

CERTIFICATE OF APPROVAL

BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

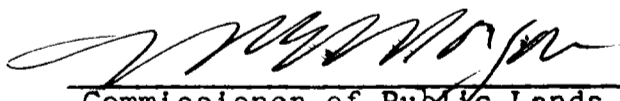
AMBARADOR'S - NORTH CAPROCK QUINN UNIT NO. TWO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated April 16, 1958, which has been executed or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) 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 area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

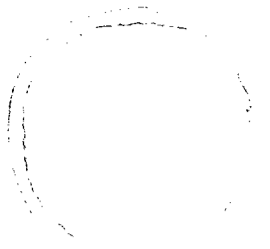
NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, 7-11-48, New Mexico Statutes Annotated 1953 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said Agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 27th. day of May 19 58.



Commissioner of Public Lands
of the State of New Mexico

Case 1448



UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
NORTH CAPROCK QUEEN UNIT NO. TWO
LEA AND CHAVES COUNTIES, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 16th day of April, 1958, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the unit 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 Section 1 of Chapter 162, Laws of 1951) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chapter 162, Laws of 1951) to amend with the approval of the lessee, 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 unitized development and operation of State lands; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chap. 72, Laws of 1935, as amended by Chap. 193, Laws of 1937, Chap. 166, Laws of 1951, and Chap. 168, Laws of 1949) to approve this agreement, and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the North Caprock Unit No. Two covering the land hereinafter described to give reasonably effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, to 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 below defined Unit Area, and agree severally among themselves as follows:

ARTICLE 1. For the purpose of this agreement, the following terms and expressions as used herein shall mean:

- (a) "Unit Area" is defined as the following described land and such land is hereby designated and recognized as constituting the Unit Area, to-wit:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO.

Chaves County, New Mexico

T-13-S R-31-S

Section 1: Lots 1 and 2; S/2 NE/4; SE/4 NW/4 and S/2
Section 2: SE/4 SE/4
Section 11: NE/4 SW/4; S/2 SW/4; E/2
Section 12: All

Lea County, New Mexico

T-13-S R-32-E

Section 7: Lots 1, 2, 3 and 4
and containing in all 1,807.97 acres of land, more or less.

(b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(c) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.

(d) "Unitized Formation" or "Queen Sand" or "Formation" is defined as and shall mean that heretofore established underground reservoir, a member of the Queen formation of the Guadalupe series, a part of the Permian system, which is found at 3029 to 3060 feet, in the Ambassador Oil Corporation, State of New Mexico "J" No. 2 well, located in the NW/4 of the NE/4 of Section 12, Township 13 South, Range 31 East, insofar as same lies within the Unit Area.

(e) "Unitized Substances" is defined as and shall mean all of the oil and gas contained in or produced from the Queen Sand underlying the Unit Area and subsequently admitted land effectively committed to this agreement or unit.

(f) "Usable Well" is defined as a well which has been drilled in the Unit Area to the depth of the unitized formation and has casing in the hole in condition for use as either a producing well or an injection well, and on which well there has been filed with the State of New Mexico, on or before the effective date of this agreement, a well record and Completion Report (Form C-105) or Request for Oil Allowable (Form C-104) and which well has produced some oil from the unitized formation and has had an allowable granted for it by the Oil Conservation Commission of the State of New Mexico.

(g) "Working Interest" is defined as the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of fee simple title or under an oil and gas lease or otherwise held.

(h) "Working Interest Owner" is defined as and shall mean 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, 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 Substance from the Unitized Formation and operating thereof hereunder.

(i) "Royalty Interest" or "Royalty" is defined as an interest other than a working interest in or right to receive a portion of the Unitized Substance or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest or other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(j) "Royalty Owner" is defined as and shall mean the owner of a royalty interest.

(k) "Unit Operating Agreement" is defined as and shall mean any agreement or agreements (whether one or more) entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Article 8, infra, and shall be styled "Unit Operating Agreement, North Caprock Queen Unit No. Two, Lea and Chaves Counties, New Mexico."

ARTICLE 2. EXHIBITS: 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, percentage ownership of each working interest owner in each tract, and the percentage of participation each tract has in the Unit Area. However, nothing herein or in said

schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the Unit Area render such revision necessary, and at least two copies of such revision shall be filed with the Commissioner.

ARTICLE 3. EXPANSION: The above described 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 to conform with 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 this Unit, shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the Unit Participation to be assigned to such tract or tracts, and other pertinent data. After negotiation (at working interest owners' meeting or otherwise) if 100 percent of the working interest owners have agreed to such tract or tracts being brought into the Unit, then Unit Operator shall:

(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 Unit Participation to be assigned thereto and the proposed effective date thereof; and

(2) Deliver copies of said notice to the Commissioner, each Working Interest Owner (mailing copy of such notice to the last known address of each such Working Interest Owner) and to the 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 objections to such proposed expansion; and

(3) File, upon the expiration of said thirty (30) day period as set out in Item 2 immediately above and provided no objections have been filed thereto, with the Commissioner the following: (a) Evidence of mailing copies of said notice of expansion, (b) An application of such expansion; and (c) an instrument containing the appropriate joinders in compliance with the participation requirement of Article 12 infra.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner, become effective as of the date prescribed in the notice thereof or on such other date as set by the Commissioner in the order or instrument approving such expansion.

ARTICLE 4. UNITIZED LAND AND UNITIZED SUBSTANCES: All oil and gas in all of the hereinabove described and subsequently admitted land effectively committed to this Agreement, insofar only as the same may be found in the formation known as the "Queen Sand," together with the surface rights of ingress and egress, are unitized under the terms of this Agreement and said land 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 Queen Sand or Formation as above described.

