

Page 3154

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
CULWIN QUEEN UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the _____ day of _____, 1964, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto";

W I T N E S S E T H:

THAT 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 Sec. 1 of Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 39, N.M.S. 1953 anno) to consent to or approve this Agreement on behalf of the State of New Mexico, in so far 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. 3, Chap. 88, Laws of 1943, as amended by Sec. 1, Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 41, N.M.S. 1953 anno) 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 1941, and Chap. 168, Laws of 1949) to approve this Agreement, and the conservation provisions hereof; and,

WHEREAS, the Mineral Leasing Act of February 25, 1920

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

WHEREAS, the parties hereto hold sufficient interests in the Culwin Queen Unit 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, 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 entire respective interests in the below defined Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid, pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder and valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not

inconsistent with the terms of this Agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this Agreement.

SECTION 2. UNIT AREA AND DEFINITIONS. For the purpose of this Agreement, the following terms and expressions as used herein shall mean.

(a) "Unit Area" is defined as those lands specified on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area; the lands specified in said Exhibit "A" are described as:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO	
<u>EDDY COUNTY, NEW MEXICO</u>	
Township 18 South, Range 30 East	
Section 36: S/2 NE/4, SE/4, E/2 SW/4, SW/4 SW/4	360.00
Township 19 South, Range 30 East	
Section 1: Lots 1, 2, 3, S/2 NE/4, N/2 SE/4	280.40
Township 18 South, Range 31 East	
Section 31: Lots 3 & 4	71.64
Township 19 South, Range 31 East	
Section 6: Lots 4, 5 & 6	108.40
Total Unit Area	820.44

and containing 820.44 acres, 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) "Director" is defined as the Director of the United States Geological Survey.

(e) "Secretary" is defined as the Secretary of the Interior of the United States of America.

(f) "Department" is defined as the Department of the Interior of the United States of America.

(g) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey.

(h) "Queen Zone" is defined as and shall mean that underground reservoir, regardless of depth or thickness,

*Unitized
form.* [established by the Commission as the Queen formation portion of the Shugart oil pool. The Queen Zone is found between the subsurface depths of 3060 feet and 3120 feet in Hondo Oil & Gas Company State RD No. 2, located 1860' from the east line and 540' from the south line of Section 36, Township 18 South, Range 30 East, Eddy County, New Mexico, Lane-Wells Radioactivity log dated May 25, 1959. (Location is incorrect on this log as printed, above is correct.)

(i) "Unitized Formation" is defined as the Queen Zone underlying the lands effectively committed to this Agreement.

(j) "Unitized Substances" means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

(k) "Ultimate Primary Oil Recovery" is 314,627 barrels of oil and is defined as that amount of Unitized Substances which will be produced from the Unitized Formation in the Unit Area, consisting of 285,112 barrels of primary oil recovered to January 1, 1964, plus 29,515 barrels of remaining primary oil to be recovered as of that date.

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

(m) "Working Interest Owner" is defined as and shall mean any party 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.

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

(o) "Royalty Owner" is defined as and shall mean the owner of a Royalty Interest.

(p) "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 Section 10 (Accounting Provisions and Unit Operating Agreement), infra, and shall be styled "Unit Operating Agreement, Culwin Queen Unit, Eddy County, New Mexico".

(q) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells on the unitized land.

(r) "Unit Operator" means the Working Interest Owner designated by Working Interest Owners under the Unit Operating Agreement to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.

(s) "Unit Manager" is defined as the person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 9 (Successor Unit Operator) hereof.

(t) "Tract" means each parcel of land described as such and given a Tract number in Exhibit "A".

(u) "Tract Participation" means the percentage shown on Exhibit "B" for allocating Unitized Substances to a Tract under this agreement.

(v) "Unit Participation" of each Working Interest Owner means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

SECTION 3. EXHIBITS. Exhibit "A" attached hereto and made a part hereof is a map showing, to the extent known to the Unit Operator, the Unit Area and the boundaries and identity of tracts and leases in said Unit Area. Exhibit "B" attached hereto and made a part hereof 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, kind of ownership of oil and gas interests, 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 render such revision necessary, and at least two copies of such revision shall be filed with the Commissioner, and not less than six copies thereof shall be filed with the Supervisor.

