

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SOUTH LEONARD (QUEEN) UNIT
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SOUTH LEONARD (QUEEN) UNIT
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THIS AGREEMENT, entered into as of the 1st day of June, 1967, 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 Unit Area subject to this agreement; 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 operations 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 Oil Conservation Commission of the State of New Mexico is authorized by law (Volume 9, Part 2, Chapter 65, Article 3, New Mexico Statutes 1953 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the South Leonard (Queen) Unit comprised of the Unit Area hereinafter designated, 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 the other benefits obtainable through development and operation of the Unit 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 Unitized Formation underlying the Unit Area (as

those terms are hereinafter defined), 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 and 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 of New Mexico, are hereby accepted and made a part of this agreement.

SECTION 2. UNIT AREA AND DEFINITIONS: The land shown on Exhibit "A" and described by Tracts in Exhibit "B", attached hereto, is hereby designated and recognized as constituting the Unit Area. For the purpose of this agreement, the following terms and expressions as used herein are defined as follows:

- (a) "Department" is defined as the Department of the Interior of the United States of America.
- (b) "Secretary" is defined as the Secretary of the Interior of the United States of America.
- (c) "Director" is defined as the Director of the United States Geological Survey.
- (d) "Supervisor" is defined as the Regional Oil and Gas Supervisor of the United States Geological Survey.
- (e) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (f) "Unitized Formation" is that subsurface portion of the Unit Area which is that continuous stratigraphic interval occurring between a logged depth of 3158 feet (subsea elevation of minus 159 feet) as shown on Lane Wells Gamma Ray-Neutron Log dated July 26, 1950, in Texas Pacific Oil Company's Dublin Lease Well No. 3, located 1980 feet south of the north line and 2310 feet west of the east line of Section 24, Township 26 South, Range 37 East, Lea County, New Mexico and a subsea level depth of minus 700 feet.
- (g) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

- (h) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, 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, producing, and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement, or which at any time thereafter becomes a Working Interest, shall thenceforth be treated as a Working Interest for all purposes of this agreement.
- (i) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (j) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.
- (k) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (l) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (m) "Unit Operating Agreement" is defined as that agreement which is entered into by Working Interest Owners effective as of the same date as the effective date of this agreement.
- (n) "Unit Operator" is defined as the Working Interest Owner designated hereunder to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.
- (o) "Tract Participation" is defined as the percentage shown on Exhibit "B" for allocating Unitized Substances to a Tract under this agreement.
- (p) "Unit Participation" of each Working Interest Owner is defined as the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.
- (q) "Oil and Gas Rights" is defined as the right to develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.
- (r) "Unit Operations" is defined as all operations conducted by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of the development and operations of the Unitized Formation for the production of Unitized Substances.

- (s) "Tract Ultimate Primary Recovery" means the number of barrels of oil heretofore approved by the Working Interest Owners for purposes of this agreement as representing the ultimate primary recovery of oil from the Unitized Formation underlying such Tract.
- (t) "Unit Ultimate Primary Recovery" means the total of the Tract ultimate primary recovery of all tracts within the Unit Area.
- (u) Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural include the singular, and the neuter gender include the masculine and the feminine.

SECTION 3. EXHIBITS: Exhibit "A" attached hereto is a map showing the Unit Area and, to the extent known to Unit Operator, the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the land description and acreage content as to each Tract, the identity of the lease thereon and the percentage and kind of ownership of the Oil and Gas Rights therein. However, nothing herein or in said map or schedule 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 being owned by such party.

The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners having a combined Unit Participation of sixty-five (65%) percent or more and the Supervisor, shall correct the mistake by revising the exhibits to conform to the facts. Each such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be approved and set forth in the revised exhibit. No revision as provided for herein shall contain any re-evaluation of engineering or geological interpretations used in determining Tract Participation.

If an exhibit is revised pursuant to this agreement, Unit Operator shall certify and file not less than five (5) copies of the revised exhibit with the Supervisor, and one (1) copy with the Commission, and shall file a copy for record with the County Clerk of Lea County, New Mexico.

When reference is herein made to an exhibit, such reference is to the exhibit as originally attached hereto, or, if revised, to the latest revision thereof.

SECTION 4. EXPANSION: The 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 owners of the working interest in a tract or tracts desiring to bring such tract or tracts into the Unit Area shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, and after negotiation (at a Working Interest Owners's meeting or otherwise), if Working Interest Owners having a combined Unit Participation of ninety (90%) percent or more agree to such tract or tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Director:
 - (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional tract or tracts, the Tract Participation to be allocated thereto and the proposed effective date thereof; and
 - (2) Furnish copies of said notice to the Director and Commission and mail copies thereof to the last known address of each Working Interest Owner, lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and
 - (3) File, upon the expiration of said thirty (30) day period as set out in Subsection (2) immediately above, with the Director and Commission the following:
 - (a) evidence of mailing copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, infra; and (d) a copy of any objections received.

After due consideration of all pertinent information and upon approval by the Director and Commission, the expansion shall become effective as of the date prescribed in the notice thereof, and Unit Operator shall revise Exhibits "A", and "B", accordingly.

If the Unit Area is expanded, the Tract Participation of the Tracts that were in the Unit Area prior to the expansion shall remain in the same ratio one to another.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as to the Unitized Formation shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in the Unitized Formation are unitized under the terms of this agreement and herein are called "unitized substances".

SECTION 6. UNIT OPERATOR: TEXAS PACIFIC OIL COMPANY, a Division of Joseph E. Seagram & Sons, Inc., with offices in 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 development, operation, 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 7. 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 Supervisor and Commission and until all wells then drilled hereunder are placed in a satisfactory condition for suspension

or abandonment, whichever is required by the Supervisor, as to Federal lands, and the Commission, as to non-federal lands, 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 shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by vote of one (1) or more Working Interest Owners having a combined Unit Participation of ninety (90%) percent exclusive of the Unit Participation of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Supervisor.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books, and records, materials, appurtenances, and any other assets used in conducting 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 Acting Unit Operator 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, or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is

removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owner shall, by affirmative vote of one or more Working Interest Owners having a combined Unit Participation of not less than fifty-one (51%) percent, select a successor Unit Operator; provided, however, that if the outgoing Unit Operator fails to vote, votes to succeed itself or refuses to vote for one of the other Working Interest Owners willing to accept the duties and responsibilities of Unit Operator, the successor Unit Operator shall be selected by similar affirmative vote of the Working Interest Owners other than the outgoing Unit Operator, disregarding for the purposes of such vote the Unit Participation of the outgoing 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) written notice of such 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, effective as of the first day of the month following such declaration.

SECTION 9. 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 hereunder in conformity with their underlying operating agreements, leases, or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, such Unit

Operating Agreement shall not 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 (3) true copies of the Unit Operating Agreement shall be filed with the Supervisor prior to approval of this agreement by the Director.

