

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION



October 2, 1987

GARREY CARRUTHERS  
GOVERNOR

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-5800

Mr. Robert H. Strand  
Atwood, Malone, Mann & Turner  
Attorneys at Law  
P. O. Drawer 730  
Roswell, New Mexico 88201

Re: CASE NO. 9215  
ORDER NO. E-3521

Applicant:  
Harvey E. Yates Company

Dear Sir:

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

Sincerely,

*Florene Davidson*

FLORENE DAVIDSON  
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD \_\_\_\_\_  
Artesia OCD \_\_\_\_\_  
Aztec OCD \_\_\_\_\_

Other \_\_\_\_\_  
\_\_\_\_\_

# MERIDIAN OIL

September 15, 1987

New Mexico Oil Conservation Division  
New Mexico State Land Office  
310 Old Santa Fe Trail  
Santa Fe, New Mexico 87501

Re: UNIT AGREEMENT FOR THE DEVELOPMENT  
AND OPERATION OF THE HONEYDEW UNIT AREA  
N/2 NE/4 Section 35 and All of Section 36,  
T18S, R35E, Lea County, New Mexico  
Honeydew Prospect #4851 FO-637407-00

Gentlemen:

Meridian Oil Inc. recently received a copy of the captioned Unit Agreement. We have now completed our review of this document dated August 20, 1987. Meridian has no objections to the provisions contained in the document, and accepts responsibility as Operator of the unit area under this Unit Agreement.

If you have any questions or comments concerning this matter, please contact the undersigned.

Very truly yours,

MERIDIAN OIL INC.



Don W. Davis  
Senior Landman

DWD/bk

# MERIDIAN OIL

September 10, 1987

*Case File 9215*

Mr. David Catanach  
NMOCD  
State Land Office Building  
Oil Conservation Division, Room 206  
310 Old Santa Fe Trail  
Santa Fe, New Mexico 87504

Re: Honeydew State Unit  
S/2 NE/4 Section 35  
and All of Section 36,  
T-18-S, R-35-E,  
Lea County, New Mexico  
Honeydew Prospect (#4851)

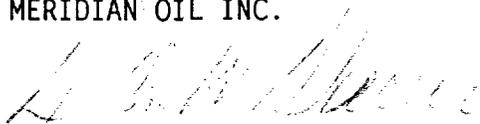
Dear David:

With reference to our recent telephone conversation, attached, please find the original of a Geologic and Unit Summary, a Strawn Sand Structure Map, a Strawn Sand Net Porosity Isopach and a Structural Cross Section covering the proposed Honeydew State Unit. If any additional information is required for our hearing of September 23, 1987, please let me know. Please be advised that I have sent a copy of this material to Pete Martinez at the New Mexico State Land Office.

As we discussed, I will contact you next week to see if additional information is required.

Very truly yours,

MERIDIAN OIL INC.



Don W. Davis  
Senior Landman

DWD/v1b

Honeydew State Unit  
S/2 NE/4 Section 35 &  
All of Section 36, T18S, R35E  
Lea County, New Mexico

Geologic and Unit Summary

The Honeydew State Unit is located on the east flank of the South Vacuum Field, eleven miles west of Hobbs in Lea County, New Mexico. The South Vacuum Field has produced oil and gas from the Devonian, Strawn Sand, Bone Spring and Queen Sand.

Geologic model for this unit is the Reeves Strawn Field two miles to the north. At Reeves, Strawn Sand production is best developed on the flank of the Reeves Devonian structure. Reeves has produced 1.5 MMBO + 3.7 BCF from the Strawn Sand.

The crestal portions of the Reeves and South Vacuum Fields have thin, tight Strawn Sands. Thicker more porous sand developed on the flank of the Reeves structure. The initial well in the proposed unit will be located on the east flank of the South Vacuum Field where Strawn Sands are expected to be thicker and more porous.

Presently, there are no productive wells within the proposed unit outline. The nearest productive Strawn Sand well to the proposed Honeydew State Unit is the Hamon Texas Gulf State A #1, 1.2 miles to the northwest. This well was plugged and abandoned after producing 7.7 MBO from the Strawn Sand. The Hamon well is located on the west flank of the South Vacuum structure and is separated from the Honeydew Unit by wells that produced hydrocarbons from the Devonian, but were tight and non-productive in the Strawn Sand.