ARTICLE 5. UNIT OPERATOR: Ambassador Oil Corporation, Fort Worth, Texas, is hereby designated as Unit Operator and by signing this instrument as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery 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, 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.

ARTICLE 6. 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 months after notice of intention to resign has been served by Unit Operator on all Working Interest Owners and the Commissioner, 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 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 in the manner provided for in the Unit Operating Agreement executed coincident herewith by and between the Working Interest Owners. Such removal shall be

effective upon notice thereof to the Commissioner.

In all such 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 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, 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 Unit Manager if no such new Unit Operator is selected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

ARTICLE 7. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator in the manner provided for in the Unit Operating Agreement executed coincident herewith by and between the Working Interest Owners. 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 or Unit Manager is selected and qualified as herein provided, the Commissioner at his election may declare this Unit Agreement terminated.

ARTICLE 8. 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 agreement or agreements entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners. 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 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 Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this section shall be filed with the Commissioner, prior to approval of this Agreement.

ARTICLE 9. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein or in the Unit Operating Agreement, 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.

ARTICLE 10. 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 in paying quantities and that the object and purpose of this Unit Agreement is to formulate and to put into effect a secondary recovery project in order to effect the greatest 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 the Working Interest Owners, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil and any one or more other substances whether produced

from the Unit Area 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 geologic and petroleum engineering practices and conservation methods.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence secondary recovery operations within six months after the effective date of this Unit Agreement or any extension thereof approved by the Commissioner or this Unit Agreement shall terminate automatically, in which event unit operator shall notify all interested principals. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

ARTICLE 11. 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 is a figure which represents the percentage of participation allocated to each tract in the Unit Area. The participation percentage of each tract was determined as follows:

Percentage Participation of each tract	^s $\frac{12\frac{1}{2}\% \text{ (Tract Acreage)}}{\text{(Total Unit Acreage)}}$	plus	$\frac{12\frac{1}{2}\% \text{ (Tract Usable Wells)}}{\text{(Total Usable Unit Wells)}}$
		plus	75% (Cumulative Tract Production as of July 1, 1957)
			<hr/>
			(Cumulative Unit Production as of July 1, 1957)

ARTICLE 12. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof the tracts within the Unit Area which shall be entitled to participate in the production of Unitized Substances therefrom shall be those tracts within the Unit Area and more particularly described in said Exhibit "B" that are qualified as follows:

(a) Each and all of those tracts as to which Working Interest Owners owning 100% of the working interest in said tract and Royalty Owners owning 100% of the royalty have executed this agreement; and

(b) Each and all of those tracts as to which Working Interest Owners owning not less than 95% of the working interest therein and Royalty Owners owning not less than 75% of the royalty interest therein have executed this agreement, and in which the

Working Interest Owners in said tract who have executed this agreement have agreed to indemnify and hold harmless all other parties hereto, in a manner satisfactory to the Working Interest Owners qualified under (a), against any and all claims and demands that may be made by the nonjoining Working Interest Owners and/or Royalty Owners on account of the inclusion of such tract in the Unit Area and the operation of the Unit Area on the basis herein provided, and as to which 85% of the Working Interest Owners qualified under (a) exclusive of the Working Interest Owner submitting such tract, have approved the inclusion of such tract in the Unit Area.

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 Commissioner, file therewith a schedule of those tracts which have been committed and made subject to this agreement and are entitled to participate in the production from the Unit Area hereunder. Said schedule shall set forth opposite each such committed tract the lease number, assignment number, the owner of record and percentage participation of such tract which shall be computed according to the participation formula set out above. This schedule shall be a part of Exhibit "B" and upon approval thereof by the Commissioner shall become a part of this agreement and shall govern the allocation of production of Unitized Substances until a new schedule is filed and approved by the Commissioner.

ARTICLE 13. 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 within the Unit Area for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the several tracts within the Unit Area in accordance with the respective Tract Participation effective hereunder during the respective periods such Unitized Substances were produced, as set forth 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, and nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the joinder of any tract.

If the working interest and the royalty interest in any tract are divided with respect to separate parcels or portions of such tract and owned severally by different persons, the percentage participation 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 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. Such party shall have the right to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unit Area currently as and when produced, then so long as such conditions continue, Unit Operator, for the account and at the expense of such party in order to avoid curtailing the operation of the Unit Area, may sell or otherwise dispose of such production on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such party shall be charged therewith as having received the same. The

proceeds, if any, 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 if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all royalties, overriding royalties, oil payments, net profit contracts, and all payments out of or Burdens on the lease or leases and tracts contributed by it and received into the Unit and each such party shall hold each other party hereto harmless against all claims, demands and causes of action for such royalties, overriding royalties, oil payments, net profit contracts, and other payments out of or burdens on the lease or leases and tracts contributed by it to the Unit Area.

If, after the effective date of this agreement, there is any tract or tracts contiguous to the Unit Area that are subsequently committed hereto, as above described in Article 3 or any tract or tracts within the Unit Area not effectively committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Article 29, Nonjoinder and Subsequent Joinder, or if any tract is excluded from the Unit Area as provided for in Article 28, Loss of Title, the schedule of participation as shown in Exhibit "B" shall be revised by the Working Interest Owners to show the new percentage participation of all the then effectively committed tracts and the revised Exhibit "B", upon approval by the Commissioner, shall govern the allocation of production from and after the effective date thereof until a new schedule is filed and approved by the Commissioner.