SECTION 10. 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 developing and operating the Unit Area, including producing, by primary and secondary methods, storing, allocating, and distributing the Unitized Substances, are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with the 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 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement is reasonably proved to be productive of Unitized Substances in paying quantities or is necessary for unit operations 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, the Supervisor, and the Commission, inject into the Unitized Formation, through any well or wells

completed therein, brine, water, air, gas, oil, and any one or more other substances or combination of substances whether produced from the Unitized Land 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. Subject to like approval the plan of operation may be revised as conditions may warrant.

The initial plan of operation shall be filed with the Supervisor, and the Commission concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor and the Commission 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.

The parties hereto subject to prior rights, if any, grant to the Unit Operator the use of brine or water or both from any formation in and under the Unit Area for injection into the Unitized Formation insofar as these rights are granted by the oil and gas leases.

SECTION 12. TRACT PARTICIPATION: The percentages of tract participation set forth in Exhibit "B" for each tract within the unit area have been calculated and determined in accordance with the following formula:

$$\frac{\text{Tract Ultimate Primary Recovery}}{\text{Unit Area Ultimate Primary Recovery}} \times 95 \text{ percent}$$

$$\frac{\text{Tract Surface Acres}}{\text{Unit Area Surface Acres}} \times 5 \text{ percent}$$

The percentages of tract participation set forth in Exhibit "B" have been calculated upon the basis of all tracts within the unit area being committed to this agreement as of the effective date hereof. In the event less than all of the tract are committed hereto as of the effective date hereof, unit operator shall as soon as practicable after said effective date, file with the Supervisor a revised Exhibit "B" setting forth the revised tract participation of each committed tract which shall be calculated by using the tract factors and formulas set forth

hereinabove but applying the same only to the committed tracts. Unit operator shall promptly file four (4) copies of such revised Exhibit "B" with the Supervisor. The revised Exhibit "B" shall, upon approval by the Supervisor, as of the effective date of this agreement, supercede the original Exhibit "B" attached hereto and shall thereafter govern the allocation of unitized substances.

SECTION 13. TRACTS QUALIFIED FOR PARTICIPATION: As the objective of this unit agreement is to have lands in the unit area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this unit agreement unless the tract involved is qualified under this section. On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be those Tracts described in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public highway or a railroad right-of-way shall be considered to have a common boundary), and that otherwise qualify as follows: (The record interest shall supplant the royalty interest as to Federal land for purposes of this section)

- (a) Each Tract as to which Working Interest Owners owning one hundred (100%) percent of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five (75%) percent or more of the Royalty Interest therein have become parties hereto.
- (b) Each Tract as to which Working Interest Owners owning one hundred (100%) percent of the Working Interests therein have become parties hereto and as to which Royalty Owners owning less than seventy-five (75%) percent of the Royalty Interest therein have become parties hereto and, further, as to which:
 - (i) All Working Interest Owners in such Tract have joined in a request for the commitment of such Tract to this agreement, and
 - (ii) Seventy-five (75%) percent of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed as a percentage) which its aggregate Unit Participation in all Tracts

qualifying under Section 13 (a) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "B".

- (c) Each Tract as to which Working Interest Owners owning less than one hundred (100%) percent of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:
 - (i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands which may be made by the owners of working interests in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this agreement, and
 - (ii) Seventy-five (75%) percent of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and 13 (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed as a percentage) which its aggregate Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and 13 (b) as such Unit Participation is determined from the Tract Participation set out in Exhibit "B". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the non-subscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

If on the effective date of this agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate in Unitized Substances produced hereunder, and Unit Operator shall prepare a revised Exhibit "B" in accordance with the provisions of Section 12 hereof and shall file copies of the revised Exhibit "B" promptly for the Supervisor's approval effective as of the effective date of the Unit Agreement.

SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save, and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp, and other production, development, and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the respective Tract Participations as shown in Exhibit "B". The amount of Unitized Substances so allocated to each Tract, 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 hereto entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal force and effect.

No Tract committed to this agreement and qualified for participation in Unitized Substances produced hereunder as hereinabove provided shall be subsequently excluded from such participation on account of depletion of Unitized Substances or incapability to produce Unitized Substances.

If the Working Interest and the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participation assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in

kind to the respective 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 such party shall have the right to construct, maintain, and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained, and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. 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.

If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the market price prevailing in the area; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one (1) year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto. Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas produced hereunder unless Unit Operator shall have given such Working Interest Owner notice of such intended sale and such Working Interest Owner, for a period of sixty (60) days from and after receipt of such notice, shall have failed to revoke the authority of Unit Operator to sell such Working Interest Owner's share of such gas.

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 shall be responsible for making payment therefor to the parties entitled

thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 15. PRODUCTION AS OF THE EFFECTIVE DATE:

OIL IN LEASE TANKS. Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipeline connections, as of 7:00 o'clock a.m. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provision of the applicable lease or other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after the effective date hereof.

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

SECTION 16. ROYALTY SETTLEMENT: The United States of America, and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty Interest share

taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws, and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalty due under their leases, except that such royalty shall be computed in accordance with the terms of this Unit Agreement.

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

SECTION 17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws, and regulations; provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental 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 lands by wells on land not subject to this agreement.

SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary shall and by his approval hereof or by the approval hereof by his duly authorized representative, 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 to 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 Tract subject to this agreement, regardless of whether there is any development of any particular Tract within 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 supplemental recovery operations performed hereunder upon any Tract of unitized lands will be accepted and deemed to be performed under 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 the land therein embraced.
- (c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Supervisor or 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 land.

- (d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this Agreement is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this agreement.
- (e) 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 land 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 for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."
- (f) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

SECTION 21. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of interest in land or leases subject hereto shall be and is hereby 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 an acceptable photostat 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 photostat or certified copy, of the recorded instrument of transfer.

SECTION 22. EFFECTIVE DATE AND TERM: This agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock a.m. of the first day of the calendar month next following:

- (a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners owning qualified tracts having a combined unit participation of at least eight-five (85%) percent.
- (b) The approval of this agreement by the Secretary or his duly authorized representative, and the Commission; and
- (c) Provided further, that if (a) and (b), above are not accomplished on or before June 1, 1968, 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 eight (80%) percent, and the Working Interest Owners owning a combined unit participation of at least eighty (80%) percent 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) and (b), are not accomplished on or before said extended expiration date, this agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect.

Unit Operator shall, within ten (10) days after the effective date of this agreement, file at least one (1) counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico, together with a certificate to the effect that this agreement has become effective according to its terms and stating further the effective date.

The term of this agreement shall be for and during the time that Unitized Substances are produced in quantities sufficient to pay for the cost of producing same from wells on unitized land and so long thereafter as drilling, reworking, or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and so long thereafter as Unitized Substances can be produced as aforesaid. Termination under this paragraph shall be effective as of the first day of the month after the unit operator determines, on confirmatory data satisfactory to the Director, that the unit is no longer paying. Such determination must be made promptly without any undue delay. However, in the absence of such timely determination, this unit agreement shall be deemed expired automatically as of the 91st day after cessation of unit operations.

This agreement may be terminated with the approval of the Director by Working Interest Owners owning ninety (90%) percent of the participation.

Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Lea County, New Mexico.

Upon termination of this agreement, Unit Operations shall cease, and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if the agreement had never been entered into.

