

EXHIBIT No 1

CASE 3789

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
MESA QUEEN UNIT
COUNTY OF LEA
STATE OF NEW MEXICO

BEFORE EXAMINER UTZ
CIL CONSERVATION COMMISSION
EXHIBIT NO. 1
CASE NO. 3789

UNIT AGREEMENT
MESA QUEEN UNIT
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
MESA QUEEN UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of May, 1968, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto";

W I T N E S S E T H T H A T :

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Volume 2, Chapter 7, Article 11, New Mexico Statutes, 1953 Annotated) to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

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

WHEREAS, the Oil Conservation Commission of the State of New Mexico 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 Mesa Queen Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

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

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the Unitized Formation underlying the Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS: 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. DEFINITIONS: For the purpose of this agreement, the following terms and expressions as used herein shall mean:

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto, and said land is hereby designated and recognized as constituting the Unit Area.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (d) "Unitized Formation" is defined as that stratigraphic interval occurring between a point 100 feet above the top of the Queen Sand and 100 feet below the base of the Queen Sand, said Queen Sand interval occurring between 3389 feet and 3420 feet in the Tenneco Oil Company Sinclair State Well No. 2 located 660 feet from the east line and 660 feet from the north line of Section 16, Township 16 South, Range 32 East, N.M.P.M., Lea County, New Mexico as recorded on the sonic log of said well dated September 2, 1963.

- (e) "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.
- (f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement 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, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (g) "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.
- (h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (j) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I and Phase II, as hereinafter defined. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
- (l) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- (m) "Phase I" means the period of time beginning as of 7:00 A.M. on the effective date hereof and continuing until the first day of the month following such time as the cumulative number of barrels of oil produced, saved and removed from the Unitized Formation underlying all Tracts described in the original Exhibit "B" equals 786,162 barrels, as determined from the official production reports filed with the New Mexico Conservation Commission. If less than all Tracts described in original Exhibit "B" qualify for inclusion in the Unit Area under the provisions of Section 13, Tracts Qualified For Unit Participation, said barrels shall be reduced by a percentage equal to the total Phase I Tract Participation, as shown on the original Exhibit "B" of all of the unqualified Tracts.
- (n) "Phase II" means the remainder of the term of this agreement after the end of Phase I.
- (o) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit

Operating Agreement, Mesa Queen Unit, Lea County, New Mexico".

- (p) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8, Successor Unit Operator, hereof.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 1,040 acres, more or less.

Exhibit "A", to the extent known to Unit Operator, shows 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 acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area during Phase I and Phase II, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this agreement as of the effective date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two copies of such revision shall be filed with the Commissioner.

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 Working Interest Owner or Owners of 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 of the proposed expansion to each Working Interest Owner in the tract or tracts proposed to be included in the Unit and/or affected by the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having a combined

Phase II Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Commission:

(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 Commissioner and the Commission, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, 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-day period as set out in Subsection (2) immediately above, with the Commissioner and Commission the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified For Unit Participation, *infra*; and (d) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner and Commission, become effective as of the date prescribed in the notice thereof. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain in the same ratio one to another.

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil and gas in the Unitized Formation in the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

SECTION 6. UNIT OPERATOR: Tenneco Oil Company is hereby designated

as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 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 Commissioner and Commission 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 only by unanimous vote of all Working Interest Owners other than Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books and records, materials, appurtenances and any other assets used in conducting the Unit operations and owned by the Working Interest

Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment 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 Owners, voting in the manner provided in the Unit Operating Agreement, shall select a successor Unit Operator; provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes only to succeed itself. Such selection of a successor Unit Operator shall not become effective until: (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this agreement terminated.

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, no such Unit Operating Agreement shall be deemed either to modify any of the terms

and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this agreement, and in case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner.

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 prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement has been reasonably proven 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 a greater 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 Commission and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, and any other substance or a combination of any of said substances, whether produced from the Unitized Formation 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. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary operations, Unit Operator shall furnish the Commissioner and the Commission monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Commission shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and the Commission.

The initial plan of operation shall be filed with the Commission and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

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

SECTION 12. TRACT PARTICIPATION: The percentages of Tract Participation

set forth in Exhibit "C" for each Tract within the Unit Area have been calculated and determined for Phase I and Phase II hereof in accordance with the following formulas:

Phase I
Tract Participation
Percentage=(Equals):

$$100 \times (\text{times}) \left[\begin{array}{l} .98 \times \frac{\text{Tract Remaining Primary Reserves as of 9-1-67}}{\text{Unit Area Remaining Primary Reserves as of 9-1-67}} \\ + .02 \times \frac{\text{Tract Acres}}{\text{Total Unit Area Acres}} \end{array} \right]$$

Phase II
Tract Participation
Percentage=(Equals):

$$100 \times (\text{times}) \left[\begin{array}{l} .98 \times \frac{\text{Tract Ultimate Primary Reserves}}{\text{Unit Area Ultimate Primary Reserves}} \\ + .02 \times \frac{\text{Tract Acres}}{\text{Total Unit Area Acres}} \end{array} \right]$$

Such percentages of Tract Participation during Phase I and Phase II have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this agreement as of the effective date hereof, and such Tract Participations shall govern the allocation of all Unitized Substances produced after the effective date hereof, subject, however, to any revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts are committed hereto as of the effective date hereof, Unit Operator shall promptly file with the Commissioner and Commission at least two copies of revised Exhibits "B" and "C" setting forth on Exhibit "C" the revised Tract Participations opposite each of the qualified tracts, which shall be calculated by using the Tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C" shall, effective as of the effective date of this agreement, supersede the original Exhibits "B" and "C" attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Commission within 30 days after filing.

If, subsequent to the effective date of this agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 28, Non-joinder and Subsequent Joinder, or any committed tract is excluded herefrom under the provisions of Section 27, Loss of Title, Unit Operator shall revise said Exhibits "B" and "C" or the latest revision thereof to

show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and Commission, supersede, as of its effective date, the last previously effective Exhibits "B" & "C". In any such revision of Exhibit "C" the revised percentage participations of the respective tracts listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another.

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION: 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 the Tracts within the Unit Area that are qualified as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five per cent (75%) or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than seventy-five per cent (75%) of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this agreement, and

(ii) Seventy-five per cent (75%) of the combined voting interests 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 in per cent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 13 (a) bears to the total Phase II 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 "C".

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

(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 per cent (75%) 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 in per cent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Phase II 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 Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

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 Tract Participation effective hereunder during the respective periods, either Phase I or Phase II, in which such Unitized Substances were produced, as such Tract Participation is shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties 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 as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or 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 Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right 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, Royalty Settlement, 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 (excepting the State of New Mexico) receiving the same in kind.

If any party fails to take in kind or separately dispose of its proportionate 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 prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

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

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

SECTION 16. ROYALTY SETTLEMENT: The State of New Mexico 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 hereafter 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 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.