ARTICLE 13(a) USE OR LOSS OF UNITIZED SUBSTANCES: Working Interest Owners may use as much of the Unitized Substances as they deem necessary for the operation and development of the Unit Area, including but not limited to the injection thereof into the Unitized Formation.

No royalty, overriding royalty, production or other payments shall be payable upon or with respect to Unitized Substances used or consumed in the operation or development of the Unit Area or which may be otherwise lost or consumed in the production, handling, treating, transportation or storing of Unitized Substances.

ARTICLE 14. ROYALTY SETTLEMENT: The State of New Mexico and all Royalty Owners who, under existing contract, are entitled to take in kind

a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the 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 interest 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 royalties due under their leases, except that such royalties 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 any participating area hereunder, for use in repressuring, stimulation of production or increasing ultimate recovery, a like amount of gas, 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.

All royalties due the State of New Mexico 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.

Each royalty owner, (other than the State of New Mexico) 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 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.

ARTICLE 15. REPORTS: Unit Operator shall furnish the Commissioner monthly, injection and production reports for each well in the Unit, as well as periodical reports of the development and operation of the Unit Area.

ARTICLE 16. 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 the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental or minimum royalty for lands of the State subject to this agreement shall be paid at the rate specified in the respective leases from the State.

ARTICLE 17. 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.

ARTICLE 18. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from Unitized Land by wells on land not subject to this agreement.

ARTICLE 19. LEASES AND CONTRACTS CONFORMED AND EXTENDED: 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 on all lands committed to this agreement shall, upon approval hereof by the Commissioner, be and the same are hereby expressly modified and amended insofar as they apply to such lands within the Unit Area, to the extent necessary to make the same conform to the provisions hereof and so that the length of and the term of such leases, on and covering such lands within said Unit Area, will be extended insofar as necessary to coincide with the terms of this agreement and otherwise remain in full force and effect. The approval of this agreement by the Commissioner shall, without further action, be effective to conform the provisions and extend the term of each lease as to lands within the Unitized Area, to the provisions and term 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 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 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 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 land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioner, or his 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 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. 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 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, if at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling, reworking or secondary recovery operations on some part of the lands embraced in such lease, the same as to all lands embraced therein shall remain in full force and effect so long as such operations are 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.

ARTICLE 20. It is hereby agreed by all parties to this agreement that Unit Operator shall be empowered to correct any mathematical errors which might exist in the pertinent exhibits to this agreement or the Unit Operating Agreement upon approval of the Commissioner.

ARTICLE 21. 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 photostatic or certified copy of the instrument of

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, photostatic or certified copy of the instrument of transfer.

ARTICLE 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 o'clock 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 owning a combined Unit Participation of at least ninety-five (95%) percent, and the execution or ratification of this Agreement by Royalty Owners owning a combined interest of at least seventy-five (75%) per cent of the royalty interest in said Unit Area;

(b) The approval of this agreement by the Commissioner;

(c) The filing of at least one counterpart of this agreement for record in the Records of Lea and Chaves Counties, New Mexico, by Unit Operator; and provided, further, that if (a) (b) and (c) above are not accomplished on or before July 1, 1958, this agreement shall ipso facto terminate 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 owning a combined Unit Participation of at least ninety (90%) per cent and Working Interest Owners owning a combined Unit Participation of at least ninety (90%) per cent committed to this agreement have decided to extend said termination date for a period not to exceed six months. If said termination date is so extended and (a) (b) and (c) are not accomplished on or before said extended termination date, this agreement shall ipso facto terminate on said extended termination date and thereafter be of no further force or effect. For the purpose of this section, ownership shall be computed on the basis of Unit Participation as determined from Exhibit C attached to the Unit Operating Agreement. Unit Operator shall, within thirty (30) days after the effective date of this agreement, file for record in the office or offices where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has become effective according to its terms and stating further the effective date.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the tracts subject to this agreement and as long thereafter as drilling, reworking or other operations are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided. However, this agreement shall automatically terminate if, within 120 days after the effective date hereof, the ^{Oil} Conservation Commission for the State of New Mexico has not approved this agreement and the development and operation of the area covered hereby; provided further, that this agreement may be terminated by Working Interest Owners owning ninety (90%) per cent Unit Participation as determined by

Exhibit "C" attached to the Operating Agreement whenever such Working Interest Owners determine that Unit operations are no longer profitable, feasible or in the interest of conservation, with the approval of the Commissioner. Notice of any such approval to be given by Unit Operator to all parties hereto.

Upon termination of this agreement, the further development and operation of the Unit Area as a Unit shall be abandoned, Unit operations shall cease, and thereafter 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.

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.

ARTICLE 23. RATE OF PRODUCTION: All production from the Unit Area and the disposal thereof shall be in conformity with the allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

ARTICLE 24. APPEARANCES: Unit Operator shall, after notice to the other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission and to appeal from order issued under the regulations of said Commissioner or Commission, or to apply for relief from any of said regulations or in any proceedings relative to operations before the Commissioner or Commission, or any other legally constituted authority, provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

ARTICLE 25. NOTICES: All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given in writing and personally delivered to the party or 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.

ARTICLE 26. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or 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.

ARTICLE 27. 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, acts of God, State or municipal law or agencies, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

ARTICLE 28. LOSS OF TITLE: In the event title to any tract of Unitized Land shall fail in whole or in part and the true owner cannot be induced to join this Unit Agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that as to State Land or leases, no payments of funds due the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Commissioner of Public Lands of the State of New Mexico, 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.

