New Mexico hereafter is entitled to the right to take in kind its share for the communitized substances allocated to such tract, and Operator shall make deliveries of such royalty share taken in kind in conformity with applicable contracts, laws, and regulations.

5. There shall be no obligation upon the parties hereto to offset any well or wells situated on the tracts of land comprising the communitized area, nor shall the Operator be required to measure separately the communitized substances by reason of the diverse ownership of the separate tracts of land comprising the said communitized area; provided, however, that the parties hereto shall not be released from their obligation to protect the communitized area from drainage of communitized substances by wells which may be drilled within offset distance (as that term is defined) of the communitized area.

6. The commencement, completion, and continued operation or production of a well or wells for communitized substances on the communitized area shall be considered as the commencement, completion, continued operation or production as to each of the leases described in Exhibit "A" hereto.

7. The production of communitized substances and disposal thereof shall be in conformity with the allocations, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State laws. This agreement shall be subject to all applicable Federal and State laws, executive orders, rules and regulations affecting the performance of the provisions hereof, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if compliance is prevented by or if such failure results from compliance with any such laws, orders, rules and regulations.

8. _____ shall be the Operator of said communitized area and all matters of operation shall be determined and performed by _____.

9. This agreement shall be effective as of the date hereinabove written upon execution by the necessary parties, notwithstanding the date of execution and, upon approval by the Commissioner of Public Lands, shall remain in full force and effect until midnight, local time, _____, _____, _____, (date) and as long thereafter as either: drilling operations are conducted upon the communitized area in accordance with the State of New Mexico oil and gas leases committed hereto, or communitized substances are produced from the communitized area in paying quantities; provided, that this agreement shall not expire if there is a well capable of producing gas in paying quantities located upon some part of the communitized area, if such well is shut-in due to the inability of the operator to obtain a pipeline connection or to market the gas therefrom, and if either: (a) a shut-in royalty has been timely and properly paid pursuant to the provisions of one of the State of New Mexico oil and gas leases covering lands subject to this agreement so as to prevent the expiration of such lease; or (b) each of the State of New Mexico oil and gas leases covering lands

subject to this agreement is in its primary term (if a five-year lease), or in its primary or secondary term (if a ten-year lease), or is held by production from another well. Provided further, however, that prior to production in paying quantities from the communitized area, and upon fulfillment of all requirements of the Commissioner of Public Lands with respect to any dry hole or abandoned well drilled upon the communitized area, this Agreement may be terminated at any time by mutual agreement of the parties hereto. This Agreement shall not terminate upon cessation of production of communitized substances if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence. As to lands owned by the State of New Mexico, written notice of intention to commence such operations shall be filed with the Commissioner within thirty (30) days after the cessation of such production, and a report of the status of such operations shall be made by the Operator to the Commissioner every thirty (30) days, and the cessation of such operations for more than twenty (20) consecutive days shall be considered as an abandonment of such operations as to any lease from the State of New Mexico included in this agreement.

10. Operator will furnish the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and the Commissioner of Public Lands of the State of New Mexico, with any and all reports, statements, notices and well logs and records which may be required under the laws and regulations of the State of New Mexico.

11. It is agreed between the parties hereto that the Commissioner of Public Lands, or his duly authorized representatives, shall have the right of supervision over all operations under the communitized area to the same extent and degree as provided in the oil and gas leases described in Exhibit "A" hereto and in the applicable oil and gas regulations of the State of New Mexico.

12. If any order of the Oil Conservation Division of the New Mexico Energy Minerals and Natural Resources Department, upon which this agreement is predicated or based is in anyway changed or modified, then in such event said agreement is likewise modified to conform thereto.

13. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instruments, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

14. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

OPERATOR: _____

By: _____

LESSEES OF RECORD: _____

Acknowledgement in an Individual Capacity

State of _____)
)ss
County of _____)

This instrument was acknowledged before me this _____ day of _____, 20____

by _____
Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My Commission Expires

Acknowledgement in a Representative Capacity

State of _____)
)ss
County of _____)

This instrument was acknowledged before me this _____ day of _____, 20____

by _____
Name(s) of Person(s)

as _____ of _____
Type of authority; e.g., officer, trustee, etc. Name of party on behalf of whom instrument was executed

(Seal)

Signature of Notarial Officer

My Commission expires

Attach additional page(s) if needed.

Lessor: State of New Mexico acting by and through its Commissioner of Public Lands

Lessee of Record: _____

Serial No. of Lease: _____

Date of Lease: _____

Description of Lands Committed: _____

Number of Acres: _____

Tract No. 4

Lessor: State of New Mexico acting by and through its Commissioner of Public Lands

Lessee of Record: _____

Serial No. of Lease: _____

Date of Lease: _____

Description of Lands Committed: _____

No. of Acres: _____

RECAPITULATION

TRACT NO.	NO. OF ACRES COMMITTED	PERCENTAGE OF INTEREST IN COMMUNITIZED AREA
No. 1	_____	_____
No. 2	_____	_____
No. 3	_____	_____
No. 4	_____	_____

New Mexico State Land Office
Oil, Gas, & Minerals Division

OG-CO2
Revised July 2003

CO₂ OR HELIUM COMMUNITIZATION AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

STATE OF NEW MEXICO)
)ss
COUNTY OF _____)

THAT THIS AGREEMENT, *to be used only for carbon dioxide or helium*, is entered into as of _____ 20_____, by and between the parties subscribing, ratifying or consenting hereto, such parties hereinafter being referred to as "Parties hereto";

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by the Legislature, as set forth in Sec. 19-10-53, New Mexico Statutes, Annotated, 1978 Laws, in the interest of conservation of helium and carbon dioxide and the prevention of waste, to consent to and approve the development or operation of State lands under agreements made by lessees of oil and gas leases thereon, jointly or severally with other oil and gas lessees of State lands, or oil and gas lessees or mineral owners of privately owned or fee lands, for the purpose of pooling or communitizing such lands to form a proration unit or portion thereof, or well-spacing unit, pursuant to any order, rule or regulation of the New Mexico Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department where such agreement provides for the allocation of the production of helium and carbon dioxide from such pools or communitized area on an acreage or other basis found by the Commissioner to be fair and equitable.

WHEREAS, the parties hereto, being oil and gas lessees of record, covering lands subject to this agreement, insofar as such leases cover the lands hereinafter described, which leases are more particularly described in the schedule attached hereto, marked Exhibit "A" and made a part hereof, for all purposes, and

WHEREAS, said leases, insofar as they cover the _____ Formation (hereinafter referred to as "said formation") in and under the land hereinafter described cannot be independently developed and operated in conformity with the well-spacing program established for such formation in and under said lands; and

WHEREAS, the parties hereto desire to communitize and pool their respective interests insofar as they include helium and carbon dioxide gases in said leases subject to this Agreement for the purpose of developing, operating and producing helium and carbon dioxide gas in the said formation in and under the land hereinafter described subject to the terms hereof.

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the undersigned as follows:

1. The lands covered by this agreement (hereinafter referred to as the "communitized area") are described as follows: Subdivisions _____, Section _____, Twnshp _____, Rng _____, N M P M, _____ County, New Mexico, containing _____ acres, more or less, and so hereby declare that it is the judgment of the parties hereto that the communitization, pooling and consolidation of the aforesaid land into a single unit for the development and production of helium and carbon dioxide from the said formation in and under said land is necessary and advisable in order to properly develop and produce the helium and carbon dioxide gas in the said formation beneath said land in accordance with the spacing rules of the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, State of New Mexico, and in order to promote the conservation of the helium and carbon dioxide gas in and that may be produced from said formation in and under said lands, and would be in the public interest;

AND, for the purposes aforesaid, the parties hereto do hereby communitize, for proration or spacing purposes only the leases described in Exhibit "A" hereto insofar as they cover helium and carbon dioxide gas within and that may be produced from the said formation (hereinafter referred to as "Communitized Substances") beneath the above-described land, into a single communitization, for the development, production, operation and conservation of the helium and carbon dioxide gas in said formation beneath said lands.

Attached hereto and made a part of the Agreement for all purposes, is Exhibit "A" showing the acreage, and ownership (Lessees of Record) of all lands within the communitized area.

2. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances insofar as they include helium and carbon dioxide gases produced therefrom shall be allocated among the leases described in Exhibit "A" hereto in the proportion that the number of surface acres covered by each of such leases and included within the communitized area bears to the total number of acres contained in the communitized area.

3. Subject to Paragraph 4, the royalties payable on communitized substances allocated to the individual leases and the rentals provided for in said leases shall be determined and paid in the manner and on the basis prescribed in each of said leases. Except as provided for under the terms and provisions of the leases described in Exhibit "A" hereto or as herein provided to the contrary, the payment of rentals under the terms of said leases shall not be affected by this Agreement; and except as herein modified and changed or heretofore amended the oil and gas leases subject to this agreement shall remain in full force and effect as originally issued and amended.

4. The State of New Mexico hereafter is entitled to the right to take in kind its share for the communitized substances allocated to such tract, and operator shall make deliveries of such royalty share taken in kind in conformity with applicable contracts, laws, and regulations.

5. There shall be no obligation upon the parties hereto to offset any well or wells drilled for the purpose of recovering helium and carbon dioxide gases situated on the tracts of land comprising

the communitized area, nor shall the undersigned be required to measure separately the communitized substances by reason of the diverse ownership of the separate tracts of land comprising the said communitized area; provided, however, that the parties hereto shall not be released from their obligation to protect the communitized area from drainage of communitized substances by wells which may be drilled within offset distance (as that term is defined) of the communitized area.

6. The Commencement, Completion, and Continued operation of production of a well or wells for communitized substances on the communitized area shall be considered as the commencement, completion, continued operation or production as to each of the leases described in Exhibit "A" hereto.

7. The production of communitized substances and disposal thereof shall be in conformity with the allocations, allotments and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State laws or statutes. This Agreement shall be subject to all applicable Federal and State Laws, executive orders, rules and regulations affecting the performance of the provisions hereof, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this Agreement if compliance is prevented by or if such failure results from compliance with any such laws, orders, rules and regulations.

8. _____ shall be the Operator of said communitized area, and all matters of operation shall be determined and performed by _____.

9. This Agreement shall be effective as of the date herein-above written upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Commissioner of Public Lands, shall remain in full force and effect for a period of one year from the date hereof and as long thereafter as communitized substances are produced from the communitized area in commercial quantities; provided, however, that prior to production in commercial quantities from the communitized area, and upon fulfillment of all requirements of the Commissioner of Public Lands with respect to any dry hole or abandoned well drilled upon the communitized area, this Agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production of communitized substances if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of non-production.

10. Operator will furnish the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and the Commissioner of Public Lands, of the State of New Mexico, with any and all reports, statements, notices and well logs and records which may be required under the laws and regulations of the State of New Mexico.

11. It is agreed between the parties hereto that the Commissioner of Public Lands, or his duly authorized representatives, shall have the right of supervision over all operations under the

communitized area to the same extent and degree as provided in the oil and gas leases described in Exhibit "A" hereto and in the applicable oil and gas regulations of the State of New Mexico

12. If any order of the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, upon which this agreement is predicated or based is in anyway changed or modified, then and in such event said agreement is likewise modified to conform thereto.

13. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instruments, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

14. This Agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written

OPERATOR: _____

By: _____

LESSEES OF RECORD: _____

Attach additional page(s) if needed.

Acknowledgment in an Individual Capacity

State of _____)

County of _____) S S)

This instrument was acknowledged before me on _____

DATE

By _____

Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in a Representative Capacity

STATE OF _____)
)ss
COUNTY OF _____)

This instrument was acknowledged before me on _____
DATE

By _____, as Attorney in Fact on behalf of
_____ Company

SEAL

SIGNATURE OF NOTARIAL OFFICER

My commission expires _____

STATE OF _____)
)ss
COUNTY OF _____)

This instrument was acknowledged before me on _____
DATE

By _____, as Attorney in Fact on behalf of
_____ Company

SEAL

SIGNATURE OF NOTARIAL OFFICER

My commission expires _____

STATE OF _____)
)ss
COUNTY OF _____)

This instrument was acknowledged before me on _____
DATE

By _____, as Attorney in Fact on behalf of
_____ Company

SEAL

SIGNATURE OF NOTARIAL OFFICER

My commission expires _____

EXHIBIT A

Attached to and made a part of that Communitization Agreement dated _____
by and between _____, _____,
_____, _____,
covering **Subdivisions** _____,
Section _____, **Township** _____, **Range** _____, NMPM,
in _____ **County**, New Mexico.

