

Case 3449

AUG 16 1966

CURTIS W. MEWBOURNE
CONSULTING PETROLEUM ENGINEER
FIDELITY UNION LIFE BUILDING
DALLAS, TEXAS 75201

August 12, 1966

New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, New Mexico

Attention: Mr. D. S. Nutter, Chief Engineer

Re: Ray Smith Drilling Company
Shugart 18-Queen Unit
Eddy County, New Mexico

Gentlemen:

Before the New Mexico Oil Conservation Commission comes now Ray Smith Drilling Company for approval of the Shugart 18-Queen Unit, Eddy County, New Mexico and in support of its application, includes the following:

1. Copy of the Unit Agreement.
2. Certification by the United States Geological Survey.
3. Logs of the proposed injection wells.
4. A plat showing the location of the proposed injection wells and all other wells within the area.

Operators have joined together to form the Shugart 18-Queen Unit for the purpose of conducting secondary recovery operations by waterflooding. Ray Smith Drilling Company has been selected as the Unit Operator. The zone to be waterflooded is the Queen Sand at an approximate depth of 3,000 feet. Fresh water will be purchased from the Double Eagle Corp. of New Mexico and will be injected at an estimated surface pressure of 700 psi. It is anticipated that an average of 300 barrels per day will be injected. The following wells will be used as injection wells:

1. Ray Smith - Canfield Federal #1
2. Ray Smith - Kenwood Federal #1
3. Ray Smith - Kenwood Federal "A" #1

This Unit covers only the Queen Sand, as set out in Section 2, Paragraph "G" of the Unit Agreement. Formation of this Unit will facilitate secondary recovery. Support of this application will prevent waste and protect correlative rights. Ray Smith Drilling Company requests a hearing for:

1. Authorization of Unit Agreement.
2. Authorization to inject water for secondary recovery.

Ray Smith Drilling Company requests that this application be set before the Commission or one of its examiners and that the Commission enter its Order, approving this application.

Very truly yours,


Curtis W. Mewbourne

CWM:
Enc.

Ray Smith Drilling Co.
Shugart 18-Queen Unit
Eddy County, New Mexico

Robert Sibert
2-1-79
0334702
33.97 7

Atlantic
7-16-67
06 1036

Kenwood
HBP
029389

R. Sibert
2-1-73
0334702 TD 400
Polon
TD 3738

U.S.

State

U.S.

Franklin, Aston & Fair

021096

INJECTION WELLS

12

"Fed- C K. Lowe"

U.S.

P25

Barb. J.
Peterson
1-1-74
0494576
McClellan
Mayer
TD 4100
D/A 12-18-63
34.28 3

Robert Sibert
(Appl.)
0334702

Amax Pet.
1-1-76
0558685

Texaco
HBP
029393

Wilkinson
TD 503

Amax Pet.
1-1-76
0558685

Hondo
HBP
029393
Wilmer
TD 3152
TD 10133

12-1-64

TD 4027

U.S.
Ginsberg

Franklin, Aston & Fair
HBP
021096

Canadian)
Kenwood)

HBP
029393

Texaco

Ray Smith
Kenwood
A

H Garrett
Ted Ginsberg
TD 3884

Long
Kincaid
TD 3600

Texaco
HBP
029393

Texaco
HBP
029393
Malco

Apco
(Kenwood)
029393

"A"
2
4

Franklin, Aston & Fair
HBP
047269

Ray Smith
0263393
"Carlfield"

Jno. Creek
HBP
028990
U.S.

Kersey & Co.

Jno. Creek

APCO
Ginsberg
Ray Smith
Kenwood
U.S.

Kincaid
Watson
Malco
TD 3629

Kenwood
TD 3930

Holmes
Appl.
U.S. 0263393
Ginsberg

Kersey & Co
HBP
028990

E.A. Hanson, et al
HBP
025503

V.S. Welch, et al
HBP
029387

Gulf
HBP
029387

Canadian
Kenwood
HBP

Keohane, et al
029393

NORTH
059569

J.A. Yates,
et al
HBP
028990

"Shugart"
I-E
TD 4342

J.A. Yates,
et al
HBP
028990

E.A. Hanson, et al
HBP
025503

Mayer
Kenwood
TD 3600
029387

(Mayer) 2AL
Creek
TD 3600
U.S. Yates Pat.
P75

J. Mc
Keohane

J.A. Yates, et al
HBP
028990

B.B. Ginsberg

025503 028990

"Creek"

V.S. Welch, et al

"Shugart"

(Kenwood)
"A"

029387

Welch
Kenwood
"Shugart"

29



UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY
WASHINGTON, D.C. 20242

RECEIVED

JUL 23 1966

U. S. GEOLOGICAL SURVEY
ROSWELL, NEW MEXICO

JUL 25 1966

Ray Smith Drilling Company
3300 Republic National Bank Building
Dallas, Texas 75201

Gentlemen:

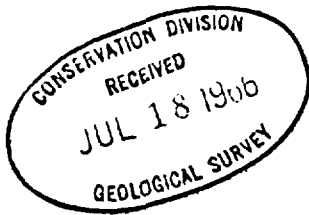
On July 21, 1966, Arthur A. Baker, Acting Director of the Geological Survey, approved the Shugart 18 - Queen unit agreement, Eddy County, New Mexico, filed by your company as unit operator. The agreement has been designated No. 14-08-0001-8795, and is effective as of August 1, 1966.

Enclosed is one copy of the approved unit agreement for your records. We request that you furnish all interested principals with whatever evidence of this approval is deemed appropriate.

Sincerely yours,

For the Director

Enclosure



CERTIFICATION--DETERMINATION

14-08-0001 87 95

Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Director of the Geological Survey pursuant to Departmental Order No. 2365 of October 8, 1947, I do hereby:

A. Approve the attached agreement for the development and operation of the Shugart 18-Queen Unit Area, State of New Mexico.

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

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

Dated JUL 21 1966.


ACTING Director, United States Geological Survey

RECEIVED

APR 23 1966

UNIT AGREEMENT
SHUGART 18- QUEEN UNIT
EDDY COUNTY, NEW MEXICO

UNIT AGREEMENT
SHUGART 18- QUEEN UNIT
EDDY COUNTY, NEW MEXICO

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EXHIBIT "A" (Map of Unit Area)

EXHIBIT "B" (Schedule of Ownership)

Certification - Determination

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SHUGART 18 - QUEEN UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of November, 1965, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto",

WITNESSETH: That,

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the land subject to this Agreement; 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 Shugart 18 - Queen Unit Area 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 described in said Exhibit "A" are described as follows:

Township 18 South, Range 30 East, N. M. P. M.
Section 13: N 1/2 SE 1/4

Township 18 South, Range 31 East, N. M. P. M.
Section 18: lots 2, 3, 4, E 1/2 SW 1/4

containing 264.07 acres, more or less, in Eddy County, New Mexico.

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

(c) "Director" is defined as the Director of the United States Geological Survey.

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

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

(f) "Supervisor" is defined as the Oil and Gas Supervisor, Branch of Oil and Gas Operations of the United States Geological Survey.

(g) "The Unitized Formation" is defined as that portion of the Queen Sand formation which is encountered between the depths of 3,080 feet and 3,114 feet on the Gamma Ray-Neutron log of the Ray Smith Kenwood-Federal well No. 3, located in lot 3 (NW 1/4 SW 1/4) Section 18, Township 18 South, Range 31 East, N.M.P.M., Eddy County, New Mexico, insofar as the same lies within the Unit Area, under lands committed to this Agreement.

(h) "Unitized Substances" is defined as and shall mean all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquids or liquefiable hydrocarbons within or produced from the Unitized Formation.

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

(j) "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 hereof hereunder.

(k) "Royalty Interest" or "Royalty" is defined as an interest reserved by the lessor in an oil and gas lease. Specifically defined as not being a royalty interest is a working interest, overriding royalty interest, production payment interest, or net profits contract.

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

(m) "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, infra, and shall be styled "Unit Operating Agreement, Shugart 18 - Queen Unit, Eddy County, New Mexico".

(n) "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.

(o) "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 hereof.

(p) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".

(q) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract. The Tract Participation of the several Tracts within the Unit Area is shown on Exhibit "B" attached hereto.

(r) "Tract Current Production" is defined as the cumulative total number of barrels of oil produced from the Unitized Formation under such committed Tract during the period from August 1, 1964, to January 31, 1965, inclusively, as officially reported to the Commission.

(s) "Unit Area Current Production" is defined as the total Tract Current Production of all Tracts within the Unit Area that are effectively committed to this Agreement in accordance with the provisions hereof.

(t) "Tract Acre-Feet" is defined as the acre-feet of net pay within the Unitized Formation underlying such committed Tract as heretofore determined and agreed upon by the parties hereto.

(u) "Unit Area Acre-Feet" is defined as the total Tract Acre-Feet of all Tracts within the Unit Area that are effectively committed to this Agreement in accordance with the provisions hereof.

SECTION 3. EXHIBITS: Exhibit "A" attached hereto 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 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 render such revision necessary, 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 Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice to each Working Interest Owner affected by 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 90 percent 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, 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, preferably the first day of the month subsequent to the date of notice; and

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

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above and provided that objections of not more than 10 percent of the Working Interest Owners have been filed thereto, with the Supervisor the following: (a) Comprehensive statement as to mailing such notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the participation requirements of Section 14, infra; and (d) A copy of any objections received.

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

SECTION 5. CONTRACTION: When practicable, the Unit Area shall be contracted to exclude land from this Unit Agreement whenever such contraction is necessary or advisable to conform with the purposes of this Agreement. Such contraction shall be effected in the following manner:

(a) Unit Operator, with concurrence of at least 80 percent of the Working Interest Owners, on the basis of unit participation and with preliminary concurrence of the Director, shall prepare a notice of contraction describing the contemplated changes in the boundaries of the Unit Area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Supervisor, and copies thereof mailed to the last known address of each Working Interest Owner, lessee, and Royalty Owner whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30 day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, a comprehensive statement as to the mailing of the notice of contraction and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such contraction.