ARTICLE 29. NONJOINDER AND SUBSEQUENT JOINDER: If the owner of any interest in a tract within the Unit Area fails or refuses to subscribe or

consent in writing to this agreement, the Working Interest Owner in that tract who has executed or ratified this agreement may withdraw said tract from this agreement, or such tract may be included in the Unit if the same can be and is qualified as provided in Article 12 hereof. Such withdrawal as above provided, shall, without further action, also operate to withdraw all royalty interest in such tract or tracts theretofore committed hereto. 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.

Any oil or gas interest in the Unitized formation in lands within the Unit Are not committed hereto prior to submission of this agreement to the Commissioner for final approval may thereafter be committed hereto upon compliance with the applicable provisions of Article 12 hereof, at any time up to the effective date hereof and for a period of six (6) months thereafter, on the same basis of participation as provided for in Article 12 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 six (6) 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 the Working Interest Owners. Such joinder by a Working Interest Owner must be evidenced by his execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by his 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 to this agreement, as to tracts within the Unit Area, shall be effective as of the first day of the month following the approval thereof by the Commissioner.

ARTICLE 30. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who

have extended 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.

ARTICLE 31. 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.

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

ATTEST:

Secretary

Date

ATTEST:

Secretary

Date

ATTEST:

Secretary

Date

ATTEST:

Secretary

Date

AMBASSADOR OIL CORPORATION

By: _____
3109 Winthrop Avenue, Fort Worth,
Texas.

UNIT OPERATOR & WORKING INTEREST
OWNER.

WORKING INTEREST OWNERS

GRARIDGE CORPORATION

By: _____
P. O. Box 752, Breckenridge, Texas

GREAT WESTERN DRILLING COMPANY

By: _____

GULF OIL CORPORATION

By: _____

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 1958, before me appeared _____, to me personally known, who being by me duly sworn, did say that he is the _____ President of GULF OIL CORPORATION and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors and said _____ acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

Notary Public

My Commission Expires:

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 195__, before me personally appeared

_____ to me personally known to be the person__ described in and who executed the foregoing instrument, and acknowledged that __he__ executed the same as _____ free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year in this certificate above written.

My Commission Expires:

Notary Public

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 19__, before me personally appeared _____

_____ to me personally known to be the person__ described in and who executed the foregoing instrument, and acknowledged that __he__ executed the same as _____ free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year in this certificate above written.

My Commission Expires:

Notary Public

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____, 195__ before me personally appeared _____

_____ to me personally known to be the person__ described in and who executed the foregoing instrument, and acknowledged that __he__ executed the same as _____ free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year in this certificate above written.

My Commission Expires:

STATE OF _____)
)
COUNTY OF _____)

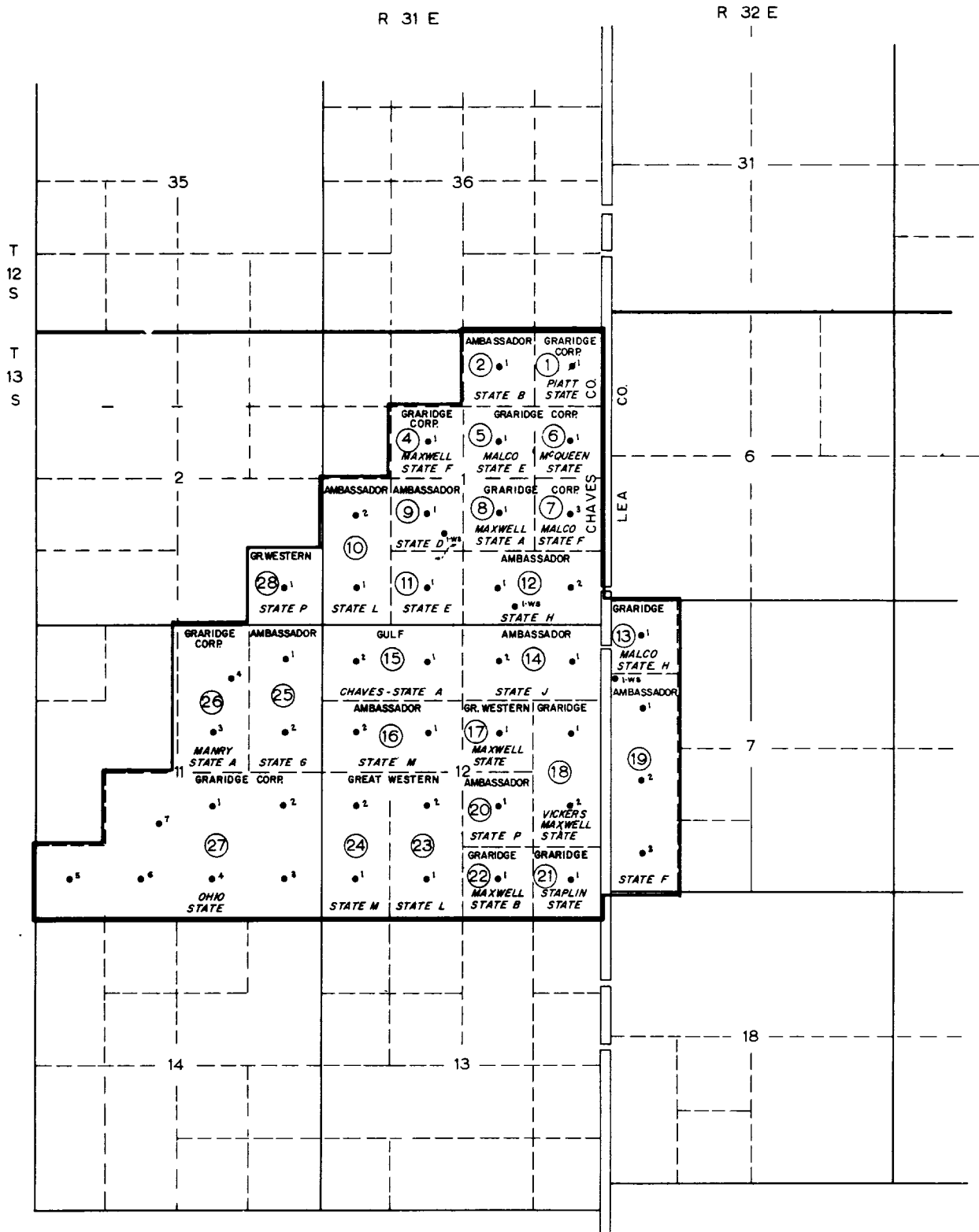
On this _____ day of _____, 195__, before me personally appeared _____