Operator of Communitized Area: _____

Description of Leases Committed:

TRACT No. 1

Lessor:

*State of New Mexico acting by and through its
Commissioner of Public Lands*

Lessee of Record: _____

Serial No. of Lease: _____

Date of Lease: _____

Description of
Lands Committed: _____

No. of Acres: _____

TRACT No. 2

Lessor:

*State of New Mexico acting by and through its
Commissioner of Public Lands*

Lessee of Record: _____

Serial No. of Lease: _____

Date of Lease: _____

Description of
Lands Committed: _____

No. of Acres: _____

TRACT No. 3

Lessor:

*State of New Mexico acting by and through its
Commissioner of Public Lands*

Lessee of Record:

Serial No. of Lease:

Date of Lease:

Description of
Lands Committed:

No. of Acres:

TRACT No. 4

Lessor:

*State of New Mexico acting by and through its
Commissioner of Public Lands*

Lessee of Record:

Serial No. of Lease:

Date of Lease:

Description of
Lands Committed:

No. of Acres:

RECAPITULATION

Tract number.	Number of acres committed	Percentage of interest in communitized area
No. 1	_____	_____
No. 2	_____	_____
No. 3	_____	_____
No. 4	_____	_____

UNITS AND UNITIZATIONS



New Mexico State Land Office
INFORMATION ABOUT UNITS

This section contains information regarding Exploratory and Secondary Units for the State of New Mexico. Mr. Pete Martinez at 505-827-5791 works with unitization and is the best contact person for questions concerning Units. His assistant is Mr. Jerome Maestas at 505-827-5783.

Included in the following pages are:

1. Requirements for preliminary approval of a Unit by the Commissioner of Public Lands.
2. Requirements for final approval of a Unit by the Commissioner of Public Lands.
3. Suggested geological exhibits to include with the Unit Application Packages.
4. Sample forms for Unit Agreements:
 - a. State/Fee Exploratory Units
 - b. State/Fee Waterflood Units
 - c. State/Federal/Fee Exploratory Units
 - d. State/Federal/Fee Waterflood Units
5. Description and example of Exhibit A to the Unit Agreement.
6. Description and example of Exhibit B to the Unit Agreement.
7. Commonly asked questions regarding Units in the State of New Mexico.

REQUIREMENTS FOR PRELIMINARY APPROVAL

of State/Federal/Fee and State/Fee Units
by the New Mexico Commissioner of Public Lands

The following information must be submitted when seeking preliminary approval of a Unit Agreement containing State of New Mexico Trust Lands:

1. The initial form of the Unit Agreement.
2. Letter of Designation by the Bureau of Land Management, if the Unit contains Federal lands.
3. Engineering Report and Geological Data.
4. Rough form of Exhibits A and B

Naming the Unit

It is the policy of this office not to approve a unit that has the same name as another Unit whether active or terminated. The word "Federal" should not be in the Unit name if it contains both State and Federal land unless it also contains the word "State." The word "Federal" can only be used alone if the Unit contains no State Trust Lands.

Open Acreage

This office will NOT approve any Unit containing OPEN State acreage within the Unit boundaries.

Pre-Approval Meeting

In some circumstances it is advantageous to have representatives of your company meet with the technical staff of the Oil, Gas, & Minerals Division of the State Land Office PRIOR to the Oil Conservation Division (of the New Mexico Energy, Minerals, and Natural Resources Department) hearing. Scheduled meetings can be arranged by contacting our Units Manager, Pete Martinez at (505) 827-5791.

If the submitted information meets the Commissioner of Public Land's requirements, preliminary approval of the Unit Agreement as to form and content will be granted. A letter confirming the granting of preliminary approval is sent to the Unit Operator and copies are sent to the Oil Conservation Division (OCD) and the Bureau of Land Management (BLM.)

**REQUIREMENTS FOR FINAL APPROVAL
of State/Federal/Fee and State/Fee Units
by the New Mexico Commissioner of Public Lands**

Exploratory Unit

1. An application letter requesting final approval of the Commissioner of Public Lands. The letter will identify the tracts that have been committed and those that have not been committed.
2. Two copies of the Unit Agreement including Exhibits A and B. One copy must contain original signatures.
3. Two copies of the Unit Operating Agreement (where applicable.) One copy must contain original signatures.
4. All ratifications from Lessees of Record and Working Interest Owners. All signatures should be acknowledged before a notary public. One set must contain original signatures.
5. Order of the Oil Conservation Division (OCD.) The State Land Office will not approve any Units until we receive the OCD order here in the SLO.
6. Certificate of Determination by the BLM, if the Unit contains Federal lands.
7. Filing fee in the amount of thirty dollars (\$30.00) for each section or partial section.

Secondary Recovery Units

In addition to the requirements for an Exploratory Unit, application for a Secondary Recovery Unit requires the following information:

1. Initial Plan of Operation
2. Re-designation of well names and numbers

A letter granting Final Approval is sent by the State Land Office to the Unit Operator and copies are sent to the OCD and the BLM.

*** * * * SPECIAL NOTE * * * ***

IF YOU ARE SENDING UNIT INFORMATION TO THIS OFFICE USING ANY OVERNIGHT MAIL SERVICE please contact our Units Manager, Pete Martinez at (505) 827-5791. Knowing to expect your package, we can watch for it and advise you of its arrival.

Our street address is: 310 Old Santa Fe Trail
Santa Fe, NM 87501-2708

SUGGESTED GEOLOGICAL EXHIBITS
To Be Included
With Unit Application Package

In general, the information that helps determine the need for a unit also helps expedite approval. The idea is not to place unreasonable burden on the operator, but to show that the unit area is reasonable and warranted. **In all cases, the selection of unit boundaries based upon lease expiration dates is not acceptable.**

1. **STRUCTURE MAP** – Map of a horizon that has a bearing on the objective reserves. A phantom horizon is acceptable if validated by points marked on a cross section. Seismic structure is acceptable.

2. **ISOPACH MAP** – A map of thickness and areal distribution of objective horizon(s), if data is available. In cases of sparse data, a schematic with increased emphasis upon cross sections is acceptable.

3. **CROSS SECTIONS** – Sparseness of data may render cross sections meaningless. In such cases, a “nearest typical log” with tops and zone(s) of interest is suggested. Where data are adequate, panel cross sections will help clarify the problem area and expedite consideration. Zig-zag cross sections seldom clarify the geology of an area, and simple, well-chosen sections crossing the unit area would be more appropriate.

4. **GEOLOGICAL DISCUSSION** – Reasons for the selected unit boundary should be made clear with at least one map showing closure, pinchout or trap. Allowances are made for exploratory concepts when documented in a geologic discussion. The discussion should be based upon commonly used geologic names unless they are defined on maps or cross sections.

If you have any questions regarding the geological exhibits, please call Stephen Wust, Chief Geologist in the Oil, Gas, and Minerals Division, at 505-827-5748.

SAMPLE UNIT AGREEMENT FORMS

STATE/FEE EXPLORATORY UNIT

[Revised February 12, 2004]

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT AREA
_____ COUNTY, NEW MEXICO
NO. _____

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT AREA
_____ COUNTY, NEW MEXICO
NO. _____

TABLE OF CONTENTS by Section Numbers

Section

1. [UNIT AREA](#)
 2. [UNITIZED SUBSTANCES](#)
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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT AREA

_____ COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the _____ day of _____ 20____, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (NMSA 1978, §§19-10-45, 19-10-46, as amended) to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (NMSA 1978, §19-10-47, as amended) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy, Minerals and Natural Resources Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (NMSA 1978, §70-2-1 et seq., as amended) to approve this agreement and the conservation provisions hereof; and

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

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

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

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

Township _____, Range _____, N.M.P.M.

Sections: _____

Containing _____ acres, more or less,

_____ County, New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. **UNIT OPERATOR:** _____, whose address is _____ is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. **RESIGNATION OR REMOVAL OF UNIT OPERATOR:** Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

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

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

5. **SUCCESSOR UNIT OPERATOR:** Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of unit operator, and (b) the selection shall have been approved by the Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. **ACCOUNTING PROVISIONS:** The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

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

8. **DRILLING TO DISCOVERY:** The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to attain the top of the _____ formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of _____ feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES: Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees or record in the manner prescribed by (Sec. 19-10-20 N.M. Statutes 1978 Annotated), of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

Notwithstanding any of the provisions of this Agreement to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries shall be automatically eliminated from this Agreement and shall no longer be a part of the unit or be further subject to the terms of this agreement unless at the expiration of five (5) years after the first day of the month following the effective date of this agreement diligent drilling operations are in progress on said tracts.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES: All rentals due to the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty share in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Division as conforming to good petroleum engineering practices; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the fixed term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto upon which oil and gas, or either of them, has been discovered is discovered upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the fixed term of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease.

14. 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 laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

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

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in _____ years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto, with the approval of the Commissioner and with notice to the Division. Likewise, the failure to comply with the drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

18. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Division, and in conformity with all applicable laws and lawful regulations.

19. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby, before the Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulations of the Commissioner or Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceedings.

20. NOTICES: All notices, demands, or statements required hereunder to be given or rendered to the parties hereto, shall be deemed fully given, if given in writing and sent by postpaid registered mail, addressed to such party or parties at their respective addresses, set forth in connection with the signatures hereto or to the ratification or consent hereof, or to such other address as any such party may have furnished in writing to party sending the notice, demand, or statement.

21. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof, without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

22. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval by the Commissioner and the Division, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the filing with the Division of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party's or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

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

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

UNIT OPERATOR AND WORKING INTEREST OWNER

BUSINESS ENTITY By _____
Address _____ SIGNATURE OF OFFICER
Date of Execution _____

STATE OF _____)
COUNTY OF _____) ss.

Acknowledgment in an Individual Capacity

This instrument was acknowledged before me on _____ Date

by _____
Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in a Representative Capacity

This instrument was acknowledged before me on _____ Date

by _____
Name(s) of Person(s)

as _____ of _____
Type of authority, e.g., officer, trustee, etc Name of party on behalf of whom instrument was executed

(Seal)

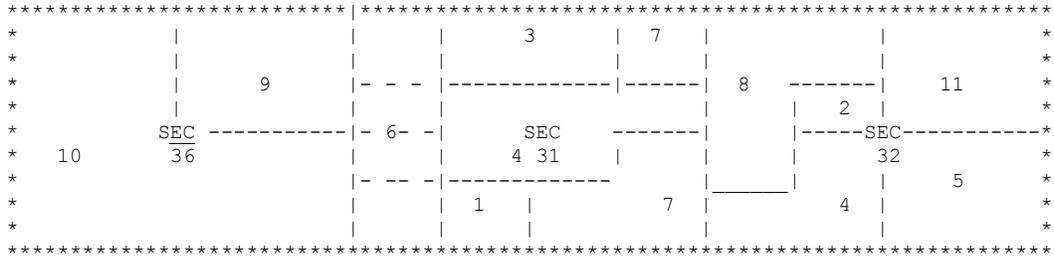
Signature of Notarial Officer

My commission expires: _____

EXHIBIT "A". MAP OF UNIT AREA

_____ UNIT

_____ COUNTY, NEW MEXICO



FEDERAL LANDS:

STATE LANDS:

FEE LANDS:

TRACT NUMBER:

UNIT OUTLINE: *****

EXHIBIT "B" . SCHEDULE OF OWNERSHIP

Schedule Showing All Lands and Leases

Within the _____ UNIT

_____ COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
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RECAPITULATION

_____ Acres of State of New Mexico Lands = _____ %

_____ Acres of Fee Lands = _____ %

TOTAL _____ Acres **100** %

EXHIBIT "C" . SCHEDULE OF TRACT PARTICIPATION

STATE/FEDERAL/FEE EXPLORATORY UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT AREA

_____ COUNTY, NEW MEXICO

NO. _____

**STATE/FEDERAL/FEE
EXPLORATORY UNITS
UNIT AGREEMENT**

FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT AREA

COUNTY OF _____

STATE OF NEW MEXICO

NO. _____

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STATE/FEDERAL/FEE
EXPLORATORY UNITSUNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT AREA

_____ COUNTY, OF NEW MEXICO

NO. _____

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

WITNESSETH:

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 (30 U.S.C. §181 et seq., as amended) authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a unit plan of development or operations of any oil and 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 (NMSA 1978, §§ 19-10-45, 19-10-46, as amended) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interest of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (NMSA 1978, §19-10-47, as amended) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, hereinafter referred to as "Division", is authorized by an act of the Legislature (NMSA 1978, §70-2-1 et seq., as amended) to approve this agreement and the conservation provisions hereof; and

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

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

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

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

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

Township _____, Range _____, N.M.P.M.