SECTION 4. 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. 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 the 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 each such tract, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if 90 per cent of the Working Interest Owners (on the basis of unit participation) have agreed to such tract or tracts being brought into the Unit, then Unit Operator shall:

(1) After preliminary concurrence by the Director, Commissioner, and the/ prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional tract or tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice; and,

(2) Deliver copies of said notice to the Commissioner, the Supervisor, each Working Interest Owner, lessee and lessor whose interests are affected, (mailing copy of such notice to the last known address of each such Owner) and to the lessee and lessor whose interests are proposed to be committed, advising such parties who are already committed that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion and soliciting joinders from the owners of interests in the lands to be admitted; and,

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above and provided that objections of not more than ten per cent of the Working Interest Owners, based on percentage of participation, have been filed thereto, with the Commissioner, Director and the Commission the following: (a) Comprehensive statement as to mailing said notice of expansion; (b) An application for such expansion in sufficient number for appropriate approval and distribution; and (c) An instrument containing the appropriate joinders in compliance with the participation requirements of Section 14 (Tracts Qualified for Unit Participation) and Section 31 (Nonjoinder and Subsequent Joinder), infra;

Provided, however, if a dissenting Working Interest Owner owns more than a ten per cent (10%) Unit Participation, it must be joined in such dissent by at least one other Working Interest Owner.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner

and the Director and the Commission, become effective as of the date prescribed in the notice thereof or on such other more appropriate date as set by the Commissioner and the Director and the Commission in the order or instrument approving such expansion. The revised Tract Participation of the respective tracts included within the Unit Area prior to such enlargement shall remain in the same ratio one to another.

SECTION 5. PERSONAL PROPERTY EXCEPTED. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be personal property belonging to and may be removed by the Working Interest Owners. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 6. UNITIZED LAND AND UNITIZED SUBSTANCES. All Unitized Substances 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 Unitized Formation, 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".

SECTION 7. UNIT OPERATOR. Hondo Oil & Gas Company, a New Mexico corporation, is hereby designated as Unit Operator, and by signing this instrument as Unit Operator

it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of 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.

SECTION.8. RESIGNATION OR REMOVAL OF UNIT OPERATOR:

Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Commissioner and the Supervisor, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator, upon default or failure in the performance of its duties or obligations hereunder, may be subject to removal by 75 per cent (75%) of the committed Working Interest Owners (on the basis of Unit Participation) exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and the Supervisor.

In all such instances of effective resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes

effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books, and records, materials, appurtenances and any other assets, used in conducting the Unit Operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operations of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is named, 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. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 9. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator by a majority vote of the Working Interest Owners (on the basis of Unit Participation), provided no Working Interest Owner who has been Unit Operator and who has been removed may vote for self-succession. 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

and approved by
selection shall have been filed with the Commissioner and
the Supervisor. If no successor Unit Operator or Unit
Manager is selected and qualified as herein provided, the
Commissioner and the Director, at their election, may declare
this Agreement terminated.

SECTION 10. ACCOUNTING PROVISIONS AND UNIT OPERATING
AGREEMENT. Costs and expenses incurred by Unit Operator in
conducting Unit operations hereunder shall be paid, apporportion-
ed among and borne by the Working Interest Owners in accordance
with the Unit Operating Agreement. Such Unit Operating Agree-
ment 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 agree-
ments, leases or other independent contracts and such other
rights and obligations as between Unit Operator and the Working
Interest Owners as may be agreed upon by the Unit Operator
and the Working Interest Owners; however, no such Unit
Operating Agreement shall be deemed either to modify any of
the terms and conditions of this Unit Agreement or to relieve
the Unit Operator of any right or obligation established
under this agreement, and in case of any inconsistency or
conflict between this Agreement and the Unit Operating
Agreement, this Agreement shall prevail. Two true copies
of any Unit Operating Agreement executed pursuant to this
Section shall be filed with the Commissioner and three true
copies thereof shall be filed with the Supervisor prior to
approval of this Agreement.

SECTION 11. 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.