_____ to me personally known to be the person__ described in and who executed the foregoing instrument, and acknowledged that __he__ executed the same as _____ free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year in this certificate above written.

My Commission Expires:

Notary Public



PLAT OF NORTH CAPROCK QUEEN UNIT NO. 2,
 CAPROCK QUEEN POOL, LEA AND CHAVES
 COUNTIES, NEW MEXICO.

EXHIBIT "A"

INDEX

EXHIBIT B

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GRARIDGE LEASES	Pages 6 and 7
Tracts 1, 4, 5, 6, 7, 8, 13, 18, 21, 22, 26 27	
GREAT WESTERN DRILLING COMPANY LEASES	Page 8
Tracts 17, 23, 24, 28	
GULF OIL CORPORATION LEASES	Page 8
Tract 15	

EXHIBIT B.

TRACT NO.	DESCRIPTION	ACREAGE	LEASE AND ASSIGNMENT NO.	ROYALTY OWNER AND AMOUNT	OWNER OF RECORD AND WORKING INTEREST OWNER	AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
**2	Lot 2, Sec. 1, T 13 S, R. 31 E, Chaves County, **Curtis McBroom, C. H. Cooper, W. V. Coffey, K. L. Smith, B. H. Murphy, Delfern Oil Company	40.13	B-8828-41	St. N. Mex. 12.5%	Ambassador Oil Corporation Dulaney Oil Company R. O. Dulaney, Jr. E. Stanley Klein John P. Maguire Harriet R. F. Appleton Elsa G. Appleton Barry T. Lelthead Kenneth W. Fraser D. W. Vreeland Wm. N. Snow The Estate of William J. Gallon, Deceased.	140/840) 50/840 *) 50/840 *) 100/840 *) 100/840 *) 50/840 *) 100/840 *) 100/840 *) 25/840 *) 25/840 *) 50/840 *) 100/840 *)	2.684280
THERE IS NO TRACT 3 UNDER THIS UNIT							
**9	NE/4 SW/4, Sec. 1, T 13 S, R. 31 E. Chaves County, **Curtis McBroom, C. H. Cooper, W. V. Coffey K. L. Smith, B. H. Murphy, William Spurck and wife, Vada Spurck, Delfern Oil Company.	40	B-8318-107	St. N. Mex 12.5%	Ambassador Oil Corporation Dulaney Oil Company R. O. Dulaney, Jr. E. Stanley Klein John P. Maguire Harriet R. F. Appleton Elsa G. Appleton Barry T. Lelthead Kenneth W. Fraser D. W. Vreeland Wm. N. Snow The Estate of William J. Gallon, Deceased.	140/850) 50/840 *) 50/840 *) 100/840 *) 100/840 *) 50/840 *) 100/840 *) 100/840 *) 25/840 *) 25/840 *) 50/840 *) 100/840 *)	2.303622

EXHIBIT B (continued)

TRACT NO.	DESCRIPTION	ACREAGE	LEASE AND ASSIGNMENT NO.	ROYALTY OWNER AND AMOUNT	OWNER OF RECORD AND WORKING INTEREST OWNER	AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT.
**10	W/2 SW/4, Sec. 1, T 13 S, R 31 E, Chaves County,	80	B-10417-5	St. N. Mex. 12.5%	Ambassador Oil Corporation Dulaney Oil Company R. O. Dulaney, Jr. E. Stanley Klein John P. Maguire Harrlet R. F. Appleton Elsa G. Appleton Barry T. Lelthead Kenneth W. Fraser D. W. Vreeland Wm. N. Snow The Estate of William J. Gallon, Deceased.	140/840 *) 50/840 *) 50/840 *) 100/840 *) 100/840 *) 50/840 *) 100/840 *) 100/840 *) 25/840 *) 25/840 *) 50/840 *) 100/840 *)	4.245850
**11	SE/4 SW/4, Sec. 1, T 13 S, R 31 E, Chaves County,	40	B-8605-23	St. N. Mex. 12.5%	Ambassador Oil Corporation Dulaney Oil Company R. O. Dulaney, Jr. E. Stanley Klein John P. Maguire Harrlet R. F. Appleton Elsa G. Appleton Barry T. Lelthead Kenneth W. Fraser D. W. Vreeland Wm. N. Snow The Estate of William J. Gallon, Deceased,	140/840 *) 50/840 *) 50/840 *) 100/840 *) 100/840 *) 50/840 *) 100/840 *) 100/840 *) 25/840 *) 25/840 *) 50/840 *) 100/840 *)	3.367509

EXHIBIT B (continued)