If not otherwise specified 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 23. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION: The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, 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. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law. It is agreed, further, that no such alteration or modification shall be effective as to any privately owned land subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less

than fifteen (15) days from notice.

SECTION 24. NONDISCRIMINATION: In connection with the performance of work under this agreement, Unit Operator agrees to comply with all the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246, as amended (30 F.R. 12319), which are incorporated by reference in this agreement.

SECTION 25. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Department and Commission, and to appeal from any order issued under the rules and regulations of the Department and Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Department and Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

SECTION 26. 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 27. 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 Federal or State law or rule or regulation 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; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 28. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED REALTY:

Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this agreement, various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unit Area as now or hereafter constituted. Therefore, for all purposes of this agreement any and all such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly said well and lease equipment and personal property is hereby severed from the mineral estates affected by this agreement, and it is agreed that any and all such equipment and personal property shall be and remain personal property for all purposes.

SECTION 29. UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue drilling or supplemental 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 obligation, 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 any Tract ceases to have sufficient Interest committed to this agreement to meet the conditions of Section 13 because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 a.m. on the first day of the calendar month in which the failure of title is finally determined to be effective; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined to be effective.

If any such Tract cannot be so requalified, Unit Operator shall revise Exhibit "B" using the same formula required in Section 12, applied to the remaining

tracts. Copies of the revised Exhibit "B" shall be filed for approval by the Supervisor and shall be effective as of the same day such failure of title is finally determined to be effective.

If title to a Working Interest fails, the costs and benefits to Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Basic Royalty Interest fails, but the Tract to which it relates continues to be qualified under Section 13, the party whose title failed shall not be entitled to participate hereunder.

In the event of a dispute as to the title to any Working Interest or Basic Royalty Interest subject hereto or if more than ninety (90) days are required to make final determination as to title loss, 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 or determination, 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 interest in a Tract within the Unit Area fails or refuses to subscribe or consent in writing to this agreement, such Tract shall not be deemed committed to this agreement, unless such Tract may be and is qualified as provided in Section 13 hereof. Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement and qualified under Section 13 in order for the interest to be regarded as committed to this Unit Agreement. Likewise, joinder by any owner of a Royalty Interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding Working Interest with the combined interests qualifying under said Section 13 in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the

Unit Area not committed hereto prior to final approval of this agreement by the Director may thereafter be committed hereto upon compliance with the applicable provisions of this section and Section 13 hereof at any time up to the effective date on the same basis of participation as provided for in Section 12 hereof and as set forth in the original Exhibit "B" attached hereto.

It is understood and agreed, however, that from after the effective date hereof, the right of subsequent joinder as provided in this section shall be subject to Section 13 and to such requirements and upon such basis as may be agreed upon by Working Interest Owners having a combined Unit Participation of ninety (90%) percent or more, provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Any such joinder by a Royalty Owner must also be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner.

Except as may be otherwise herein provided, subsequent joinders to this agreement shall be effective as of 7:00 a.m. of the first day of the calendar month next following the filing with the Supervisor of all instruments necessary to effect such joinder, unless objection to such joinder is duly made within sixty (60) days by the Director. If any such subsequent joinder results in the commitment of an additional Tract to this agreement, Unit Operator shall prepare a revised Exhibit "B" and file same in accordance with the provisions of Section 3 hereof.

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, effective as of the date of execution thereof by such parties, 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. JOINDER IN MULTIPLE CAPACITY: Execution hereof by any party either as a Working Interest Owner or as a Royalty Owner in a tract to be qualified

shall commit all interests that may be owned or controlled by such party in the Unit Area.

SECTION 34. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount of 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 of 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 of America or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 35. 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 in and about any matters or things concerning which it is required herein that such concurrence be obtained.

SECTION 36. BORDER AGREEMENTS: Unit Operator, with concurrence of Working Interest Owners having a combined Unit Participation of sixty-five (65%) percent or more, may, subject to approval of the Supervisor enter into a border-protection agreement or agreements with the working interest owners of adjacent lands with respect to the operations in the border area for the purpose of increasing ultimate recovery, conservation purposes and proper protection of the parties and interests.

SECTION 37. NO PARTNERSHIP: The duties, obligations, and liabilities


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

SECTION 38. LIEN OF UNIT OPERATOR: Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

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

TEXAS PACIFIC OIL COMPANY, a Division
of Joseph E. Seagram & Sons, Inc.

Date: SEP 4 1968

By 
Attorney-in-Fact

Address: P. O. Box 747
Dallas, Texas 75221

UNIT OPERATOR AND WORKING INTEREST OWNER

WORKING INTEREST OWNERS

ATTEST: _____

By: _____

Date: _____ Address: _____

ATTEST: _____

By: _____

Date: _____ Address: _____

ROYALTY INTEREST OWNERS

ATTEST: _____

By: _____

Date: _____ Address: _____

Date: _____ Address: _____

Date: _____ Address: _____

Date: _____ Address: _____

Date: _____ Address: _____

Date: _____ Address: _____

STATE OF Texas }

COUNTY OF Dallas }

Before me, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared R. M. BRACKBILL, known to me to be the person whose name is subscribed to the foregoing instrument as ATTORNEY-IN-FACT of TEXAS PACIFIC OIL COMPANY, a corporation, and acknowledged to me that he executed the same on behalf of said corporation for the purposes and consideration therein expressed, and in the capacity therein set forth.

Given under my hand and seal of office this 4th day of September, 1968.

BESS MARRON
Notary Public in and for Dallas County, Texas
My Commission Expires June 1, 1969.

Bess Marron
Notary Public in and for
County, _____

STATE OF _____ }

COUNTY OF _____ }

Before me, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a corporation, and acknowledged to me that he executed the same on behalf of said corporation for the purposes and consideration therein expressed, and in the capacity therein set forth.

Given under my hand and seal of office this _____ day of _____, 1967.