Sections: _____

Sections: _____

Containing _____ acres, more or less.

In _____ County

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A" and "B" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized officer, hereinafter referred to as "AO", or when requested by

the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner", and not less than four (4) copies of the revised Exhibits shall be filed with the proper Bureau of Land Management office, and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Division of the Energy and Minerals Department, hereinafter referred to as "Division".

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

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO), or on demand of the AO, or the Land Commissioner (after preliminary concurrence by the AO and the Land Commissioner) shall prepare a Notice of Proposed Expansion or Contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefore, any plans for additional drilling, and the proposed effective date of the expansion or contraction, preferably the first day of a month subsequent to the date of notice.

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

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

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

(e) Notwithstanding any prior elimination under the "Drilling to Discovery" section, all legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than ninety (90) days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within ten (10) years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. The Unit Operator shall, within ninety (90) days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and Land Commissioner and promptly notify all parties in interest. All lands reasonably proved productive of unitized substances in paying quantities by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said first 5-year period. However, when such diligent drilling operations cease, all non-participating lands not then entitled to be in a participating area shall be automatically eliminated effective as of the 91st day thereafter.

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

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

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

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

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

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

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

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

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator as negotiated by the working interest owners, the owners of the working interests according to their respective acreage interest in all unitized land shall, pursuant to the approval of the parties requirements of the unit operating agreement, select a successor Unit Operator. Such selection shall not become effective until:

- (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and
- (b) the selection shall have been approved by the AO and approved by the Land Commissioner.

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed in the proper Bureau of Land Management office and one true copy with the Land Commissioner, and one true copy with the Division prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall commence to drill an adequate test well at a location approved by the AO, if on Federal land, or by the Land Commissioner, if on State land, and by the Division if on Fee land, unless on such effective date a well is being drilled in conformity with the terms hereof, and thereafter continue such drilling diligently until the _____ has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the AO if on Federal land, or the Land Commissioner if on State land, or the Division if located on Fee land, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of _____ feet. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than six (6) months between the completion of one well and the commencement of drilling operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO if it be on Federal land or of the Land Commissioner if on State land, or the Division if on Fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

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

Upon failure to commence any well as provided for in this section within the time allowed, prior to the establishment of a participating area, including any extension of time granted by the AO and the Land Commissioner, this agreement will automatically terminate. Upon failure to continue drilling diligently any well commenced hereunder, the AO and the Land Commissioner may, after fifteen (15) days notice to the Unit Operator, declare this unit agreement terminated. The parties to this agreement may not initiate a request to voluntarily terminate this agreement

during the first six (6) months of its term unless at least one obligation well has been drilled in accordance with the provisions of this section. Until the establishment of a participating area, the failure to commence a well subsequent to the drilling of the initial obligation well, or in the case of multiple well requirements, if specified, subsequent to the drilling of those multiple wells, as provided for in this (these) section(s), within the time allowed including any extension of time granted by the AO and Land Commissioner, shall cause this agreement to terminate automatically. Upon failure to continue drilling diligently any well other than the obligation well(s) commenced hereunder, the AO and Land Commissioner may, after 15 days notice to the Unit Operator, declare this unit agreement terminated. Failure to commence drilling the initial obligation well, or the first of multiple obligation wells, on time and to drill it diligently shall result in the unit agreement approval being declared invalid ab initio by the AO and Land Commissioner. In the case of multiple well requirements, failure to commence drilling the required multiple wells beyond the first well, and to drill them diligently, may result in the unit agreement approval being declared invalid ab initio by the AO and Land Commissioner.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and Division, an acceptable plan of development and operation for the unitized land which, when approved by the AO, the Land Commissioner and Division, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and Division a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calendar year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

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

- (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and
- (b) provide a summary of operations and production for the previous year.

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

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

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Land Commissioner or the Division, the Unit Operator shall submit for approval by the AO, the Land Commissioner and Division, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, the Land Commissioner and Division, effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. The schedule shall also set forth the percentage of unitized substances to be allocated, as provided in Section 12 to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the AO, the Land Commissioner and the Division. When production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO, the Land Commissioner and Division. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, the Land Commissioner, and Division to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably proved not to be productive of unitized substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the AO, the Land Commissioner and Division. No land shall be excluded from a participating area on account of depletion of its unitized substances, except that any participation area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating areas is based are abandoned.

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

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

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from a participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production or development purposes, or for repressuring or recycling in accordance with a plan of development and operations that has been approved by the AO, or unavoidably lost shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land and unleased Federal land, if any, included in the participating area established for such production. Each such tract shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land and unleased Federal land, if any, included in said participating area. There shall be allocated to the working interest owner(s) of each tract of unitized land in said participating area; in addition, such percentage of the production attributable to the unleased Federal land within the participating area as the number of acres of such unitized tract included in said participating area bears to the total acres of unitized land in said participating area, for the payment of the compensatory royalty specified in section 17 of this agreement. Allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, including compensatory royalty obligations under section 17, shall be prescribed as set forth in the unit operating agreement or as otherwise mutually agreed by the affected parties. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular part or tract of the participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from the latter participating area for sale during the life of this agreement shall be considered to be the gas so transferred, until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was defined at the time that such transferred gas was finally produced and sold.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the AO and the Land Commissioner, and the Division at such party's sole risk, costs, and expense, drill a well to test any formation provided the well is outside any participating area established for that formation, unless within ninety (90) days of receipt of notice from said party of his intention to drill the well, the Unit Operator elects and commences to drill the well in a like manner as other wells are drilled by the Unit Operator under this agreement.

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

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

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

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

Royalty due the United States shall be computed as provided in 30 CFR Group 200 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided in Section 12 at the rates specified in the respective Federal lease, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

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

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

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

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

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

17. DRAINAGE

(a) The Unit Operator shall take such measures as the AO and Land Commissioner deems appropriate and adequate to prevent drainage of unitized substances for unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO, as to Federal leases and the Land Commissioner, as to State leases.

(b) Whenever a participating area approved under section 11 of this agreement contains unleased Federal lands, the value of 12 1/2 percent of the production that would be allocated to such Federal lands under section 12 of this agreement, if such lands were leased, committed, and entitled to participation, shall be payable as compensatory royalties to the Federal Government. Parties to this agreement holding working interests in committed leases within the applicable participating area shall be responsible for such compensatory royalty payment on the volume of production reallocated from the unleased Federal lands to their unitized tracts under section 12. The value of such production subject to the payment of said royalties shall be determined pursuant to 30 CFR part 206. Payment of compensatory royalties on the production reallocated from unleased Federal land to the committed tracts within the participating area shall fulfill the Federal royalty obligation for such production, and said production shall be subject to no further royalty assessment under section 14 of this agreement. Payment of compensatory royalties as provided herein shall accrue from the date the committed tracts in the participating area that includes unleased Federal lands receive a production allocation, and shall be due and payable monthly by the last day of the calendar month next following the calendar month of actual production. If leased Federal lands receiving a production allocation from the participating area become unleased, compensatory royalties shall accrue from the date the Federal lands become unleased. Payment due under the provision shall end when the unleased Federal tract is leased or when production of unitized substances ceases within the participating area and the participating area is terminated, whichever occurs first.

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

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

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

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

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

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

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

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 1, 1960, (74 Stat. 781-784) (30 U.S.C. 226 (j)): "Any (Federal) lease heretofore or hereafter committed to any such (Unit) plan embracing lands that are in part within and in part outside the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization. Provided, however that any such lease as to non-unitized portion shall continue in force and effect for the term thereof, but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

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

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

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

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

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

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

(c) a valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long thereafter as unitized substances can be produced as to Federal lands and are being produced as to State lands in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder. Should production cease and diligent drilling operations to restore production or new production are not in progress or reworking within sixty (60) days and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred; or

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

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

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

22. APPEARANCES. Unit Operators shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interest affected hereby before the Department of the Interior and the Commissioner of Public Lands and Division, and to appeal from orders issued under the regulations of said Department or Land Commissioner and Division or to apply for relief from any of said regulations, or in any proceedings

relative to operations before the Department or the Land Commissioner and Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at its own expense to be heard in any such proceeding.

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

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

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

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

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper Bureau of Land Management office, the Land Commissioner, the Division and the Unit Operator prior to the approval of this agreement by the AO and Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest, is a working interest, by the owner of such interest only subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, in order for the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO, the Land Commissioner and the Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

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

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

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

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

- (a) accept those working interest rights subject to this agreement and the unit operating agreement; or
- (b) lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement; or
- (c) provide for the independent operation of any part of such land that is not then included within a participating area established hereunder.

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

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any monies found to be owing by such an accounting shall be made as between the parties within thirty (30) days.

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

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

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

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

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

UNIT OPERATOR AND WORKING INTEREST OWNER

BUSINESS ENTITY By _____
Address _____ SIGNATURE OF OFFICER
Date of Execution _____

STATE OF _____)
COUNTY OF _____)ss.

Acknowledgment in an Individual Capacity

This instrument was acknowledged before me on _____ Date

by _____
Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in a Representative Capacity

This instrument was acknowledged before me on _____ Date

by _____
Name(s) of Person(s)

as _____ of _____
Type of authority; e.g., officer, trustee, etc Name of party on behalf of whom instrument was executed

(Seal)

Signature of Notarial Office

My commission expires: _____

RATIFICATION AND JOINDER OF UNIT AGREEMENT
AND
UNIT OPERATING AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the _____ UNIT AREA, County of _____, State of New Mexico, dated _____, 20_____, in form approved on behalf of the Secretary of the Interior and the Commissioner of Public Lands, and in consideration of the execution or ratification by other working interest owners of the contemporary Unit Operating Agreement which relates to said Unit Agreement the undersigned hereby expressly ratifies, approves and adopts said Unit Agreement as fully as though the undersigned had executed the original agreement.

This Ratification and Joinder shall be effective as to the undersigned's interests in any lands and leases, or interests therein, and royalties presently held or which may arise under existing option agreements or other interests in unitized substances, covering the lands within the Unit Area in which the undersigned may be found to have an oil and gas interest.

This Ratification and Joinder of Unit Agreement shall be binding upon the undersigned, his, or her or its heirs, devisees, executors, assigns or successors in interest.

EXECUTED this _____ day of _____, 20_____.

SIGNATURE OF OFFICER

BUSINESS ENTITY

Address: _____

TRACT (S) _____

STATE OF _____)

) ss.