TRACT NO.	DESCRIPTION	ACREAGE	LEASE AND ASSIGNMENT NO.	ROYALTY OWNER AND AMOUNT	OWNER OF RECORD AND WORKING INTEREST OWNER	AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
**12	S/2 SE/4, Sec. 1, T 13 S, R 31 E, Chaves County	80	B-10418-73	St. N. Mex. 12.5%	Ambassador Oil Corporation Dulane Oil Company R. O. Dulane, Jr. E. Stanley Klein John P. Maguire Harrlet R. F. Appleton Elsa G. Appleton Barry T. Lelthead Kenneth W. Fraser D. W. Vreeland Wm. N. Snow The Estate of William J. Gallon, Deceased,	140/840) 50/840 *) 50/840 *) 100/840 *) 100/840 *) 50/840 *) 100/840 *) 50/840 *) 25/840 *) 50/840 *) 100/840 *)	7.995733
	**Curtis McBroom, C. H. Cooper, W. V. Coffey, K. L. Smith, B. H. Murphy, Delfern Oil Company, William Spurck and wife, Vada Spurck,						
**14	N/2 NE/4, Sec. 12, T 13 S, R 31 E, Chaves County,	80	B-10411-21	St. N. Mex. 12.5%	Ambassador Oil Corporation Dulane Oil Company R. O. Dulane, Jr. E. Stanley Klein John P. Maguire Harrlet R. F. Appleton Elsa G. Appleton Barry T. Lelthead Kenneth W. Fraser D. W. Vreeland Wm. N. Snow The Estate of William J. Gallon, Deceased,	140/840) 50/840 *) 50/840 *) 100/840 *) 100/840 *) 50/840 *) 100/840 *) 50/840 *) 25/840 *) 50/840 *) 100/840 *)	6.012002
	**Curtis McBroom, C. H. Cooper, W. V. Coffey K. L. Smith, B. H. Murphy, Delfern Oil Company, Clarence E. Hinkle, Trustee for the Estate of Allie M. Lee, Deceased.						

EXHIBIT B (Continued)

TRACT NO.	DESCRIPTION	ACREAGE	LEASE AND ASSIGNMENT NO.	ROYALTY OWNER AND AMOUNT	OWNER OF RECORD AND WORKING INTEREST OWNER	AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
**16	S/2 NW/4, Sec. 12, T 13 S, R, 31 E. Chaves County	80	B-10417-5	St. N. Mex. 12.5%	Ambassador Oil Corporation Dulaney Oil Company R. O. Dulaney, Jr. E. Stanley Klein John P. Maguire Harriet R. F. Appleton Elsa G. Appleton Barry T. Lelthead Kenneth W. Fraser D. W. Vreeland Wm. N. Snow The Estate of William J. Gallon, Deceased	140/840) 50/840 *) 50/840 *) 100/840 *) 100/840 *) 50/840 *) 100/840 *) 50/840 *) 25/840 *) 25/840 *) 50/840 *) 100/840 *)	4.629622
**	Curtis McBroom, C. H. Cooper, W. V. Coffey, K. L. Smith, B. H. Murphy, A. K. Potts, McRae Oil and Gas Corporation						
**19	Lots 2, 3, & 4, Sec. 7 T 13 S, R 32 E, Lea County	125.98	B-11447-2	St. N. Mex. 12.5%	Ambassador Oil Corporation Dulaney Oil Company R. O. Dulaney, Jr. E. Stanley Klein John P. Maguire Harriet R. F. Appleton Elsa G. Appleton Barry T. Lelthead Kenneth W. Fraser D. W. Vreeland Wm. N. Snow The Estate of William J. Gallon, Deceased	140/840) 50/840 *) 50/840 *) 100/840 *) 100/840 *) 50/840 *) 100/840 *) 50/840 *) 25/840 *) 25/840 *) 50/840 *) 100/840 *)	10.592888
**	Curtis McBroom, C. H. Cooper, W. V. Coffey, K. L. Smith, B. H. Murphy, Delfern Oil Company and Pan American Petroleum Corporation.						

EXHIBIT B (Continued)

TRACT NO.	DESCRIPTION	ACREAGE	LEASE AND ASSIGNMENT NO.	ROYALTY OWNER AND AMOUNT	OWNER OF RECORD AND WORKING INTEREST OWNER	AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
**20	NW/4 SE/4, Sec. 12, T 13 S, R 31 E, Chaves County,	40	B-10420-146	St. N. Mex. 12.5%	Ambassador Oil Corporation Dulaney Oil Company R. O. Dulaney, Jr. E. Stanley Klein John P. Maguire Harrlet R. F. Appleton Elsa G. Appleton Barry T. Lelthead Kenneth W. Fraser D. W. Vreeland Wm. N. Snow The Estate of William J. Gallon, Deceased	140/840 *) 50/840 *) 50/840 *) 100/840 *) 100/840 *) 50/840 *) 100/840 *) 50/840 *) 25/840 *) 25/840 *) 50/840 *) 100/840 *)	1.813332
**25	E/2 NE/4, Sec. 11, T 13 S, R. 31 E, Chaves County,	80	B-11447-2	St. N. Mex. 12.5%	Ambassador Oil Corporation Dulaney Oil Company R. O. Dulaney, Jr. E. Stanley Klein John P. Maguire Harrlet R. F. Appleton Elsa G. Appleton Barry T. Lelthead Kenneth W. Fraser D. W. Vreeland Wm. N. Snow The Estate of William J. Gallon, Deceased	140/840 *) 50/840 *) 50/840 *) 100/840 *) 100/840 *) 50/840 *) 100/840 *) 50/840 *) 25/840 *) 25/840 *) 50/840 *) 100/840 *)	3.178516

****NOTE:** This interest is subject to a carried interest owned by Ambassador Oil Corporation and the participation of Ambassador Oil Corporation will increase as between itself and the owner of this interest when Ambassador becomes entitled to its carried interest as provided by the agreement by and between the owner of such interest and Ambassador Oil Corporation of record in the named county.