Notary Public in and for
County, _____

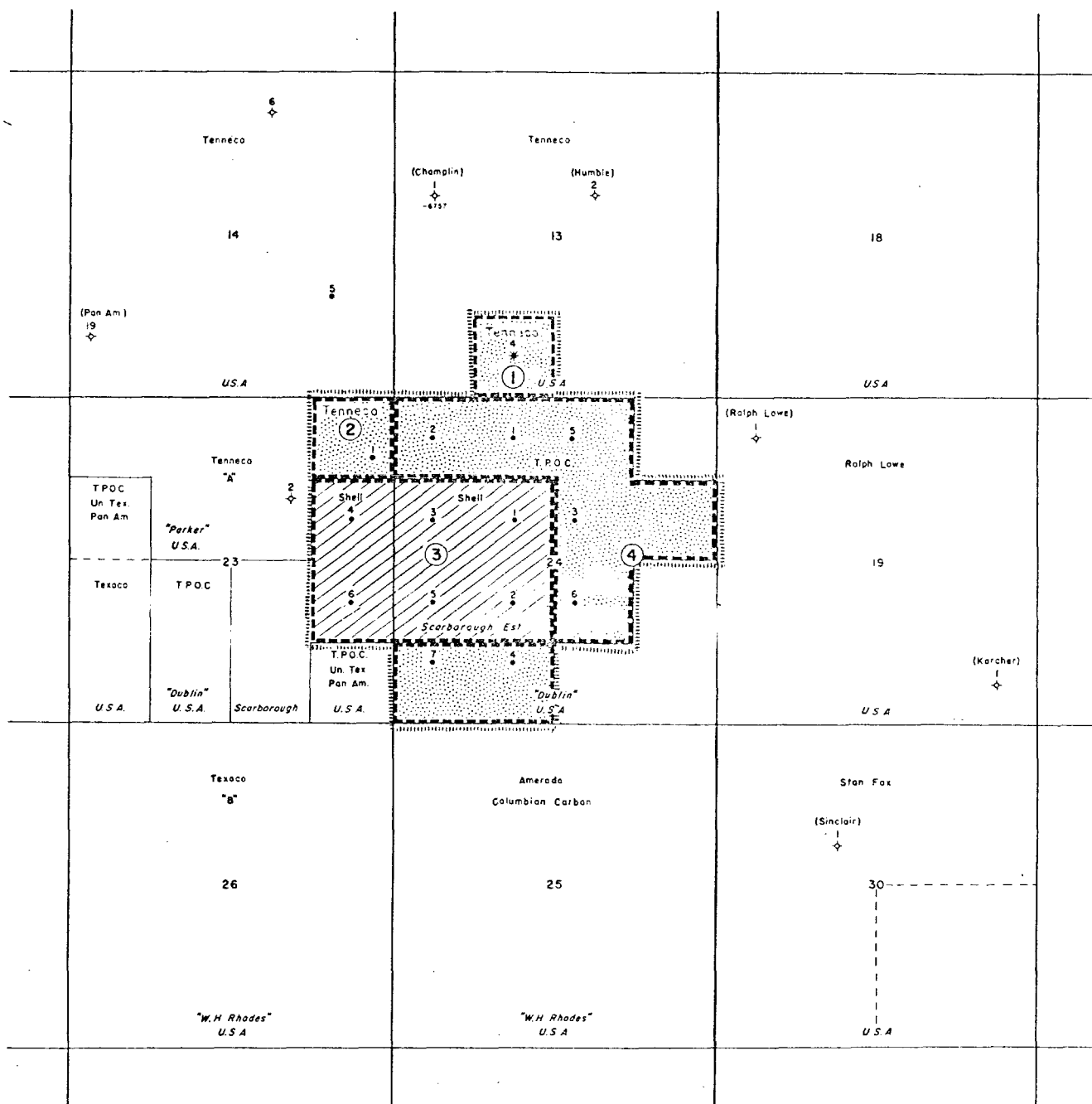
STATE OF _____ }

COUNTY OF _____ }

Before me, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a corporation, and acknowledged to me that he executed the same on behalf of said corporation for the purposes and consideration therein expressed, and in the capacity therein set forth.

Given under my hand and seal of office this _____ day of _____, 1967.

Notary Public in and for
County, _____



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26
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R 37 E

R 38 E

EXHIBIT "A"
SOUTH LEONARD (QUEEN) UNIT
SOUTH LEONARD FIELD
LEA COUNTY, NEW MEXICO

- UNIT OUTLINE
- TRACT OUTLINE
- FEDERAL LANDS
- FEE LANDS



EXHIBIT "B"
SOUTH LEONARD (QUEEN) UNIT
LEA COUNTY, NEW MEXICO

Tract No.	Description of Land	No. of Acres	Serial No. And Lease Expiration Date	Basic Royalty And Ownership Percentage	Lessee of Record	Overriding Royalty	Working Interest Owner & Percentage	% Participation of Tract in Unit
1	SE/4 SW/4 Sec. 13 - T26S, R37E	40.00	LC 062384 - Held By Production	12.5% - U.S.A.	Tenneco	1/2 of 1%	Tenneco 100%	0.3126
2	NE/4 NE/4 Sec. 23 - T26S, R37E	40.00	LC 068824 - 11-30-71	12.5% - U.S.A.	Tenneco	-0-	Tenneco 100%	4.5429
3	SE/4 NE/4 & NE/4 SE/4 Sec. 23 and S/2 NW/4 & N/2 SW/4 Sec. 24 - T26S, R37E	240.00	Fee - Held By Production	7.5% - W. P. Scarborough Estate 2.5% - Evelyn Linebery, Trustee for Leta Scarborough 2.5% - Evelyn Linebery, Trustee for Lucille Scarborough	Shell Oil Co.	1/16 of 8/8	Shell 100%	37.8983
4	W/2 NE/4, SE/4 NE/4, NW/4 SE/4, N/2 NW/4 & S/2 SW/4 Sec. 24 - T26S, R37E	320.00	LC 032510 - (C) 2-28-69	12.5% - U.S.A.	Anderson-Prichard & Pan American	1/16 of 8/8 & 7/128	Tex. Pacific (To 3800')	57.2462

FEDERAL LANDS	400.00 Acres	62.5% of Unit Area
STATE LANDS	0.00 Acres	0.0% of Unit Area
FEE LANDS	240.00 Acres	37.5% of Unit Area
TOTAL	640.00 Acres	100.0% of Unit Area

EXHIBIT NO. 1

UNIT AGREEMENT
SOUTH LEONARD UNIT
LEA COUNTY, NEW MEXICO

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
APPN EXHIBIT NO. 1
CASE NO. 3769 & 3770

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SOUTH LEONARD (QUEEN) UNIT
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SOUTH LEONARD (QUEEN) UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of June, 1967, 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 Unit Area subject to this agreement; 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 operations 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 Oil Conservation Commission of the State of New Mexico is authorized by law (Volume 9, Part 2, Chapter 65, Article 3, New Mexico Statutes 1953 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the South Leonard (Queen) Unit comprised of the Unit Area hereinafter designated, 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 the other benefits obtainable through development and operation of the Unit 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 Unitized Formation underlying the Unit Area (as

those terms are hereinafter defined), 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 and 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 of New Mexico, are hereby accepted and made a part of this agreement.