COUNTY OF _____)

Acknowledgment in an Individual Capacity

This instrument was acknowledged before me on _____ Date

by _____

Name(s) of Person(s)

(Notary Seal)

SIGNATURE OF NOTARIAL OFFICER

MY COMMISSION EXPIRES: _____

Acknowledgment in a Representative Capacity

This instrument was acknowledged before me on _____ Date

by _____

Name(s) of Person(s)

as _____ of _____

Type of authority; e.g., officer, trustee, etc

Name of party on behalf of whom instrument was executed

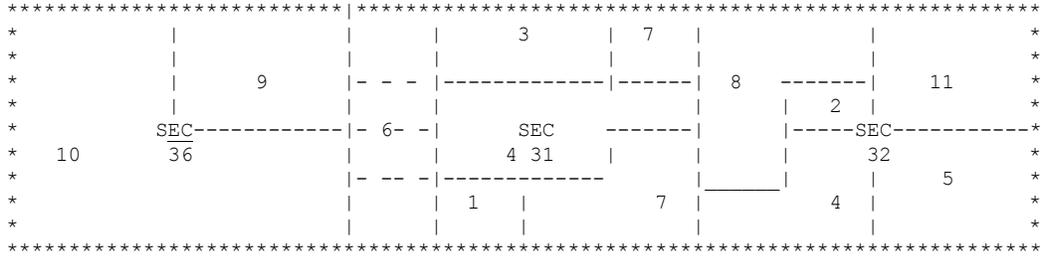
(Notary Seal)

SIGNATURE OF NOTARIAL OFFICER

MY COMMISSION EXPIRES: _____

EXHIBIT "A". MAP OF UNIT AREA

_____ UNIT
_____ COUNTY, NEW MEXICO



FEDERAL LANDS:

STATE LANDS:

FEE LANDS:

TRACT NUMBER:

UNIT OUTLINE: *****

EXHIBIT "B" . SCHEDULE OF OWNERSHIP

Schedule Showing All Lands and Leases

Within the _____ UNIT
_____ COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND %	WORKING INTEREST AND %
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RECAPITULATION

_____ Acres of State of New Mexico Lands = _____ %

_____ Acres of Fee Lands = _____ %

TOTAL _____ Acres **100** %

EXHIBIT "C" . SCHEDULE OF TRACT PARTICIPATION

STATE/FEE
WATERFLOOD UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT AREA

_____ County(ies),
NEW MEXICO

WATERFLOOD UNITS

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE

_____ UNIT

_____ County(ies), NEW MEXICO

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EXHIBIT "C" SCHEDULE OF TRACT PARTICIPATION

EXHIBIT _____

EXHIBIT _____

STATE/FEE

WATERFLOOD UNITS

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE

UNIT

County(ies), NEW MEXICO

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

WITNESSETH THAT:

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 Commissioner of Public Lands of the State of New Mexico is authorized by law (Sec. 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; 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; Chap. 19, Art. 10, Sec. 47, N.M. Stats. 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chap. 72, Laws 1935, as amended, being Sec. 70-2-1 et seq. N.M. Statutes 1978 Annotated) to approve this agreement and the conservation provision hereof; and

WHEREAS, the parties hereto hold sufficient interests in the _____ Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary and/or enhanced oil recovery operations, conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth.

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the Unitized Formation underlying the Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS: The oil and gas operating regulations in the effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this agreement.

SECTION 2. DEFINITIONS: For the purpose of this agreement, the following terms and expressions are used herein shall mean:

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto and said land is hereby designated and recognized as constituting the Unit Area.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Division" is defined as the Oil Conservation Division of the State of New Mexico.
- (d) "Unitized Formation" is defined as that stratigraphic interval occurring between a point of 100 feet above the top of the Queen Sand and 100 feet below the base the Queen Sand, said Queen Sand interval occurring between 3389 feet and 3420 feet in the Tenneco Oil Company Sinclair State Well No. 2 located 660 feet from the east line and 660 feet from the north line of Section 16, Township 16 South, Range 32 East, N.M.P.M., Lea County, New Mexico as recorded on the sonic log of said well dated September 2, 1963.
- (e) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.
- (f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized substances or proceed thereof other than a Working Interest.

- (h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (j) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I and Phase II, as hereinafter defined. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
- (l) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- (m) "Phase I" means the period of time beginning as of 7:00 A.M. on the effective date hereof and continuing until the first day of the month following such time as the cumulative number of barrels of oil produced, saved and removed from the Unitized Formation underlying all Tracts described in the original Exhibit "B" equals 786,162 barrels, as determined from the official production reports filed with the New Mexico Oil Conservation Division. If less than all Tracts described in original Exhibit "B" qualify for inclusion in the Unit Area under the provisions of Section 13, Tracts Qualified for Unit Participation, said barrels shall be reduced by a percentage equal to the total Phase I Tract Participation, as shown on the original Exhibit "B" of all of the unqualified Tracts.
- (n) "Phase II" means the remainder of the term of this agreement after the end of Phase I.
- (o) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit Operating Agreement, _____, _____ County, New Mexico".
- (p) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8, Successor Unit Operator, hereof.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing _____ acres, more or less.

Exhibit "A" to the extent known to Unit Operator shows the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area during Phase I and II, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this agreement as of the effective date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two copies of such revision shall be filed with the Commissioner and the Division.

SECTION 4. EXPANSION: The Unit Area may, when practicable, be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner.

- (a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into the Unit Area shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the tract or tracts proposed to be included in the Unit and/or affected by the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having a combined Phase II Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Commission:
 - (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto, and the proposed effective date thereof; and
 - (2) Furnish copies of said notice to the Commissioner and the Division, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and

- (3) File, upon the expiration of said thirty-day period as set out in Subsection (2) immediately above, with the Commissioner and Division the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified for Unit Participation, *infra*; and (d) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner and Division, become effective as of the date prescribed in the notice thereof. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain in the same ratio one to another.

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil and gas in the Unitized Formation in the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

SECTION 6. UNIT OPERATOR: _____ Company is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Commissioner and Division unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal only by unanimous vote of all Working Interest Owners other than Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and Division.

In all such instances of resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books and records, materials, appurtenances and other assets used in conducting the Unit operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners, voting in the manner provided in the Unit Operating Agreement, shall select a successor Unit Operator; provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes only to succeed itself. Such selection of a successor Unit Operator shall not become effective until: (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and Division. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this agreement terminated.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereunder in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this agreement, and in case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement executed Pursuant to this Section shall be filed with the Commissioner.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any

lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement has been reasonably proven to be productive of Unitized Substances in paying quantities or is necessary for Unit Operations and that the object and purpose of this agreement is to formulate and to put into effect a secondary enhanced oil recovery project in order to effect a greater recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Division and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, steam and any other substances or a combination of any said substances, whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geological and petroleum engineering practices and conservation methods. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary and or enhanced oil recovery operations, Unit Operator shall furnish the Commissioner and the Division monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and Division.

The initial plan of operation shall be filed with the Division and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence, if not already having done so, secondary recovery operations and/or enhanced oil recovery operations on the Unit Area not later than six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and Division or this Agreement, shall terminate automatically in which latter event the Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 12. TRACT PARTICIPATION: The percentages of Tract Participation set forth in Exhibit "C" for each Tract within the Unit Area have been calculated and determined for Phase I and Phase II hereof in accordance with the following formulas:

PHASE I
Tract Participation
Percentage = (Equals):

Formula here _____

PHASE II
Tract Participation
Percentage = (Equals):

Formula here _____

Such percentages of Tract Participation during Phase I and Phase II have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this agreement as of the effective date hereof, and such Tract Participation shall govern the allocation of all Unitized Substances produced after the effective date hereof, subject, however, to any revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts are committed hereto as of the effective date hereof Unit Operator shall promptly file with the Commissioner and Division at least two copies of revised Exhibits "B" and "C" setting forth on Exhibit "C" the revised Tract Participations opposite each of the qualified tracts, which shall be calculated by using the tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C" shall, effective as of the effective date of this agreement, supersede the original Exhibits "B" and "C" attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Division within 30 days after filing.

If, subsequent to the effective date of this agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 28, Non-joinder and Subsequent Joinder, or any committed tract is excluded herefrom under the provisions of Section 27, Loss of Title, Unit Operator shall revise said Exhibits "B" and "C" or the latest revision thereof to show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and the Division supersede, as of its effective date, the last previously effective Exhibits "B" and "C". In any such revision of Exhibit "C" the revised percentage participations of the respective tracts listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another.

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the Unit Area that are qualified as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all tracts qualifying under Section 13 (a) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "C".

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands which may be made by the owners of working interest in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and 13 (b) as such Unit Participation is determined from the Tract Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

(d) Within Sixty (60) days after the requirements for commencement of Phase II or III have not been met, the Operator will notify the Oil and Gas Division of the New Mexico State Land Office of such conversion to Phase II or Phase III.

SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the Tract Participation effective hereunder during the respective periods, either Phase I or Phase II, in which such Unitized Substances were produced, as such Tract Participation is shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal force and effect. No Tract committed to this Agreement and qualified for participation as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participations assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same

as

it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 16, Royalty Settlement, hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party (excepting the State of New Mexico) receiving the same in kind.

If any party fails to take in kind or separately dispose of its proportionate share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for making payment of all royalty to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 15. OIL IN LEASE TANKAGE ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date, hereof, any Tract is overproduced with respect to the allowable of the well or wells on the Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

SECTION 16. ROYALTY SETTLEMENT: The State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Division a like amount of gas, less appropriate deductions for loss from any cause may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formula as may be prescribed or approved by the Commissioner; and Division provided further, that such right of withdrawal shall terminate on the termination of this agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recover, which shall be in conformance with a plan first approved by the Commissioner and Division; part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division.

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

SECTION 17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for payment of any rental or minimum royalty in lieu thereof due under their leases. Rental for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

SECTION 18. 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 State laws and regulations. The use of fresh water in waterflood operations is prohibited unless expressly approved by the Commissioner of Public Lands on the basis of excessive technological or financial burden.

SECTION 19. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized lands by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

SECTION 20. 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 Commissioner, as to State leases, shall by his approval hereof or by the approval hereof by his

duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement. 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 part or separately owned Tract subject to this agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in the lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.
- (b) Drilling, producing secondary recovery or enhanced oil operations performed hereunder upon any Tract of unitized lands shall 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 land therein embraced.
- (c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Division and Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.
- (d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the terms of this agreement.
- (e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.
- (f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.
- (g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bonafide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

SECTION 21. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the record instrument of transfer; and no assignment or transfer or any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 22. EFFECTIVE DATE AND TERM: This agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 A.M. of the first day of the month next following:

- (a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners having a combined Phase II Unit Participation of at least eighty-five percent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy percent (70%) of the Phase II Royalty Interest in said Unit Area; and
- (b) The approval of this agreement by the Commissioner and the Commission; and
- (c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of _____ County, New Mexico, by the Unit Operator; and
- (d) The filing in the office of the County Clerk of _____ County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before _____, this agreement shall terminate ipso facto on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Phase II Unit Participation of at least sixty-five percent (65%) and the Working Interest Owners having a combined Phase II Unit Participation of at least eighty percent (80%) committed to this agreement have decided to extend said termination date for a period not to exceed one (1) year (hereinafter called "extended termination date"). If said

termination date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended termination date this agreement shall terminate ipso facto on said extended termination date and thereafter be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and as long thereafter as Unitized Substances are produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least ninety percent (90%) Phase II Unit Participation, as determined from Exhibit "C". The Unit Operator shall give notice of such termination to all parties hereto.