(d) After due consideration of all pertinent information, the contraction, upon approval by the Director, shall become effective as of the date prescribed in the notice thereof.

SECTION 6. UNITIZED LANDS AND UNITIZED SUBSTANCES: All land committed to this Agreement as to the Unitized Formation as heretofore defined, shall constitute the land referred to herein as "unitized land" or "land subject to this Agreement". All Unitized Substances as heretofore defined, in or produced from the Unitized Formation are hereby unitized under the terms of this Agreement, together with the pertinent surface rights.

Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas, and other minerals contained in or that may be produced from any formation other than the Unitized Formation.

SECTION 7. UNIT OPERATOR: RAY SMITH DRILLING COMPANY, Dallas, Texas, 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 and the Director, 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 may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the affirmative vote of the owners of 75 percent of the committed Working Interest (on the basis of Unit participation) exclusive of the Working Interest owned by the Unit Operator. Such removal shall be effective upon notice thereof to the Director.

In all such instances of resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible

for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, 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 operation of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment 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 for 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 by affirmative vote of at least 75 percent of their voting interests, based upon the percentages of participation assigned to tracts in the Unit Area, select a successor Unit Operator.

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 subjects 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 additional 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 and the Supervisor, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, and any other substance or a combination of any of said 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. After commencement of secondary operations, Unit Operator shall furnish the Supervisor monthly, injection and production reports for each well in the Unit. The Working Interest Owners and the Supervisor, shall be furnished periodical reports on the progress of the plan of operation and any revisions or changes thereto; provided however, that any revisions of the plan of operation involving a deviation from the initial plan of operation shall be subject to the prior consent and approval of the Working Interest Owners and the Supervisor.

The initial plan of operation shall be filed with the Supervisor 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 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 recovery operations on the Unit Area within six (6) months after the effective date of this Agreement, or any extension thereof approved by the Director, or this Agreement shall terminate automatically, in which latter event Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonable 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 percentage of participation allocated to each tract in the Unit Area calculated on the basis of 100 percent tract commitment. The participation percentage of each tract was determined as follows

$$10\% \times \frac{\text{Tract Current Production}}{\text{Unit Area Current Production}}$$

$$\text{Plus } 90\% \times \frac{\text{Tract Acre-Feet}}{\text{Unit Area Acre-Feet}}$$

= participation percentage of each committed Tract.

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 and all of those tracts as to which Working Interest Owners owning 100% of the Working Interest in said tract and Record Owners owning 100% of the Record Interest in said tract have subscribed, ratified or consented to this Agreement; and

(b) Each and all of those tracts as to which Working Interest Owners owning not less than 100% of the Working Interest therein and Record Owners owning not less than 85% of the Record Interest therein have executed this Agreement, and in which the Working Interest Owners in said tract have agreed to indemnify and hold harmless all other parties hereto, in a manner satisfactory to 85% of the Working Interest Owners qualified under 14 (a), against any and all claims and demands that may be made by the nonjoining Record Owners on account of the commitment and joinder of such tract to the Unit Agreement, and operation thereof under such conditions on the basis herein provided, and as to which 85% of the Working Interest Owners qualified under 14 (a), exclusive of the Working Interest Owner submitting such tract, have approved the commitment of such tract to this Unit Agreement.

If, on the effective date of this Agreement, there is any tract or tracts which have not been qualified 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 Director, file therewith or as soon thereafter as practicable, a schedule of those tracts which have been qualified under this Agreement and are entitled to participate in the production from the Unit Area hereunder. Said schedule shall set forth opposite each such tract the lease number or assignment number, the owner of record of the lease, and the percentages of 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 by the Supervisor shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a revised Exhibit "B" is approved by the Supervisor or the Director.

SECTION 15. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the committed 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 the schedules of participation in Exhibit "B". The amount of Unitized Substances so allocated to each tract, and only that amount, (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such tract) shall, for all intents, uses and purposes, be deemed to have been produced from such tract.

The Unitized Substances allocated to each tract shall be distributed among, or accounted for to the parties 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 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 Operation fixing the divisions of ownership, be divided among such parcels

or portions in proportion to the number of surfact acres in each.

The Unitized Substances allocated to each tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on unitized land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 16 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party 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 and in order to avoid curtailing the operation of the Unit Area, may sell or otherwise dispose of such production to itself or others 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 such production. The net 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 Royalty 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 Royalty on the lease or leases and tracts contributed by it and received into the Unitized land.

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 the effective date hereof but which are subsequently committed hereto under the provisions of Section 31 (Nonjoinder and Subsequent Joinder), or if any tract is excluded from the Unit Area as provided for in Section 30 (Loss of Title), the schedules of participation as shown in Exhibit "B", subject to Section 13 (Tract Participation) or section 31 (Nonjoinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Supervisor, and the Director to show the new percentages of participation of all the then effectively committed tracts; and the revised schedules, upon approval by the Supervisor or the Director, shall govern all the allocation of production from and after the effective date thereof until a new schedule is so approved. In any such new schedule, the Tract Participation of the previously qualified tracts shall remain in the same ratio one to the other.

SECTION 16. ROYALTY SETTLEMENT: The United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty 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 preceeding 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 provided further that such right of withdrawal shall terminate as of the effective date of termination of the Unit Agreement. If liquefied petroleum bases 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, part or all of such liquefield petroleum gases may be withdrawn royalty free pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor.

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 the 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 regulation; 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 regulation as though the unitized lands were a single consolidated lease.

Each Royalty Owner (other than 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 rentals or minimum royalty in lieu thereof, due under their leases. 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 or, with prior consent of the Director, pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Supervisor.

SECTION 20. LEASES AND CONTRACTS CONFIRMED AND EXTENDED: The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary by his approval hereof, or by the approval hereof by

his duly authorized representatives, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal 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 Secretary of his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized lands.

(d) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this Agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such lease remains committed hereto, or in the event actual drilling operations are commenced on unitized land, in accordance with the provisions of this Agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act Revision of 1960.

(e) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire,

is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(f) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act as amended by the Act of September 2, 1960, (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the 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 Operation only after first having obtained approval of Working Interest Owners, and the Supervisor.

SECTION 22. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable 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 a. m. on 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 75%, and the execution or ratification of this Agreement by Record Interest, in said Unit Area; and

(b) The approval of this Agreement by the Secretary or his duly authorized representative..

(c) The filing for record in Eddy County, New Mexico, of a certificate to the effect that provision (a) and (b) of this section have been complied with and stating further the effective date and the location of the governmental agency offices where copies of this Agreement are filed.

If (a), (b) and (c) above are not accomplished on or before January 1, 1967, 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 75%, and the Working Interest Owners owning a combined unit participation of at least 75% 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 be ipso facto expire on said extended expiration date and thereafter be of no further force and effect. For the purpose of this Section, ownership shall be computed on the basis of 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 to its terms and stating further the effective date.

The terms of this Agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This Agreement may be terminated with the approval of the Director of Working Interest Owners owning 85% 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, at 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.

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 days from notice.

SECTION 25. NONDISCRIMINATION: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference to 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 Department, and the Commission and to appeal from any order issued under the rules and regulations of the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to the operations before 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 expenses to be heard in any such proceeding.

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 Federal land or leases, no payments of funds due the United States of America shall be withheld, but such funds shall be deposited as directed by the Supervisor, 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: If the owner of any substantial interest in a tract within the Unit Area fails or refuses to subscribe, ratify, 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 by written notice to the Director, and Unit Operator prior to the effective date of this Agreement. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to 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 such interest to be regarded as effectively committed to this Unit Agreement.

Any oil or gas interest in the Unitized Formations underlying the Unit Area not committed hereto prior to submission of this Agreement to the Director for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Unit Participation) hereof, at any time up to the effective date hereof and for a period to and including six (6) months thereafter, on the same basis of participation as provided in Section 13 (Tract Participation), by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after 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 ninety (90%) percent of the Working Interest Owners (based upon the percentages of participation in the Unit Area). Such joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 a.m. as of the first day of the month following the filing with the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any tract or interest to this Agreement, unless objection to such joinder by the 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 hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States 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 and 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. BORDER AGREEMENTS: Subject to the approval of the Supervisor, the Unit Operator, with concurrence of sixty (60%) percent of the Working Interest Owners, based upon the percentages of participation in the Unit Area, may enter into a border protection agreement or agreements with the Working Interest Owners of adjacent lands along the boundaries 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 36. NO PARTNERSHIP: It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this Agreement contained, expressed or implied, or any operations conducted hereunder, shall create or be deemed to create a partnership or association between the parties hereto or any of them.

SECTION 37. OIL IN LEASE TANKAGE ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil in such tanks, above the pipe line connections, as of 7:00 a.m. on the effective date hereof. All such oil as is a part of the prior allowable of the well or wells from which the same was produced shall be and remain the property of the Working Interest Owners entitled thereto the same as if the Unit had not been formed, and such Working Interest Owners shall promptly remove said oil from the Unit Area. Any such oil not so removed may be sold by the Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms and provisions of the applicable lease or leases and

other contracts. All such oil and gas as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any tract is overproduced with respect to the allowable of the well or wells on that tract and the amount of such overproduction has been sold or otherwise disposed of, such over production shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such tract as having been delivered to the persons entitled to Unitized Substances allocated to such tract.