SECTION 2. UNIT AREA AND DEFINITIONS: The land shown on Exhibit "A" and described by Tracts in Exhibit "B", attached hereto, is hereby designated and recognized as constituting the Unit Area. For the purpose of this agreement, the following terms and expressions as used herein are defined as follows:

- (a) "Department" is defined as the Department of the Interior of the United States of America.
- (b) "Secretary" is defined as the Secretary of the Interior of the United States of America.
- (c) "Director" is defined as the Director of the United States Geological Survey.
- (d) "Supervisor" is defined as the Regional Oil and Gas Supervisor of the United States Geological Survey.
- (e) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (f) "Unitized Formation" is that subsurface portion of the Unit Area which is that continuous stratigraphic interval occurring between a logged depth of 3158 feet (subsea elevation of minus 159 feet) as shown on Lane Wells Gamma Ray-Neutron Log dated July 26, 1950, in Texas Pacific Oil Company's Dublin Lease Well No. 3, located 1980 feet south of the north line and 2310 feet west of the east line of Section 24, Township 26 South, Range 37 East, Lea County, New Mexico and a subsea level depth of minus 700 feet.
- (g) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

- (h) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, 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, producing, and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement, or which at any time thereafter becomes a Working Interest, shall thenceforth be treated as a Working Interest for all purposes of this agreement.
- (i) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (j) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.
- (k) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (l) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (m) "Unit Operating Agreement" is defined as that agreement which is entered into by Working Interest Owners effective as of the same date as the effective date of this agreement.
- (n) "Unit Operator" is defined as the Working Interest Owner designated hereunder to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.
- (o) "Tract Participation" is defined as the percentage shown on Exhibit "B" for allocating Unitized Substances to a Tract under this agreement.
- (p) "Unit Participation" of each Working Interest Owner is defined as the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.
- (q) "Oil and Gas Rights" is defined as the right to develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.
- (r) "Unit Operations" is defined as all operations conducted by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of the development and operations of the Unitized Formation for the production of Unitized Substances.

- (s) "Tract Ultimate Primary Recovery" means the number of barrels of oil heretofore approved by the Working Interest Owners for purposes of this agreement as representing the ultimate primary recovery of oil from the Unitized Formation underlying such Tract.
- (t) "Unit Ultimate Primary Recovery" means the total of the Tract ultimate primary recovery of all tracts within the Unit Area.
- (u) Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural include the singular, and the neuter gender include the masculine and the feminine.

SECTION 3. EXHIBITS: Exhibit "A" attached hereto is a map showing the Unit Area and, to the extent known to Unit Operator, the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the land description and acreage content as to each Tract, the identity of the lease thereon and the percentage and kind of ownership of the Oil and Gas Rights therein. However, nothing herein or in said map or schedule 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 being owned by such party.

The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners having a combined Unit Participation of sixty-five (65%) percent or more and the Supervisor, shall correct the mistake by revising the exhibits to conform to the facts. Each such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be approved and set forth in the revised exhibit. No revision as provided for herein shall contain any re-evaluation of engineering or geological interpretations used in determining Tract Participation.

If an exhibit is revised pursuant to this agreement, Unit Operator shall certify and file not less than five (5) copies of the revised exhibit with the Supervisor, and one (1) copy with the Commission, and shall file a copy for record with the County Clerk of Lea County, New Mexico.

When reference is herein made to an exhibit, such reference is to the exhibit as originally attached hereto, or, if revised, to the latest revision thereof.

SECTION 4. EXPANSION: The 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 owners of the working interest in a tract or tracts desiring to bring such tract or tracts into the Unit Area shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, and after negotiation (at a Working Interest Owners's meeting or otherwise), if Working Interest Owners having a combined Unit Participation of ninety (90%) percent or more agree to such tract or tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Director:
 - (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional tract or tracts, the Tract Participation to be allocated thereto and the proposed effective date thereof; and
 - (2) Furnish copies of said notice to the Director and Commission and mail copies thereof to the last known address of each Working Interest Owner, lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and
 - (3) File, upon the expiration of said thirty (30) day period as set out in Subsection (2) immediately above, with the Director and Commission the following:
 - (a) evidence of mailing copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, *infra*; and (d) a copy of any objections received.

After due consideration of all pertinent information and upon approval by the Director and Commission, the expansion shall become effective as of the date prescribed in the notice thereof, and Unit Operator shall revise Exhibits "A", and "B", accordingly.

If the Unit Area is expanded, the Tract Participation of the Tracts that were in the Unit Area prior to the expansion shall remain in the same ratio one to another.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as to the Unitized Formation shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in the Unitized Formation are unitized under the terms of this agreement and herein are called "unitized substances".

SECTION 6. UNIT OPERATOR: TEXAS PACIFIC OIL COMPANY, a Division of Joseph E. Seagram & Sons, Inc., with offices in 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 development, operation, 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 7. 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 Supervisor and Commission and until all wells then drilled hereunder are placed in a satisfactory condition for suspension

or abandonment, whichever is required by the Supervisor, as to Federal lands, and the Commission, as to non-federal lands, 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 shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by vote of one (1) or more Working Interest Owners having a combined Unit Participation of ninety (90%) percent exclusive of the Unit Participation of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Supervisor.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books, and records, materials, appurtenances, and any other assets used in conducting 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 Acting Unit Operator 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, or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is

removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owner shall, by affirmative vote of one or more Working Interest Owners having a combined Unit Participation of not less than fifty-one (51%) percent, select a successor Unit Operator; provided, however, that if the outgoing Unit Operator fails to vote, votes to succeed itself or refuses to vote for one of the other Working Interest Owners willing to accept the duties and responsibilities of Unit Operator, the successor Unit Operator shall be selected by similar affirmative vote of the Working Interest Owners other than the outgoing Unit Operator, disregarding for the purposes of such vote the Unit Participation of the outgoing 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) written notice of such 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, effective as of the first day of the month following such declaration.

SECTION 9. 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 hereunder in conformity with their underlying operating agreements, leases, or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, such Unit

Operating Agreement shall not 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 (3) true copies of the Unit Operating Agreement shall be filed with the Supervisor prior to approval of this agreement by the Director.

SECTION 10. 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 developing and operating the Unit Area, including producing, by primary and secondary methods, storing, allocating, and distributing the Unitized Substances, are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with the 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 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement is reasonably proved to be productive of Unitized Substances in paying quantities or is necessary for unit operations 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, the Supervisor, and the Commission, inject into the Unitized Formation, through any well or wells

completed therein, brine, water, air, gas, oil, and any one or more other substances or combination of substances whether produced from the Unitized Land 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. Subject to like approval the plan of operation may be revised as conditions may warrant.

The initial plan of operation shall be filed with the Supervisor, and the Commission concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor and the Commission 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.

The parties hereto subject to prior rights, if any, grant to the Unit Operator the use of brine or water or both from any formation in and under the Unit Area for injection into the Unitized Formation insofar as these rights are granted by the oil and gas leases.

SECTION 12. TRACT PARTICIPATION: The percentages of tract participation set forth in Exhibit "B" for each tract within the unit area have been calculated and determined in accordance with the following formula:

$$\frac{\text{Tract Ultimate Primary Recovery}}{\text{Unit Area Ultimate Primary Recovery}} \quad \times \quad 95 \text{ percent}$$
$$\frac{\text{Tract Surface Acres}}{\text{Unit Area Surface Acres}} \quad \times \quad 5 \text{ percent}$$

The percentages of tract participation set forth in Exhibit "B" have been calculated upon the basis of all tracts within the unit area being committed to this agreement as of the effective date hereof. In the event less than all of the tract are committed hereto as of the effective date hereof, unit operator shall as soon as practicable after said effective date, file with the Supervisor a revised Exhibit "B" setting forth the revised tract participation of each committed tract which shall be calculated by using the tract factors and formulas set forth

hereinabove but applying the same only to the committed tracts. Unit operator shall promptly file four (4) copies of such revised Exhibit "B" with the Supervisor. The revised Exhibit "B" shall, upon approval by the Supervisor, as of the effective date of this agreement, supercede the original Exhibit "B" attached hereto and shall thereafter govern the allocation of unitized substances.