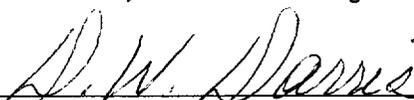
Meridian Oil plans to drill the initial Unit well to a depth of 10,800' at a location of 990' FNL and 330' FEL, Section 35, T18S, R35E. The initial location is on the east flank of the South Vacuum structure where the Strawn Sands are expected to be thicker. The initial location will also offset a well that had a show of oil in the Strawn Sand.

We attempted to include additional acreage in the Honeydew Unit, but this acreage was excluded. A portion of this additional acreage was located in the South Vacuum Devonian Unit, while the owners of the remaining leasehold declined to join or support the Unit.



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R. G. Herr, Senior Geologist



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D. W. Davis, Senior Staff Landman

RGH/DWD/pwh  
2112G:09/04/87

Attachments: Strawn Sand Structure Map  
Strawn Sand Net Porosity Isopach Map  
Structural Cross Section  
Land Plat

**MERIDIAN OIL**

*Case  
File*

October 20, 1987

*Case 9215*

Mr. Pete Martinez  
New Mexico State Land Office  
310 Old Santa Fe Trail  
Santa Fe, New Mexico 87501

Re: Honeydew State Unit  
N/2 NE/4 Sec. 35 & All  
of Sec. 36, T18S, R35E,  
Lea County, New Mexico  
Honeydew Prospect 4851

Dear Pete:

Per our recent telephone conversation, attached, please find the following:

1. One original and two copies of that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE HONEYDEW UNIT AREA Lea County, New Mexico. This Agreement has now been ratified by all appropriate record title owners and working interest owners (Ratifications attached).
2. Sight draft in the amount of \$60.00 made payable to the Commissioner of Public Lands, State of New Mexico, representing the filing fee concerning the Honeydew Unit Agreement.
3. Copy of ORDER OF THE DIVISION concerning the captioned unit.
4. State forms filed with the New Mexico Oil Conservation Commission concerning the Honeydew "35" State #1 Well.
5. Drilling Summary of the Honeydew "35" State #1 Well beginning with the spud date of 10-10-87.
6. Copy of Operating Agreement dated August 20, 1987.

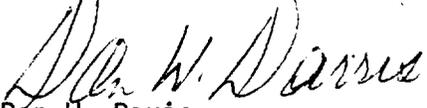
At such time as the above Unit Agreement has been approved by the State of New Mexico, please contact the undersigned by telephone at (915) 686-5744. Also, please forward your standard written approval at your earliest convenience.

M. Pete Martinez  
October 20, 1987  
Page Two

If anything additional is needed concerning this matter, please contact the undersigned. As a Lease committed to this Unit is due to expire on 11-1-87, your immediate attention to this matter would be greatly appreciated.

Very truly yours,

MERIDIAN OIL INC.

  
Don W. Davis  
Senior Landman

DWD/bk  
Attachments

cc/attachments:

David Catanach, NMOCD  
Cibola Energy Corporation  
Hondo Oil & Gas Company  
Harvey E. Yates Company  
Spiral, Inc.  
Explorers Petroleum Corporation  
HEYCO Employees, Ltd.  
Union Oil Company of California  
Yates Energy Corporation



UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE

HONEYDEW UNIT AREA  
LEA COUNTY, NEW MEXICO  
NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 20th day of August  
19 87 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 (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 Annot.), 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. Statutes 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 Depart-  
ment of the State of New Mexico (hereinafter referred to as the "Division"), is  
authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being  
Section 70-2-1 et seq. New Mexico Statutes Annotated, 1978 Compilation) to approve  
this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the  
Honeydew 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 18 South, Range 35 East N.M.P.M.  
Section 35: N/2 NE/4  
Section 36: All  
Containing 720 acres, more or less,  
Lea 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. Exhibits "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: Meridian Oil, Inc., whose address is 21 Desta Drive, Midland, TX 79701 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 \_\_\_\_\_  
Atoka 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 11,000 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 of 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 with- in 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 embracing lands of the State of New Mexico 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 years (5) 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 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 oil 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 practice; 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 secondary 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 primary 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, photostatic, 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 5 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 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 Commission, and in conformity with all applicable laws and lawful regulations.

19. APPERANCES: 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 proceeding.

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. 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, 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, war, act of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary material in open market, or other matters beyond the reasonable control of the unit operator, whether similar to matters herein enumerated or not.

