

UNIT AGREEMENT FOR
THE DEVELOPMENT AND OPERATION OF
THE SHOEBAR RANCH UNIT AREA
COUNTY OF LEA
STATE OF NEW MEXICO

INDEX

AGREEMENT PROPER

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Applicants
6124
1/18/74

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE SHOEBAR RANCH UNIT AREA
LEA COUNTY, NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 12th day of December, 1977, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the unit area subject to the agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 88, Laws 1943), as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 7, Art. 11, Sec. 39, New Mexico Statutes 1953 Annotated), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by Act of Legislature (Sec. 1, Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 41, New Mexico Statutes, 1953 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by an act of the Legislature (Chap. 72, Laws 1935; Chap. 65, Art. 3, Sec. 14, New Mexico Statutes 1953 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interest in the Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

TOWNSHIP 16 SOUTH - RANGE 35 EAST - N.M.P.M.

Section 33:SE 1/4
Section 34:S 1/2

TOWNSHIP 17 SOUTH - RANGE 35 EAST - N.M.P.M.

Section 3: Lots 1, 2, 3, 4, S1/2N1/2
Section 4: Lots 1, 2, S1/2NE1/4

containing 961 acres, more or less, Lea County, New Mexico.

Exhibit A attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit B attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto

as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits A and B shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES. All oil, gas, natural gasoline and associated fluid hydrocarbons in any and all formations of the unitized lands are unitized under the terms of this agreement and herein are called "unitized substances."

3. UNIT OPERATOR. HNG Oil Company whose address is Box 2267, Midland, Texas, hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit B, if any, and agrees and consents to accept the duties and obligation of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been elected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner.

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interests as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

5. SUCCESSOR UNIT OPERATOR. Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall, by a majority vote, select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of unit operator, and (b) the selection shall have been approved by the Commissioner. If

no successor unit operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS. The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned, among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "operating agreement." No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said unit operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the unit operator, in its capacity as unit operator, shall exercise the rights of possession and use

vested in the parties hereto only for the purpose herein specified.

8. DRILLING TO DISCOVERY. The unit operator shall, on or before March 10, 1978, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to test the Morrow formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 14,000 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than 120 days between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner, or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights, privileges and obligation granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES. Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before 120 days from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve month period thereafter file a report with the Commissioner and Commission of the status of the development of the unit area and the development contemplated for the following twelve month period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of a deposit of unitized substances capable of being produced in paying quantities as herein provided, unit operator shall continue drilling diligently, one well at a time, allowing not more than 120 days between the final completion of one well and the beginning of the next well until the unit area has been fully developed upon an 80-acre spacing pattern, or upon such other spacing pattern as may be provided by order of the Oil Conservation Commission of New Mexico for the formation in which unitized substances are discovered.

If the unit operator should fail to comply with the above covenant for reasonable development without prior consent or approval of the Commissioner of Public Lands, this agreement shall terminate as to all lands of the State of New Mexico embracing regular well spacing or proration units upon which no well has been drilled or commenced but in such event the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands.

10. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying

quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION. All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development proposed hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tract of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES. All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto, provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other

charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INsofar AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA. The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas on the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the term of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement, but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the terms provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production of a well or wells for unitized substances on the unit area shall be construed and considered as the commencement, completion, continued operation or production on each of the leasehold interest as to

lands within the unitized area committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operation upon and production from each leasehold interest as to lands within the unitized area committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offsets to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the secondary term of such lease, such production shall be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto upon which oil and gas or either of them has been discovered or is discovered

upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the primary terms of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease.

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

15. DRAINAGE. In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or lease subject hereto shall be and hereby is condition upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Commissioner and shall terminate in two years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension

thereof in which case this agreement shall remain in effect so long as unitized substances are being produced from the unitized land, and should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as foresaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner. Likewise, the failure to comply with the drilling requirements of Section 8 hereof may subject this agreement to termination as provided in said section.

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

19. APPEARANCES. Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission, and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

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

21. UNAVOIDABLE DELAY. All obligations under this agreement requiring the unit operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the unit operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, war, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, 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.

22. LOSS OF TITLE. In the event title to any tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved in account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

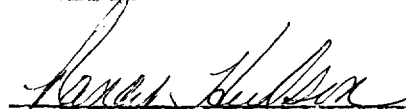
23. SUBSEQUENT JOINDER. Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval by the Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is

also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the filing with the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties before participating in any benefits hereunder shall be required to assume and pay to the unit operator their proportionate share of the unit expense incurred prior to such party's or parties' joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

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

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

ATTEST:


Assistant Secretary

Date 12-16-77

UNIT OPERATOR

HNG OIL COMPANY


VICE-PRESIDENT

WORKING INTEREST OWNERS

DATE 12-19-77

Tom Ingram
TOM INGRAM

ADDRESS: Box 1757
Roswell, New
Mexico

DATE 12-18-77

Sol West III
SOL WEST III

ADDRESS: 3925 Beverly
Dallas, Texas
75205

STATE OF TEXAS)
) ss.
COUNTY OF Midland)

The foregoing instrument was acknowledged before me this
16th day of December, 1977, by J. Stewart Martin
Vice President on behalf of HNG OIL
COMPANY, a Texas corporation.

