

UNIT AGREEMENT
 FOR THE DEVELOPMENT AND OPERATION OF THE
 SOUTH CAPROCK QUEEN UNIT
 CHAVES COUNTY, NEW MEXICO

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Exhibit "A" (Map of Unit Area)

Exhibit "B" (Schedule of Ownership)

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SOUTH CAPROCK QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the _____ day of _____, 1960, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH: That,

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws of 1943, as amended by Sec. 1 of Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 39, N.M.S. 1953 anno) to consent to or approve this Agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws of 1943, as amended by Sec. 1, Chap. 162, Laws of 1951, Chap. 7, Art. 11, Sec. 41, N.M.S. 1953 anno) to amend with the approval of the Lessee, 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 unitized development and operation of State lands; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chap. 72, Laws of 1935, as amended by Chap. 193, Laws of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949) to approve this Agreement, and the conservation provisions hereof; and

WHEREAS, the Mineral Leasing Act of February 25, 1920, (41

Stat. 437, as amended by 30 U.S.C. Sections 181 et seq.) authorizes Federal lessees and their representatives to unite with each other or jointly or separately with others in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof, for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the parties hereto hold sufficient interests in the South Caprock Queen Unit covering the land hereinafter described 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 hereinafter set forth.

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

SECTION 1. ENABLING ACT AND REGULATIONS: The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid, pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder and valid, pertinent and reasonable regulations hereafter issued thereunder, are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this Agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the

laws of the State of New Mexico, are hereby accepted and made a part of this Agreement.

SECTION 2. UNIT AREA AND DEFINITIONS: For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

(a) "Unit Area" is defined as those lands specified on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area; the lands described in said Exhibit "A" are described as follows, to-wit:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

CHAVES COUNTY, NEW MEXICO

TOWNSHIP 14-SOUTH, RANGE 31-EAST

Section 22: SW/4 SE/4, E/2 SE/4
Section 23: W/2 SW/4
Section 26: W/2 W/2
Section 27: A11
Section 28: A11
Section 29: NE/4, E/2 SE/4, NW/4 SE/4
Section 32: E/2 SE/4, SW/4 SE/4
Section 33: A11
Section 34: A11
Section 35: W/2 NW/4, NW/4 SW/4

TOWNSHIP 15-SOUTH, RANGE 31-EAST

Section 3: Lots 1, 2, 3, 4, S/2 N/2, W/2 SW/4,
NE/4 SW/4
Section 4: A11
Section 5: Lots 1, 2, S/2 NE/4, SE/4, SW/4,
Lot 3, SE/4 NW/4, SW/4 NW/4
Section 6: E/2 SE/4
Section 7: E/2 NE/4, SE/4 SE/4
Section 8: A11
Section 9: NW/4, W/2 NE/4, NE/4 NE/4, W/2 SW/4,
NE/4 SW/4
Section 16: NW/4 NW/4
Section 17: A11
Section 18: E/2 NE/4, SE/4
Section 19: E/2, E/2 SW/4, Lot 4
Section 20: W/2, W/2 NE/4, NE/4 NE/4, NW/4 SE/4
Section 29: NW/4, W/2 SW/4, NE/4 SW/4
Section 30: A11
Section 31: Lots 1, 2, E/2 NW/4, W/2 NE/4, NE/4 NE/4

TOWNSHIP 15-SOUTH, RANGE 30-EAST

Section 25: E/2 SE/4, SE/4 NE/4

and containing 9526.04 acres, more or less.

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

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

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

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

(h) "Queen Sand" or "Queen Formation" is defined as and shall mean that heretofore established underground reservoir, a member of the Queen Formation of the Guadalupe Series, a part of the Permian System, which is found at 3,086 to 3,108 feet, in the Union Oil Company of California Federal-Medlin No. 4-17 well in the NW/4 of the NW/4 of Section 17, T-15-S, R-31-E, insofar as the same lies within the Unit Area.

(i) "Unitized Formation" is defined as that portion of the Queen Sand effectively committed to this Agreement.

(j) "Unitized Substances" shall mean all of the oil and gas contained in or produced from the unitized formation.

(k) "Ultimate Primary Recovery" is defined as the amount of oil which may be produced from the Unit Area by primary methods from old wells and which has heretofore been determined to be 7,592,197 barrels of oil, plus the number of barrels of ultimate primary recovery any new wells may be determined to increase the ultimate Primary Recovery based upon old wells.

(l) "Secondary Recovery" is defined as the oil which may be produced from the Queen Formation after the Ultimate Primary Recovery has been produced.

(m) "Current Production" is defined as the amount of oil produced and saved during the first six months of the calendar year of 1959, as such production was reported to the Commission.

(n) "Cumulative Production" is defined as all oil produced prior to the first day of July, 1959, as such production was reported to the Commission.

(o) "Remaining Primary Recovery" is defined as that amount of the Ultimate Primary Recovery in excess of Cumulative Production.

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

(q) "Working Interest Owner" is defined as and shall mean any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and operating thereof hereunder. The owner of oil and gas mineral rights free of lease or other instruments conveying the working interest to others shall be regarded as a Working Interest Owner to the extent of $7/8$ of his interest in Unitized Substances and as the owner of a royalty interest with respect to his remaining $1/8$ interest therein.

