

liquid hydrocarbons produced from a gas well as defined by the New Mexico Oil Conservation Commission, hereinafter referred to as "gas"; and

WHEREAS, the parties hereto desire to communitize and pool the above described oil and gas leases insofar as said leases cover and include the above described land in order to form one tract or unit for the production of "gas" extracted therefrom, from all formations not to exceed a depth of 3800 feet, or to the base of the Queen Sand formation, whichever is the deepest; and

WHEREAS, in order to be consistent with existing rules and regulations covering well spacing and production allowables, the parties hereto desire to operate the entire communitized unit for the purpose and intention of developing "gas" extracted therefrom producible from such formations not to exceed a depth of 3800 feet, or to the base of the Queen Sand Formation, whichever is the deepest, as an entirety in accordance with the terms and provisions of this agreement.

NOW THEREFORE, in consideration of the premises and the mutual advantages offered by this agreement, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands subject to this agreement shall be developed and operated for "gas" extracted therefrom producible from all formations not to exceed 3800 feet, or the base of the Queen Sand, as an entirety with the understanding and agreement that the "gas" extracted therefrom, so produced from the above described communitized tract of 318.68 acres, shall be allocated among the leaseholds comprising said acreage in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed hereto. The royalties payable for "gas" extracted therefrom so allocated to the lands comprising the leaseholds and the rentals provided for therein shall be determined and paid on the basis respectively prescribed in the individual leases.
2. Texas shall be the unit operator of said communitized tract and all matters of operation, adjustments between the working interest owners and the payments of royalties, overriding royalties and rentals shall be governed by the provisions of the Unit Operating Agreement executed by the working interest owners contemporaneously with the execution of this agreement. There shall be no obligation on Operator to offset any "gas" well or wells on separate component tracts into which said communitized unit is now or may hereafter be divided, nor shall Operator be required to separately measure said "gas" extracted therefrom by reason of the diverse interests in the gas in and under said tracts, but Operator shall not be released from its obligation to protect said communitized unit from gas well or wells which may be drilled offsetting said unit.
3. Except as herein modified and changed said oil and gas leases hereinabove described shall remain in full force and effect as originally made and issued. It is further agreed that the commencement, completion, continued operation or production of a well or wells for "gas" extracted therefrom on the communitized tract as an entirety shall be construed and considered as the commencement, completion, continued operation or production as to each lease committed hereto.
4. All production of "gas" and disposal thereof shall be in conformity with allocations, allotments and quotas made and fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. The provisions of this agreement shall be subject to all applicable Federal or State statutes or executive orders, rules and regulations which affect performance of any of the provisions of this agreement and operator shall not suffer a for-

4-V

P

4-X