If gas obtained from lands not subject to this agreement is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Commission, a like amount of gas, less appropriate deductions for loss from any cause may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas; but not as to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formulae as may be prescribed or approved by the Commissioner; provided further,

that such right of withdrawal shall terminate on the termination of this agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner, part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formulae as may be prescribed or approved by the Commissioner.

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

SECTION 17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

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 State laws and regulations.

SECTION 19. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

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 Commissioner, as to State leases, shall 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 State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement. Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract subject to this agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in the lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing or secondary recovery operations performed hereunder upon any Tract of unitized land shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Supervisor and the Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized 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) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been, discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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 hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 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 A.M. of

the first day of the month next following:

- (a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners having a combined Phase II Unit Participation of at least eighty-five per cent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy per cent (70%) of the Phase II Royalty Interest in said Unit Area; and
- (b) The approval of this agreement by the Commissioner and the Commission; and
- (c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and
- (d) The filing in the office of the County Clerk of Lea County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before January 1, 1969, this agreement shall terminate ipso facto on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Phase II Unit Participation of at least sixty-five per cent (65%) and the Working Interest Owners having a combined Phase II Unit Participation of at least eighty per cent (80%) committed to this agreement have decided to extend said termination date for a period not to exceed one (1) year (hereinafter called "extended termination date"). If said termination date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended termination date this agreement shall terminate ipso facto on said extended termination date and thereafter be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and as long thereafter as Unitized Substances are produced as aforesaid, unless sooner terminated

by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least ninety per cent (90%) Phase II Unit Participation, as determined from Exhibit "C". Notice of such termination shall be given by Unit Operator to all parties hereto.

Unit Operator shall within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

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

SECTION 23. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Commission and to appeal from any order issued under the rules and regulations of the Commissioner or the Commission or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

SECTION 24. 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 25. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; 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 26. UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue secondary recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 27. LOSS OF TITLE: In the event any Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, 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; 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.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the Tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 28. NONJOINER AND SUBSEQUENT JOINER: 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 Section 13 hereof, Tracts Qualified for Unit Participation. Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. 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 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 Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and as set forth in Exhibit "C", by the owner or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from the effective date hereof, the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Phase II Unit Participation of not less than ninety per cent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement

and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner, of duly executed documents necessary to establish effective commitment unless reasonable objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

SECTION 29. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

SECTION 30. JOINDER COMMITMENT: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 31. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the State

of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 32. 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 State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained.

SECTION 33. PERSONAL PROPERTY EXCEPTED: All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 34. 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 35. CORRECTION OF ERRORS: It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent

exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Phase II Unit Participation of fifty per cent (50%) or more and the Commissioner.

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.

ATTEST:

W. J. O'Neil
Assistant Secretary

Date: _____

TENNECO OIL COMPANY

By: J. Collins
Vice President

Address: P. O. Box 2410
Denver, Colorado 80201

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

Date: _____

By: _____

Address: _____

ATTEST:

Date: _____

By: _____

Address: _____

ATTEST:

Date: _____

By: _____

Address: _____

OTHER WORKING INTEREST OWNERS

Date: _____

Address: _____

Date: _____

Address: _____

ROYALTY OWNERS

STATE OF COLORADO

CITY AND COUNTY OF DENVER

The foregoing instrument was acknowledged before me this 22nd day of May, 1968, by J. S. Collins, Vice President of TENNECO OIL COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires:

My Commission expires July 10, 1970

Elaine C. Middaugh
Notary Public in and for the City
and County of Denver, State of
Colorado Elaine C. Middaugh

STATE OF _____
COUNTY OF _____

SS.

The foregoing instrument was acknowledged before me this _____
day of _____, 1968, by _____,
a _____ of _____,
Corporation, on behalf of said corporation.

My commission expires:

Notary Public in and for
County _____

STATE OF _____
COUNTY OF _____

SS.

The foregoing instrument was acknowledged before me this _____
day of _____, 1968, by _____
_____.

My commission expires:

Notary Public in and for
County _____

Tenneco

Shell

Antwort

E-6485

K-959

E-6419 State

Getty

E-6267-2

Coastal Stores

⑤

E-4199

TENNECO OIL COMPANY
SUBSIDIARY OF TENNECO CORPORATION

MESA QUEEN UNIT
LEA COUNTY, NEW MEXICO

EXHIBIT "A"
LAND OWNERSHIP MAP

1000 0 SCALE IN FEET 1000 2000

000000

EXHIBIT "B"

MESA QUEEN UNIT AREA, LEA COUNTY, NEW MEXICO

Tract No.	Description of Land	Number of Acres	Lease No. & Date of Lease	Basic Royalty Percentage	Lessee of Record	Overriding Royalty Owner(s) and Percentage (See Note 1)	Working Interest Owner(s) and Percentage (See Note 1)
<u>ALL OF UNIT STATE LANDS</u>							
<u>T-16-S, R-32-E, NMPM</u>							
1	Sec. 16: NE/4 NE/4 NW/4 NE/4	80.00	E-8454 8-17-54	12.50%	Sinclair Oil & Gas Company	Sinclair Oil & Gas Company	Tenneco Oil Company 100%
2	Sec. 16: SW/4 NE/4 NW/4 NW/4	80.00	E-6485 9-10-52	12.50%	Mobil Oil Corporation	Mobil Oil Corporation	Tenneco Oil Company 100%
3	Sec. 16: SE/4 NE/4	40.00	K-959 11-15-60	12.50%	Shell Oil Company	None	Shell Oil Company 100%
4	Sec. 16: NE/4 NW/4	40.00	E-7744 1-19-54	12.50%	Continental Oil Company	Continental Oil Company* G. W. Baker	Tenneco Oil Company 100%
5a 5b	Sec. 16: SW/4 NW/4 Sec. 16: E/2 SW/4	120.00	E-6419 8-11-52	12.50%	Mobil Oil Corporation	Mobil Oil Corporation	Tenneco Oil Company 100%
6a	Sec. 16: SE/4 NW/4	40.00	B-11214 5-10-44	12.50%	Mobil Oil Corporation	Mobil Oil Corporation	Tenneco Oil Company 100%
6b	Sec. 17: SE/4 SE/4	40.00	B-11214 5-10-44	12.50%	Mobil Oil Corporation	Mobil Oil** Corporation	Tenneco Oil Company 100%
7a 7b	Sec. 16: NW/4 SW/4 Sec. 17: NW/4 SE/4	80.00	OG-6014 10-20-59	12.50%	Shell Oil Company	None	Shell Oil Company 100%