Unit Operator shall within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 23. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Commission, and to appeal from any order issued under the rules and regulations of the Commissioner or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

SECTION 24. NOTICES: All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 25. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 26. LOSS OF TITLE: In the event that any Tract ceases to have sufficient Working Interest Owners committed to this agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to the State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 27. NONJOINER AND SUBSEQUENT JOINER: As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under Section 13 hereof, Tracts Qualified for Unit Participation. Joinder in the Unit Agreement by a Working Interest Owner, at any time must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest at any time must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this agreement by the Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and set forth in Exhibit "C", by the owner or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from the effective date hereof, the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Phase II Unit Participation of not less than ninety percent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner, of duly executed documents necessary to establish effective commitment unless reasonable objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

SECTION 28. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

SECTION 29. JOINDER COMMITMENT: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 30. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the State of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 31. PERSONAL PROPERTY EXCEPTED: All lease and well equipment, materials and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 32. NO PARTNERSHIP: The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 33. CORRECTION OF ERRORS: It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Phase II Unit Participation of fifty percent (50%) or more, and the Commissioner.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

_____ By _____
BUSINESS ENTITY OFFICER SIGNATURE

Address _____ DATE OF EXECUTION

STATE OF _____)
COUNTY OF _____)ss

Acknowledgment in an Individual Capacity

This instrument was acknowledged before me on _____ Date

By _____
NAME(S) OF PERSON(S)

(SEAL)

SIGNATURE OF NOTARIAL OFFICER

My commission expires: _____

Acknowledgment in a Representative Capacity

This instrument was acknowledged before me on _____ Date

By _____
NAME(S) OF PERSON(S)

as _____ of _____
TYPE OF AUTHORITY; E.G. OFFICER, TRUSTEE, ETC. NAME OF PARTY ON BEHALF OF WHOM INSTRUMENT WAS EXECUTED

(SEAL)

SIGNATURE OF NOTARIAL OFFICER

My commission expires: _____

EXHIBIT "B". SCHEDULE OF OWNERSHIP

Schedule Showing All Lands and Leases

Within the _____ UNIT
 _____ County(ies), NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC LESSEE ROYALTY AND PERCENTAGE	OVERRIDING OF RECORD	ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
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RECAPITULATION

_____ Acres of State of New Mexico Lands = _____ %

_____ Acres of Fee Lands = _____ %

TOTAL _____ Acres **100** %

EXHIBIT "C". SCHEDULE OF TRACT PARTICIPATION

Tract Number _____ Unit Participation Percentage _____

STATE/FEDERAL/FEE WATERFLOOD UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT AREA

_____ COUNTY, NEW MEXICO

NO. _____

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT

_____ COUNTY, NEW MEXICO

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**STATE FEDERAL FEE
WATERFLOOD UNITS**

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT
_____ COUNTY, NEW MEXICO

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

WITNESSETH:

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 (30 U.S.C. §181 et seq., as amended) 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 (NMSA 1978, §§19-10-45, 19-10-46, as amended) to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (NMSA 1978, §19-10-47, as amended) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the Energy, Minerals and Natural Resources of the State of New Mexico (hereinafter referred to as the "Division") is authorized by an Act of the Legislature (NMSA 1978, §70-2-1 et seq., as amended) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interest in the Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

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

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their respective interest in the below-defined Unit Area, and agree severally among themselves as follows:

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

SECTION 2. UNIT AREA AND DEFINITIONS. For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

- (a) "Unit Area" is defined as those lands described in Exhibit "B" and depicted on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area, containing _____ acres, more or less, in _____ County, New Mexico.
- (b) "Land Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Division" is defined as the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico.
- (d) "Authorized Officer" or "A.O." is any employee of the Bureau of Land Management who has been delegated the required authority to act on behalf of the BLM.
- (e) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate.

- (f) "Department" is defined as the Department of the Interior of the United States of America.
- (g) "Proper BLM Office" is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area.
- (h) "Unitized Formation" shall mean that interval underlying the Unit Area, the vertical limits of which extended from an upper limit described as 100 feet below mean sea level or at the top of the Grayburg Formation, whichever is higher, to a lower limit at the base of the San Andres formation; the geologic markers having been previously found to occur at 3,657 feet and 5,290 feet, respectively, in Continental Oil Company's #23 Meyer B-4 well (located at 660 feet FSL and 1,980 feet FEL of Section 4, T-21-S, R-36-E, Lea County, New Mexico) as recorded on the Welex Acoustic Velocity Log taken on October 30, 1962, said log being measured from a Kelly drive bushing elevation of 3,595 feet above sea level.
- (i) "Unitized Substances" are all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons, other than outside substances, within and produced from the Unitized Formation.
- (j) "Tract" is each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentage of participation shown on Exhibit "B" for allocating Unitized Substances to a Tract under this agreement.
- (l) "Unit Participation" is the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract by the Tract Participation of such Tract.
- (m) "Working Interest" is the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, operating agreement, or otherwise held, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and operations thereof hereunder. Provided that any royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of the working interest shall continue to be subject to such working interest burdens and obligations.
- (n) "Working Interest Owner" is any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise. The owner of oil and gas rights that are free of lease or other instrument creating a Working Interest in another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.
- (o) "Royalty Interest" or "Royalty" is an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor or by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce unitized substances.
- (p) "Royalty Owner" is the owner of a Royalty Interest.
- (q) "Unit Operating Agreement" is the agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, *infra*, and shall be styled "Unit Operating Agreement, _____ Unit, _____ County, New Mexico".
- (r) "Oil and Gas Rights" is the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.
- (s) "Outside Substances" is any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.
- (t) "Unit Manager" is any person or corporation appointed by Working Interest Owners to perform the duties of Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 7 hereof.
- (u) "Unit Operator" is the party designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations.
- (v) "Unit Operations" is any operation conducted pursuant to this Agreement and the Unit Operating Agreement.
- (w) "Unit Equipment" is all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.
- (x) "Unit Expense" is all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.
- (y) "Effective Date" is the date determined in accordance with Section 24, or as re-determined in accordance with Section 39.

SECTION 3. EXHIBITS. The following exhibits are incorporated herein by reference: Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentages and kind of ownership of oil and gas

interests in all land in the Unit Area, and Tract Participation of each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. The shapes and descriptions of the respective Tracts have been established by using the best information available. Each Working Interest Owner is responsible for supplying Unit Operator with accurate information relating to each Working Interest Owner's interest. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date hereof, should be divided into more than one Tract, or when any revision is requested by the A.O., or any correction of any error other than mechanical miscalculations or clerical is needed, then the Unit Operator, with the approval of the Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any reevaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each other such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit. Copies of such revision shall be filed with the Land Commissioner, and not less than four copies shall be filed with the A.O. In any such revision, there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof.

SECTION 4. EXPANSION. The above described Unit Area may, with the approval of the A.O. and the Land Commissioner, when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement provided, however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof. Pursuant to Subsection (b), the Working Interest Owners may agree upon an adjustment of investment by reason of the expansion. Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into this unit, shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit Area and in the Tract proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if at least three Working Interest Owners having in the aggregate seventy-five percent (75%) of the Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

1. After obtaining preliminary concurrence by the A.O. and Land Commissioner, prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof; and

2. Deliver copies of said notice to Land Commissioner, the A.O. at the proper BLM Office, each Working Interest Owner and to the last known address of each lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

3. File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Land Commissioner and A.O. the following: (a) evidence of mailing or delivering copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirements of Section 14, and Section 34, infra; and (d) a copy of all objections received along with the Unit Operator's response thereto.

The expansion shall, after due consideration of all pertinent information and approval by the Land Commissioner and the A.O., become effective as of the date prescribed in the notice thereof, preferably the first day of the month subsequent to the date of notice. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain the same ratio one to another.

SECTION 5. UNITIZED LAND. All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land subject to this Agreement". Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as defined in Section 2 (h) of this Agreement.

SECTION 6. UNIT OPERATOR. _____ is hereby designated the Unit Operator, and by signing this instrument as Unit Operator, agrees and consents to accept the duties and obligations of Unit Operator for the operation, development, and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, when such interest are owned by it and the term "Working Interest Owner" when used herein shall include or refer to the Unit Operator as the owner of a Working Interest when such an interest is owned by it.

Unit Operator shall have a lien upon interests of Working Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Land Commissioner and the A.O. unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by Working Interest Owners having in the aggregate eighty percent (80%) or more of the Unit Participation then in effect exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the A.O.

In all such instances of effective resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, books and records, materials, appurtenances and any other assets used in connection with the Unit Operations to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected. Nothing herein shall be construed as authorizing the removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator or Unit Manager who resigns or is removed hereunder from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or the A.O., at their election, may declare this Agreement terminated.

In selecting a successor Unit Operator, the affirmative vote of three or more Working Interest Owners having a total of sixty-five percent (65%) or more of the total Unit Participation shall prevail; provided that if any one Working Interest Owner has a Unit Participation of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one or more other Working Interest Owners having a total Unit Participation of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of the owners of at least seventy-five percent (75%) of the Unit Participation remaining after excluding the Unit Participation of Unit Operator so removed.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Land Commissioner and with the A.O. at the Proper BLM Office as required prior to approval of this Agreement.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto including surface rights which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or enhanced recovery purposes in accordance with a plan of operation approved by the Working Interest Owners, the A.O., the Land Commissioner and the Division, including the right to drill and maintain injection wells on the Unitized Land and completed in the Unitized Formation, and to use abandoned well or wells producing from the Unitized Formation for said purpose. Subject to like approval, the Plan of Operation may be revised as conditions may warrant.

The initial Plan of Operation shall be filed with the A.O., the Land Commissioner and the Division concurrently with the filing of the Unit Agreement for final approval. Said initial plan of operations and all revisions thereof shall be as complete and adequate as the A.O., the Land Commissioner and the Division may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement and the initial plan by the A.O. and Commissioner, said plan, and all subsequently approved plans, shall constitute the operating obligations of the Unit Operator under this Agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operations. After such operations are commenced, reasonable diligence shall be exercised by the Unit Operator in complying with the obligations of the approved Plan of Operation.

Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within eighteen (18) months after the effective date of this Agreement, or any extension thereof approved by the A.O., this Agreement shall terminate automatically as of the date of default.

SECTION 12. USE OF SURFACE AND USE OF WATER. The parties to the extent of their rights and interests, hereby grant to Unit Operator the right to use as much of the surface, including the water thereunder, of the Unitized Land as may reasonably be necessary for Unit Operations.

Unit Operator's free use of water or brine or both for Unit Operations, shall not include any water from any well, lake, pond or irrigation ditch of a surface owner, unless approval for such use is granted by the surface owner.

Unit Operator shall pay the surface owner for damages to growing crops, fences, improvements and structures on the Unitized Land that result from Unit Operations, and such payments shall be considered as items of unit expense to be borne by all the Working Interest Owners of lands subject hereto.

SECTION 13. TRACT PARTICIPATION. In Exhibit "B" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation, during Unit Operations if all Tracts in the Unit Area qualify as provided herein. The Tract Participation of each Tract as shown in Exhibit "B" was determined in accordance with the following formula:

$$\text{Tract Participation} = 50\% \text{ A/B} + 40\% \text{ C/D} + 10\% \text{ E/F}$$

- A = the Tract Cumulative Oil Production from the Unitized Formation as of September 30, 1982.
- B = the Unit Total Cumulative Oil Production from the Unitized Formation as of September 30, 1982.
- C = the Remaining Primary Oil Reserves from the Unitized Formation for the Tract, beginning October 1, 1982, as determined by the Technical Committee on February 25, 1983.
- D = the Remaining Primary Oil Reserves from the Unitized Formation for all Unit Tracts, beginning October 1, 1982, as determined by the Technical Committee on February 25, 1983.
- E = the amount of oil produced from the Unitized Formation by the Tract from January 1, 1982, through September 30, 1982.
- F = the amount of oil produced from the Unitized Formation by all Unit Tracts from January 1, 1982, through September 30, 1982.

In the event less than all Tracts are qualified on the Effective Date hereof, the Tract Participation shall be calculated on the basis of all such qualified Tracts rather than all Tracts in the Unit Area.