SECTION 12. 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 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 a plan of operation by the Working Interest Owners, the Supervisor, and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquified petroleum gas, 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. The parties hereto

hereby grant Unit Operator the right insofar as such rights are granted by the individual leases to use brine or water (or both) from any formation underlying the Unit Area for injection purposes. After commencement of secondary operations, Unit Operator shall furnish the Commissioner and the Supervisor monthly, injection and production reports for each well in the Unit. The Working Interest Owners, the Supervisor, and the Commissioner, shall be furnished periodical reports on the progress of the plan of operation and any revision or changes thereto; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Supervisor and the Commissioner.

The initial plan of operation shall be filed with the Supervisor and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor and the Commissioner may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence secondary operations on the Unit Area within six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and the Supervisor. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 13. TRACT PARTICIPATION. In Exhibit "B" attached hereto, there are listed and numbered the various

tracts within the Unit Area and set forth opposite each tract is a figure which represents the Tract Participation allocated to each tract in the Unit Area calculated on 100 per cent commitment. The Tract Participation of each tract was determined as follows:

$$\text{Tract Participation} = \frac{100\% \text{ Tract Ultimate Primary Oil Recovery}}{100\% \text{ Unit Area Ultimate Primary Oil Recovery}}$$

However, if the Unit Agreement is approved with less than 100 per cent commitment, said Tract Participation shall be revised pursuant to Section 14 (Tracts Qualified for Unit Participation) to fit the commitment status as of the effective date hereof, and thereafter, as needed pursuant to Section 15 (Allocation of Unitized Substances).

SECTION 14. TRACTS QUALIFIED FOR UNIT PARTICIPATION.

On and after the effective date hereof, the tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances therefrom shall be those tracts within the Unit Area and more particularly described in said Exhibit "B" that are qualified as follows:

(a) Each tract as to which Working Interest Owners owning 100% of the Working Interest therein have become parties hereto and as to which Royalty Owners owning 75% or more of the Royalty Interest therein have become parties hereto.

(b) Each tract as to which Working Interest Owners owning 100% of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than 75% of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such tract have joined in a request for the qualification and participation of such tract, and

(ii) 80% of the combined voting interests of Working Interest Owners in all tracts meeting the requirements of Section 14(a) hereof have approved the qualification and participation of such tract.

For the purposes of this Section 14(b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in per cent) which its aggregate tract participation in all tracts qualifying under Section 14(a) bears to the total tract participation of all Working Interest Owners

in all tracts qualifying under Section 14(a).

(c) Each tract as to which Working Interest Owners owning less than 100% of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

(1) The Working Interest Owner operating any such tract and all of the other Working Interest Owners in such tract who have become parties hereto have joined in a request for qualification and participation of such tract and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless all other parties hereto, their successors and assigns, against all claims and demands which may be made by the owners of working interests in such tract who are not parties hereto and which arise out of the qualification and participation of such tract, and

(ii) 80% of the combined voting interest of Working Interest owners in all tracts meeting the requirements of Section 14(a) and 14(b) have voted in favor of the qualification and participation of such tract and acceptance of the indemnity agreement.

For the purpose of this Section 14(c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in per cent) which its aggregate tract participation in all tracts qualifying under Section 14(a) and 14(b) bears to the total tract participation of all Working Interest Owners in all tracts qualifying under Section 14(a) and 14(b). Upon the qualification of such a tract, the share of the tract participation that would have been attributed to the nonsubscribing owners of the Working Interest in such tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such tract who have become parties to such agreements, in proportion to their respective Working Interests in the tract.

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 and the Director, or as soon thereafter as practicable, file a schedule of those tracts which have been committed and made subject to this agreement and are entitled to participate in Unitized Substances. Said schedule shall set forth opposite each such committed tract the lease number or assignment number, the owner of record

of the lease, and the Tract Participation of such tract which shall be computed according to the participation formula set out in Section 13 (Tract Participation) above. This schedule of participation shall be a part of Exhibit "B" and, upon approval thereof by the Commissioner, and the Supervisor, shall become a part of this agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Commissioner and the Supervisor or the Director.