Tract No.	Description of Land	Number of Acres	Lease No. & Date of Lease	Basic Royalty Percentage	Lessee of Record	Overriding Royalty Owner(s) and Percentage (See Note 1)	Working Interest Owner(s) and Percentage (See Note 1)
8a	Sec. 16: SW/4 SW/4	120.00	E-8160	12.50%	Sinclair Oil & Gas Company	Sinclair Oil & Gas Company	Tenneco Oil Company
8b	Sec. 17: S/2 NE/4		5-18-54				
9	Sec. 16: NW/4 SE/4	40.00	E-8310	12.50%	Humble Oil & Refining Company	Humble Oil & Refining Company	Morris R. Antweil
10	Sec. 17: SW/4	160.00	K-867 10-18-60	12.50%	Shell Oil Company	None	Shell Oil Company
11	Sec. 17: NE/4 SE/4	40.00	K-1282 3-21-61	12.50%	Shell Oil Company	None	Shell Oil Company
12	Sec. 17: SW/4 SE/4	40.00	B-9683 6-10-42	12.50%	Continental Oil Company	*Continental Oil Company G. W. Baker	Tenneco Oil Company
13	Sec. 20: NE/4 NW/4	40.00	E-6267-2 6-10-52	12.50%	Getty Oil Company	None	Getty Oil Company
14	Sec. 20: NW/4 NW/4	40.00	E-6267-1 6-10-52	12.50%	Getty Oil Company	Getty Oil Company Paul DeCleva	Shell Oil Company Stoltz and Company
15	Sec. 20: SW/4 NW/4	40.00	E-4199 9-11-50	12.50%	Gulf Oil Corporation	Gulf Oil Corporation (increasing to 25.00% when 35,000 barrels of oil produced) Robert E. Paddock (decreasing to 1.00% when 35,000 barrels of oil produced)	Coastal States Gas Prod. Co.
		1,040.00	Total Acres in Unit				

NOTE 1: The overriding royalty and working interest owners shown above are the owners of such interests as to the unitized formations under the lands described. In certain instances, such owners may not own the same interests in other formations.

*Continental has option to convert his 10.00% ORR to a 50% WI if secondary recovery operations are instigated.

**Mobil has option to convert this 12.50% ORR to a 25.00% WI if secondary recovery operations are instigated.

EXHIBIT "C"
ATTACHED TO UNIT AGREEMENT
MESA QUEEN UNIT
LEA COUNTY, NEW MEXICO

Schedule of Tract Participation

<u>Tract No.</u>	<u>Tract Participation</u>	
	<u>Phase I (%)</u>	<u>Phase II (%)</u>
1	0.15385	10.81433
2	0.15384	6.51916
3	4.04774	5.17489
4	0.07692	0.07692
5a	2.09169	5.50839
5b	0.15385	5.86209
6a	0.77786	6.10614
6b	3.21905	4.83752
7a	54.63263	11.58585
7b	0.07692	3.40950
8a	0.07692	4.15852
8b	0.34030	7.03412
9	0.07693	1.32055
10	5.99806	9.91052
11	22.52072	6.76696
12	0.07692	1.57471
13	3.35719	4.36335
14	1.57721	3.90111
15	<u>0.59140</u>	<u>1.07537</u>
	100.00000	100.00000

PROPOSED SUMMARY OF TESTIMONYApplication for Approval of Unit AgreementStatus of Sign Up (Based on Phase II Participation)

<u>Working Interest Ownership</u>	<u>Unit Participation Phase II %</u>	<u>Status Approval</u>
Antweil	1.32 ✓	
Coastal States	1.08 ✓	
Shell	40.26	verbal approval
Getty	4.36 ✓	
Stoltz	0.49	approved
Tenneco	52.49	approved
	<u>100.00</u>	

<u>SUMMARY</u>	<u>PHASE II %</u>
written approval	52.98
verbal approval	40.26
no reply yet	6.76
	<u>100.00</u>

Royalty Ownership

<u>Type Royalty</u>	<u>Royalty Owner</u>	<u>% of Unit 8/8</u>	<u>% of Total Royalty</u>	<u>Approval Status</u>
Basic	State of New Mexico	12.50	64.94	Approval Assumed
ORRI	Sinclair	2.75	14.29	
ORRI	Mobil	3.25	16.88	
ORRI	Continental	0.16	0.83	
ORRI	Baker	0.04	0.21	Approved
ORRI	Humble	0.16	0.83	
ORRI	Decleva	0.24	1.25	Approved
ORRI	Gulf	0.13	0.68	Approved
ORRI	Paddock	0.02	0.10	
		<u>19.25</u>	<u>100.01</u>	

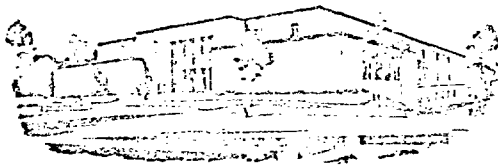
<u>SUMMARY</u>	<u>% of Total Royalty</u>
Assumed Approval	64.94
Written Approval	2.14
No Reply Yet	32.93
	<u>100.01</u>

1. NAME CLAIMED
 2. CONSERVATION COMMISSION
 EXHIBIT NO. _____
 CASE NO. _____

State of New Mexico

EXHIBIT #3

CASE 3789



Commissioner of Public Lands

GUYTON B. HAYS
COMMISSIONER



May 4, 1968

RECEIVED

MAY 6 1968

P. O. BOX 1148
SANTA FE, NEW MEXICO

Tenneco Oil Company
P. O. Box 2410
Denver, Colorado 80201

TOC-DENVER-LEAD

Re: Mesa Queen Unit
Lea County, New Mexico

ATTENTION: Mr. Millard F. Carr
Division Attorney

Gentlemen:

The Commissioner of Public Lands has this date approved as to form and content your proposed Mesa Queen Unit, Lea County, New Mexico, subject to making the required corrections as marked in red on the enclosed copy of the Agreement and Exhibits.

Enclosed is your Official Receipt No. I 31050 in the amount of Fifteen (\$15.00) Dollars which covers the filing fee.

Very truly yours,

GUYTON B. HAYS
COMMISSIONER OF PUBLIC LANDS

BY: *Eddie Lopez*
Eddie Lopez, Supervisor
Unit Division

GBH/TB/EL/s
encls.

3
2787-10

R-29-E

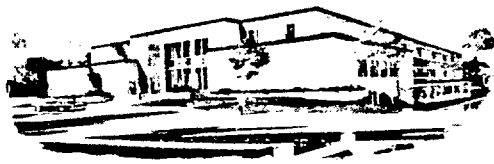


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State of New Mexico



JIM BACA
COMMISSIONER



Commissioner of Public Lands

June 18, 1985

H 2181
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148
Express Mail Delivery Uses
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Shell Western E&P Inc.
P. O. Box 991
Houston, Texas 77001

Re: Designation and Election of
New Operator for the Mesa Queen Unit
Lea County, New Mexico

ATTENTION: Mr. T. E. Enders

Gentlemen:

This office is in receipt of your letter dated June 5, 1985, together with three executed copies of the Designation and Election of New Operator for the Mesa Queen Unit executed by Shell Western E & P Inc. These instruments have this date been accepted and filed in our unit file.

Enclosed is a copy for your records reflecting the date received in this office.