SECTION 13. TRACTS QUALIFIED FOR PARTICIPATION: As the objective of this unit agreement is to have lands in the unit area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this unit agreement unless the tract involved is qualified under this section. On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be those Tracts described in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public highway or a railroad right-of-way shall be considered to have a common boundary), and that otherwise qualify as follows: (The record interest shall supplant the royalty interest as to Federal land for purposes of this section)

- (a) Each Tract as to which Working Interest Owners owning one hundred (100%) percent of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five (75%) percent or more of the Royalty Interest therein have become parties hereto.
- (b) Each Tract as to which Working Interest Owners owning one hundred (100%) percent of the Working Interests therein have become parties hereto and as to which Royalty Owners owning less than seventy-five (75%) percent of the Royalty Interest therein have become parties hereto and, further, as to which:
 - (i) All Working Interest Owners in such Tract have joined in a request for the commitment of such Tract to this agreement, and
 - (ii) Seventy-five (75%) percent of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed as a percentage) which its aggregate Unit Participation in all Tracts

qualifying under Section 13 (a) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "B".

- (c) Each Tract as to which Working Interest Owners owning less than one hundred (100%) percent of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:
 - (i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands which may be made by the owners of working interests in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this agreement, and
 - (ii) Seventy-five (75%) percent of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and 13 (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed as a percentage) which its aggregate Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and 13 (b) as such Unit Participation is determined from the Tract Participation set out in Exhibit "B". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the non-subscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

If on the effective date of this agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate in Unitized Substances produced hereunder, and Unit Operator shall prepare a revised Exhibit "B" in accordance with the provisions of Section 12 hereof and shall file copies of the revised Exhibit "B" promptly for the Supervisor's approval effective as of the effective date of the Unit Agreement.

SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save, and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp, and other production, development, and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the respective Tract Participations as shown in Exhibit "B". The amount of Unitized Substances so allocated to each Tract, 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 hereto entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal force and effect.

No Tract committed to this agreement and qualified for participation in Unitized Substances produced hereunder as hereinabove provided shall be subsequently excluded from such participation on account of depletion of Unitized Substances or incapability to produce Unitized Substances.

If the Working Interest and the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participation assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in

kind to the respective 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 such party shall have the right to construct, maintain, and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained, and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. 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.

If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the market price prevailing in the area; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one (1) year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto. Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas produced hereunder unless Unit Operator shall have given such Working Interest Owner notice of such intended sale and such Working Interest Owner, for a period of sixty (60) days from and after receipt of such notice, shall have failed to revoke the authority of Unit Operator to sell such Working Interest Owner's share of such gas.

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 shall be responsible for making payment therefor to the parties entitled

thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 15. PRODUCTION AS OF THE EFFECTIVE DATE:

OIL IN LEASE TANKS. Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipeline connections, as of 7:00 o'clock a.m. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provision of the applicable lease or other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after the effective date hereof.

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

SECTION 16. ROYALTY SETTLEMENT: The United States of America, and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty Interest share

taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws, and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalty due under their leases, except that such royalty shall be computed in accordance with the terms of this Unit Agreement.

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

SECTION 17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws, and regulations; provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental 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 lands by wells on land not subject to this agreement.

SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary shall and by his approval hereof or by the approval hereof by his duly authorized representative, 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 to 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 Tract subject to this agreement, regardless of whether there is any development of any particular Tract within 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 supplemental recovery operations performed hereunder upon any Tract of unitized lands will be accepted and deemed to be performed under 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 the land therein embraced.
- (c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Supervisor or 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 land.

- (d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this Agreement is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this agreement.
- (e) 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 land 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 for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."
- (f) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

SECTION 21. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of interest in land or leases subject hereto shall be and is hereby 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 an acceptable photostat 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 photostat or certified copy, of the recorded instrument of transfer.

SECTION 22. EFFECTIVE DATE AND TERM: This agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock a.m. of the first day of the calendar month next following:

- (a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners owning qualified tracts having a combined unit participation of at least eight-five (85%) percent.
- (b) The approval of this agreement by the Secretary or his duly authorized representative, and the Commission; and
- (c) Provided further, that if (a) and (b), above are not accomplished on or before June 1, 1968, 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 eight (80%) percent, and the Working Interest Owners owning a combined unit participation of at least eighty (80%) percent 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) and (b), are not accomplished on or before said extended expiration date, this agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect.

Unit Operator shall, within ten (10) days after the effective date of this agreement, file at least one (1) counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico, together with a certificate to the effect that this agreement has become effective according to its terms and stating further the effective date.

The term of this agreement shall be for and during the time that Unitized Substances are produced in quantities sufficient to pay for the cost of producing same from wells on unitized land and so long thereafter as drilling, reworking, or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and so long thereafter as Unitized Substances can be produced as aforesaid. Termination under this paragraph shall be effective as of the first day of the month after the unit operator determines, on confirmatory data satisfactory to the Director, that the unit is no longer paying. Such determination must be made promptly without any undue delay. However, in the absence of such timely determination, this unit agreement shall be deemed expired automatically as of the 91st day after cessation of unit operations.

This agreement may be terminated with the approval of the Director by Working Interest Owners owning ninety (90%) percent of the participation.

Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Lea County, New Mexico.

Upon termination of this agreement, Unit Operations shall cease, and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if the agreement had never been entered into.

If not otherwise specified 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 23. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION: The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, 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. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law. It is agreed, further, that no such alteration or modification shall be effective as to any privately owned land subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less

than fifteen (15) days from notice.

SECTION 24. NONDISCRIMINATION: In connection with the performance of work under this agreement, Unit Operator agrees to comply with all the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246, as amended (30 F.R. 12319), which are incorporated by reference in this agreement.

SECTION 25. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Department and Commission, and to appeal from any order issued under the rules and regulations of the Department and Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Department and Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

SECTION 26. 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 27. 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 Federal or State law or rule or regulation 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; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 28. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED REALTY:

Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this agreement, various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unit Area as now or hereafter constituted. Therefore, for all purposes of this agreement any and all such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly said well and lease equipment and personal property is hereby severed from the mineral estates affected by this agreement, and it is agreed that any and all such equipment and personal property shall be and remain personal property for all purposes.

SECTION 29. UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue drilling or supplemental 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 obligation, 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 any Tract ceases to have sufficient Interest committed to this agreement to meet the conditions of Section 13 because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 a.m. on the first day of the calendar month in which the failure of title is finally determined to be effective; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined to be effective.

If any such Tract cannot be so requalified, Unit Operator shall revise Exhibit "B" using the same formula required in Section 12, applied to the remaining

tracts. Copies of the revised Exhibit "B" shall be filed for approval by the Supervisor and shall be effective as of the same day such failure of title is finally determined to be effective.

If title to a Working Interest fails, the costs and benefits to Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Basic Royalty Interest fails, but the Tract to which it relates continues to be qualified under Section 13, the party whose title failed shall not be entitled to participate hereunder.