If, after the effective date of this Agreement, there is any tract or tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any tract or tracts within the Unit Area not committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Section 31 (Non-Joinder and Subsequent Joinder), or if any tract is excluded herefrom as provided for in Section 30 (Loss of Title), the schedule or participation as shown in the current Exhibit "B", shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Commissioner, the Supervisor, and the Director to show the new tract participation of all the then effectively committed tracts; and the revised schedule, upon approval by the Commissioner and the Supervisor or the Director, shall govern all the allocation of production from and after the effective date thereof until the effective date of a new schedule so approved.

SECTION 15. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved shall be allocated to the qualified Tracts in accordance with the respective Tract Participations effective during the period that the Unitized Substances were produced. The amount of Unitized Substances allocated to each Tract, regardless of whether it

is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the parties executing, consenting to or ratifying this agreement entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal 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 any Oil and Gas Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

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. Such parties shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained, and operated as not to interfere with Unit Operations. 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 receiving party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of the Unitized Substances.

If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto. Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party ninety (90) days' notice of such intended sale.

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 Royalty on the lease or leases and tracts contributed by it and received into the Unit.

SECTION 16. ROYALTY SETTLEMENT. The State of New Mexico and the United States of America and all Royalty Owners who, under an existing contract, are entitled to

take in kind a share of the Unitized Substances produced from any tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty 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 Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation, for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan approved pursuant to Section 12 (Plan of Operations), a like amount of gas, less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation, Royalty free as to dry gas but not as to the products extracted therefrom; provided such withdrawal shall be pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor and the Commissioner; and provided further that such right of withdrawal shall terminate as of the effective date of termination of the Unit Agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recovery, which shall be in

conformance with a plan first approved by the Supervisor and the Commissioner, part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor and the Commissioner.

All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective tract or tracts committed hereto, in lieu of actual production from such tract or tracts.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulations; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though the Unitized Land were a single consolidated lease.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a tract or tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a tract or tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

SECTION 17. RENTAL SETTLEMENT. Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof, due under their leases. Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico. Rental or minimum royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 18. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 19. 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.

SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the pro-

visions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each 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, producing or secondary recovery operations performed hereunder upon any tract of unitized lands shall be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioner and the Supervisor or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this Agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.

(e) Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) Any lease 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.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to the portion committed and that portion not committed, and the terms of such lease shall apply separately 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 land committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease (whether within or without the Unit Area), (i) if, and for so long as Unitized Substances are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement; or (ii) if, and for so long as some part of the lands embraced in such State lease are allocated Unitized Substances; or (iii) if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bonafide drilling or reworking operations on some part of the lands embraced therein and for so long as such operations are being diligently prosecuted, and if they result in the production of Unitized Substances, said lease shall continue in full force and effect as to all of the lands embraced therein, as provided in (i) or (ii) above.

(h) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Sec. 17(j) of said Act of February 25, 1920, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such plan (unit) embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization. Provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but not for less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

SECTION 21. CORRECTION OF ERRORS. It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners, the Commissioner, and the Supervisor.

SECTION 22. COVENANTS RUN WITH LAND. The covenant herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and

their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded 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, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 23. 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 per cent (90%), and the execution or ratification of this Agreement by Royalty Owners owning a combined interest of at least seventy-five per cent (75%) of the Royalty Interest, in said Unit Area; and,

(b) The approval of this Agreement by the Commissioner, the Secretary or his duly authorized representative, and the Commission; and,

(c) The filing of at least one counterpart of this Agreement for record in the office of the County Clerk of Eddy County, New Mexico, by the Unit Operator; and provided further, that if (a), (b) and (c) above are not accomplished on or before September 1, 1964, this Agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined unit

participation of at least eighty-five per cent (85%), and the Working Interest Owners owning a combined unit participation of at least eighty-five per cent (85%) committed to this Agreement have decided to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a), (b) and (c) are not accomplished on or before said extended expiration date, this Agreement shall ipso facto expire on said extended expiration 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 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 Unit Area and as long thereafter as drilling, reworking or other operations (including secondary recovery 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.

This Agreement may be terminated with the approval of the Commissioner and the Director by Working Interest Owners owning ninety per cent (90%) of unit participation whenever such Working Interest Owners determine that Unit operations are no longer profitable, feasible, or in the interest of conservation. Notice of any such termination shall 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.