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances shall be those Tracts more particularly described in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public road or a railroad right-of-way shall be considered to have a common boundary), and that otherwise qualify as follows:

- (a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have become parties to this Agreement.
- (b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owners owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract have joined in a request for the inclusion of such Tract, and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the combined Unit Participation in all Tracts that meet the requirements of Section 14 (a) above have voted in favor of the inclusion of such tract.
- (c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owner owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract, and have executed and delivered, or obligated themselves to execute and deliver an indemnity agreement indemnifying and agreeing to hold harmless the other owners of committed Working Interests, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such Tract who are not parties to this Agreement, and which arise out of the inclusion of the Tract; and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the Unit Participation in all Tracts that meet the requirements of Section 14 (a) and 14 (b) have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. Upon the inclusion of such a Tract, the Tract Participation which would have been attributed to the non-subscribing owners of Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, and joined in the indemnity agreement, in proportion to their respective Working Interests in the Tract.

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Land Commissioner and the A.O., file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in Unitized Substances. Said schedule shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such tract which shall

be computed according to the participation formula set forth in Section 13 (Tract Participation) above. This schedule of participation shall be revised Exhibit "B" and upon approval thereof by the Land Commissioner and the A.O., shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Land Commissioner and the A.O.

SECTION 15.A. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for injection or unavoidable loss in accordance with a Plan of Operation approved by the A.O. and the Land Commissioner) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B". The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for, to the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tracts, or in the proceeds thereof, had this Agreement not been entered into; and with the same legal force and effect.

No Tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances.

If the Working Interest and/or the Royalty Interest in any Tract are divided with respect to separate parcels or portions of such Tract and owned now or hereafter in severalty by different persons, the Tract Participation shall in the absence of a recordable instrument executed by all owners in such Tract and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

SECTION 15.B. EXCESS IMPUTED NEWLY DISCOVERED CRUDE OIL. Each Tract shall be allocated any excess imputed newly discovered crude oil in the proportion that its Tract Participation bears to the total of the Tract Participations of all Tracts not previously allocated the total number of barrels of crude oil allocable to these Tracts out of unit production in accordance with the Tract Participations of such Tracts; provided, however, that excess imputed newly discovered crude oil allocated to each such Tract, when added to the total number of barrels of imputed newly discovered crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15.C. EXCESS IMPUTED STRIPPER CRUDE OIL. Each Tract shall be allocated any excess imputed stripper crude oil in the proportion that its Tract Participation bears to the total of the Tract Participations of all Tracts not previously allocated the total number of crude oil barrels allocable to these Tracts out of unit production in accordance with the Tract Participations of such Tracts; provided, however, that excess imputed stripper crude oil allocated to each such Tract, when added to the total number of barrels of imputed stripper crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15.D. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unitized Area, provided the same are so constructed, maintained and operated as not to interfere with Unit Operations. Subject to Section 17 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party taking delivery. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation then so long as such condition continues, Unit Operator, for the account and at the expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may, but shall not be required to, sell or otherwise dispose of such production to itself or to others, provided that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year, and at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all royalty, overriding royalty and production payments due thereon, and each such party shall hold each other Working Interest Owner harmless against all claims, demands and causes of action by owners of such royalty, overriding royalty and production payments.

If, after the Effective Date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the Effective Date hereof but which are subsequently committed hereto under the provisions of Section 14 (Tracts Qualified for Participation) and Section 32 (Non-joinder and Subsequent Joinder); or if any Tract is excluded from this Agreement as provided for in Section 21 (Loss of Title), the schedule of participation as shown in Exhibit "B" shall be revised by the Unit Operator; and the revised Exhibit "B", upon approval by the Land Commissioner and the A.O., shall govern the allocation of production on and after the effective date thereof until a revised schedule is approved as hereinabove provided.

SECTION 16. OUTSIDE SUBSTANCES. If gas obtained from formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulating of production or increasing ultimate recovery which shall be in conformity with a Plan of Operation first approved by the Land Commissioner and the A.O., a like amount of gas with appropriate deduction for loss or depletion from any cause may be withdrawn from unit wells completed in the Unitized Formation royalty free as to dry gas, but not royalty free as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved Plan of Operation or as otherwise may be consented to or

prescribed by the Land Commissioner and the A.O. as conforming to good petroleum engineering practices and provided further that such right of withdrawal shall terminate on the termination date of this Agreement.

SECTION 17. ROYALTY SETTLEMENT. The State of New Mexico and United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under the leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Agreement. With respect to Federal leases committed hereto on which the royalty rate depends upon the daily average production per well, such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline runs per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the Effective Date hereof, provided that any Tract not having any well so capable of producing Unitized Substances on the Effective Date hereof shall be considered as having one such well for the purpose of this provision.

All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts committed hereto, in lieu of actual production from such Tract or Tracts.

With the exception of Federal and State requirements to the contrary, Working Interest Owners may use or consume Unitized Substances for Unit Operations and no Royalty, overriding royalty, production or other payments shall be payable on account of Unitized Substances used, lost, or consumed in Unit Operations.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

SECTION 18. RENTAL SETTLEMENT. Rentals or minimum Royalties due on the leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum Royalty in lieu thereof, due under their leases. Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico. Rental or minimum Royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless such rental or minimum Royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 19. 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 Federal and State laws and regulations.

SECTION 20. DRAINAGE. The Unit Operator shall take all reasonable and prudent measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

The Unit Operator, upon approval by the Working Interest Owners, the A.O. and the Land Commissioner, is hereby empowered to enter into a borderline agreement or agreements with working interest owners of adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum economic recovery, conservation purposes and proper protection of the parties and interest affected.

SECTION 21. LOSS OF TITLE. In the event title to any Tract of unitized land shall fail and the true owner cannot be induced to join in this Agreement, such Tract shall be automatically regarded as not committed hereto, and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any Royalty, Working Interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to State or Federal lands or leases, no payments of funds due the United States or the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the A.O. or the Land Commissioner (as the case may be) to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the direction of Working Interest Owners shall either:

- (a) require that the party to whom such Unitized Substance are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or
- (b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto.

Each Working Interest Owner shall indemnify, hold harmless, and defend all other Working Interest Owners against any and all claims by any party against the interest attributed to such Working Interest Owner on Exhibit "B".

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

SECTION 22. 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 Land Commissioner, respectively, shall and by their 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.

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 Tract subject to this Agreement, regardless of whether there is any development of any Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.
- (b) Drilling, producing or improved recovery operations performed hereunder shall be deemed to be performed upon and for the benefit of each Tract, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.
- (c) Suspension of drilling or producing operations within the Unit Area pursuant to direction or consent of the Land Commissioner and the A.O., or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract within the Unitized Area.
- (d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil and gas which by its terms might expire prior to the termination of this Agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.
- (e) Any lease embracing lands of the State of New Mexico which is made subject to this Agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.
- (f) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the Effective Date hereof. Provided, however, that notwithstanding any of the provisions of this Agreement to the contrary, such lease (including both segregated portions) shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this Agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or improved recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.
- (g) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

SECTION 23. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photo static or certified copy, of the recorded instrument or transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photo static or certified copy, of the recorded instrument or transfer.

SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective on the first day of the calendar month next following the approval of this Agreement by the A.O., the Land Commissioner and the Commission.

If this Agreement does not become effective on or before _____, it shall ipso facto expire on said date (hereinafter call "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by

Working Interest Owners owning a combined Participation of at least seventy-five percent (75%); and at least seventy-five percent (75%) of such Working Interest Owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before the Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

Unit Operator shall file for record within thirty (30) days after the Effective Date of this Agreement, in the office of the County Clerk of _____ County, New Mexico, where a counterpart of this Agreement has become effective according to its terms and stating further the effective date.

The terms of this Agreement shall be for and during the time that Unitized Substances are produced from the unitized land and so long thereafter as drilling, reworking or other operations (including improved recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days unless sooner terminated as herein provided.

This Agreement may be terminated with the approval of the Land Commissioner and the A.O. by Working Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable, or in the interest of conservation. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of _____ County, New Mexico, within thirty (30) days of the effective date of termination.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement had never been entered into.

Notwithstanding any other provisions in the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 25. RATE OF PROSPECTING, DEVELOPMENT & PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State Statute. The A.O. is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Division to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Land Commissioner and as to any lands in the State of New Mexico or privately-owned lands subject to this Agreement or to the quantity and rate of production from such lands in the absence of specific written approval thereof by the Division.

Powers in this Section vested in the A.O. shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.

SECTION 26. NONDISCRIMINATION. Unit Operator in connection with the performance of work under this Agreement relating to leases of the United States, agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246, (30 F.R. 12319), which are hereby incorporated by reference in this Agreement.

SECTION 27. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Land Commissioner, the Department, and the Division, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department or the Division, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner, the Department or the Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 28. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified or registered mail, addressed to such party or parties at their last known address set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 29. NO WAIVER OF CERTAIN RIGHT. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, each party hereto covenants that it will not resort to any action to partition the unitized land or the Unit Equipment.

SECTION 30. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this Agreement various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized Land as now or hereafter constituted. Therefore, for all purposes of this Agreement, any such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement, and it is agreed that any such equipment and personal property shall be and remain personal property of the Working Interest Owners for all purposes.

SECTION 31. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue improved recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in

whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 32. NONJOINER AND SUBSEQUENT JOINER. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to this Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Agreement.

Any oil or gas interest in the Unitized Formations not committed hereto prior to submission of this Agreement to the Land Commissioner and the A.O. for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time up to the Effective Date hereof on the same basis of Tract Participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after the Effective Date hereof the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners owning not less than sixty-five percent (65%) of the Unit Participation then in effect, and approved by the Land Commissioner and the A.O. Such subsequent joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement and, where State or Federal land is involved, such joinder must be approved by the Land Commissioner or the A.O. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective as of the first day of the month following the filing with the Land Commissioner and A.O. of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Land Commissioner or the A.O., is duly made sixty (60) days after such filing.

SECTION 33. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing, specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the land within the described Unit Area. Furthermore, this Agreement shall extend to and be binding on the parties hereto, their successors, heirs and assigns.

SECTION 34. JOINER IN DUAL CAPACITY. Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such party; provided, that if the party is the owner of a Working Interest, he must also execute the Unit Operating Agreement.

SECTION 35. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 36. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligation as herein provided.

SECTION 37. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all leases and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection, in such tanks as of 7:00 a.m. on the Effective Date hereof. All such oil which has been produced in accordance with established allowables shall be and remain the property of the Working Interest Owner entitled thereto, the same as if the unit had not been formed; and the responsible Working Interest Owner shall promptly remove said oil from the unitized land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms hereof. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after Effective Date hereof.

If, as of the Effective Date hereof, any Tract is overproduced with respect to the allowable of the wells on that Tract and the amount of over-production has been sold or otherwise disposed of, such over-production shall be regarded as a part of the Unitized Substances produced after the Effective Date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

SECTION 38. NO SHARING OF MARKET. This Agreement is not intended to provide and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale or marketing of Unitized Substances.

SECTION 39. STATUTORY UNITIZATION. If and when Working Interest Owners owning at least seventy-five percent (75%) Unit Participation and Royalty Owners owning at least seventy-five percent (75%) Royalty Interest have become parties to this Agreement or have approved this Agreement in writing and such Working Interest Owners have also become parties to the Unit Operating Agreement, Unit Operator may make application to the Division for statutory unitization of the uncommitted interests pursuant to the Statutory Unitization Act (Chapter 65, Article 14, N.M.S. 1953 Annotated). If such application is made and statutory unitization is approved by the Division, then effective as of the date of the Division's order approving statutory unitization, this Agreement and/or the Unit Operating Agreement shall automatically be revised and/or amended in accordance with the following:

- (1) Section 14 of this Agreement shall be revised by substituting for the entire said section the following:

"SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, all Tracts within the Unit Area shall be entitled to participation in the production of Unitized Substances."

- (2) Section 24 of this Agreement shall be revised by substituting for the first three paragraphs of said section the following:

"SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement, as amended (if any amendment is necessary) to conform to the Division's order; approval of this Agreement, as so amended, by the Land Commissioner; and the A.O. and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of _____ County, New Mexico. Unit Operator shall not file this Agreement or notice thereof for record, and hence this Agreement shall not become effective, unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied, such filing is approved by Working Interest Owners owning a combined Unit Participation of at least sixty-five percent (65%) as to all Tracts within the Unit Area.