In the event of a dispute as to the title to any Working Interest or Basic Royalty Interest subject hereto or if more than ninety (90) days are required to make final determination as to title loss, 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 or determination, 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 interest in a Tract within the Unit Area fails or refuses to subscribe or consent in writing to this agreement, such Tract shall not be deemed committed to this agreement, unless such Tract may be and is qualified as provided in Section 13 hereof. Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement and qualified under Section 13 in order for the interest to be regarded as committed to this Unit Agreement. Likewise, joinder by any owner of a Royalty Interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding Working Interest with the combined interests qualifying under said Section 13 in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the

Unit Area not committed hereto prior to final approval of this agreement by the Director may thereafter be committed hereto upon compliance with the applicable provisions of this section and Section 13 hereof at any time up to the effective date on the same basis of participation as provided for in Section 12 hereof and as set forth in the original Exhibit "B" attached hereto.

It is understood and agreed, however, that from after the effective date hereof, the right of subsequent joinder as provided in this section shall be subject to Section 13 and to such requirements and upon such basis as may be agreed upon by Working Interest Owners having a combined Unit Participation of ninety (90%) percent or more, provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Any such joinder by a Royalty Owner must also be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner.

Except as may be otherwise herein provided, subsequent joinders to this agreement shall be effective as of 7:00 a.m. of the first day of the calendar month next following the filing with the Supervisor of all instruments necessary to effect such joinder, unless objection to such joinder is duly made within sixty (60) days by the Director. If any such subsequent joinder results in the commitment of an additional Tract to this agreement, Unit Operator shall prepare a revised Exhibit "B" and file same in accordance with the provisions of Section 3 hereof.

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, effective as of the date of execution thereof by such parties, 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. JOINDER IN MULTIPLE CAPACITY: Execution hereof by any party either as a Working Interest Owner or as a Royalty Owner in a tract to be qualified

shall commit all interests that may be owned or controlled by such party in the Unit Area.

SECTION 34. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount of 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 of 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 of America or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 35. 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 in and about any matters or things concerning which it is required herein that such concurrence be obtained.

SECTION 36. BORDER AGREEMENTS: Unit Operator, with concurrence of Working Interest Owners having a combined Unit Participation of sixty-five (65%) percent or more, may, subject to approval of the Supervisor enter into a border-protection agreement or agreements with the working interest owners of adjacent lands with respect to the operations in the border area for the purpose of increasing ultimate recovery, conservation purposes and proper protection of the parties and interests.

SECTION 37. NO PARTNERSHIP: The duties, obligations, and liabilities

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

SECTION 38. LIEN OF UNIT OPERATOR: Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

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

APPROVAL	
Legal	<i>[Signature]</i>
Land	<i>[Signature]</i>
Geol.	<i>[Signature]</i>
Prod.	<i>[Signature]</i>
Acctg.	<i>[Signature]</i>
Exec.	<i>[Signature]</i>

TEXAS PACIFIC OIL COMPANY, a Division
of Joseph E. Seagram & Sons, Inc.

Date: SEP 12 1967

By *[Signature]*
Attorney-in-Fact

Address: P. O. Box 747
Dallas, Texas 75221

UNIT OPERATOR AND WORKING INTEREST OWNER

WORKING INTEREST OWNERS

ATTEST:

By: _____

Date: _____ Address: _____

ATTEST:

By: _____

Date: _____ Address: _____

ROYALTY INTEREST OWNERS

ATTEST:

By: _____

Date: _____ Address: _____

Date: _____ Address: _____

Date: _____ Address: _____

Date: _____ Address: _____

Date: _____ Address: _____

STATE OF _____X

COUNTY OF _____X

Before me, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a corporation, and acknowledged to me that he executed the same on behalf of said corporation for the purposes and consideration therein expressed, and in the capacity therein set forth.

Given under my hand and seal of office this _____ day of _____, 1967.

Notary Public in and for
_____ County, _____

STATE OF _____X

COUNTY OF _____X

Before me, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a corporation, and acknowledged to me that he executed the same on behalf of said corporation for the purposes and consideration therein expressed, and in the capacity therein set forth.

Given under my hand and seal of office this _____ day of _____, 1967.