David H. Russell
NOTARY PUBLIC - County of Midland, TX.

My commission expires:
2-28-79

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

Before me, a Notary Public in and for said County and
State, on this day personally appeared TOM INGRAM, known to
me to be the person whose name is subscribed to the fore-
going instrument, and acknowledged to me that he executed
the same for the purposes and consideration therein ex-
pressed.

Given under my hand and seal of office this 19th day
of December, 19 77.

Jean Hayes
NOTARY PUBLIC

My commission expires:
3/3/81

STATE OF TEXAS)
)
COUNTY OF Dallas) ss.

Before me, a Notary Public in and for said County and State, on this day personally appeared SOL WEST III, 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 this 18th day of December, 1977.

Josephine B. Kuegel
NOTARY PUBLIC

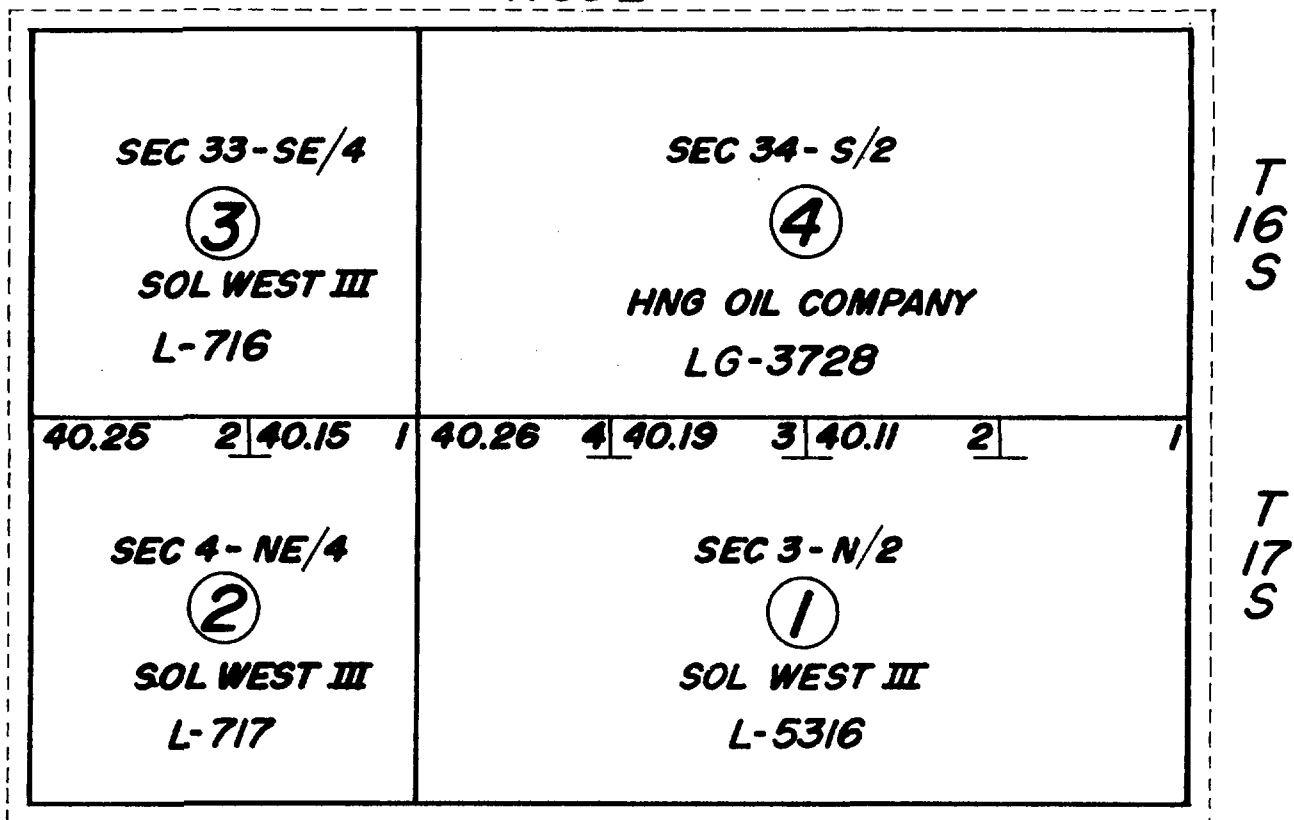
My commission expires:
June 23, 1979

EXHIBIT "A"

SHOEBAR RANCH UNIT

LEA COUNTY, NEW MEXICO

R35E



ALL STATE LEASES

1. L-5316
2. L-717
3. L-716
4. LG-3728

LEGEND

- UNIT BOUNDARY
- TRACT BOUNDARY
- ① TRACT NUMBER

TOTAL UNIT AREA
961 ACRES

EXHIBIT "B"