22. 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

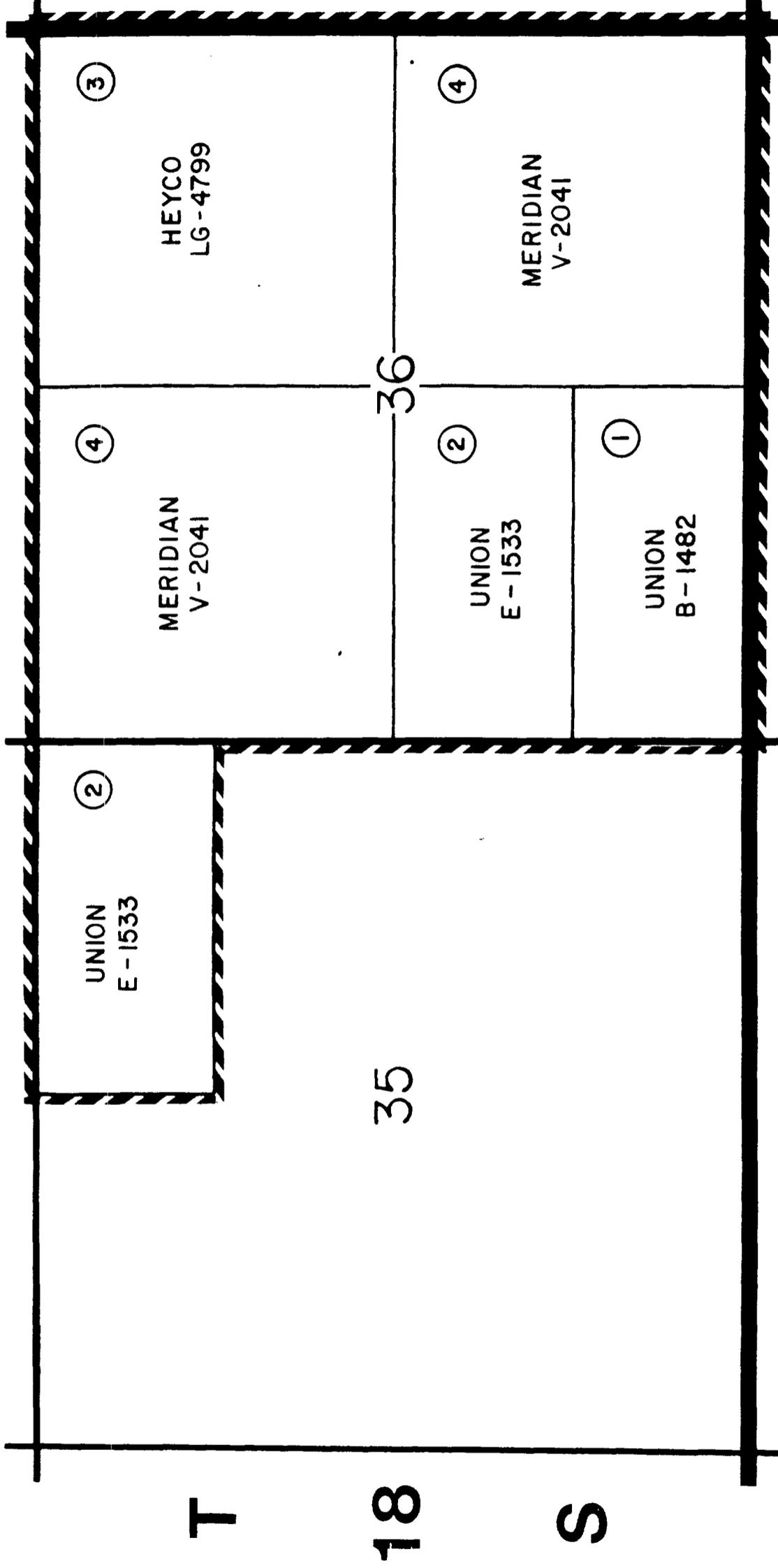
substances involved on account thereof, without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

23. 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 or revenue.

24. 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.