If not otherwise covered by the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit operations.

SECTION 24. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately owned lands subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this Section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice.

SECTION 25. NONDISCRIMINATION. In connection with the performance of work under this Agreement, the Unit Operator agrees to comply with all of the provisions of Section 301 (1) to (7) inclusive, of Executive Order 10925 (26 F.R. 1977), which are hereby incorporated by reference in this Agreement.

SECTION 26. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner, the Department, and the Commission, and to appeal from any order issued under the rules and regulations of the Commissioner, the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner, the Department, or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings. This Agreement shall not be construed to provide that any party is obligated to represent any other party hereto before the Federal Power Commission.

SECTION 27. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 28. 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 rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

SECTION 29. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue secondary recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 30. LOSS OF TITLE. In the event title to any tract of unitized land shall fail so as to render the tract inoperable under this Agreement 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 interest subject thereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State or Federal land or lease, no payments of funds due the

State of New Mexico or the United States of America shall be withheld, but such funds shall be deposited as directed by the Commissioner or the Supervisor (as the case may be), to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 31. NONJOINDER AND SUBSEQUENT JOINDER. Any oil or gas interest in the lands in the Unit Area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement and, if the interest is a Working Interest, by the owner of such interest also subscribing to the Unit Operating Agreement. After operations are commenced hereunder the right of subsequent joinder by a Working Interest Owner shall be upon such terms as may be negotiated with the Working Interest Owners and the owner of such interest. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the Working Interest Owner committed hereto and responsible for the payment of any benefits which may accrue hereunder in behalf of such non-working interest.

Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 A.M. as of the first day of the month following the filing with the Commissioner and the Supervisor of duly executed counterparts of any and all documents necessary to establish effective ^{and after approval of such joinder by the Commissioner} commitment of any tract or interest of this Agreement, unless objection to such joinder by the ~~Commissioner or Supervisor~~ Director is duly made within sixty (60) days after such filing.

SECTION 32. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above-described Unit Area.

SECTION 33. 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 expressly agreed hereby that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 34. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account

of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this Agreement are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

SECTION 35. RELATIONSHIP OF PARTIES. The duties, obligations, and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 36. BORDER AGREEMENTS. Subject to the approval of the Supervisor and the Commissioner, the unit operator, with concurrence of sixty-five per cent (65%) of the Working Interest Owners, based on percentage of participation, may enter into a border-protection agreement or agreements with the working interest owners of adjacent lands along the exterior boundary of the unit area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes

and proper protection of the parties and interests.

SECTION 37. LIMITATION OF APPROVALS. Notwithstanding anything herein contained to the contrary, if no Federal lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Department, the Secretary, the Director, or the Supervisor, and it shall not be necessary to file any instrument hereunder with said officers or agencies unless and until Federal lands are so committed to this Agreement; likewise, if no State lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Commissioner, and it shall not be necessary to file any instrument hereunder with said officer unless and until State lands are so committed to this Agreement; likewise, if no fee lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Commission, and it shall not be necessary to file any instrument hereunder with said office unless and until fee lands are so committed to this Agreement.

SECTION 38. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipe line connections, as of 7:00 A.M. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the pro-

visions of the applicable lease or other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after effective date hereof.

If, as of the effective date hereof, any Tract is overproduced with respect to the allowable of the wells on that Tract and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded as a part of the Unitized Substances produced after the effective date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

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:

HONDO OIL & GAS COMPANY

By _____
Secretary

By _____
Vice President

Date _____

UNIT OPERATOR
AND WORKING INTEREST OWNER

R 30 E

R 31 E

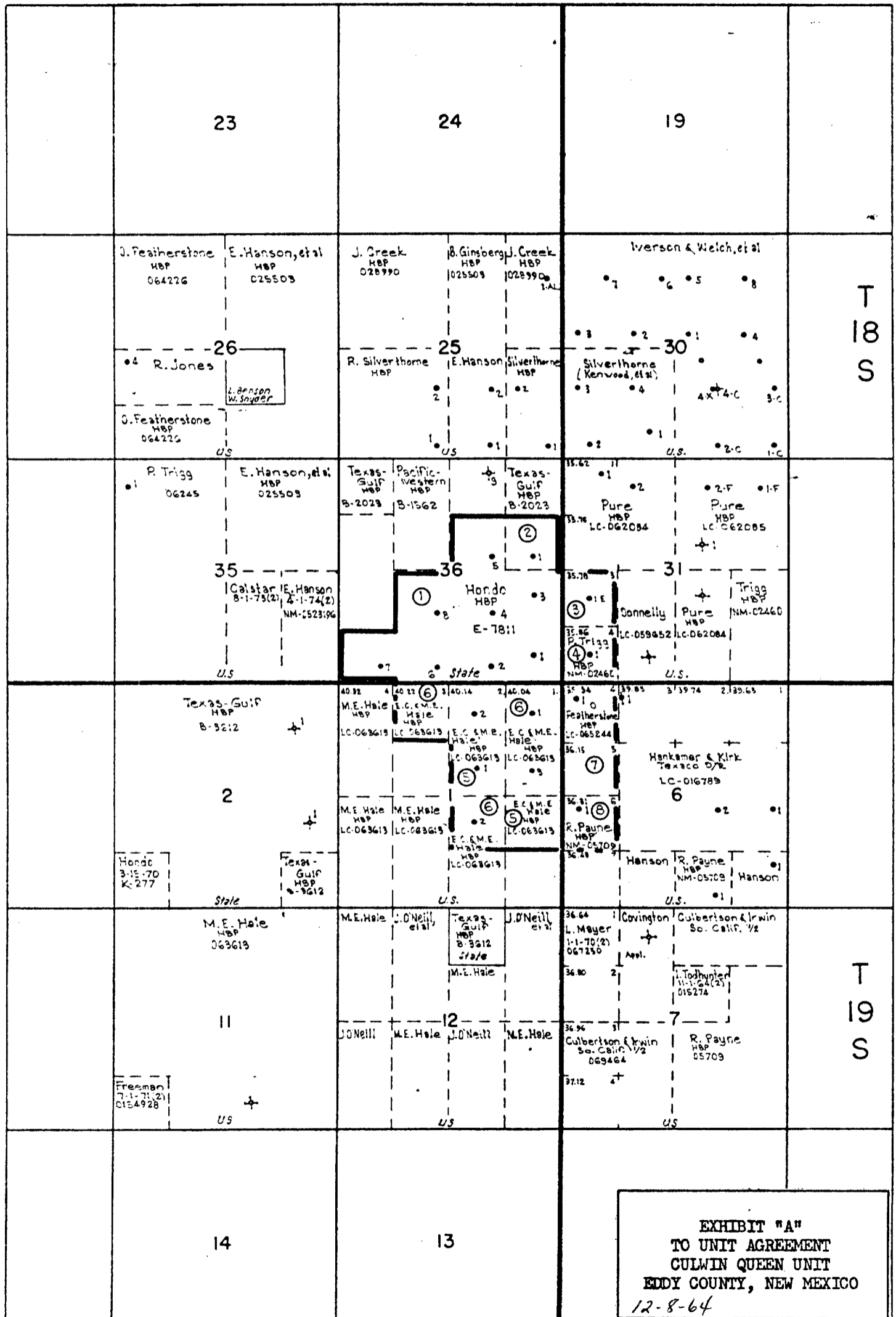


EXHIBIT "A"
TO UNIT AGREEMENT
CULWIN QUEEN UNIT
EDDY COUNTY, NEW MEXICO
12-8-64

EXHIBIT "B" TO UNIT AGREEMENT
CULMIN QUEEN UNIT, EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OWNER	OVERRIDING ROYALTY		AMOUNT	OWNER	WORKING INTEREST AMOUNT	PER CENT PARTICIPATION OF TRACT IN UNIT	
							AMOUNT	OWNER					
T-18-S, R-31-E FEDERAL LANDS													
3	Lot 3 of Section 31	35.78	IC-062084 Dtd.12-29-39	12.5%	Pure Oil Co.	None				Pure Oil Company	100.00000	2.02622	
T-19-S, R-30-E FEDERAL LANDS													
5	Lot 2, SW 1/4 NE 1/4, NE 1/4 SE 1/4 of Section 1	120.14	IC-063613 Dtd.11-1-47	12.5%	Elwyn C. & Mabel E. Hale	None				Elwyn C. Hale Mabel E. Hale Harvey E. Yates	43.75000 43.75000 12.50000	7.60719	
6	Lot 1 & 3, SE 1/4 NE 1/4, NW 1/4 SE 1/4 of Section 1	160.26	IC-063613 Dtd.11-1-47	12.5%	Elwyn C. and Mabel E. Hale	15 or More Barrels Per Well Per Day Elwyn C. Hale 3.12500 Mabel E. Hale 3.12500 N.C.Dragisic, Trustee 1.21875 Empire Trust Co. Acct. Ulster Corp. (OP) 12.00469 Southwest Charitable Corp. (OP) 19.00743 15 or Less Barrels Per Well Per Day Mabel E. Hale 2.50000 Elwyn C. Hale 2.50000 Empire Trust Co. Acct. Ulster Corp. (OP) 12.37500 Southwest Charitable Corp. (OP) 19.59375			E. T. Anderson 1.00000 Edwina S. Brokaw 3.16667 Walter Duncan 15.41666 J. Walter Duncan, Jr. 2.91334 Vincent J. Duncan 7.39000 Raymond T. Duncan 6.94667 Mildred B. Hanes 4.00000 G. Hilmer Lundbeck 4.00000 Hunter S. Marston 2.00000 Joseph I. O'Neill, Jr. 32.66667 Riddell Petr. Corp. 8.00000 Edward L. Shea, Est. 9.33333 Peter L. Shea 3.16666	16.29465			