SHOEBAR RANCH UNIT
LEA COUNTY, NEW MEXICO

Tract No.	Description of Land	Number of Acres	Serial No. and Expiration Dates	Basic Royalty	Lessee of Record	Overriding Royalty or Production Payment Percentages	Working Interest and Percentage
<u>T17S-R35E</u>							
<u>Sec. 3:</u> Lots 1, 2, 3, 4							
1.	S/2N/2	320.60	L-5316 3-1-81	12.5% State	Sol West III	Sol West III Michael Shearn 4.5% George Scott 1.0%	Sol West III HNG T. Ingram 33.3507% 33.2986% 33.3507%
<u>T17S-R35E</u>							
<u>Sec. 4:</u> Lots 1, 2 S/2NE/4							
2.		160.40	L-717 3-19-78	12.5% State	Sol West III	Sol West III Michael Shearn 4.5% George Scott 1.0%	Sol West III HNG T. Ingram 33.3507% 33.2986% 33.3507%
<u>T16S-R35E</u>							
<u>Sec. 33:</u> SE/4							
3.		160.0	L-716 3-19-78	12.5% State	Sol West III	Sol West III Michael Shearn 4.5% George Scott 1.0%	Sol West III HNG T. Ingram 33.3507% 33.2986% 33.3507%
<u>T16S-R35E</u>							
<u>Sec. 34:</u> S/2							
4.		320.0	LG-3728 9-1-86	12.5% State	HNG	None	Sol West III HNG T. Ingram 33.3507% 33.2986% 33.3507%

Total: 4 Tracts (all state lands) 961.0 acres in entire unit area

EXHIBIT "C"

Attached to and made a part of the Unit Agreement

SHOEBAR RANCH UNIT

LEA COUNTY, NEW MEXICO

INSURANCE

Operator shall at all times during the term of this agreement carry insurance to protect the parties hereto as follows:

(1) Workman's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.00. Such insurance policy shall be endorsed to preclude exercise of rights of subrogation against parties to this agreement.

(2) Comprehensive general public liability insurance, excluding products, liability insurance, with limits of not less than \$100,000.00 applicable to bodily injury, sickness or death of any one person and \$300,000.00 for more than one person in any one accident, and \$100,000.00 for loss of or damage to property in any one accident and \$100,000.00 aggregate limit applicable to all loss of or damage to property during the policy period.

(3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than \$100,000.00 applicable to bodily injury, sickness or death of any one person and \$300,000.00 for more than one person in any one accident, and \$100,000.00 for loss of or damage to property in any one accident.

If automotive equipment used is owned exclusively by Operator, no charge will be made to the Joint Account for premiums for this coverage except as provided in Section III, Paragraph 5 of the Accounting Procedure.

Operator shall require all contractors performing work under this agreement to carry the following insurance:

(1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.00.

(2) Comprehensive general public liability insurance with limits of not less than \$100,000.00 applicable to bodily injury, sickness or death of any one person and \$300,000.00 for more than one person in any one accident, and \$100,000.00 for loss of or damage to property in any one accident and \$100,000.00 aggregate limit applicable to all loss of or damage to property during the policy period.

(3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than \$100,000.00 applicable to bodily injury, sickness or death of any one person and \$300,000.00 for more than one person in any one accident, and \$100,000.00 for loss of or damage to property in any one accident.



RECEIVED

DEC 20 12 45 PM '77

STATE LAND
SANTA FE



Commissioner of Public Lands

December 13, 1977

PHIL R. LUCERO
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

APPLICANTS

6124

SHEARN

1/18/78

West Oil Company
Box 10151
El Paso, Texas 79905

Re: Proposed The Shoebar Ranch Unit
Lea County, New Mexico

ATTENTION: Mr. Michael Shearn

Gentlemen:

We have reviewed the unexecuted copy of unit agreement, Exhibits "A" and "B", which you submitted on behalf of HNG Oil Company, for the Shoebar Ranch Unit, Lea County, New Mexico. The form of agreement meets the requirements of the Commissioner of Public Lands, therefore, your agreement has been approved as to form and content.

Please submit any geological data or engineering reports which you might have.

On your Exhibit "B", under Tract 1, your description should read S/2N/2 and not (S/2, N/2). On Tract 2 you left out the S/2NE/4 and under Tract 4 you have the wrong lease number, it should be LG-3728 and not (L-3728). Your Unit Area, page 1, is also in error. Please make these corrections before submitting your agreement for final approval.

When filing your agreement for final approval, the following are required by this office.

1. Application for final approval stating Tracts committed and Tracts not committed.
2. Two executed copies of Unit Agreement-one must be an original.
3. One executed copy of Operating Agreement
4. Two sets of all ratifications from Lessees of record and working Interest Owners.
5. Two sets of Exhibits "A" and "B".
6. Order of the New Mexico Oil Conservation Commission.

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STATE LAND OFFICE
SANTA FE, N. M.

7. The filing fee in the amount of Forty (\$40.00) Dollars.

If we may be of further assistance to you, please advise.

Very truly yours,

PHIL R. LUCERO
COMMISSIONER OF PUBLIC LANDS

BY: 
RAY D. GRAHAM, Director
Oil and Gas Division

PRL/RDG/s