****NOTE:** The listed parties own oil payments or overriding royalty interests which, prior to the execution of this instrument, were payable out of production from the listed tract as reflected by instruments of record in said county, but which will, after the execution of this instrument, be payable out of the production allocated to such tract.

EXHIBIT B (Continued)

TRACT NO.	DESCRIPTION	ACREAGE	LEASE AND ASSIGNMENT NO.	ROYALTY OWNER AND AMOUNT	OWNER OF RECORD AND WORKING INTEREST OWNER	AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
1	Lot 1, Sec. 1, T 13 S, R 31 E, Chaves County, # Wm. R. Spurck and wife, Vada Spurck, Effie McKay	40.04	B-8828-40	St. N. Mex. 12.5%	Graridge Corporation	100%	.937703
4	SE/4 NW/4, Sec. 1, T 13 S, R 31 E, Chaves County # The Vickers Petroleum Co., Inc., Chas H. Osmond, Roderic Crandall, Maxwell Oil Co.	40	B-10416-29	St. N. Mex. 12.5%	Graridge Corporation	100%	.643495
5	SW/4 NE/4, Sec. 1, T 13 S, R 31 E, Chaves County, #Great Western Drilling Company	40	B-9155-6	St. N. Mex. 12.5%	Graridge Corporation	100%	2.654983
6	SE/4 NE/4, Sec. 1, T 13 S, R 31 E, Chaves County, # R. O. Dulaney, Jr.	40	B-10242-6	St. N. Mex. 12.5%	Graridge Corporation	100%	1.226444
7	NE/4 SE/4, Sec. 1, T 13 S, R 31 E, Chaves County #Chas. H. Osmond, Roderic Crandall, Maxwell Oil Co.	40	B-10416-24	St. N. Mex. 12.5%	Graridge Corporation	100%	3.407912
8	NW/4 SE/4, Sec. 1, T 13 S, R 31 E, Chaves County, # Chas. H. Osmond, Roderic Crandall, Maxwell Oil Co.	40	B-10416-26	St. N. Mex. 12.5%	Graridge Corporation	100%	1.654104
13	Lot 1, Sec. 7, T 13 S, R 32 E, Lea County	41.82	B-10973-9	St. N. Mex. 12.5%	Graridge Corporation	100%	2.485506

EXHIBIT B (Continued)

TRACT NO.	DESCRIPTION	ACREAGE	LEASE AND ASSIGNMENT NO.	ROYALTY OWNER AND AMOUNT	OWNER OF RECORD AND WORKING INTEREST OWNER	AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
18	NE/4 SE/4 and SE/4 NE/4, Sec. 12, T13S, R31E Chaves County	80	B-10416-29	St. N. Mex. 12.5%	Grarridge Corporation	100%	5.577487
21	SE/4 SE/4, Sec. 12 T13S, R31E, Chaves Co.	40	B-8429-21	St. N. Mex. 12.5%	Grarridge Corporation	100%	1.268475
22	SW/4, SE/4, Sec. 12, T13S, R31 E. Chaves Co.	40	B-10416-25	St. N. Mex. 12.5%	Grarridge Corporation	100%	1.952602
26	W/2 NE/4, Sec. 11, T13S, R31E, Chaves County,	80	B-399-37	St. N. Mex. 12.5%	Grarridge Corporation	100%	2.212742
27	SE/4, S/2 & NE/4 of SW/4, Sec. 11, T13S, R31E, Chaves County # Ohio Oil Company	280	B-8631-3	St. N. Mex 12.5%	Grarridge Corporation	100%	8.840176

#NOTE The parties listed below each tract own overriding royalty interests which, prior to execution of this instrument, were payable out of production from such tract under the terms of the lease covering such tract as reflected by instruments of record in said county, but which will, after the execution of this instrument, be payable out of the production allocated to such tract.

#NOTE Subject to a beneficial interest in favor of Oil & Gas Property Management, Inc., and Clardy & Barnett, as per terms of agreement recorded in Vol. 21, page 124, Oil and Gas Records, Chaves County, New Mexico.

EXHIBIT B (Continued)

TRACT NO.	DESCRIPTION	ACREAGE	LEASE AND ASSIGNMENT NO.	ROYALTY OWNER - AND AMOUNT	OWNER OF RECORD AND WORKING INTEREST OWNER	AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT
17	SW/4 NE/4, Sec. 12, T13S, R31E, Chaves County,	40	B-10416	St. New Mex. 12.5%	Great Western Drilling Co.	100%	3.669794
<p>‡ J. C. Maxwell, Inc., Charles H. Osmond, Roderic Craudall</p>							
23	E/2 SW/4, Sec. 12, T13S, R31E, Chaves County,	80	B-9155	St. New Mex. 12.5%	Great Western Drilling Co.	100%	7.336938
<p>‡ Great Western Drilling Company, Cascade Petroleum Company,</p>							
24	W/2 SW/4, Sec. 12, T13S, R31E, Chaves County	80	B-7878	St. New Mex. 12.5%	Great Western Drilling Co.	100%	4.235398
<p>‡ Great Western Drilling Company, Cascade Petroleum Company</p>							
28	SE/4 SE/4, Sec. 2, T13S, R31E, Chaves County	40	B-9541	St. New Mex. 12.5%	Great Western Drilling Co.	100%	1.075055
<p>‡ Great Western Drilling Company</p>							
<p>‡ Note: The parties listed below each tract own overriding royalty interests which, prior to execution of this instrument, were payable out of production from such tract under the terms of the lease covering such tract as reflected by instruments of record in the County of Chaves, New Mexico, but which will, after the execution of this instrument, be payable out of the production allocated to such tract.</p>							
15	N/2 NW/4, Sec. 12, T13S, R31E, Chaves County	80	B-8459	St. New Mex. 12.5%	Gulf Oil Corporation	100%	4.097832