T-19-S, R-31-E FEDERAL LANDS													
7	Lots 4 & 5 Section 6	72.09	IC-065244 Dtd.2-1-51	12.9%	Olen F. Featherstone	None				Olen F. Featherstone	100.00000	2.71437	

EXHIBIT "B" TO UNIT AGREEMENT
CULMIN QUINN UNIT, EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	ACRES	SERIAL NO. & LEASE DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST	PER CENT PARTICIPATION		
						OWNER	AMOUNT		OWNER	AMOUNT OF TRACT IN UNIT	
<u>T-18-S, R-31-E FEDERAL LANDS</u>											
4	Lot 4 of Section 31	35.86	NM-02460 Dtd. 5-1-52	12.5%	Pauline V. Trigg	5.00000	Pauline V. Trigg	100.00000		5.99869	
<u>T-19-S, R-31-E FEDERAL LANDS</u>											
8	Lot 6, Section 6	36.31	NM-05709 Dtd. 7-1-51	12.5%	Robert G. Payne	John N. Eddy, et ux Thomas F. McKenna M.C. Dragisic, Trustee Empire Trust Co., Acct. Ulster Corp. (OP) Southwest Charitable Corp. (OP)	1.50000 1.50000 .15844 1.56061 2.47097	Robert G. Payne E.T. Anderson Edwina S. Brokaw Walter Duncan J. Walter Duncan, Jr. Vincent J. Duncan Raymond T. Duncan Mildred B. Hanes G. Hilmer Lundbeck Hunter S. Marston Joseph I. O'Neill, Jr. Riddell Petr. Corp. Edward L. Shea, Est. Peter L. Shea	87.50000 .12500 .39584 1.92708 .36416 .92375 .86833 .50000 .50000 .25000 4.08334 1.00000 1.16666 .39584	2.43553	
<u>T-18-S, R-30-E STATE LANDS</u>											
2	SE/4 NE/4 of Section 36	40.00	B-2023 Dtd. 7-10-33	12.5%	Texas Gulf Prod. Co.	6.25000	Texas Gulf Prod. Co.	75.00000 18.75000 6.25000	North Star Oil Corp. Chas. C. Green, Jr. Ervin Clarence Philpy	1.97677	
<u>T-18-S, R-30-E STATE LANDS</u>											
1	SE/4, SW/4 NE/4, E/2 SW/4, SW/4 SW/4, Section 36	320.00	E-7811 Dtd. 2-16-64	12.5%	Hondo Oil & Gas Co.	None	Hondo Oil & Gas Co.	100.00000		60.94658	