SECTION 38. 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 subject to this Agreement shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners (subject to the provisions of Section 12). The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

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

DATE: April 4, 1966
APCO OIL CORPORATION
By: [Signature]
Attest: [Signature] Vice President
BY: Marjorie Whipple Asst. Secretary *KLD*
ADDRESS: Liberty Bank Building *CTM*
Oklahoma City, Oklahoma

DATE: April 5, 1966
BY: [Signature]
ADDRESS: 14421 M. E. Ford
Dallas, Texas

DATE: 11 April
BY: Ben F. Mitchell MD
ADDRESS: 3707 Gaston Ave
Dallas, Texas

DATE: _____ BY: _____
ADDRESS: _____

UNIT OPERATOR AND/OR WORKING INTEREST OWNERS.
RAY SMITH, OPERATOR *O*

DATE: April 19, 1966
BY: [Signature]
ADDRESS: 3300 Republic Bank Building
Dallas, Texas

ROYALTY OWNER.

other contracts. All such oil and gas as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any tract is overproduced with respect to the allowable of the well or wells on that tract and the amount of such overproduction has been sold or otherwise disposed of, such over production shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such tract as having been delivered to the persons entitled to Unitized Substances allocated to such tract.

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

LESSEES OF RECORD

APCO OIL CORPORATION

BY: K. C. Anderson Vice President
ADDRESS: Liberty Bank Bldg., Okla. City, Okla.

BY: J. P. Baker (TRP)
ADDRESS: P. O. Box 1165

BY: James B. Burleson (LBB)
ADDRESS: P. O. Box 935
Midland, Texas

BY: W. H. A. J. (JH)
ADDRESS: P. O. Box 935
Midland, Texas

UNIT OPERATOR AND/OR WORKING INTEREST OWNERS.

DATE: _____

BY: _____
ADDRESS: _____

ROYALTY OWNER.

THE STATE OF TEXAS }
COUNTY OF DALLAS }

RECEIVED
JUN 19 1966
W. S. STEPHENS
NOTARY PUBLIC

BEFORE ME, the undersigned authority, on this day personally appeared RAYMOND THOMASSON, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 8th day of April, A.D., 1966.

My commission expires 6/1/66

Ruth Goodman
Notary Public in and for Dallas
County, Texas

THE STATE OF TEXAS }
COUNTY OF DALLAS }

BEFORE ME, the undersigned authority, on this day personally appeared BEN F. MITCHEL, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 11th day of April, A.D., 1966.

My commission expires 6/1/66

Larry J. Vinson
Notary Public in and for Dallas
County, Texas

THE STATE OF TEXAS }
COUNTY OF DALLAS }

BEFORE ME, the undersigned authority, on this day personally appeared RAY SMITH, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 19th day of April, A.D., 1966.

My commission expires 6/1/66

Nell M. Heflin
Nell M. Heflin, Notary Public in
and for Dallas County, Texas

THE STATE OF OKLAHOMA
COUNTY OF OKLAHOMA

Corporation Acknowledgment

BEFORE ME, the undersigned authority, on this day personally appeared K. C. ANDERSON known to me to be the person whose name is subscribed to the foregoing instrument as Vice President of Apco Oil Corporation, a corporation, and acknowledged to me that he executed the same as the act and deed of said corporation for the purposes and consideration therein expressed and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 7th day of June, A.D., 1966.

James Hammett
Notary Public in and for Oklahoma
County, Oklahoma

My Commission expires:

3-2-68

THE STATE OF OREGON
COUNTY OF JOSEPHINE

Single Acknowledgment

BEFORE ME, the undersigned authority, on this day personally appeared T. R. PARKER, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 31st day of May, A.D., 1966.

[Signature]
Notary Public in and for Josephine
County, Oregon

My Commission expires:

4-17-67

THE STATE OF TEXAS
COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared Lewis B. Burleson and Jack Huff, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 13th day of June, A.D., 1966.

Dana B. Raper
Notary Public in and for Midland
County, Texas

My Commission expires:

6-1-67

EXHIBIT "A"
SHUGART 18-QUEEN UNIT
EDDY COUNTY, NEW MEXICO

T 18 S

R-31-E

SECTION 18

RAY SMITH
Kenwood "A"
TRACT 2
LC-029393 (G)
7-1-73

APCO
Ginsberg
TRACT 3-A
LC-029393 (F)
1-1-70

RAY SMITH
Kenwood
TRACT 3
LC-029393 (F)
RENEWAL DATE 1-1-70

R-30-E

SECTION 13

RAY SMITH
CANFIELD
TRACT 1
NM-0263393
RENEWAL DATE 9-1-70

EXHIBIT "B"

TO

UNIT AGREEMENT

SHUGART 18-QUEEN UNIT

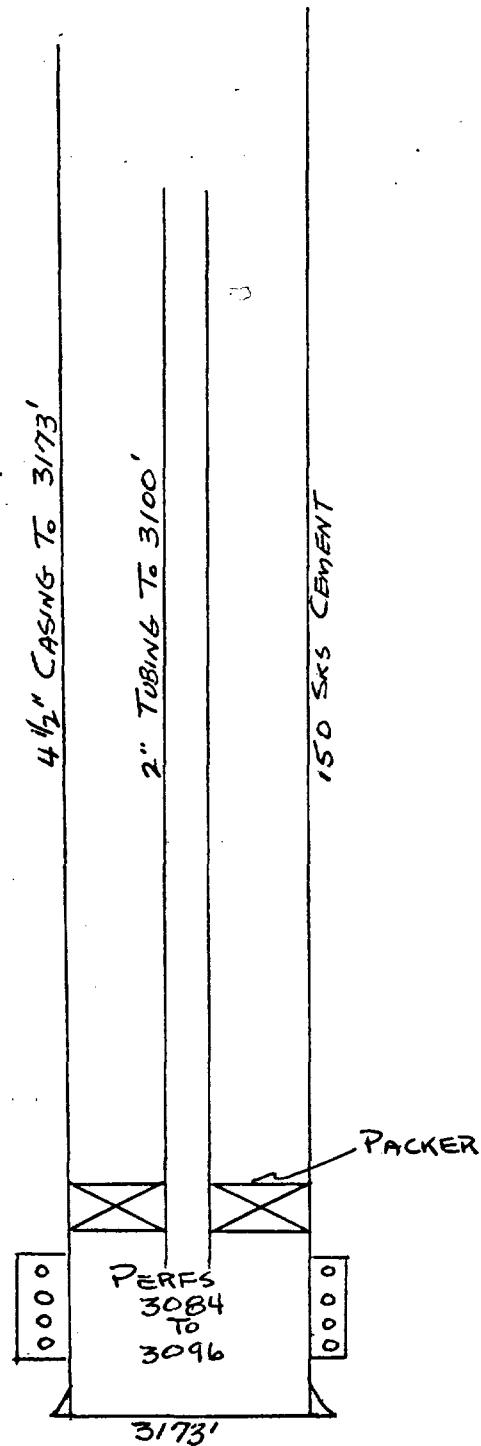
EDDY COUNTY, NEW MEXICO

DESCRIPTION	NUMBER OF ACRES	LEASE NO. & RENEWAL DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD	TRACT	
					W.I. OWNER & PERCENTAGE	PERCENTAGE PARTICIPATION
E/4 SEC. 13, T18S, R30E Co., N.M.	80.0	NMO 263393 9-1-70	U.S. - ALL	Lewis Burleson-1/2 Jack Huff-1/2	Ben F. Mitchel - Raymond Thomasson- RAY SMITH -	12.50 12.50 75.00
Sec. 18, T18S, R31E Co., N.M.	34.59	LCO 29393(d) 7-1-72	U.S. - ALL	Kenwood Oil-93.25% T. R. Purker-6.75%	Ben F. Mitchel - Raymond Thomasson- RAY SMITH -	12.50 12.50 75.00
3, 4, SE/4 SW/4 Sec. 18 R31E, Eddy Co., N.M.	109.48	LCO 29393(f) 1-1-70	U.S. - ALL	Kenwood Oil Co.	Ben F. Mitchel - Raymond Thomasson- RAY SMITH -	12.50 12.50 75.00
of SW/4, Sec. 18, T18S, R31E Co., N.M.	40.0	LCO 29393(f) 1-1-70	U.S. - ALL	Kenwood Oil Co.	APCO Oil Corporation - Petrochem Corp.	24.824 100.00

RAY SMITH DRUG CO.

CANFIELD #1

SHUGART 18-QUEEN UNIT

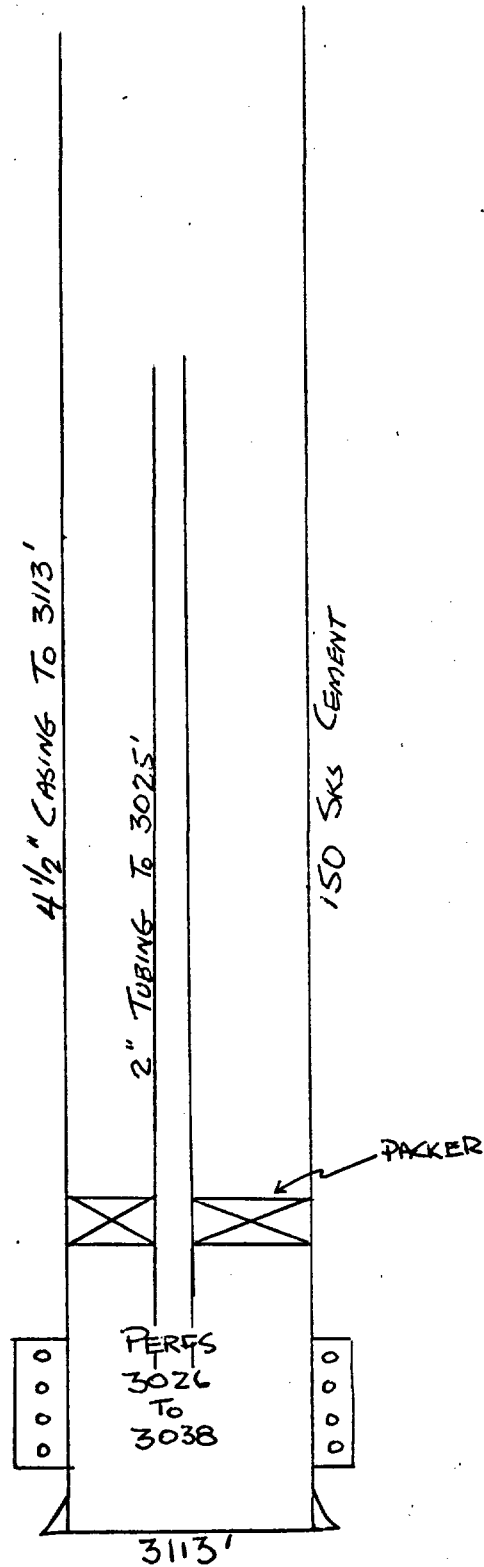


Case 3450

RAY SMITH DRILL CO.