If we may be of further help please do not hesitate to call on us.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: *Ray D. Graham*
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505/827-5744

JB/RDG/pm
encls.

cc: OCD-Santa Fe, New Mexico

DESIGNATION AND ELECTION OF NEW OPERATOR
FOR THE MESA QUEEN UNIT
LEA COUNTY, NEW MEXICO

WHEREAS, under the provisions of that certain Unit Agreement For the Development and Operation of the Mesa Queen Unit, recorded in Book 272, Page 777 in Lea County, New Mexico, and the Unit Operating Agreement-Mesa Queen Unit, relative thereto, both dated as of May 1, 1968, Tenneco Oil Company ("Tenneco") is the operator of said unit;

WHEREAS, effective April 1, 1985, Tenneco conveyed all of their right, title and interest in and to the Mesa Queen Unit, including, but not limited to, operating rights, working interest, revenue interest, and the gas and associated hydrocarbons to be produced from the property dedicated thereto, to Russell Trammel;

NOW, THEREFORE, pursuant to Section 7 and 8 of that referenced unit agreement and Article VI. of that referenced unit operating agreement, the undersigned parties select, elect and appoint Russell Trammel as successor unit operator of the Mesa Queen Unit.

This agreement may be signed in counterpart and shall be binding upon the parties and their heirs, successors, representatives and assigns.

DATED this 23rd day of April, 1985.

RUSSELL TRAMELL

SHELL WESTERN E & P, INC.

By R. L. Goode
R. L. GOODE, ATTORNEY-IN-FACT
TEXACO PRODUCING, INC.

By _____

COASTAL OIL & GAS CORPORATION

By _____

WAGNER & BROWN

By _____

State of New Mexico

#3789



JIM BACA
COMMISSIONER

Commissioner of Public Lands

April 3, 1985

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148
Express Mail Delivery Uses
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Russell Tramell
P. O. Box 1226
Lovington, New Mexico 88260

Re: Designation of Unit Operator
Mesa Queen Unit
Lea County, New Mexico

Dear Mr. Tramell

The Commissioner of Public Lands has this date approved the designation of Russell Tramell as successor unit operator of the Mesa Queen Unit, Lea County, New Mexico effective as of April 1, 1985.

The Commissioner of Public Lands has also approved your 1985 Plan of Development for the Mesa Queen Unit Area. Such plan proposes to activate 10 unit wells by the year-end 1985 and investigate the possibility of altering the injection pattern to further enhance production.

Enclosed is an approved copy for your files.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: *Ray D. Graham*
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505/827-5744

JB/RDG/pm
encls.

cc: OCD-Santa Fe, New Mexico ATTH: MIKE STOGNER

OCD

DESIGNATION AND ELECTION OF NEW OPERATOR
FOR THE MESA QUEEN UNIT
LEA COUNTY, NEW MEXICO

WHEREAS, under the provisions of that certain Unit Agreement For the Development and Operation of the Mesa Queen Unit, recorded in Book 272, Page 777 in Lea County, New Mexico, and the Unit Operating Agreement-Mesa Queen Unit, relative thereto, both dated as of May 1, 1968, Tenneco Oil Company ("Tenneco") is the operator of said unit;

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This agreement may be signed in counterpart and shall be binding upon the parties and their heirs, successors, representatives and assigns.

DATED this 23rd day of April, 1985.

RUSSELL TRAMELL

Russell Trammell

SHELL WESTERN E & P, INC.

By _____

TEXACO PRODUCING, INC.

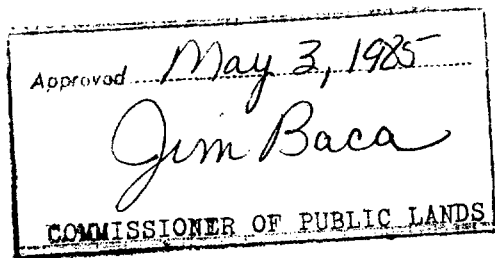
By _____

COASTAL OIL & GAS CORPORATION

By _____

WAGNER & BROWN

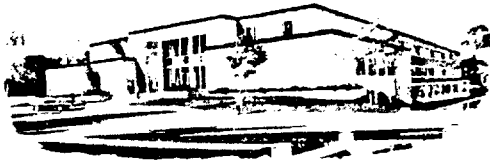
By _____



State of New Mexico



JIM BACA
COMMISSIONER



Commissioner of Public Lands
May 7, 1985

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148
Express Mail Delivery Used
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Tenneco Oil Company
7990 IH 10 West
San Antonio, Texas 78230

Re: Sale of Mesa Queen Unit
~~Lea County~~, New Mexico

ATTENTION: Mr. Phil C. DeLozier

Gentlemen:

This office is in receipt of your letter dated April 30, 1985, together with three executed originals of the Assignment of Operating Rights and the Bill of Sale of the Mesa Queen Unit, Lea County, New Mexico. This instruments have been accepted and filed in our unit file.

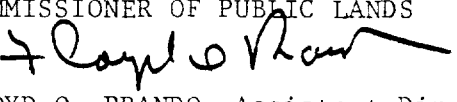
Enclosed is a copy for your records reflecting the date received in this office.

If we may be of further help please do not hesitate to call on us.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY:


FLOYD O. PRANDO, Assistant Director
Oil and Gas Division
AC 505/827-5744

JB/FOP/pm
encls.

cc: OCD-Santa Fe, New Mexico ATTENTION: Mr. Michael Stogner

ASSIGNMENT OF OPERATING RIGHTS

KNOW ALL MEN BY THESE PRESENTS:

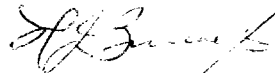
That, in consideration of the sum of One Dollar (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, TENNECO OIL COMPANY ("Tenneco") hereby does bargain, sell, assign, transfer, and convey unto RUSSELL TRAMELL, his heirs, successors and assigns, ("Assignee") all of Tenneco's operating rights (including Tenneco's 53.81245% working interest in the Mesa Queen Unit) in and to the Oil and Gas Lease(s) described on Exhibit "A" attached hereto INsofar ONLY as said Lease(s) cover the following described lands and depths described thereon.

1. For the purposes hereof operating rights shall mean the exclusive right of possession and occupancy for the purpose of exploring, developing, operating, producing and marketing oil and gas.
2. This Assignment is made subject to all the terms and the express and implied covenants and conditions of said Lease(s) and intermediate assignments thereof and of the Agreements which are listed on Exhibit "B" attached hereto.
3. This Assignment is made without warranty of any kind.
4. The terms hereof shall extend to and be binding upon the Assignee, his heirs, successors and assigns.
5. Assignor reserves the rights of ingress and egress and in the event this Assignment does not cover all depths, the right to drill through any interval assigned hereby.

TO HAVE AND TO HOLD said lease acreage unto RUSSELL TRAMELL, his heirs, successors and assigns subject to the terms, covenants and conditions hereinabove set forth.

EXECUTED this 26 day of APRIL, 1985.