"Unit Operator shall, within thirty (30) days after the Effective Date of this Agreement, file for record in the office of the County Clerk of _____ County, New Mexico, a certificate to the effect that this Agreement has become effective in accordance with its terms, therein identifying the Division's order approving statutory unitization and stating the Effective Date."

- (3) This Agreement and/or the Unit Operating Agreement shall be amended in any and all respects necessary to conform to the Division's order approving statutory unitization.

Any and all amendments of this Agreement and/or the Unit Operating Agreement that are necessary to conform said agreements to the Division's order approving statutory unitization shall be deemed to be hereby approved in writing by the parties hereto without any necessity for further approval by said parties, except as follows:

- (a) If any amendment of this Agreement has the effect of reducing any Royalty Owner's participation in the production of Unitized Substances, such Royalty Owner shall not be deemed to have hereby approved the amended agreement without the necessity of further approval in writing by said Royalty Owner; and
- (b) If any amendment of this Agreement and/or the Unit Operating Agreement has the effect of reducing any Working Interest Owner's participation in the production of Unitized Substances or increasing such Working Interest Owner's share of Unit Expense, such Working Interest Owner shall not be deemed to have hereby approved the amended agreements without the necessity of further approval in writing by said Working Interest Owner.

[Signature sheet follows.]

Executed as of the day and year first above written.

_____ By _____
BUSINESS ENTITY SIGNATURE OF OFFICER

Date of execution _____

STATE OF _____)
COUNTY OF _____) ss

Acknowledgment in an Individual Capacity

This instrument was acknowledged before me on _____ Date

By _____
NAME(S) OF PERSON(S)

SEAL

SIGNATURE OF NOTARIAL OFFICER

My commission expires _____

Acknowledgment in a Representative Capacity

This instrument was acknowledged before me on _____ Date

By _____
NAME(S) OF PERSON(S)

as _____ of _____
TYPE OF AUTHORITY, E.G., OFFICER, TRUSTEE, ETC. NAME OF PARTY ON BEHALF OF WHOM INSTRUMENT WAS EXECUTED

SEAL

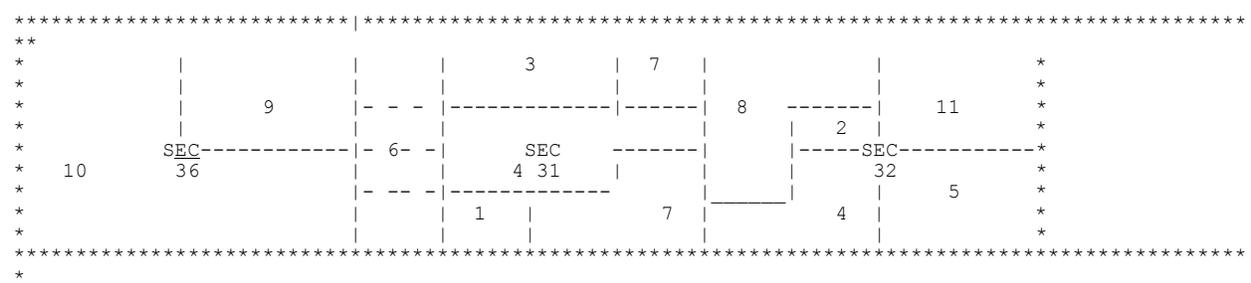
SIGNATURE OF NOTARIAL OFFICER

My commission expires _____

EXHIBIT "A". MAP OF UNIT AREA

_____ UNIT

_____ COUNTY, NEW MEXICO



FEDERAL LANDS:

STATE LANDS:

FEE LANDS:

TRACT NUMBER:

UNIT OUTLINE: *****

EXHIBIT "B". SCHEDULE OF OWNERSHIP

Schedule Showing All Lands and Leases

Within the _____ UNIT
 _____ COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER & EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
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RECAPITULATION

_____ Acres of State of New Mexico Lands = _____ %
 _____ Acres of Fee Lands = _____ %
TOTAL _____ Acres **100** %

EXHIBIT "C". SCHEDULE OF TRACT PARTICIPATION

TRACT NUMBER _____ UNITIZED PARTICIPATION PERCENTAGE _____ %

**COMMONLY ASKED QUESTIONS REGARDING UNITS
In the State of New Mexico**

These questions are divided according to the following categories:

- I. General Questions
- II. Role of the Oil Conservation Division – the OCD
- III. Extension of State Leases
- IV. Segregation of State Leases
- V. Ratifications of the Unit Agreement
- VI. Drilling Requirements on Exploratory Units
- VII. Commercial Determination of Unit Wells
- VIII. Unit Production Allocation
- IX. Plans of Development
- X. Subsequent Joinder

******* PLEASE NOTE *******

MOST of the following questions can be answered simply by reading your Unit Agreement. In some cases, the terms of your Unit Agreement may differ from those in the Sample Forms provided in the Manual. The approved Unit Agreement is the legal contract that defines the terms of a particular unit. As such, the terms of the approved Unit Agreement supersede any of the answers to the general questions contained herein.

If you have any other questions or need additional information regarding Unitization in New Mexico, help is available from the following agencies:

STATE LAND OFFICE – OIL, GAS, & MINERALS DIVISION (Santa Fe)
Pete Martinez 505-827-5791

NM ENERGY, MINERALS & NATURAL RESOURCES DEPT. –
OIL CONSERVATION DIVISION (OCD) (Santa Fe)
505-476-3440

US BUREAU OF LAND MANAGEMENT
(BLM) (Roswell)
505-627-0248

I. GENERAL QUESTIONS

1. What is an acceptable time frame for receiving SLO approval?

Typically, you should allow a minimum of two months for the processing of an exploratory unit application or a waterflood unit application.

2. What are the different types of units?

There are four types of units in New Mexico. A different Unit Agreement form is used for each type of unit.

The State/Fee forms are used for units containing state and fee land, and for units containing *only* state lands.

Similarly, the State/Federal/Fee forms are used for units containing state, federal, and fee lands, and for units containing state and federal lands.

1. State/Federal/Fee Exploratory Units
2. State/Fee Exploratory Units
3. State/Federal/Fee Waterflood Units
4. State/Fee Waterflood Units

In addition to the above, there are also Federal/Fee and Federal Units. Please contact the BLM for information on such units. If the unit does NOT contain any state leases, approval by the State Land Office is not required. However, BLM and OCD approval is required on federal and federal/fee units located in the State of New Mexico.

3. Can I be forced to join an exploratory unit?

No, only waterflood/secondary recovery Unit Agreements have a provision for statutory unitization under which all tracts are committed to the Unit.

4. What percentage of tracts must be committed?

It is the policy of this office that, at minimum, 75% of the acreage must be committed to the Unit Agreement. This minimum can be increased at the discretion of the Commissioner of Public Lands.

5. Can I have OPEN state acreage inside the unit boundary?

No. The Commissioner will not approve any Units containing open state trust lands within the boundary.

6. What must I submit in my unit package?

See “Requirements for Preliminary Approval” and “Requirements for Final approval” in this Manual for the information to be submitted in the Unit application package.

7. What is the difference between the *Unit Agreement* and the *Unit Operating Agreement*?

The *Unit Agreement* is a legal contract between the Commissioner of Public Lands and the Unit Operator, the Lessees of Record, and the Working Interest Owners; it supersedes any conflicting language in the lease contract. The *Unit Operating Agreement* is a legal contract between the Unit Operator and the Working Interest Owners and has no effect on the lease contract.

8. What is a participating area?

A Participating Area is that portion of the unit area to which production of a commercial well is allocated as defined in a State/Federal/Fee Exploratory Unit Agreement. Production is allocated in State/Fee Exploratory Units according to established state spacing requirements.

9. Does the state have a set of instructions outlining the steps necessary to form a state exploration unit?

Yes. The information required for [preliminary](#) and [final approval](#) of a unit containing State of New Mexico Trust Lands is included in the first pages of this section on Units and Unitizations.

10. Does the state require a geological report?

Yes. A list of information to be submitted in the [geologic](#) report is included immediately following the preliminary and final approval information.

11. Does the state help or offer suggestions in determining which lands are to be included in a unit?

Not directly. If the unit boundary does not comply with State Land Office Rules, or contradicts the submitted engineering or geologic reports, the Commissioner of Public Lands will not approve it.

12. Who approves the depth of the initial test well: the Commissioner or the OCD?

Unless drilling depths are specified in the Unit Agreement, the Unit Operator specifies the depth of the initial test well.

13. In determining the unit outline, is it necessary to obtain preliminary approval by the Commissioner?

It is not necessary, however, it is in the Unit Operator's best interest to have received preliminary approval well in advance of the OCD hearing and the submittal of the application for final approval.

14. Is it necessary to obtain approval of the Commissioner as to the *form* of the Unit Agreement prior to seeking signatures and submitting the package for final approval?

Again, it is not necessary to obtain SLO approval of the form and content of the Unit Agreement prior to seeking signatures and submitting for final approval. It is, however, in the Unit Operator's best interest to have received *preliminary* approval prior to *final* approval.

15. What are the SLO filing fees for Units?

The filing fee for a Unit is thirty dollars (\$30.00) for each section or partial section of lands contained within the unit boundary.

16. Does the state have a printed form of the Unit Agreement for a state unit?

Yes, you will find sample copies of all four Unit Agreement forms in this *Manual* and at www.nmstatelands.org the Land Office's website. In addition, printed forms are available free by US mail. We also offer forms for sale in electronic formats; please contact Pete Martinez, our Units Manager, for prices at 505-827-5791.

17. Throughout a federal exploratory unit, reference is made to the Authorized Officer (AO), the Commissioner, and the Division. What happens if the Commissioner or the OCD disagrees with the Bureau of Land Management AO?

Generally speaking, we have good communication with both the OCD and the BLM and we address any problems in advance of the deadlines for final approval.

18. Is the information submitted with the unit application package confidential?

Many times some of the information in the unit application package is considered confidential -- especially the maps and some engineering information. If that is the case, please mark those exhibits *CONFIDENTIAL*.

There is a rule of this State Land Office that addresses this question further. It is Rule 19.2.100.51C Information to be furnished:

Complete geological and engineering data shall be presented with the application and the information offered for the Commissioner's action must be in clear and understandable form. Such data shall be kept confidential by the Commissioner pursuant to 19-1-2.1 NMSA 1978 for a period of six (6) months or until the unit agreement is approved, whichever first occurs. Then such data will be made a permanent part of the records and open for public inspection. If for any reason such proposed agreement is not approved, then at the request of the applicant, the data shall be returned to the applicant.

II. ROLE OF THE OIL CONSERVATION DIVISION - OCD

1. What does the OCD approve?

The Oil Conservation Division must approve your unit *prior* to its approval by the Commissioner of Public Lands. This requires a hearing by the OCD. The OCD schedules hearings every other week, and application for a hearing must be filed at least **22 days in advance** of the hearing date.

Contact the OCD office in Santa Fe at 505-476-3440.

2. Is it necessary to obtain OCD approval of a unit *before* the State Land Office approves?

Yes. Before the Commissioner of Public Lands grants final approval, the OCD must sign and approve the order.

III. EXTENSION OF STATE LEASES

1. What happens to short term leases in an exploratory unit?

According to the Unit Agreement, if drilling of the initial test well commences prior to the expiration of the shortest-term state lease, each state lease will continue in force as long as the Unit Agreement remains in effect.

This information is found in Section 13 of the State/Fee Exploratory Unit Agreement and Section 18-h of the State/Federal/Fee Exploratory Unit Agreement.

2. How long will state leases be held by unit production of a federal exploratory unit?

For units pre-1985, please refer to your Unit Agreement. For 1985 and newer units, the following applies:

A State lease will continue in force for the primary term of the Unit Agreement whether or not there is production from that State lease as specified by the Unit Agreement. After the unit contracts, at the end of the primary 5-year term under automatic elimination, the portion of any State lease contained in an active participating area will continue in force under the terms of the Unit Agreement. Portions of the lease outside the unit participating area are held *only if* the producing wells are located on any portion of that State lease. Remember, a State/Federal/Fee Exploratory Unit Agreement contains the *modified segregation clause*.