KENWOOD A-1

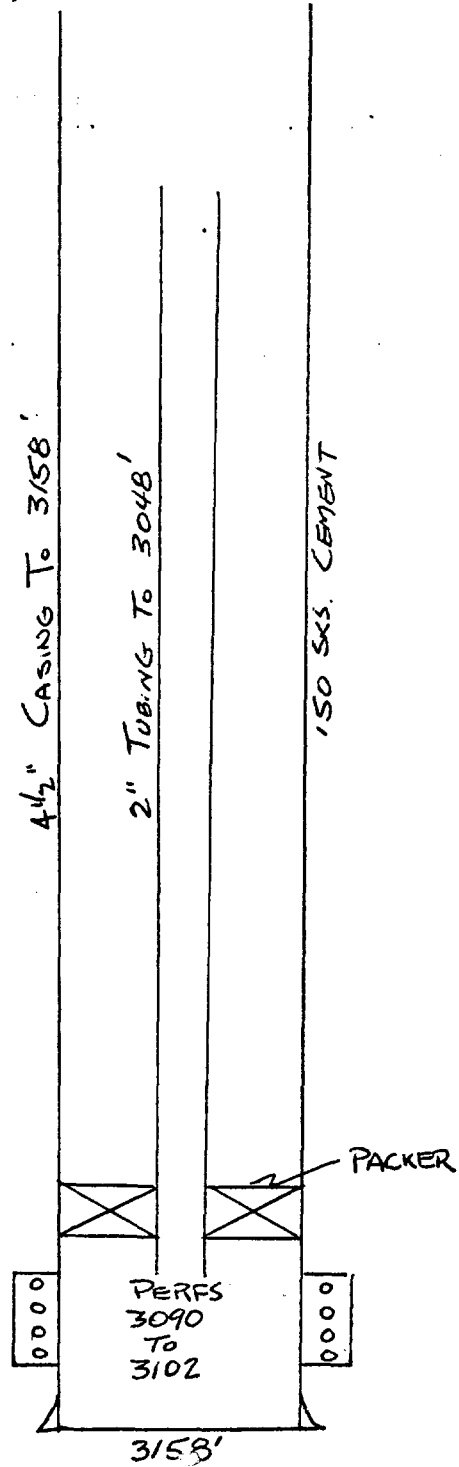
SHUGART 18-QUEEN UNIT



RAY SMITH DRILG. CO.

KEUWOOD #2

SHUGART 18-QUEEN UNIT



CURTIS W. MEWBOURNE
CONSULTING PETROLEUM ENGINEER
FIDELITY UNION LIFE BUILDING
DALLAS, TEXAS 75201

August 12, 1966

State Engineer Office
Capital Building
Santa Fe, New Mexico

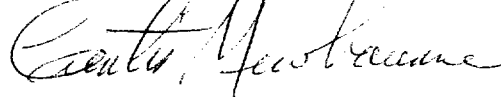
Re: Ray Smith Drilling Co.
Shugart 18-Queen Unit
Eddy County, New Mexico

Gentlemen:

Ray Smith Drilling Co. has made application to the New Mexico Oil Conservation Commission for authorization of Unit Agreement and authorization to inject water for secondary recovery of the subject Unit. Attached is a copy of the Application, complete with all attachments.

Thank you very much.

Very truly yours,



Curtis W. Mewbourne

CWM:vm

Attachments

Case 3450

9 57 01

CURTIS W. MEWBOURNE
CONSULTING PETROLEUM ENGINEER
FIDELITY UNION LIFE BUILDING
DALLAS, TEXAS 75201

August 12, 1966

New Mexico Oil Conservation Commission
P.O. Box 2088
Santa Fe, New Mexico

Attention: Mr. D. S. Nutter, Chief Engineer

Re: Ray Smith Drilling Company
Shugart 18-Queen Unit
Eddy County, New Mexico

Gentlemen:

Before the New Mexico Oil Conservation Commission comes now Ray Smith Drilling Company for approval of the Shugart 18-Queen Unit, Eddy County, New Mexico and in support of its application, includes the following:

1. Copy of the Unit Agreement.
2. Certification by the United States Geological Survey.
3. Logs of the proposed injection wells.
4. A plat showing the location of the proposed injection wells and all other wells within the area.

Operators have joined together to form the Shugart 18-Queen Unit for the purpose of conducting secondary recovery operations by waterflooding. Ray Smith Drilling Company has been selected as the Unit Operator. The zone to be waterflooded is the Queen Sand at an approximate depth of 3,000 feet. Fresh water will be purchased from the Double Eagle Corp. of New Mexico and will be injected at an estimated surface pressure of 700 psi. It is anticipated that an average of 300 barrels per day will be injected. The following wells will be used as injection wells:

1. Ray Smith - Canfield Federal #1
2. Ray Smith - Kenwood Federal #1 2
3. Ray Smith - Kenwood Federal "A" #1

This Unit covers only the Queen Sand, as set out in Section 2, Paragraph "G" of the Unit Agreement. Formation of this Unit will facilitate secondary recovery. Support of this application will prevent waste and protect correlative rights. Ray Smith Drilling Company requests a hearing for:

1. Authorization of Unit Agreement.
2. Authorization to inject water for secondary recovery.

Ray Smith Drilling Company requests that this application be set before the Commission or one of its examiners and that the Commission enter its Order, approving this application.

Very truly yours,

Curtis W. Mewbourne
Curtis W. Mewbourne

DOCKET MAILED

CWM:
Enc.

Date

8-25-66
AR

Ray Smith Drilling Co.
Shugart 18-Queen Unit
Eddy County, New Mexico

Robert Sibert
2-1-79
0334702
33.97 7

Atlantic
7-16-67
06 1036

Canadian
Kenwood
HBP
029389

R. Sibert
2-1-73
0334702 TD 4000
Paton
TD 3736

Franklin, Aston & Fair
021096
INJECTION WELLS

12

"Fed- C K. Lowe"
U.S.

Barb. J. Peterson
1-1-74
0494576

Robert Sibert
(Appl.)
0334702

McCiellan
Mayer
TD 4100
D/A 12-18-63
34.28 3

Amax Pet.
1-1-76
0558685

Amax Pet.
1-1-76
0558685

Wilkinson
TD 500

(Canadian)
(Kenwood)
HBP
029393

Texaco

Long
Kincaid
TD 4000

Texaco
HBP
029393

Apco
(Kenwood)
029393

Franklin, Aston & Fair
HBP
047269

Ray Smith
0263393
"Carfield"

Jno. Creek
HBPI & Co.
028990
U.S.

Kersey
& Co.
Creek

Ray Smith
Kenwood
A

H. Garrett
Fed. Ginsberg
TD 3884

Texaco
HBP
029393

Malco

"A"

Kenwood
TD 3930

Holmes
Appl
U.S. 0265531
Ginsberg

Kersey & Co
HBP
028990

E.A. Hanson, etal
HBP
025503

V.S. Welch, etal
HBP
029387

Gulf
HBP
029387

Canadian
Kenwood
HBP

Keohane, etal
029390

NORTH
059569

J.A. Yates,
etal
HBP
028990

E.A. Hanson, etal
HBP
025503

(Mayer) 2-AL
Creek
TD 3600
U.S. Yates Pet.
P75

Mayer
Kenwood
TD 3825
029387

J. McClellan
2-F54
Kenwood

TD 3805
U.S. Keohane

Keohane,
Welch etal
12-1-64 (3)
029390

Chambers,
etal
014102

Welch etal
029387
"D"

"Gulf"

Travis
Gulf
TD 4038
Littlefield

J.A. Yates, etal
HBP
028990

B.B. Ginsberg
025503

Yates
Pet. etal
1-AL
028990

3530 1

V.S. Welch, etal

029387

"Shugart"

Welch
Kenwood
2

(Kenwood)
A

029387 Apco

Kersey
V.S. Welch
Kenwood
1-AL-X

Kenwood
"Shugart"

TD 3653

3
P35

25 E.A. "Creek"

29

Page 3449



UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY
WASHINGTON, D.C. 20242

RECEIVED

JUL 23 1966

U. S. GEOLOGICAL SURVEY
ROSWELL, NEW MEXICO

JUL 25 1966

Ray Smith Drilling Company
3300 Republic National Bank Building
Dallas, Texas 75201

DOCKET MAILED

Date

8-25-66

Case 3449

Gentlemen:

On July 21, 1966, Arthur A. Baker, Acting Director of the Geological Survey, approved the Shugart 18 - Queen unit agreement, Eddy County, New Mexico, filed by your company as unit operator. The agreement has been designated No. 14-08-0001-8795, and is effective as of August 1, 1966.

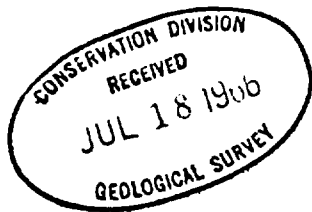
Enclosed is one copy of the approved unit agreement for your records. We request that you furnish all interested principals with whatever evidence of this approval is deemed appropriate.