Notary Public in and for
_____ County, _____

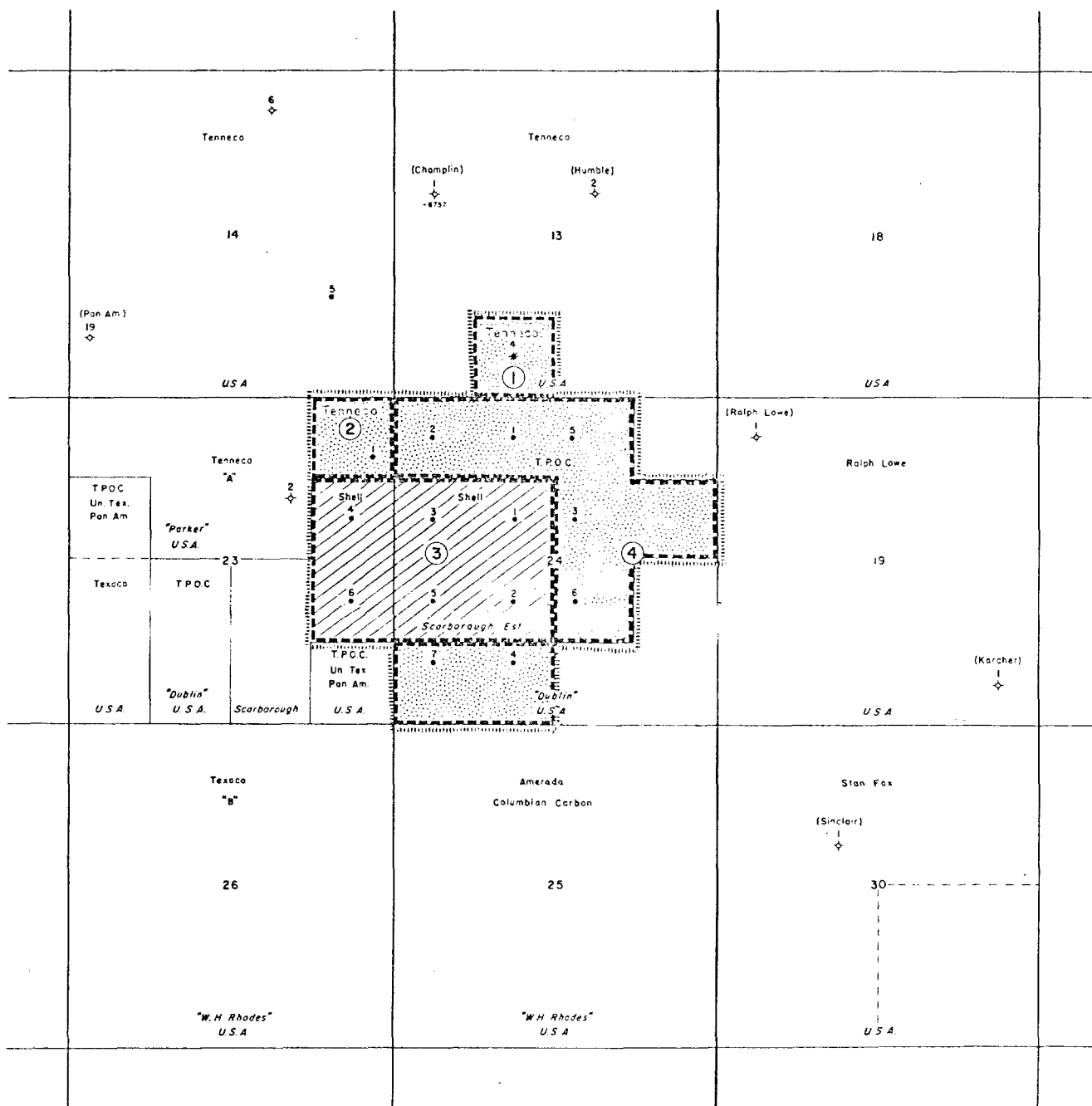
STATE OF _____X

COUNTY OF _____X

Before me, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a corporation, and acknowledged to me that he executed the same on behalf of said corporation for the purposes and consideration therein expressed, and in the capacity therein set forth.

Given under my hand and seal of office this _____ day of _____, 1967.

Notary Public in and for
_____ County, _____



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R 37 E

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EXHIBIT "A"
SOUTH LEONARD (QUEEN) UNIT
SOUTH LEONARD FIELD
LEA COUNTY, NEW MEXICO

- UNIT OUTLINE
- TRACT OUTLINE
- FEDERAL LANDS
- FREE LANDS



EXHIBIT "B"
SOUTH LEONARD (QUEEN) UNIT
LEA COUNTY, NEW MEXICO

Tract No.	Description of Land	No. of Acres	Serial No. And Lease Expiration Date	Basic Royalty And Ownership Percentage	Lessee of Record	Overriding Royalty	Working Interest Owner & Percentage	% Participation of Tract in Unit
1	SE/4 SW/4 Sec. 13 - T26S, R37E	40.00	LC 062384 - Held By Production	12.5% - U.S.A.	Tenneco	1/2 of 1%	Tenneco	0.3126
2	NE/4 NE/4 Sec. 23 - T26S, R37E	40.00	LC 068824 - 11-30-71	12.5% - U.S.A.	Tenneco	-0-	Tenneco	4.5429
3	SE/4 NE/4 & NE/4 SE/4 Sec. 23 and S/2 NW/4 & N/2 SW/4 Sec. 24 - T26S, R37E	240.00	Fee - Held By Production	7.5% - W. P. Scarborough Estate 2.5% - Evelyn Lineberry, Trustee for Leta Scarborough 2.5% - Evelyn Lineberry, Trustee for Lucille Scarborough	Shell Oil Co.	1/16 of 8/8	Shell	37.8983
4	W/2 NE/4, SE/4 NE/4, NW/4 SE/4, N/2 NW/4 & S/2 SW/4 Sec. 24 - T26S, R37E	320.00	LC 032510 (C) 2-28-69	12.5% - U.S.A.	Anderson-Prichard & Pan American	1/16 of 8/8 & 7/128	Tex. Pacific (To 3800')	57.2462
<hr/>								
FEDERAL LANDS				400.00 Acres	62.5% of Unit Area			
STATE LANDS				0.00 Acres	0.0% of Unit Area			
FEE LANDS				240.00 Acres	37.5% of Unit Area			
TOTAL				640.00 Acres	100.0% of Unit Area			

WORKING INTEREST OWNER AGREEMENT
TO BECOME A PARTY TO
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
LEA COUNTY, NEW MEXICO

Each of the persons who signs this instrument acknowledges receipt of a counterpart of an instrument entitled, Unit Agreement, and a counterpart of an instrument entitled, Unit Operating Agreement, South Leonard Unit, Lea County, New Mexico, both of which were executed as of the 1st day of June, 1967, by various persons, for conducting Unit Operations with respect to the "Queen Sand" Formation underlying the following described Unit Area:

New Mexico Principal Meridian, New Mexico

T26S-R37E

Sections 13: SE/4 SW/4	24: S/2 NW/4 & N/2 SW/4
23: NE/4 NE/4	24: N/2 NW/4 & S/2 SW/4 & W/2 NE/4 &
23: SE/4 NE/4 & NE/4 SE/4	SE/4 NE/4 & NW/4 SE/4

Containing 640 acres, more or less.

The Unit Agreement and the Unit Operating Agreement Provide that any person defined in the Unit Agreement as a Working Interest Owner may become a party to the agreements by signing the original, a counterpart, or other instrument that evidences an intention to be bound by the term of both agreements.

Now, therefore, each of the persons who signs this instrument hereby agrees to become a party to, and be bound by the provisions of, the Unit Agreement and the Unit Operating Agreement as if he had signed the original Agreements and agrees that the parties to the Unit Agreement and the Unit Operating Agreement are those that sign the original agreements, any counterparts of both instruments, or any instrument that evidences an intention to be so bound.

Executed as of the 31st day of August, 1967.

Company: SHELL OIL COMPANY

By: J. V. Lindsey
Attorney in Fact

STATE OF TEXAS

COUNTY OF MIDLAND

On this 31st day of August, 1967, before me appeared J. V. Lindsey, to me personally known, who being by me duly sworn, did say that he is Attorney in Fact of Shell Oil Company, a corporation, and that said instrument was signed in behalf of said corporation for the purposes and consideration therein expressed, and in the capacity therein set forth.

Given under my hand and seal of office this 31st day of August, 1967.

My Commission Expires:

6-1-69

Rosaline Magee
Notary Public in and for

Midland County, Texas

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New Mexico Principal Meridian, New Mexico

Sections 13: SE/4 SW/4 24: S/2 NW/4 & N/2 SW/4
23: NE/4 NE/4 24: N/2 NW/4 & S/2 SW/4 & W/2 NE/4 &
23: SE/4 NE/4 & NE/4 SE/4 SE/4 NE/4 & NW/4 SE/4

The Unit Agreement and the Unit Operating Agreement Provide that any person defined in the Unit Agreement as a Working Interest Owner may become a party to the agreements by signing the original, a counterpart, or other instrument that evidences an intention to be bound by the term of both agreements.

Executed as of the 17th day of August, 1967.

Company: **TENNECO OIL COMPANY**

By:

AGENT AND ATTORNEY-IN-FACT

STATE OF _____)
)

THE STATE OF TEXAS

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COUNTY OF MIDLAND 8

The foregoing instrument was acknowledged before me this 17th day of August, 1967, by J. P. Roach, Agent and Attorney-in-Fact for Tenneco Oil Company, a Delaware corporation, on behalf of said corporation and in the capacity and for the consideration therein stated.



My commission expires June 1, 1969.

Joy J. Allison
Notary Public in and for
Midland County, Texas
JOY J. ALLISON
900 WILCO BLDG.
MIDLAND, TEXAS 79701
NOTARY PUBLIC IN & FOR
MIDLAND COUNTY TEXAS

[illegible]