FILE IN 1447

WJP

JAMES T. JENNINGS
ATTORNEY AT LAW
J. P. WHITE BUILDING
ROSWELL, NEW MEXICO

May 1, 1958

Oil Conservation Commission
Box 871
Santa Fe, New Mexico

Attention: Mr. Porter

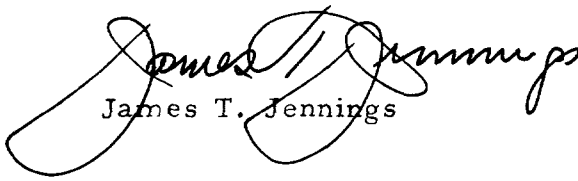
Gentlemen:

Enclosed herewith you will find the application, in triplicate, filed by Ambassador Oil Corporation for approval of the North Caprock Queen Unit No. Two. You will also find 3 copies of the proposed Unit Agreement.

In accordance with my conversation of this afternoon with Mr. Porter, I will appreciate it if you will set this up for Commissioner's hearing on May 28 as my client is anxious to have a hearing at the earliest possible date.

If you find that the Application is not in order or that you need additional information, I would certainly appreciate it if you would so advise me, or call me collect at Roswell MAin 2-8432.

Yours very truly,


James T. Jennings

JTJ:cs
Enc.
cc: Ambassador Oil Corporation

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF
AMBASSADOR OIL CORPORATION FOR THE
APPROVAL OF THE NORTH CAPROCK QUEEN
UNIT NO. TWO EMBRACING 1807.97 ACRES
MORE OR LESS LOCATED IN TOWNSHIP 13
SOUTH, RANGES 31 and 32 EAST, N. M. P. M.
CHAVES AND LEA COUNTIES, NEW MEXICO.

CASE NO. _____

APPLICATION FOR APPROVAL OF
NORTH CAPROCK QUEEN UNIT NO. TWO

Comes now the applicant, Ambassador Oil Corporation,
whose address is Box 9338, Fort Worth, Texas, and files herewith three
copies of the proposed Unit Agreement for the development and operation
of the unit area of the North Caprock Queen Unit No. Two, and hereby
makes application for approval of said unit as provided by law, and in
support thereof states:

1. That the unit area covers the following described lands,

to wit:

Chaves County, New Mexico

T. 13 S., R. 31 E.,

Section 1 - Lots 1, 2, $S\frac{1}{2}NE\frac{1}{4}$, $SE\frac{1}{4}NW\frac{1}{4}$, $S\frac{1}{2}$

Section 2 - $SE\frac{1}{4}SE\frac{1}{4}$

Section 11 - $NE\frac{1}{4}SW\frac{1}{4}$, $S\frac{1}{2}SW\frac{1}{4}$, $E\frac{1}{2}$

Section 12 - All

Lea County, New Mexico

T. 13 S., R. 32 E.,

Section 7 - Lots 1, 2, 3 and 4

containing in all 1807.97 acres, more or less

2. That all of the lands embraced in the unit area are State
lands.

3. That the applicant, Ambassador Oil Corporation, is designated as unit operator in said Unit Agreement and, as such, is given the authority under the terms thereof to carry on operations for the discovery, development and production of unitized substances.

4. Applicant has heretofore instituted a pilot water flood project on the lands embraced in the Unit, which pilot water flood project was approved by Commission Order No. R-1053 dated September 16, 1953.

5. That the proposed unit will lead to a more efficient and orderly development and operation of the present pilot water flood being carried on by the applicant in the unit area and is necessary to allow the applicant to completely develop its water flood operation.

6. That the Unit Agreement is in substantially the form as Unit Agreements heretofore approved by the Commissioner of Public Lands of the State of New Mexico and by the New Mexico Oil Conservation Commission and it is believed that the secondary recovery operations can be more economically and efficiently carried on under the terms of said agreement to the end that the maximum recovery will be obtained, and that the Unit Agreement is in the interest of conservation of oil and gas and prevention of waste as contemplated by the statutes of the State of New Mexico.

7. That application is being made to the Commissioner of Public Lands of the State of New Mexico for the approval of said Unit Agreement.

8. That in excess of 90% of the working interest owners have heretofore executed the Unit Agreement and the Unit Agreement provides that any party owning rights in the unitized substances who does not commit such rights to the Unit Agreement before the effective date thereof may thereafter become a party by subscribing to such Unit Agreement or by ratifying the same as provided by the terms of said agreement.

9. That upon an order being entered by the New Mexico Oil Conservation Commission approving said Unit Agreement and after approval thereof by the Commissioner of Public Lands of the State of New Mexico, an executed original, or executed counterpart, of the Unit Agreement will be filed with the New Mexico Oil Conservation Commission.


WHEREFORE, the applicant respectfully requests that a public hearing be held upon the matter of the approval of said Unit Agreement and upon said hearing the Unit Agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and the prevention of waste.

DATED this first day of May, 1958.

Respectfully submitted,

AMBASSADOR OIL CORPORATION

BY:


James T. Jennings
Box 805
Roswell, New Mexico
Attorney for Applicant, Ambassador
Oil Corporation.