Sincerely yours,

For the Director

Enclosure

3 w/encs
2 J. Smith
6-11-66



Case 3449

CERTIFICATION--DETERMINATION

14-08-0001 87 95

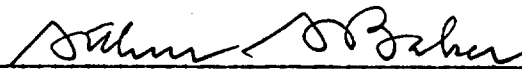
Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Director of the Geological Survey pursuant to Departmental Order No. 2365 of October 8, 1947, I do hereby:

A. Approve the attached agreement for the development and operation of the Shugart 18-Queen Unit Area, State of New Mexico.

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

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

Dated JUL 21 1966.


ACTING Director, United States Geological Survey

RECEIVED

APR 25 1966

U.S. GEOLOGICAL SURVEY
WASHINGTON, D.C. 20500

UNIT AGREEMENT
SHUGART 18- QUEEN UNIT
EDDY COUNTY, NEW MEXICO

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EXHIBIT "A" (Map of Unit Area)

EXHIBIT "B" (Schedule of Ownership)

Certification - Determination

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SHUGART 18 - QUEEN UNIT
EDDY COUNTY, NEW MEXICO

Case 3449

THIS AGREEMENT, entered into as of the 1st day of November, 1965,
by and between the parties subscribing, ratifying or consenting hereto, and
herein referred to as "parties hereto",

WITNESSETH: That,

WHEREAS, the parties hereto are the owners of working, royalty or
other oil or gas interests in the land subject to this Agreement; 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 Shugart 18 -
Queen Unit Area covering the land hereinafter described to give reasonably effec-
tive 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 re-
sources, prevent waste and secure the other benefits obtainable through deve-
lopment 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 described in said Exhibit "A" are described as follows:

Township 18 South, Range 30 East, N.M.P.M.
Section 13: N 1/2 SE 1/4

Township 18 South, Range 31 East, N.M.P.M.
Section 18: lots 2, 3, 4, E 1/2 SW 1/4

containing 264.07 acres, more or less, in Eddy County, New Mexico.

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

(c) "Director" is defined as the Director of the United States Geological Survey.

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

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

(f) "Supervisor" is defined as the Oil and Gas Supervisor, Branch of Oil and Gas Operations of the United States Geological Survey.

(g) "The Unitized Formation" is defined as that portion of the Queen Sand formation which is encountered between the depths of 3,080 feet and 3,114 feet on the Gamma Ray-Neutron log of the Ray Smith Kenwood-Federal well No. 3, located in lot 3 (NW 1/4 SW 1/4) Section 18, Township 18 South, Range 31 East, N.M.P.M., Eddy County, New Mexico, insofar as the same lies within the Unit Area, under lands committed to this Agreement.

(h) "Unitized Substances" is defined as and shall mean all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquids or liquefiable hydrocarbons within or produced from the Unitized Formation.

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

(j) "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 hereof hereunder.

(k) "Royalty Interest" or "Royalty" is defined as an interest reserved by the lessor in an oil and gas lease. Specifically defined as not being a royalty interest is a working interest, overriding royalty interest, production payment interest, or net profits contract.

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

(m) "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, infra, and shall be styled "Unit Operating Agreement, Shugart 18 - Queen Unit, Eddy County, New Mexico".

(n) "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.

(o) "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 hereof.

(p) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".

(q) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract. The Tract Participation of the several Tracts within the Unit Area is shown on Exhibit "B" attached hereto.

(r) "Tract Current Production" is defined as the cumulative total number of barrels of oil produced from the Unitized Formation under such committed Tract during the period from August 1, 1964, to January 31, 1965, inclusively, as officially reported to the Commission.

(s) "Unit Area Current Production" is defined as the total Tract Current Production of all Tracts within the Unit Area that are effectively committed to this Agreement in accordance with the provisions hereof.

(t) "Tract Acre-Feet" is defined as the acre-feet of net pay within the Unitized Formation underlying such committed Tract as heretofore determined and agreed upon by the parties hereto.

(u) "Unit Area Acre-Feet" is defined as the total Tract Acre-Feet of all Tracts within the Unit Area that are effectively committed to this Agreement in accordance with the provisions hereof.

SECTION 3. EXHIBITS: Exhibit "A" attached hereto 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 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 render such revision necessary, 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 Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice to each Working Interest Owner affected by 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 90 percent 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, 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, preferably the first day of the month subsequent to the date of notice; and

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

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above and provided that objections of not more than 10 percent of the Working Interest Owners have been filed thereto, with the Supervisor the following: (a) Comprehensive statement as to mailing such notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the participation requirements of Section 14, infra; and (d) A copy of any objections received.

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

SECTION 5. CONTRACTION: When practicable, the Unit Area shall be contracted to exclude land from this Unit Agreement whenever such contraction is necessary or advisable to conform with the purposes of this Agreement. Such contraction shall be effected in the following manner:

(a) Unit Operator, with concurrence of at least 80 percent of the Working Interest Owners, on the basis of unit participation and with preliminary concurrence of the Director, shall prepare a notice of contraction describing the contemplated changes in the boundaries of the Unit Area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Supervisor, and copies thereof mailed to the last known address of each Working Interest Owner, lessee, and Royalty Owner whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30 day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, a comprehensive statement as to the mailing of the notice of contraction and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such contraction.

(d) After due consideration of all pertinent information, the contraction, upon approval by the Director, shall become effective as of the date prescribed in the notice thereof.

SECTION 6. UNITIZED LANDS AND UNITIZED SUBSTANCES: All land committed to this Agreement as to the Unitized Formation as heretofore defined, shall constitute the land referred to herein as "unitized land" or "land subject to this Agreement". All Unitized Substances as heretofore defined, in or produced from the Unitized Formation are hereby unitized under the terms of this Agreement, together with the pertinent surface rights.

Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas, and other minerals contained in or that may be produced from any formation other than the Unitized Formation.

SECTION 7. UNIT OPERATOR: RAY SMITH DRILLING COMPANY, Dallas, Texas, 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 and the Director, 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 may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the affirmative vote of the owners of 75 percent of the committed Working Interest (on the basis of Unit participation) exclusive of the Working Interest owned by the Unit Operator. Such removal shall be effective upon notice thereof to the Director.

In all such instances of resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible

for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, 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 operation of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment 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 for 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 by affirmative vote of at least 75 percent of their voting interests, based upon the percentages of participation assigned to tracts in the Unit Area, select a successor Unit Operator.

Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been filed with the Supervisor. If no successor Unit Operator is selected and qualified as herein provided, the Director, at his 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, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other 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, 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. Three true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Supervisor, prior to approval of this Agreement, and thereafter promptly after any revision or amendment.

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 subjects 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 additional 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 and the Supervisor, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, and any other substance or a combination of any of said 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. After commencement of secondary operations, Unit Operator shall furnish the Supervisor monthly, injection and production reports for each well in the Unit. The Working Interest Owners and the Supervisor, shall be furnished periodical reports on the progress of the plan of operation and any revisions or changes thereto; provided however, that any revisions of the plan of operation involving a deviation from the initial plan of operation shall be subject to the prior consent and approval of the Working Interest Owners and the Supervisor.

The initial plan of operation shall be filed with the Supervisor 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 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 recovery operations on the Unit Area within six (6) months after the effective date of this Agreement, or any extension thereof approved by the Director, or this Agreement shall terminate automatically, in which latter event Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonable 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 percentage of participation allocated to each tract in the Unit Area calculated on the basis of 100 percent tract commitment. The participation percentage of each tract was determined as follows

$$\begin{aligned} & 10\% \times \frac{\text{Tract Current Production}}{\text{Unit Area Current Production}} \\ & \text{Plus } 90\% \times \frac{\text{Tract Acre-Feet}}{\text{Unit Area Acre-Feet}} \\ & = \text{participation percentage of each committed Tract.} \end{aligned}$$

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 and all of those tracts as to which Working Interest Owners owning 100% of the Working Interest in said tract and Record Owners owning 100% of the Record Interest in said tract have subscribed, ratified or consented to this Agreement; and

(b) Each and all of those tracts as to which Working Interest Owners owning not less than 100% of the Working Interest therein and Record Owners owning not less than 85% of the Record Interest therein have executed this Agreement, and in which the Working Interest Owners in said tract have agreed to indemnify and hold harmless all other parties hereto, in a manner satisfactory to 85% of the Working Interest Owners qualified under 14 (a), against any and all claims and demands that may be made by the nonjoining Record Owners on account of the commitment and joinder of such tract to the Unit Agreement, and operation thereof under such conditions on the basis herein provided, and as to which 85% of the Working Interest Owners qualified under 14 (a), exclusive of the Working Interest Owner submitting such tract, have approved the commitment of such tract to this Unit Agreement.

If, on the effective date of this Agreement, there is any tract or tracts which have not been qualified 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 Director, file therewith or as soon thereafter as practicable, a schedule of those tracts which have been qualified under this Agreement and are entitled to participate in the production from the Unit Area hereunder. Said schedule shall set forth opposite each such tract the lease number or assignment number, the owner of record of the lease, and the percentages of 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 by the Supervisor shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a revised Exhibit "B" is approved by the Supervisor or the Director.

SECTION 15. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the committed 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 the schedules of participation in Exhibit "B". The amount of Unitized Substances so allocated to each tract, and only that amount, (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such tract) shall, for all intents, uses and purposes, be deemed to have been produced from such tract.

The Unitized Substances allocated to each tract shall be distributed among, or accounted for to the parties 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 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 Operation fixing the divisions of ownership, be divided among such parcels

or portions in proportion to the number of surfact acres in each.

The Unitized Substances allocated to each tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on unitized land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 16 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party 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 and in order to avoid curtailing the operation of the Unit Area, may sell or otherwise dispose of such production to itself or others 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 such production. The net 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 Royalty 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 Royalty on the lease or leases and tracts contributed by it and received into the Unitized land.