# R - 35 - E



--- UNIT OUTLINE

③ TRACT NUMBER

720 TOTAL ACRES

**HONEYDEW UNIT AREA**  
LEA COUNTY, NEW MEXICO

EXHIBIT A

EXHIBIT "B"

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS  
HONEYDEW UNIT AREA, LEA COUNTY, NEW MEXICO

TRACT NO.	LAND DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	ORRI & PERCENTAGE	INTEREST	WORKING OWNERSHIP (%)
1.	<u>T-18S, R-35E, NMPM</u> Sec. 36: S/2 SW/4	80.00	B-1482-2 12-19-32	State of NM 12.50%	Union Oil Co. of California 100.000000%	None	Union Oil Co. of California Conoco, Inc. Hondo Oil & Gas Total	61.904762% 28.571429 9.523809 100.000000%
2.	<u>T-18S, R-35E, NMPM</u> Sec. 35: N/2 NE/4 Sec. 36: N/2 SW/4	160.00	E-1533 10-10-47	State of NM 12.50%	Union Oil Co. of California 100.000000%	None	Union Oil Co. of California Conoco, Inc. Hondo Oil & Gas Total	61.904762% 28.571429 9.523809 100.000000%
3.	<u>T-18S, R-35E, NMPM</u> Sec. 36: NE/4	160.00	LG-4799 11-1-77	State of NM 12.50%	Harvey E. Yates Company 100.000000%	W.T. Wynn 1.0% A.C. Lattu 0.5% 1.5%	Spiral, Inc. Explorers Pet. HEYCO Emp. Ltd. Cibola Energy Yates Energy HEYCO Total	5.000000% 5.000000 2.181864 12.725435 28.035203 47.057498 100.000000%
4.	<u>T-18S, R-35E, NMPM</u> Sec. 36: NW/4, SE/4	320.00	V-2041 10-1-86	State of NM 16.666667%	Meridian Oil, Inc. 100.000000%	None	Meridian Oil, Inc.	100.000000%

CONSENT AND RATIFICATION  
 HONEYDEW UNIT AGREEMENT  
 EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Honeydew Unit embracing lands situated in Lea County, New Mexico, which said agreement is dated the 20th day of August, 1987, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or other interest in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B," do hereby commit all of their said interest to the Honeydew Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

MERIDIAN OIL INC.

\_\_\_\_\_

By: A. D. James  
 A.D. James  
 Attorney-in-Fact

STATE OF TEXAS            )  
                                   )  
 COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 20th day of October, 1987, by A.D. James, Attorney-in-Fact of Meridian Oil Inc., a Delaware corporation, on behalf of said corporation.

My Commission Expires:  
1-24-90



VICKI BENTON  
 Notary Public, State of Texas  
 My Commission Expires Jan. 24, 1990

Vicki Benton  
 Notary Public

CONSENT AND RATIFICATION  
HONEYDEW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Honeydew Unit embracing lands situated in Lea County, New Mexico, which said agreement is dated the 20th day of August, 1987, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or other interest in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B," do hereby commit all of their said interest to the Honeydew Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

*L. J. Roney*

HARVEY E. YATES COMPANT

By: *George M. Yates*  
George M. Yates, President

STATE OF NEW MEXICO     )  
  )  
COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 5th day of October, 1987, by George M. Yates, President of Harvey E. Yates Company, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

March 5, 1988

*Melinda Rankin*  
Notary Public

CONSENT AND RATIFICATION  
HONEYDEW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

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The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Honeydew Unit embracing lands situated in Lea County, New Mexico, which said agreement is dated the 20th day of August, 1987, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or other interest in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B," do hereby commit all of their said interest to the Honeydew Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

HONDO OIL & GAS COMPANY

Francis E. N. DeMott  
Assistant Secretary

By: Randy Hunnicutt Vice President 

STATE OF New Mexico     )  
  )  
COUNTY OF Chaves

The foregoing instrument was acknowledged before me this 1st day of October, 1987, by Larry Hunnicutt, Vice President of Hondo Oil & Gas Company, a Delaware corporation, on behalf of said corporation.

My Commission Expires:  
4-13-91

Jacqueline Y. Gruesz  
Notary Public

CONSENT AND RATIFICATION  
HONEYDEW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Honeydew Unit embracing lands situated in Lea County, New Mexico, which said agreement is dated the 20th day of August, 1987, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or other interest in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B," do hereby commit all of their said interest to the Honeydew Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Gate Energy Corp  
by: Kenton A. Hammond

STATE OF NEW MEXICO )  
COUNTY OF CHAVES )

The foregoing instrument was acknowledged before me this 15<sup>th</sup>  
day of October, 1987, by Kenton A. Hammond.