TENNECO OIL COMPANY



H. J. Briscoe, Jr.
Attorney-in-Fact

THE STATE OF TEXAS)
COUNTY OF BEXAR)(

This instrument was acknowledged before me on April 26, 1985 by H. J. Briscoe, Jr. as Attorney-in-Fact on behalf of Tenneco Oil Company.


Notary Public, State of Texas

My commission expires:
LINDA WOERNER
Notary Public, State of Texas
My Commission expires 3-22-86

5112L

EXHIBIT "A"
MESA QUEEN UNIT
LEA COUNTY, NEW MEXICO
(EXHIBIT OF PROPERTIES)

TOC LEASE NO.	STATE OF NEW MEXICO LEASE NO.	LEASE DATE	RECORDING DATA	TOC WORKING INTEREST	TOC REVENUE INTEREST	DESCRIPTION
30834	E-8310	7/20/54	-	1.0000	.7500	T16S - R32E, Section 16, NW/4 SE/4 from the surface to 3603';
31033	B-9683	6/10/42	-	1.0000	.7500	T16S - R32E, Section 17, SW/4 SE/4 from the surface to 3602';
31037	E-6419	8/11/52	-	1.0000	.8125	T16S - R32E, Section 16, E/2 SW/4, SW/4 NW/4, Section 20, NW/4 SE/4, NE/4 SW/4 from the surface to 3555';
31038	E-6485	9/10/52	-	1.0000	.8125	T16S - R32E, Section 16, NW/4 NW/4, SW/4 NE/4, NE/4 SE/4, SW/4 SE/4 from the surface to 3563';
31039	E-7744	1/19/54	-	1.0000	.7500	T16S - R32E, Section 16, NE/4 NW/4 from the surface to 3602';
31040	E-8160	5/18/54	v-118 p-150	1.0000	.7500	T16S - R32E, Section 16, SW/4 SW/4, Section 17, S/2 NE/4 from 3575' to 4500';
31041	E-8454	8/17/64	v-120 p-422	1.0000	.75000	T16S - R32E, Section 16, NW/4 NE/4 from 4450' to 4500', NE/4 NE/4 from 3575' to 4500';
31042	B-11214	5/10/44	-	1.0000	.75000	T16S - R32E, Section 16, SE/4 NW/4 from the surface to 3550', Section 17, SE/4 SE/4 from the surface to 3600';

All in Lea County, New Mexico

EXHIBIT "B"
MESA QUEEN UNIT

TOC CONTRACT NUMBER	TYPE AGREEMENT	CONTRACT DATE	RECORDING DATA
C-6662	Joint Operating Agreement	5/1/68	N/A
PA-5451	Unit Agreement	Effective 9/1/68	Book 272, Page 777, Records of Lea County New Mexico
GSC-476	Gas Sales Agreement	10/2/62 and amendments thereto	N/A

BILL OF SALE

For a valuable consideration received, TENNECO OIL COMPANY, with an address of 7990 I. H. 10 West, San Antonio, Texas 78230, (herein called "Seller") does hereby grant, sell, and convey, subject to the exceptions, reservations and other provisions hereinafter set forth to RUSSELL TRAMELL, with an address of 2206 West Avenue J, Lovington, New Mexico 88260, (herein called "Purchaser"), all of Seller's right, title and interest (including Tenneco's 53.81245% working interest in the Mesa Queen Unit) in and to all personal property and equipment located on the following described lands and used in the production of oil and gas from the Mesa Queen Unit.

T16S - R32E, Lea County, New Mexico

Section 16: N/2, SW/4, NW/4 SE/4

Section 17: S/2 NE/4, SE/4, SW/4

Section 20: N/2 NW/4, SW/4 NW/4, NW/4 SW/4

I.

As part of the consideration for this Bill of Sale, Purchaser agrees:

- A. To plug all wells (including temporarily abandoned wells) now located on the above described property in strict accordance with all federal and state laws and rules and regulations of all governmental authorities having jurisdiction in the premises at such time as purchaser discontinues oil and gas operations on the premises or at such earlier time as may be required by governmental authorities.
- B. To fill all pits and, upon completion of salvaging of the lease equipment and personal property, to restore the surface of the subject premises to the conditions as required by the rules and regulations of said governmental authorities; and
- C. To indemnify and hold Seller harmless from and against any and all claims, demands, causes of action and judgments in favor of any party for injury to or death of any person or for damage to property, or for any other reason whatsoever, incident to or arising, directly or indirectly, from operations on the subject premises from and after the effective date hereof.

II.

All ad valorem taxes for the year 1984 shall be paid by the Seller. Thereafter, purchaser shall bear all ad valorem taxes. Purchaser agrees to notify all appropriate tax assessor-collectors of the rights and interests hereby transferred.

III.

Assignee hereby accepts all wells, wellbores, fixtures, equipment and personal property "AS IS, WHERE IS, AND WITH ALL FAULTS AND DEFECTS." Assignor makes no warranty of any kind whatsoever with respect to such wells, wellbores, fixtures, equipment or personal property, including, without limitation, warranties of merchantability or fitness for a particular purpose.

IV.

Assignee agrees to pay all transaction and sales taxes arising from Assignee's acquisition of Assignor's hereby assigned interest.

EXECUTED this 29 day of April, 1985, but effective as
of APRIL 1, 1985.

Russell Trammell
RUSSELL TRAMELL

TENNECO OIL COMPANY

By: H. J. Briscoe, Jr.
Attorney-in-Fact

THE STATE OF TEXAS
COUNTY OF _____

This instrument was acknowledged before me on _____,
1985, by RUSSELL TRAMELL.

Notary Public, State of Texas

My commission expires:

THE STATE OF TEXAS
COUNTY OF BEXAR

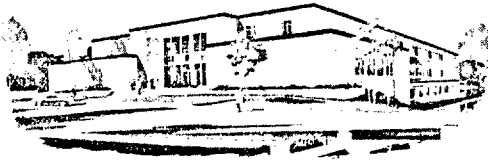
This instrument was acknowledged before me on April 26,
1985, by H. J. Briscoe, Jr., as Attorney-in-Fact on behalf of Tenneco Oil
Company, a Delaware corporation.

Linda Woerner
Notary Public, State of Texas

My commission expires:
LINDA WOERNER
Notary Public, State of Texas
My Commission expires 3-22-86

5112L

State of New Mexico



Commissioner of Public Lands

GUYTON B. HAYS
COMMISSIONER



P. O. BOX 1148
SANTA FE, NEW MEXICO

July 24, 1968

Tenneco Oil Company
P. O. Box 1031
Midland, Texas 79701

Re: Mesa Queen Unit
Lea County, New Mexico

ATTENTION: Mr. F. J. McDonald

Gentlemen:

The Commissioner of Public Lands has this date given final approval to the Mesa Queen Unit, Eddy County, New Mexico, and is to become effective as of August 1, 1968.

Enclosed are five (5) originally signed Certificates of approval.

Your Initial Plan of Operation has also been approved as of this date.