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 the effective date hereof but which are subsequently committed hereto under the provisions of Section 31 (Nonjoinder and Subsequent Joinder), or if any tract is excluded from the Unit Area as provided for in Section 30 (Loss of Title), the schedules of participation as shown in Exhibit "B", subject to Section 13 (Tract Participation) or section 31 (Nonjoinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Supervisor, and the Director to show the new percentages of participation of all the then effectively committed tracts; and the revised schedules, upon approval by the Supervisor or the Director, shall govern all the allocation of production from and after the effective date thereof until a new schedule is so approved. In any such new schedule, the Tract Participation of the previously qualified tracts shall remain in the same ratio one to the other.

SECTION 16. ROYALTY SETTLEMENT: The United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty 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 preceeding 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 provided further that such right of withdrawal shall terminate as of the effective date of termination of the Unit Agreement. If liquefied petroleum bases 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, 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.

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 the 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 regulation; 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 regulation as though the unitized lands were a single consolidated lease.

Each Royalty Owner (other than 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 rentals or minimum royalty in lieu thereof, due under their leases. 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 or, with prior consent of the Director, pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Supervisor.

SECTION 20. LEASES AND CONTRACTS CONFIRMED AND EXTENDED: The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary by his approval hereof, or by the approval hereof by

his duly authorized representatives, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal 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 Secretary of his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized lands.

(d) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this Agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such lease remains committed hereto, or in the event actual drilling operations are commenced on unitized land, in accordance with the provisions of this Agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act Revision of 1960.

(e) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire,

is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(f) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act as amended by the Act of September 2, 1960, (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the 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 Operation only after first having obtained approval of Working Interest Owners, and the Supervisor.

SECTION 22. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable 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 a. m. on 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 75%, and the execution or ratification of this Agreement by Record Interest, in said Unit Area; and

(b) The approval of this Agreement by the Secretary or his duly authorized representative..

(c) The filing for record in Eddy County, New Mexico, of a certificate to the effect that provision (a) and (b) of this section have been complied with and stating further the effective date and the location of the governmental agency offices where copies of this Agreement are filed.

If (a), (b) and (c) above are not accomplished on or before January 1, 1967, 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 75%, and the Working Interest Owners owning a combined unit participation of at least 75% 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 be ipso facto expire on said extended expiration date and thereafter be of no further force and effect. For the purpose of this Section, ownership shall be computed on the basis of 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 to its terms and stating further the effective date.

The terms of this Agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This Agreement may be terminated with the approval of the Director of Working Interest Owners owning 85% 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, at 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.

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 days from notice.

SECTION 25. NONDISCRIMINATION: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference to 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 Department, and the Commission and to appeal from any order issued under the rules and regulations of the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to the operations before 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 expenses to be heard in any such proceeding.

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 Federal land or leases, no payments of funds due the United States of America shall be withheld, but such funds shall be deposited as directed by the Supervisor, 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: If the owner of any substantial interest in a tract within the Unit Area fails or refuses to subscribe, ratify, 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 by written notice to the Director, and Unit Operator prior to the effective date of this Agreement. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to 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 such interest to be regarded as effectively committed to this Unit Agreement.

Any oil or gas interest in the Unitized Formations underlying the Unit Area not committed hereto prior to submission of this Agreement to the Director for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Unit Participation) hereof, at any time up to the effective date hereof and for a period to and including six (6) months thereafter, on the same basis of participation as provided in Section 13 (Tract Participation), by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after 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 ninety (90%) percent of the Working Interest Owners (based upon the percentages of participation in the Unit Area). Such joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 a.m. as of the first day of the month following the filing with the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any tract or interest to this Agreement, unless objection to such joinder by the 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 hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States 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 and 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. BORDER AGREEMENTS: Subject to the approval of the Supervisor, the Unit Operator, with concurrence of sixty (60%) percent of the Working Interest Owners, based upon the percentages of participation in the Unit Area, may enter into a border protection agreement or agreements with the Working Interest Owners of adjacent lands along the boundaries 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 36. NO PARTNERSHIP: It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this Agreement contained, expressed or implied, or any operations conducted hereunder, shall create or be deemed to create a partnership or association between the parties hereto or any of them.

SECTION 37. OIL IN LEASE TANKAGE ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil in such tanks, above the pipe line connections, as of 7:00 a.m. on the effective date hereof. All such oil as is a part of the prior allowable of the well or wells from which the same was produced shall be and remain the property of the Working Interest Owners entitled thereto the same as if the Unit had not been formed, and such Working Interest Owners shall promptly remove said oil from the Unit Area. Any such oil not so removed may be sold by the Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms and provisions of the applicable lease or leases and

other contracts. All such oil and gas as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any tract is overproduced with respect to the allowable of the well or wells on that tract and the amount of such over-production has been sold or otherwise disposed of, such over production shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such tract as having been delivered to the persons entitled to Unitized Substances allocated to such tract.

SECTION 38. 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 subject to this Agreement shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners (subject to the provisions of Section 12). The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

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

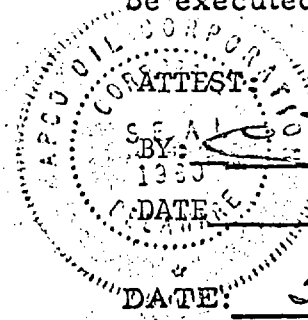
DATE: <u>April 4, 1966</u>	APCO OIL CORPORATION By: <u>[Signature]</u> Attest: <u>[Signature]</u> Vice President BY: <u>Margaret Whipple</u> Asst. Secretary <i>KLB</i> ADDRESS: <u>Liberty Bank Building</u> <u>Oklahoma City, Oklahoma</u> <i>Jim</i>
DATE: <u>April 8, 1966</u>	BY: <u>Raymond Thompson</u> ADDRESS: <u>14421 14th Farris</u> <u>Dallas Texas</u>
DATE: <u>11 April</u>	BY: <u>Ben F. Mitchell MD</u> ADDRESS: <u>3707 GASTON Ave</u> <u>Dallas Texas</u>
DATE: _____	BY: _____ ADDRESS: _____
UNIT OPERATOR AND/OR WORKING INTEREST OWNERS.	
DATE: <u>April 19, 1966</u>	RAY SMITH, OPERATOR <u>0</u> BY: <u>[Signature]</u> ADDRESS: <u>3300 Republic Bank Building</u> <u>Dallas, Texas</u>
ROYALTY OWNER.	

other contracts. All such oil and gas as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any tract is overproduced with respect to the allowable of the well or wells on that tract and the amount of such overproduction has been sold or otherwise disposed of, such over production shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such tract as having been delivered to the persons entitled to Unitized Substances allocated to such tract.

SECTION 38. 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 subject to this Agreement shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners (subject to the provisions of Section 12). The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

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

LESSEES OF RECORD



BY: [Signature]
Assistant Secretary
June 7, 1966

DATE: 5-31-66

DATE: 6-13-66

DATE: 6-13-66

UNIT OPERATOR AND/OR WORKING INTEREST OWNERS.

DATE: _____

ROYALTY OWNER.

APCO OIL CORPORATION
BY: [Signature] Vice President
ADDRESS: Liberty Bank Bldg., Okla. City, Okla.

BY: [Signature] (TRP)
ADDRESS: P.O. Box 1165
Grants Pass, Oregon

BY: [Signature] (LBB)
ADDRESS: P. O. Box 935
Midland, Texas

BY: [Signature] (JH)
ADDRESS: P. O. Box 935
Midland, Texas

BY: _____
ADDRESS: _____

THE STATE OF TEXAS Y
COUNTY OF DALLAS Y

RECEIVED
JUN 16 1966
U. S. OFFICE OF THE SURVEY
WOSWELL, NEW MEXICO

BEFORE ME, the undersigned authority, on this day personally appeared RAYMOND THOMASSON, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 8th day of April, A.D., 1966.

My commission expires 6/1/66

Paul Goodman
Notary Public in and for Dallas
County, Texas

THE STATE OF TEXAS Y
COUNTY OF DALLAS Y

BEFORE ME, the undersigned authority, on this day personally appeared BEN F. MITCHEL, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 11th day of April, A.D., 1966.

My commission expires 6/1/66

Larry J. Vinson
Notary Public in and for Dallas
County, Texas

THE STATE OF TEXAS Y
COUNTY OF DALLAS Y

BEFORE ME, the undersigned authority, on this day personally appeared RAY SMITH, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 19th day of April, A.D., 1966.

My commission expires 6/1/66

Nell M. Heflin
Nell M. Heflin, Notary Public in
and for Dallas County, Texas

THE STATE OF OKLAHOMA
COUNTY OF OKLAHOMA

Corporation Acknowledgment

BEFORE ME, the undersigned authority, on this day personally appeared K. C. ANDERSON known to me to be the person whose name is subscribed to the foregoing instrument as Vice President of Apco Oil Corporation, a corporation, and acknowledged to me that he executed the same as the act and deed of said corporation for the purposes and consideration therein expressed and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 7th day of June, A.D., 1966.

James W. Hammett
Notary Public in and for Oklahoma
County, Oklahoma

My Commission expires:

3-2-68

THE STATE OF OREGON
COUNTY OF JOSEPHINE

Single Acknowledgment

BEFORE ME, the undersigned authority, on this day personally appeared T. R. PARKER, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 31st day of May, A.D., 1966.

James W. Hammett
Notary Public in and for Josephine
County, Oregon

My Commission expires:

4-17-67

THE STATE OF TEXAS
COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared Lewis B. Burleson and Jack Huff, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 13th day of June, A.D., 1966.