My Commission Expires:

10/29/91

Christina Glass  
Notary Public

CONSENT AND RATIFICATION  
HONEYDEW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Honeydew Unit embracing lands situated in Lea County, New Mexico, which said agreement is dated the 20th day of August, 1987, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or other interest in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B," do hereby commit all of their said interest to the Honeydew Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

Karen Tvede  
Karen Tvede

CIBOLA ENERGY CORPORATION  
By: Harvey E. Yates Jr.  
Harvey E. Yates Jr., President

STATE OF New Mexico )  
COUNTY OF Bernalillo )

The foregoing instrument was acknowledged before me this 15<sup>th</sup> day of October, 1987, by Harvey E. Yates Jr., President of Cibola Energy Corporation, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

January 23, 1990

Peggy D Thomas  
Notary Public

CONSENT AND RATIFICATION  
HONEYDEW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

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The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Honeydew Unit embracing lands situated in Lea County, New Mexico, which said agreement is dated the 20th day of August, 1987, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or other interest in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B," do hereby commit all of their said interest to the Honeydew Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

R. J. Query

SPIRAL, INC.

BY: [Signature]  
George M. Yates, Vice President

STATE OF NEW MEXICO     )  
  )  
COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 5th day of October, 1987, by George M. Yates, Vice President of Spiral, Inc., a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

March 5, 1988

[Signature]  
Notary Public

CONSENT AND RATIFICATION  
HONEYDEW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Honeydew Unit embracing lands situated in Lea County, New Mexico, which said agreement is dated the 20th day of August, 1987, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or other interest in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B," do hereby commit all of their said interest to the Honeydew Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

R. J. Avery

EXPLORERS PETROLEUM CORPORATION

By: George M. Yates  
George M. Yates, President

STATE OF NEW MEXICO     )  
  )  
COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 5th day of October, 1987, by George M. Yates, President of Explorers Petroleum Corp., a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

March 5, 1988

Melvin Rankin  
Notary Public

CONSENT AND RATIFICATION  
HONEYDEW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Honeydew Unit embracing lands situated in Lea County, New Mexico, which said agreement is dated the 20th day of August, 1987, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or other interest in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B," do hereby commit all of their said interest to the Honeydew Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

WITNESS:

L. J. Avery

HEYCO EMPLOYEES, LTD.

By: George M. Yates

George M. Yates, President of  
Harvey E. Yates Company on behalf  
of Harvey E. Yates Company, a  
General Partner of HEYCO Employees,  
Ltd.

STATE OF NEW MEXICO )  
                                  ) ss.  
COUNTY OF CHAVES )

The foregoing instrument was acknowledged before me this 5th day of October, 1987, by George M. Yates, President of Harvey E. Yates Company on behalf of Harvey E. Yates Company, a General Partner of HEYCO Employees, Ltd, a general partnership in the State of New Mexico.

My Commission Expires:

Melissa Rando  
Notary Public

March 5, 1989

CONSENT AND RATIFICATION  
HONEYDEW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

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IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

UNION OIL COMPANY OF CALIFORNIA

By John Hansen Attorney-in-Fact *gr*

STATE OF TEXAS            )  
                                  )  
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 1st day of October, 1987, by JOHN HANSEN, Attorney-in-Fact.

My Commission Expires:

3/8/88

Judith G. Brown  
Notary Public  
Judith G. Brown

CONSENT AND RATIFICATION  
HONEYDEW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

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IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

Carolyn Copeland

W. T. Wynn

STATE OF Texas )  
COUNTY OF Midland )

The foregoing instrument was acknowledged before me this 3rd day of September, 1987, by W. T. Wynn.

My Commission Expires:

7-1991

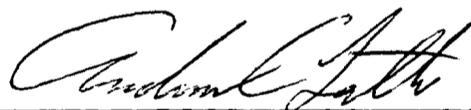
Bonnie Chesker  
Notary Public

CONSENT AND RATIFICATION  
HONEYDEW UNIT AGREEMENT  
EMBRACING LANDS IN LEA COUNTY, NEW MEXICO

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The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Honeydew Unit embracing lands situated in Lea County, New Mexico, which said agreement is dated the 20th day of August, 1987, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or other interest in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B," do hereby commit all of their said interest to the Honeydew Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

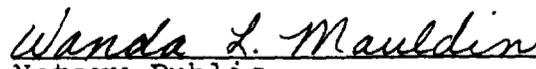
IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

  
\_\_\_\_\_

STATE OF Texas )  
COUNTY OF Midland )

The foregoing instrument was acknowledged before me this 7th day of October, 1987, by Andrew C. Latta.

My Commission Expires:  
3/16/88

  
Notary Public  
WANDA L. MAULDIN