3. What is the automatic elimination clause?

It is a required clause in an Exploratory Unit Agreement that eliminates any non-developed tracts from the unit five years after the effective date of the Unit unless diligent drilling operations are in progress on unitized lands not entitled to participation. The Automatic Elimination clause is found at the end of Section 9 in the State/Fee Exploratory Unit Agreement and in Section 2-e in the State/Federal/Fee Exploratory Unit Agreement.

4. If a unit (whether state or federal) terminates for any reason, do the state leases get any sort of extension beyond their numerical term?

Not unless there is production from that State lease.

5. Will approval of the Unit Agreement extend a state lease beyond its numerical term if there is no drilling on the exploratory unit?

No.

IV. SEGREGATION OF STATE LEASES

1. What is the difference between a strict segregation clause and a modified segregation clause?

The segregation clauses apply to those State leases wherein only part of the lease is within the unit boundary. The following explanation applies to “new” (1985 and after) units. Please refer to your Unit Agreement if your unit is pre-1985.

STRICT SEGREGATION: State/Fee Exploratory Unit Agreements contain the strict segregation clause. Under the terms of this clause, production from the unit, even if the wells are on that portion of the lease inside the unit, will NOT hold the portion of the lease outside of the unit boundary. Please refer to Section 13 of the State/Fee Exploratory Unit Agreement for details.

MODIFIED SEGREGATION: There are two types of modified segregation clauses: the first type is applicable to State/Federal/Fee Exploratory Units, and the second applies to State/Fee and State/Federal/Fee Waterflood Units.

Under the terms of the modified segregation clause in the State/Federal/Fee Exploratory Unit Agreement, production from a well on a portion of the lease inside the unit area will hold that portion of the lease outside the unit boundary. Please refer to Section 18i of the State/Federal/Fee Unit Agreement.

Under the terms of the modified segregation clause as it applies to both State/Fee and State/Federal/Fee Waterflood Units, production of oil or gas from the portion of the lease or production allocated to the portion of the lease inside the unit area will hold that portion of the lease outside the unit boundary. For details, please refer to Section 20g of the State/Fee and Section 22f of the State/Federal/Fee Waterflood Unit Agreement.

2. Will production on a portion of a state lease that is outside a unit also perpetuate that part inside the Unit?

Yes. The portion of the State lease inside the unit will be perpetuated under both strict and modified segregation clauses.

3. If a state lease is already perpetuated by production and is then segregated by an Exploratory Unit, does the non-productive portion terminate upon approval of the unit or is the entire lease perpetuated just as if there were no unit?

If there are productive wells on the lease they must be outside the unit boundary, and the lease is held by production.

4. Can a State lease be segregated by a so-called deep unit wherein there is established shallow production and only the deeper formation is unitized?

Yes. The Unit Agreement can segregate a State lease in this manner.

V. RATIFICATIONS

1. Who must ratify the Unit Agreement and Unit Operating Agreement?

Both the Lessees of Record and the Working Interest Owners must ratify the Unit Agreement, and the Working Interest Owners must ratify the Unit Operating Agreement.

2. If all (100%) of operating rights on a state lease have been assigned to someone other than the Lessee of Record, is it necessary that the Lessee of Record sign the Unit Agreement?

Yes, according to statute 19-10-45 NMSA.

VI. DRILLING REQUIREMENTS

1. What are the drilling requirements for an Exploratory Unit?

The drilling requirements for a State/Fee or State/Federal/Fee Exploratory Unit are addressed in detail in the Unit Agreement. See Section 8 of the State/Fee form and Section 9 of the State/Federal/Fee form.

2. Once an Exploratory Unit is approved by the Commissioner, how long does the operator have before he must commence the initial well?

In order to hold the short term State leases, drilling must commence prior to the expiration of the shortest term State lease. Otherwise, the following applies:

State/Fee Exploratory Unit: the Unit Operator must commence drilling operations within 60 days after the effective date of the Unit.

State/Federal/Fee Exploratory Unit: the Unit Operator must commence drilling operations within 6 months after the effective date of the unit.

3. Once an initial test well is drilled and completed as a dry-hole, how long does the operator have to commence a second test well?

For both State/Fee and State/Federal/Fee Exploratory Units, the Unit Operator has 6 months from the completion of the initial, non-commercial well within which to commence drilling of the second test well.

4. What happens if I am unable to get an exploratory well drilled within the required time period on a State/Fee Unit?

If the initial test well is not drilled within the allotted time frame, the Commissioner of Public Lands has the option of terminating the unit. The Commissioner, at his discretion, may grant drilling extensions for the initial, the second and subsequent test wells on a State/Fee Exploratory Unit. The request for an extension must be submitted, in writing, to the Commissioner PRIOR to the expiration date of the shortest term lease or 60 days after the effective date, or before the expiration of the 6 months allowed after the completion of the previous test well.

5. If a second test well on a State/Fee Exploratory Unit is NOT commenced, does the Unit Agreement automatically terminate?

If the drilling requirements of the Unit Agreement are not met, the Commissioner of Public Lands can, at his discretion, terminate the unit. Extensions may be granted as discussed in #4 above.

6. If an operator obtains good production in one or two wells but fails to continue drilling and development, what happens to the unit?

See Section 9 of the State/Fee and Section 10 of the State/Federal/Fee Exploratory Unit Agreement for a discussion of development of the unit after discovery.

7. If unit production ceases on a state unit, how long does the operator have to commence additional drilling or re-working?

The operator must commence additional drilling or re-working within 60 days after unit production ceases. The amount of time allowed for the Unit Operator to commence drilling or re-working on a State/Fee Exploratory Unit is not specified in the Unit Agreement, but is specified as 60 days under the terms of the State oil and gas lease contract.

For a State/Federal Fee Exploratory Unit, please refer to Section 20-c of the State/Federal/Fee Exploratory Unit form.

8. Assuming all state leases within a State/Fee or a State/Federal/Fee Exploratory Unit are beyond their numerical terms, and unit production ceases, can the Unit Operator save the unit and all leases by drilling a new well, or must he attempt to re-work and restore production?

Yes, the Unit Operator can save the unit and all leases after unit production ceases as long as diligent operations are in progress for restoration of production or discovery of new production within 60 days after production ceases. Please refer to Section 17 of the State/Fee and Section 20-c of the State/Federal/Fee Exploratory Unit Agreement.

VII. COMMERCIAL DETERMINATION

1. Assuming that the OCD and the Commissioner have approved a State/Fee Exploratory Unit, and that a questionable well has been completed, who determines whether or not the well will qualify as a unit well?

The commerciality of the well in question must be established to the satisfaction of the Commissioner of Public Lands.

2. If the questionable well is located on State land committed to a State/Federal/Fee Exploratory Unit, who makes the determination of whether or not it is a qualifying unit well?

In a State/Federal/Fee Exploratory Unit, the determination of commerciality depends on where the well is drilled. If the well is drilled on State land, the Commissioner of Public Lands makes the determination. If the well is on Federal land, the BLM makes the determination, and if the well is on Fee land, the OCD makes the determination.

3. When must I submit a commercial determination?

According to Sections 8 and 9 of the State/Fee and Section 9 and 10 of the State/Federal/Fee Unit Agreements, if a well is believed to be commercial and the BLM and the SLO concur, the Unit Operator must submit a Plan of Development within 6 months of the completion of the commercial well. This plan must be approved by the Commissioner of Public Lands for a State/Fee Exploratory Unit; it must be approved by the Commissioner of Public Lands, the BLM, and the OCD if it is a State/Federal/Fee Exploratory Unit.

As such, the commercial determination must be submitted prior to that time. If the well is not commercial, the Unit Operator must be drilling on a second well within 6 months of completion of the previous test well. See also VI #4 above.

4. What do I submit in a commercial determination package?

For a well to be considered commercial, it must be able to produce in paying quantities. This means that it must be able to repay the costs of drilling, completion, and producing operations with a reasonable profit. You should submit information that will economically justify this.

5. What happens to production from a producing well that is not good enough to be considered as a unit well on a State/Federal/Fee Exploratory Unit?

In this case, the well is produced on a lease basis. For details, please see the last paragraph in Section 11 of the State/Federal/Fee Exploratory Unit Agreement.

VIII. PRODUCTION ALLOCATION

Once it is determined that the initial test well qualifies as a unit well, how is production allocated among the different tracts or leases committed to and within the unit?

There are subtle differences in the way oil and gas production is allocated for the different types of units. The following table lists the section of each unit agreement where the details of production allocation can be found.

Type of Unit	Section in Agreement Form
State/Fee Exploratory	Section 11
State/Federal/Fee Exploratory	Section 12
State/Fee Waterflood	Section 14
State/Federal/Fee Waterflood	Section 15.A

Sample

INDIAN HILLS UNIT ALLOCATION OF STATE ROYALTY INTEREST FOR THE FIRST REVISION OF LOWER PENNSYLVANIAN PARTICIPATING AREA

The question: What are the correct participation factors for the Indian Hills Unit Well #7 and Indian Hills Unit Com Well #6.

Facts:

- Well #7 is located in Section 16, Township 21S, Range 24E.
- Com Well #6 is located in Section 17, Township 21S, Range 24E.
- All of Section 16 is state trust land.
- Forty acres of Section 17 is NOT committed to the unit and is state trust land, but shares in well #6 by virtue of a communitization agreement covering all of Section 17. All of Sec. 17 is federal land with the exception of the 40 acres of state trust land.
- The unit participating area for both wells consists of all of Sec. 16, and all of Sec.17 with the exception of 40 acres.

Calculation of State's royalty interest, assuming 1/8 (0.125) royalty rate for all leases, federal and state:

$$40/640 \times 0.125 = 0.0078125$$

$$640/1240 \times 0.125 = 0.064516$$

In calculating the total royalty value for these two wells, one would first have to deduct the non-unit production from well #6, and then the remaining production from both wells would be allocated using the royalty interest for the unit, as shown in the second calculation above.

IX. PLANS OF DEVELOPMENT

1. When must Plans of Development – also referred to as Plans of Operations or Drilling Program – be submitted?

If you are dealing with a pre-1985 unit, please refer to your Unit Agreement.

For units in 1985 and after, the following applies:

Exploratory Units – State/Fee and State/Federal/Fee

After unitized substances in paying quantities are discovered in the unit area, the Unit Operator must file a report within 6 months after completion of the initial well. See VII #3 above. This report should discuss the status of unit development and any new development contemplated for the following 12 months. Subsequently, the Operator submits annual reports to the OCD, BLM, and the Commissioner of Public Lands. See the Unit Agreement for details.

Waterflood Units – State/Fee and State/Federal/Fee

The initial plan of development is filed with the OCD, BLM, and the Commissioner of Public Lands concurrently with the filing of the Unit Agreement for final approval. Subsequent annual updated plans of development should be submitted for approval.

2. What happens if the Plan of Development can NOT be submitted within the required time frame?

If you cannot possibly submit your Plan of Development within the allocated time frame, an extension may be granted at the discretion of the commissioner of Public Lands and other appropriate agencies. A letter is required identifying the circumstances causing the delay and the date that you will submit the Plan of Development.

X. SUBSEQUENT JOINDER

What if a noncommitted tract wants to join the unit after we find oil or gas?

There is a section in each Unit Agreement form that addresses subsequent joinder or nonjoinder. Please read the section for details. The following table identifies the section in the Unit Agreement sample forms included in this manual.

Type of Unit	Section of Agreement
State/Fee Exploratory	Section 22
State/Federal/Fee Exploratory	Section 28
State/Fee Waterflood	Section 27
State/Federal/Fee Waterflood	Section 32

Refer any questions about Unitization to Pete Martinez (505) 827-5791.

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