Dana B. Raper
Notary Public in and for Midland
County, Texas

My Commission expires:

6-1-67

EXHIBIT "A"
SHUGART 18-QUEEN UNIT
BDDY COUNTY, NEW MEXICO

T
18
S

R-31-E

SECTION 18

RAY SMITH
Kenwood "A"

TRACT 2
LC-029393 (d)
7-7-72

APCO
Ginsberg
TRACT 3-A
LC-029393 (f)
1-1-70

RAY SMITH
Kenwood

TRACT 3
LC-029393 (f)
RENEWAL DATE 1-1-70

R-30-E

SECTION 13

RAY SMITH
CANFIELD

TRACT 1
NM-0263393
RENEWAL DATE 9-1-70

EXHIBIT "B"

TO

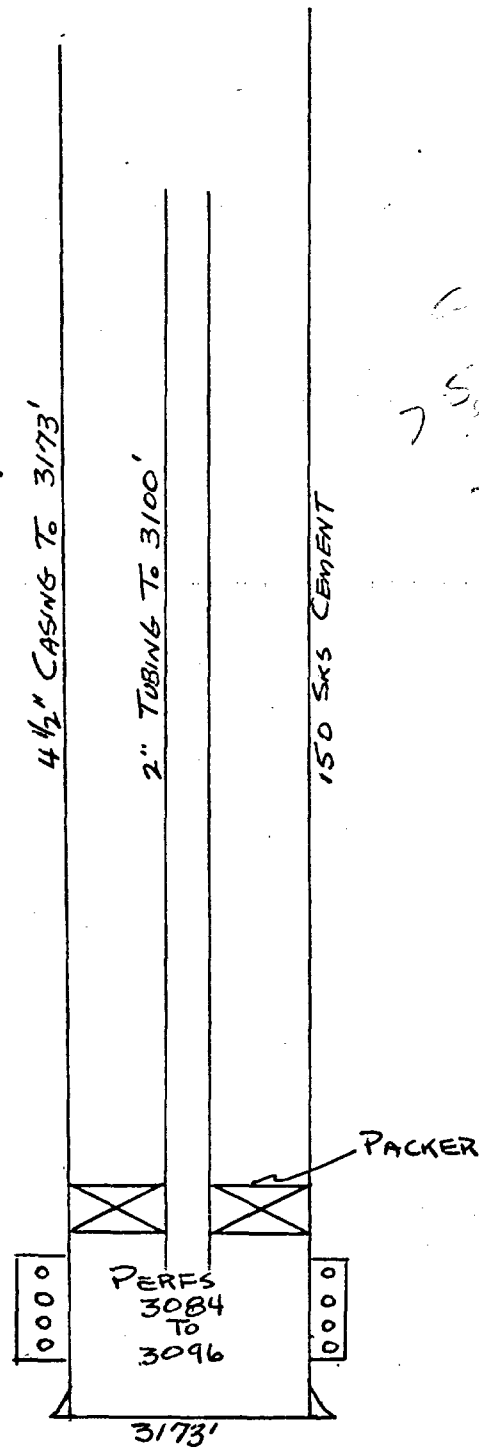
UNIT AGREEMENT SHUGART 18-QUEEN UNIT EDDY COUNTY, NEW MEXICO

TRACT NO.	LAND DESCRIPTION	NUMBER OF ACRES	LEASE NO. & RENEWAL DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD	TRACT	
						W.I. OWNER & PERCENTAGE	PERCENTAGE PARTICIPATION
1	N/2 SE/4 SEC, 13, T18S, R30E Eddy Co., N.M.	80.0	NMO 263393 9-1-70	U.S. - ALL	Lewis Burleson-1/2 Jack Huff-1/2	Ben F. Mitchel - Raymond Thomasson- RAY SMITH -	12.50 12.50 75.00
2	Lot 2, Sec. 18, T18S, R31E Eddy Co., N.M.	34.59	LCO 29393(d) 7-1-72	U.S. - ALL	Kenwood Oil-93.25% T. R. Purker-6.75%	Ben F. Mitchel - Raymond Thomasson- RAY SMITH -	12.50 12.50 75.00
3	Lots 3, 4, SE/4 SW/4 Sec. 18 T18S, R31E, Eddy Co., N.M.	109.48	LCO 29393(f) 1-1-70	U.S. - ALL	Kenwood Oil Co.	Ben F. Mitchel - Raymond Thomasson- RAY SMITH -	12.50 12.50 75.00
3-A	NE/4 of SW/4, Sec. 18, T18S, R31E Eddy Co., N.M.	40.0	LCO 29393(f) 1-1-70	U.S. - ALL	Kenwood Oil Co.	APCO Oil Corporation - Raymond Thomasson	24.824 - 100.00

RAY SMITH DRILLING Co.

CANFIELD #1

SHUGART 18 - QUEEN UNIT

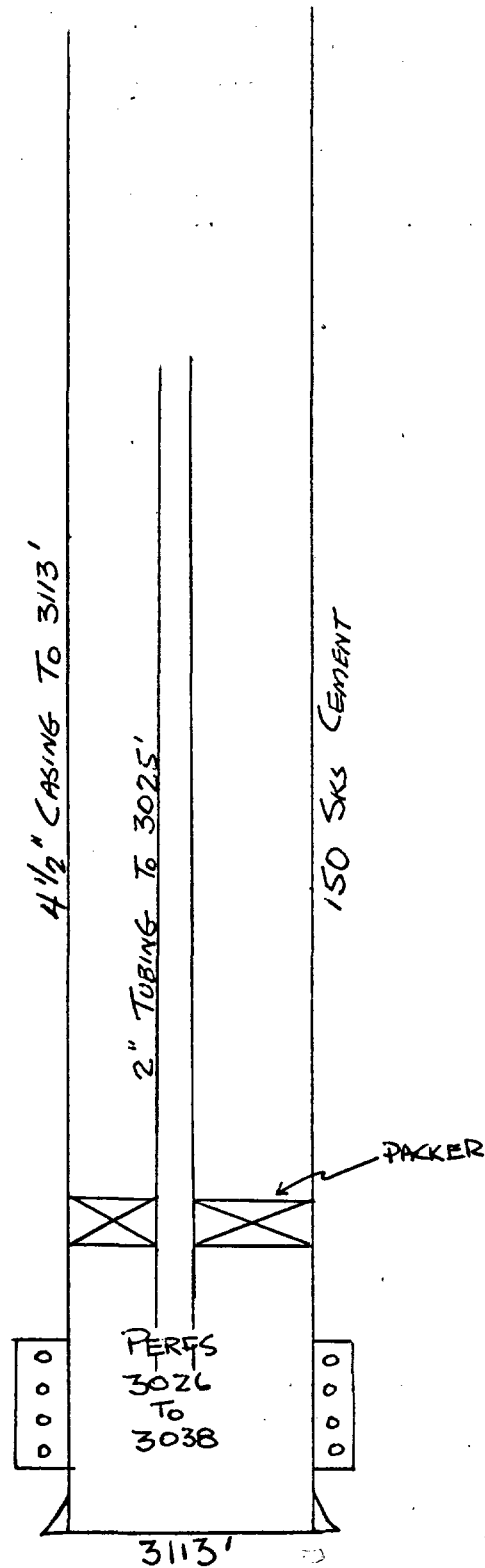


6' 10"
7' casing
7' 1" well
1' - 4

RAY SMITH DRILL CO.

KENWOOD A-1

SHUGART 18-QUEEN UNIT

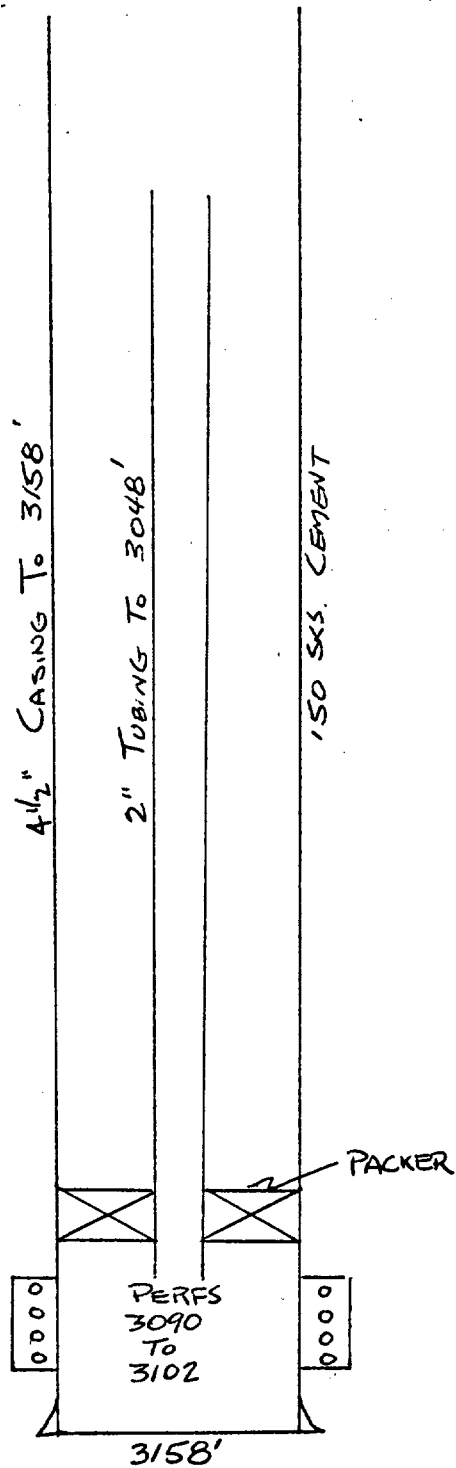


Case 3449

RAY SMITH DRILG. Co.

KEUWOOD #2

SHUGART 18-QUEEN UNIT



Case 3449

CURTIS W. MEWBOURNE
CONSULTING PETROLEUM ENGINEER
FIDELITY UNION LIFE BUILDING
DALLAS, TEXAS 75201

August 12, 1966

State Engineer Office
Capital Building
Santa Fe, New Mexico

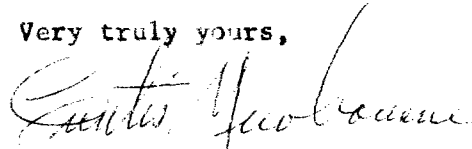
Re: Ray Smith Drilling Co.
Shugart 18-Queen Unit
Eddy County, New Mexico

Gentlemen:

Ray Smith Drilling Co. has made application to the New Mexico Oil Conservation Commission for authorization of Unit Agreement and authorization to inject water for secondary recovery of the subject Unit. Attached is a copy of the Application, complete with all attachments.