Very truly yours,

GUYTON B. HAYS
COMMISSIONER OF PUBLIC LANDS

BY: *Ted Bilberry*
Ted Bilberry, Director
Oil and Gas Department

GBH/TB/s
encls.

cc: OCC- Santa Fe, New Mexico
Tenneco Oil Company
P. O. Box 2410
Denver, Colorado 80201

1968 JUL 30 AM 11 41

State of New Mexico
Oil Conservation Commission



STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

July 3, 1968

Re: Case No. 3789
Order No. R-3443
Applicant:
Tenneco Oil Company

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

A. L. Porter, Jr.
A. L. PORTER, Jr.
Secretary-Director

Carbon copy of order also sent to:

Other Unit Division - State Land Office

State of New Mexico



Commissioner of Public Lands

GUYTON B. HAYS
COMMISSIONER

May 4, 1968



RECEIVED

MAY 6 1968

TOC-DENVER-15800

P. O. BOX 1148
SANTA FE, NEW MEXICO

Tenneco Oil Company
P. O. Box 2410
Denver, Colorado 80201

Re: Mesa Queen Unit
Lea County, New Mexico

ATTENTION: Mr. Millard F. Carr
Division Attorney

Gentlemen:

The Commissioner of Public Lands has this date approved as to form and content your proposed Mesa Queen Unit, Lea County, New Mexico, subject to making the required corrections as marked in red on the enclosed copy of the Agreement and Exhibits.

Enclosed is your Official Receipt No. I 31050 in the amount of Fifteen (\$15.00) Dollars which covers the filing fee.

Very truly yours,

GUYTON B. HAYS
COMMISSIONER OF PUBLIC LANDS

BY: *Eddie Lopez*
Eddie Lopez, Supervisor
Unit Division

GBH/TB/EL/s
encls.



April 17, 1968

Mr. Edward J. Lopez
New Mexico State Land Office
P. O. Box 1148
Santa Fe, New Mexico

Re: Mesa Queen Unit
Lea County, New Mexico
PA-5451

Dear Mr. Lopez:

Enclosed for your preliminary approval are 6 copies of a Unit Agreement for the Development and Operation of the Mesa Queen Unit. We are also enclosing our check in the amount of \$15.00 for your processing fee.

In our visit to your offices last month, I believe Mr. Lacey left you a copy of the engineering study for this waterflood unit. If, however, you require additional copies, please contact Mr. Lacey.

Yours very truly,

Millard F. Carr

Millard F. Carr
Division Attorney

MFC/jr
Enclosures

cc: Mr. J. J. Lacey (w/encl.)
Tenneco Oil Company
1800 Wilco Building
Midland, Texas

Case 3789. . . .

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
MESA QUEEN UNIT
COUNTY OF LEA
STATE OF NEW MEXICO

2nd 2014

UNIT AGREEMENT
MESA QUEEN UNIT
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
MESA QUEEN UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the _____ day of _____, 1968, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto";

W I T N E S S E T H T H A T :

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Volume 2, Chapter 7, Article 11, New Mexico Statutes, 1953 Annotated) to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

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

WHEREAS, the Oil Conservation Commission of the State of New Mexico 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 Mesa Queen Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

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

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the Unitized Formation underlying the Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS: 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. DEFINITIONS: For the purpose of this agreement, the following terms and expressions as used herein shall mean:

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto, and said land is hereby designated and recognized as constituting the Unit Area.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (d) "Unitized Formation" is defined as that stratigraphic interval occurring between a point 100 feet above the top of the Queen Sand and 100 feet below the bottom of the Queen Sand, said Queen Sand interval occurring between 3389 feet and 3420 feet in the Tenneco Oil Company Sinclair State Well No. 2 located 660 feet from the east line and 660 feet from the north line of Section 16, Township 16 South, Range 32 East, N.M.P.M., Lea County, New Mexico as recorded on the sonic log of said well dated September 2, 1963. *Base*

- (e) "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.
- (f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement 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, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (g) "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.
- (h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (j) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I and Phase II, as hereinafter defined. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
- (l) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- (m) "Phase I" means the period of time beginning as of 7:00 A.M. on the effective date hereof and continuing until the first day of the month following such time as the cumulative number of barrels of oil produced, saved and removed from the Unitized Formation underlying all Tracts described in the original Exhibit "B" equals 786,162 barrels, as determined from the official production reports filed with the New Mexico Conservation Commission. If less than all Tracts described in original Exhibit "B" qualify for inclusion in the Unit Area under the provisions of Section 13, Tracts Qualified For Unit Participation, said barrels shall be reduced by a percentage equal to the total Phase I Tract Participation, as shown on the original Exhibit "B" of all of the unqualified Tracts.
- (n) "Phase II" means the remainder of the term of this agreement after the end of Phase I.
- (o) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit

Operating Agreement, Mesa Queen Unit, Lea County, New Mexico".

- (p) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8, Successor Unit Operator, hereof.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 1,040 acres, more or less.

Exhibit "A", to the extent known to Unit Operator, shows 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 acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area during Phase I and Phase II, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this agreement as of the effective date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two copies of such revision shall be filed with the Commissioner.

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 Working Interest Owner or Owners of 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 affected by the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having a combined

Tracts or Tracts proposed to be included in the Unit

of the proposed expansion

Phase II Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Commission:

(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 Commissioner and the Commission, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, 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-day period as set out in Subsection (2) immediately above, with the Commissioner and Commission the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified For Unit Participation, infra; and (d) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner and Commission, become effective as of the date prescribed in the notice thereof. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain in the same ratio one to another.

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil and gas in the Unitized Formation in the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

SECTION 6. UNIT OPERATOR: Tenneco Oil Company is hereby designated

as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 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 Commissioner and Commission 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 only by unanimous vote of all Working Interest Owners other than Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books and records, materials, appurtenances and any other assets used in conducting the Unit operations and owned by the Working Interest

Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment 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 Owners, voting in the manner provided in the Unit Operating Agreement, shall select a successor Unit Operator; provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes only to succeed itself. Such selection of a successor Unit Operator 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~~ *the* selection shall have been approved by the Commissioner. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this agreement terminated.

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, no such Unit Operating Agreement shall be deemed either to modify any of the terms

and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this agreement, and in case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner.

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 prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement has been reasonably proven 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 a greater 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 Commission and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, and any other substance or a combination of any of said substances, whether produced from the Unitized Formation 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. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both), produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary operations, Unit Operator shall furnish the Commissioner^{and the Commission} monthly injection and production reports for each well in the Unit. The Working Interest Owners, ~~and~~ the Commissioner^{and the Commission} shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and the Commission.