Thank you very much.

Very truly yours,



Curtis W. Mewbourne

CWM:vm

Attachments

3449

WELEX**RADIOACTIVITY
LOG**

COMPANY Burleson & Huff WELL Kenwood-Federal FIELD A #1 COUNTY Shugart STATE N. M.	COMPANY BURLESON & HUFF						
	WELL KENWOOD-FEDERAL "A" # 1						
	FIELD SHUGART						
	COUNTY EDDY STATE NEW MEXICO						
	Location 2310' FNL 330' FWL						
Sec. 18 Twp. 18-S Rge. 31-E		Other Services:					
Permanent Datum Ground Level Elev. 3623.7							
Log Measured from D. F. 1 Ft. Above Perm. Datum							
Drilling Measured From Derrick Floor							
Elev.: K.B. D.F. 3624.7 G.L. 3623.7							
Date	7-26-62	7-26-62					
Run No.	- One -	- One -					
Type Log	Gamma	Neutron					
Depth-Driller	3113	3113					
Depth-Welex	3113	3113					
Bottom Logged Interval	3103	3113					
Top Logged Interval	20	30					
Type Fluid in Hole	Water Below 2898						
Salinity, PPM Cl.							
Density							
Level	2898	2898					
Max. rec. temp., deg. F.							
Operating Rig Time	1-1/2 Hrs.						
Recorded By	P.C. Harris						
Witnessed by	Mr. England						
RUN BORE-HOLE RECORD CASING RECORD							
No.	Bit	From	To	Size	Wgt.	From	To
10		0	725	8-5/8"		0	725
8		725	3113				

Reproduced By

West Texas Electrical Log Service

Dallas 2, Texas

REFERENCE A11640



6

COMPLETION RECORD

SPUD DATE

COMP DATE

DST RECORD

3944

WELEX

RADIOACTIVITY LOG

COMPANY BURLESON & HUFF

WELL CANFIELD-FEDERAL # 1

FIELD WEST SHUGART

COUNTY EDDY STATE NEW MEXICO

Location 330' FEL 1650' FSL

Other Services:

Sec. 13 Twp. 18-S Rge. 30-E

Permanent Datum Ground Level Elev. 3653

Elev.: K.B. 3664

Log Measured from K. B. 11 Ft. Above Perm. Datum

D.F. 3663

Drilling Measured from Kelly Bushing

G.I. 3653

Date	4-9-62	4-9-62
Run No.	- One -	- One -
Type Log	Gamma	Neutron
Depth-Driller	3170	3170
Depth-Welex	3135	3135
Bottom Logged Interval	3125	3135
Top Logged Interval	50	40
Type Fluid in Hole	Mud	Mud
Salinity, PPM Cl.		
Density		
Level	Full	Full
Max. rec. temp., deg. F.	90	90
Operating Rig Time	2 Hrs.	
Recorded By	P. C. Harris	
Witnessed by	Mr. England	

BORE-HOLE RECORD				CASING RECORD			
Run No.	Bit	From	To	Size	Wgt.	From	To
9-7/8"		0	744	7-7/8"		0	744
8-3/4"		744	3170				

Fold Here

Reproduced By
West Texas Electrical Log Service
Dallas 2, Texas

REFERENCE A1009M



7
COMPLETION RECORD

SPUD DATE
COMP DATE
DST RECORD

RADIOACTIVITY

LOG

COMPANY Burleson & Huff		WELL KENWOOD-FEDERAL # 2		FIELD WEST SHUGART		COUNTY EDDY STATE NEW MEXICO	
WELL KENWOOD-FEDERAL # 2		FIELD West Shugart		COUNTY EDDY		State N.M.	
Location 99° FSL 1477.25° FWL		Other Services:					
Sec. 18 Twp. 18-S Rge. 31-E							
Permanent Datum Ground Level		Elev.		Elev.: K.B.			
Log Measured from K. B. 11		Ft. Above Perm. Datum		D.F. 3642			
Drilling Measured From Kelly Bushing				G.I.			
Date	4-18-62	4-18-62					
Run No.	One	One					
Type Log	Gamma	Neutron					
Depth-Driller	3158	3158					
Depth-Welox	3155	3155					
Bottom Logged Interval	3145	3155					
Top Logged Interval	10	20					
Type Fluid in Hole	Mud	Mud					
Density, PPM Cl.							
Salinity							
Level	Full	Full					
Max. rec. temp., deg. F.	90	90					
Operating Rig Time	2 Hrs.						
Recorded By	P.C. Harris						
Witnessed by	Mr. Meyer						
BORE-LOG RECORD				CASING RECORD			
Run No.	Bit	From	To	Size	Wgt.	From	To
	9-7/8"	0	745	7-5/8"		0	745
	6-3/4"	745	3158				

Reproduced By

West Texas Electrical Log Service

Dallas 2, Texas

REFERENCE A1008M



COMPLETION RECORD

SPUD DATE

COMP DATE

DST RECORD

CASINO REPORTS

THE STATE OF TEXAS }
COUNTY OF DALLAS }

OCT 20 AM 9 11

BEFORE ME, the undersigned authority, on this day personally appeared CURTIS MEWBOURNE, known to me to be a credible person, and who, after being duly sworn, upon oath deposed and said;

THAT, as Consulting Engineer for RAY SMITH DRILLING COMPANY, Affiant has personal knowledge of all the facts concerning the waterflood project in Eddy County, New Mexico known as the SHUGART 18-QUEEN UNIT;

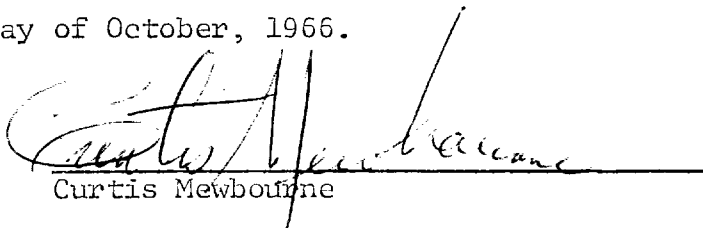
THAT, in accordance with the sixth paragraph of Section 23, Page 20, Unit Agreement, Shugart 18-Queen Unit, Eddy County, New Mexico, this Certificate is being filed with the OIL CONSERVATION COMMISSION OF NEW MEXICO, Santa Fe, New Mexico, being one of the governmental agency offices where a counterpart of said Unit Agreement was recorded;

THAT, this Certificate is being filed with said offices within the required 30-day limit;

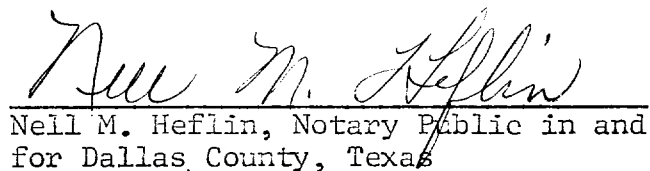
FURTHER, that said Unit Agreement has become effective as to its terms and that actual operation of the Unit was effective October 1, 1966.

FURTHER Affiant saith not.

EXECUTED on this the 18th day of October, 1966.


Curtis Mewbourne

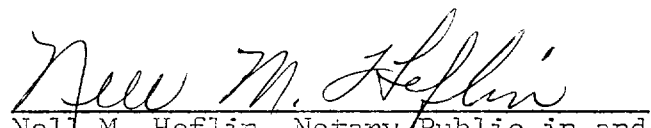
SWORN TO AND SUBSCRIBED before me by the said CURTIS MEWBOURNE on this 18th day of October, 1966.


Nell M. Heflin, Notary Public in and
for Dallas County, Texas

THE STATE OF TEXAS }
COUNTY OF DALLAS }

BEFORE ME, the undersigned authority, on this day personally appeared CURTIS MEWBOURNE, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the 18th day of October, A.D., 1966.


Nell M. Heflin, Notary Public in and
for Dallas County, Texas

THE STATE OF TEXAS }
COUNTY OF DALLAS }

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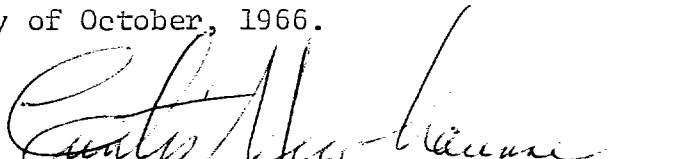
THAT, in accordance with the sixth paragraph of Section 23, Page 20, Unit Agreement, Shugart 18-Queen Unit, Eddy County, New Mexico, this Certificate is being filed with the OIL CONSERVATION COMMISSION OF NEW MEXICO, Santa Fe, New Mexico, being one of the governmental agency offices where a counterpart of said Unit Agreement was recorded;

THAT, this Certificate is being filed with said offices within the required 30-day limit;


FURTHER, that said Unit Agreement has become effective as to its terms and that actual operation of the Unit was effective October 1, 1966.

FURTHER Affiant saith not.

EXECUTED on this the 18th day of October, 1966.


Curtis Mewbourne

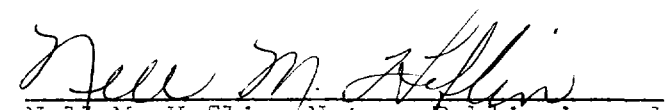
SWORN TO AND SUBSCRIBED before me by the said CURTIS MEWBOURNE on this 18th day of October, 1966.


Nell M. Heflin, Notary Public in and
for Dallas County, Texas

THE STATE OF TEXAS }
COUNTY OF DALLAS }

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