The initial plan of operation shall be filed with the Commission and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

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

SECTION 12. TRACT PARTICIPATION: The percentages of Tract Participation

set forth in Exhibit "C" for each Tract within the Unit Area have been calculated and determined for Phase I and Phase II hereof in accordance with the following formulas:

Phase I
Tract Participation
Percentage=(Equals):

$$100 \times (\text{times}) \left[\begin{array}{l} .98 \times \frac{\text{Tract Remaining Primary Reserves as of 9-1-67}}{\text{Unit Area Remaining Primary Reserves as of 9-1-67}} \\ + .02 \times \frac{\text{Tract Acres}}{\text{Total Unit Area Acres}} \end{array} \right]$$

Phase II
Tract Participation
Percentage=(Equals):

$$100 \times (\text{times}) \left[\begin{array}{l} .98 \times \frac{\text{Tract Ultimate Primary Reserves}}{\text{Unit Area Ultimate Primary Reserves}} \\ + .02 \times \frac{\text{Tract Acres}}{\text{Total Unit Area Acres}} \end{array} \right]$$

Such percentages of Tract Participation during Phase I and Phase II have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this agreement as of the effective date hereof, and such Tract Participations shall govern the allocation of all Unitized Substances produced after the effective date hereof, subject, however, to any revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts are committed hereto as of the effective date hereof, Unit Operator shall, ~~as soon as practicable after~~ ^{Promptly} ~~said effective date~~, file with the Commissioner and Commission at least two copies of a revised Exhibit "C" ^{"B"} setting forth the revised Tract Participations ^{opposite each of the qualified tracts} of each committed Tract, which shall be calculated by using the Tract factors and formula set forth hereinabove, but applying the same only to the ^{qualified} committed Tracts. The revised Exhibit "C" ^{"B"} shall, effective as of the effective date of this agreement, supersede the original Exhibit "C" ^{"B"} attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Commission within 30 days after filing.

If, subsequent to the effective date of this agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 28, Non-joinder and Subsequent Joinder, or any committed tract is excluded herefrom under the provisions of Section 27, Loss of Title, Unit Operator shall revise said Exhibit "C" ^{"B"} or the latest revision thereof to

show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and Commission, supersede, as of its effective date, the last previously effective Exhibit "C" ^{"B"}. In any such revision of Exhibit "C" ^{"B"} the revised percentage participations of the respective tracts listed in the last previously effective Exhibit "C" ^{"B"} shall remain in the same ratio one to another.

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION: 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 the Tracts within the Unit Area that are qualified as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five per cent (75%) or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than seventy-five per cent (75%) of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this agreement, and

(ii) Seventy-five per cent (75%) of the combined voting interests 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 in per cent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 13 (a) bears to the total Phase II 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 "C".

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

(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 per cent (75%) 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 in per cent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Phase II 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 Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

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 Tract Participation effective hereunder during the respective periods, either Phase I or Phase II, in which such Unitized Substances were produced, as such Tract Participation is shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties 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 as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or 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 Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right 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, Royalty Settlement, 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. *responsible for the payment of such expense*

proportionate 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 prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

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

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

SECTION 16. ROYALTY SETTLEMENT: The State of New Mexico 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 hereafter 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 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.

If gas obtained from lands not subject to this agreement is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Commission, a like amount of gas, less appropriate deductions for loss from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formulae as may be prescribed or approved by the Commissioner; provided further,

that such right of withdrawal shall terminate on the termination of this agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner, part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formulae as may be prescribed or approved by the Commissioner.

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

SECTION 17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

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 State laws and regulations.

SECTION 19. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

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 Commissioner, as to State leases, shall 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 State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement. Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract subject to this agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in the lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing or secondary recovery operations performed hereunder upon any Tract of unitized land shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Supervisor and the Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized 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) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been, discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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 hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 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 A.M. of

the first day of the month next following:

(a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners having a combined Phase II Unit Participation of at least eighty-five per cent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy per cent (70%) of the Phase II Royalty Interest in said Unit Area; and

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

(c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico; by the Unit Operator; and

(d) The filing in the office of the County Clerk of Lea County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before January 1, 1969, this agreement shall terminate

ipso facto on said date (hereinafter called "termination date") and

thereafter be of no further force or effect, unless prior thereto this

agreement has been executed or ratified by Working Interest Owners having

a combined Phase II Unit Participation of at least sixty-five per cent

(65%) and the Working Interest Owners having a combined Phase II Unit

Participation of at least eighty per cent (80%) committed to this agreement

have decided to extend said termination date for a period not to exceed

one (1) year (hereinafter called "extended termination date"). If said

termination date is so extended and (a), (b), (c) and (d) above are not

accomplished on or before said extended termination date this agreement

shall terminate ipso facto on said extended termination date and thereafter

be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area

and as long thereafter as diligent drilling, reworking or other operations

(including secondary recovery operations) are prosecuted thereon without

cessation of more than ninety (90) consecutive days, and as long thereafter

as Unitized Substances ~~can be~~ ^{are} produced as aforesaid, unless sooner terminated

by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least ninety per cent (90%) Phase II Unit Participation, as determined from Exhibit "C". Notice of such termination shall be given by Unit Operator to all parties hereto.

Unit Operator shall within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

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

SECTION 23. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Commission and to appeal from any order issued under the rules and regulations of the Commissioner or the Commission or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

SECTION 24. 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 25. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; 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 26. UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue secondary recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 27. LOSS OF TITLE: In the event any Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, 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; 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.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the Tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 28. NONJOINDER AND SUBSEQUENT JOINDER: 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 Section 13 hereof, Tracts Qualified for Unit Participation. Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. 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 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 Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and as set forth in Exhibit "C", by the owner or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from the effective date hereof, the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Phase II Unit Participation of not less than ninety per cent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement

and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Supervisor and the Commissioner, of duly executed documents necessary to establish effective commitment unless reasonable objection to such joinder by the Commissioner is duly made

within sixty (60) days after such filing. *Notwithstanding any of the provisions to the contrary, all Commitments of title of New Mexico Land must be approved by the*

SECTION 29. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

SECTION 30. JOINDER COMMITMENT: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 31. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the State

of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 32. 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 State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained.

SECTION 33. PERSONAL PROPERTY EXCEPTED: All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 34. 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 35. CORRECTION OF ERRORS: It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent

exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Phase II Unit Participation of fifty per cent (50%) or more and the Commissioner.

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.

ATTEST:

TENNECO OIL COMPANY

Assistant Secretary

By: _____
Vice President

Date: _____

Address: P. O. Box 2410
Denver, Colorado 80201

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

By: _____

Date: _____

Address: _____

ATTEST:

By: _____

Date: _____

Address: _____

ATTEST:

Date: _____

By: _____

Address: _____

OTHER WORKING INTEREST OWNERS

Date: _____

Address: _____

Date: _____

Address: _____

ROYALTY OWNERS

STATE OF COLORADO

CITY AND COUNTY OF DENVER

The foregoing instrument was acknowledged before me this _____
day of _____, 1968, by J. S. Collins, Vice President of
TENNECO OIL COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires:

Notary Public in and for the City
and County of Denver, State of
Colorado

STATE OF _____
COUNTY OF _____

SS.

The foregoing instrument was acknowledged before me this _____
day of _____, 1968, by _____,
a _____ of _____
Corporation, on behalf of said corporation.

My commission expires:

Notary Public in and for
County _____

STATE OF _____
COUNTY OF _____

SS.

The foregoing instrument was acknowledged before me this _____
day of _____, 1968, by _____
_____.

My commission expires:

Notary Public in and for
County _____

R-32-E

Tenneco

Tenneco

Tenneco

Tenneco

②

④

①

E-6485

E-7744

E-8454

Tenneco

Tenneco

Tenneco

Tenneco

Shell

⑧b

⑤a

⑥a

②

③

Shell

Shell

Shell

Shell

Tenneco

Antwell

E-8160

E-6419

B-11214

E-6485

K-959

⑦b

⑪

⑦a

⑨

⑩

OG-6014
Tenneco

K-1282
Tenneco

OG-6014
Tenneco

⑤b

E-8310

K-867

State B-9683

B-11214

E-8160

E-6419

State

Shell

Getty

⑭

⑬

E-6267-1

E-6267-2

Coastal States

⑮

E-4139

MESA QUEEN UNIT

TENNECO OIL COMPANY
SUBSIDIARY OF TENNECO CORPORATION

MESA QUEEN UNIT
LEA COUNTY, NEW MEXICO

EXHIBIT "A"
LAND OWNERSHIP MAP

1000

0

SCALE IN FEET

1000

2000

20

Feb. 1968

EXHIBIT "B"

MESA QUEEN UNIT AREA, LEA COUNTY, NEW MEXICO

Tract No.	Description of Land	Number of Acres	Lease No. & Date of Lease	Basic Royalty Percentage	Lessee of Record	Overriding Royalty Owner(s) and Percentage (See Note 1)	Working Interest Owner(s) and Percentage (See Note 1)
<u>ALL OF UNIT STATE LANDS</u>							
<u>T-16-S, R-32-E, NMPM</u>							
1	Sec. 16: NE/4 NE/4 NW/4 NE/4	80.00 40.00	E-8454 8-17-54	12.50%	Sinclair Oil & Gas Company	Sinclair Oil & Gas Company	Tenneco Oil Company 100%
2	Sec. 16: SW/4 NE/4 NW/4 NW/4	80.00	E-6485 9-10-52	12.50%	Mobil Oil Corporation	Mobil Oil Corporation	Tenneco Oil Company 100%
3	Sec. 16: SE/4 NE/4	40.00	K-959 11-15-60	12.50%	Shell Oil Company	None	Shell Oil Company 100%
4	Sec. 16: NE/4 NW/4	40.00	E-7744 7-19-54	12.50%	Continental Oil Company	Continental Oil Company* G. W. Baker	Tenneco Oil Company 100%
5a 5b	Sec. 16: SW/4 NW/4 Sec. 16: E/2 SW/4	120.00	E-6419 8-11-52	12.50%	Mobil Oil Corporation	Mobil Oil Corporation	Tenneco Oil Company 100%
6a	Sec. 16: SE/4 NW/4	40.00	B-11214 5-10-44	12.50%	Mobil Oil Corporation	Mobil Oil Corporation	Tenneco Oil Company 100%
6b	Sec. 17: SE/4 SE/4	40.00	B-11214 5-10-44	12.50%	Mobil Oil Corporation	Mobil Oil** Corporation	Tenneco Oil Company 100%
7a 7b	Sec. 16: NW/4 SW/4 Sec. 17: NW/4 SE/4	80.00	OG-6014 10-20-59	12.50%	Shell Oil Company	None	Shell Oil Company 100%

Tract No.	Description of Land	Number of Acres	Lease No. & Date of Lease	Basic Royalty Percentage	Lessee of Record	Overriding Royalty Owner(s) and Percentage (See Note 1)	Working Interest Owner(s) and Percentage (See Note 1)
8a	Sec. 16: SW/4 SW/4	120.00	E-8160	12.50%	Sinclair Oil & Gas Company	Sinclair Oil & Gas Company	Tenneco Oil Company 100%
8b	Sec. 17: S/2 NE/4		5-18-54				
9	Sec. 16: NW/4 SE/4	40.00	E-8310	12.50%	Humble Oil & Refining Company	Humble Oil & Refining Company	Morris R. Antweil 100%
10	Sec. 17: SW/4	160.00	K-867 10-18-60	12.50%	Shell Oil Company	None	Shell Oil Company 100%
11	Sec. 17: NE/4 SE/4	40.00	K-1282 3-21-61	12.50%	Shell Oil Company	None	Shell Oil Company 100%
12	Sec. 17: SW/4 SE/4	40.00	B-9683 6-10-42	12.50%	Continental Oil Company	Continental Oil Company G. W. Baker	Tenneco Oil Company 100%
13	Sec. 20: NE/4 NW/4	40.00	E-6267-2 6-10-52	12.50%	Getty Oil Company	None	Getty Oil Company 100%
14	Sec. 20: NW/4 NW/4	40.00	E-6267-1 E-6297 6-10-52	12.50%	Getty Oil Company	Getty Oil Company Paul DeCleva	Shell Oil Company 87-1/2% Stoltz and Company 12-1/2%
15	Sec. 20: SW/4 NW/4	40.00	E-4199 9-11-50	12.50%	Gulf Oil Corporation	Gulf Oil Corporation (increasing to 25.00% when 35,000 barrels of oil produced)	Coastal States Gas Prod. Co. 100%
		1,040.00	Total Acres in Unit			Robert E. Paddock (decreasing to 1.00% when 35,000 barrels of oil produced)	

NOTE 1: The overriding royalty and working interest owners shown above are the owners of such interests as to the unitized formations under the lands described. In certain instances, such owners may not own the same interests in other formations.

*Continental has option to convert his 10.00% ORR to a 50% WI if secondary recovery operations are instigated.

**Mobil has option to convert this 12.50% ORR to a 25.00% WI if secondary recovery operations are instigated.

EXHIBIT "C"
 ATTACHED TO UNIT AGREEMENT
 MESA QUEEN UNIT
 LEA COUNTY, NEW MEXICO

Schedule of Tract Participation

<u>Tract No.</u>	<u>Tract Participation</u>	
	<u>Phase I (%)</u>	<u>Phase II (%)</u>
1	0.15385	10.81433
2	0.15384	6.51916
3	4.04774	5.17489
4	0.07692	0.07692
5a	2.09169	5.50839
5b	0.15385	5.86209
6a	0.77786	6.10614
6b	3.21905	4.83752
7a	54.63263	11.58585
7b	0.07692	3.40950
8a	0.07692	4.15852
8b	0.34030	7.03412
9	0.07693	1.32055
10	5.99806	9.91052
11	22.52072	6.76696
12	0.07692	1.57471
13	3.35719	4.36335
14	1.57721	3.90111
15	<u>0.59140</u>	<u>1.07537</u>
	100.00000	100.00000