(r) "Royalty Interest" or "Royalty" is defined as an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contracts or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

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

(t) "Unit Operating Agreement" is defined as and shall mean any agreement or agreements entered into separately or collectively by and between the Unit Operator and the Working Interest Owners as provided in Section 10, infra, and shall be styled "Unit Operating Agreement, South Caprock Queen Unit, Chaves County, New Mexico".

(u) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells on the unitized land.

(v) "Unit Manager" is defined as the person or corporation appointed by the Working Interest Owners to perform the duties of Unit Operator until the selection and qualification of a successor Unit Operator, if and when needed, as provided for in Section 9 hereof.

(w) "Old Well" is defined herein as a well completed prior to the 1st day of July, 1959.

(x) "New Well" is defined herein as a well completed subsequent to the 30th day of June, 1959, and prior to the effective date hereof.

SECTION 3. EXHIBITS: Exhibit "A" attached hereto is a map showing, to the extent known to the Unit Operator, the Unit Area and the boundaries and identity of tracts and leases in said Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each tract, percentage ownership of each Working Interest Owner in each tract, and the percentage of participation each tract has in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes render such revision necessary, and at least two copies of such revision shall be filed with the Commissioner, and not less than six copies thereof shall be filed with the Supervisor.

SECTION 4. EXPANSION. The above described Unit Area may, when practicable, be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this Agreement to conform with the purposes of this Agreement.

Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a tract or tracts desiring to bring such tract or tracts into this Unit shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the unit participation to be assigned to such tract or tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise), if ninety (90) percent of the Working Interest Owners (on the basis of unit participation at that time) have agreed to such tract or tracts being brought into the Unit, then Unit Operator shall after preliminary concurrence by the Director:

(1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional tract or tracts, the unit participation to be assigned thereto and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice; and

(2) Deliver copies of said notice to the Commissioner, the Director, each Working Interest Owner (mailing copy of such notice to the last known address of each such 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 objection to the proposed expansion; and

(3) Upon the expiration of said thirty (30) day period as set out in (2) immediately above, and provided that Working Interest

Owners having more than ten (10) percent of the voting interest have not filed objections thereto, file with the Commission, the Commissioner, and the Director, the following: (a) Comprehensive statement as to mailing said notice of expansion; (b) An application for such expansion; and (c) An instrument containing the appropriate joinders in compliance with the participation requirements of Section 14, infra.

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

✓ SECTION 5. CONTRACTION: When practicable, the Unit Area shall be contracted to exclude unitized land not receiving an allocation and to exclude lands not effectively committed to this Unit Agreement whenever such contraction is necessary or advisable to conform with the purposes of this Agreement. Such contraction shall be effected in the following manner:

(a) Unit Operator, on demand of the Director or the Commissioner, or on its own motion, after preliminary concurrence by the Director, shall prepare a notice of contraction describing the contemplated changes in the boundaries of the Unit Area, the reasons therefor, and the proposed effected date thereof, preferably the first day of a month subsequent to the date of notice.

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

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor, Commission, and the Commissioner, a comprehensive statement as to the

mailing of the notice of contraction and a copy of any objections thereto which shall have been filed with the Unit Operator, together with an application, in sufficient number, for approval of such contraction.

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

SECTION 6. UNITIZED LAND AND UNITIZED SUBSTANCES: All oil and gas in all of the hereinabove described and subsequently admitted land effectively committed to this Agreement, insofar only as the same may be found in the Queen Sand, as defined herein, together with the surface rights of ingress and egress, are unitized under the terms of this Agreement and said land shall constitute land referred to herein as "Unitized Land" or "Land Subject to this Agreement".

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

SECTION 7. UNIT OPERATOR: Union Oil Company of California, a California Corporation, is hereby designated 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 Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, and the term "Working Interest Owner", when used herein, shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 8. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit

Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Commissioner, and the Director, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by at least two committed Working Interest Owners owning at least seventy-five (75) percent of the Unit Participation in effect at that time, exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and the Director.

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, and appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder for any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 9. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator by a majority vote of the Working Interest Owners (on the basis of Unit participation), provided no Working Interest Owner who has been Unit Operator and who has been removed may vote for self succession. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and the Director. If no successor Unit Operator or Unit Manager is selected and appointed as herein provided, the Commissioner and the Director, at their election, may declare this Agreement terminated.

SECTION 10. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: Costs and expenses incurred by Unit Operator in conducting Unit operations hereunder shall be paid, apportioned among, and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts and such other rights and obligations as

between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; 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. Two true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner and three true copies thereof shall be filed with the Supervisor, prior to approval of this Agreement.

SECTION 11. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 12. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect the greatest recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a

plan of operation by the Working Interest Owners, the Supervisor, and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, and any one or more other substances, whether produced from the Unit Area or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Commissioner and the Supervisor monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Supervisor, and the Commissioner, shall be furnished periodical reports on the progress of the plan of operation and any revisions or changes thereto; 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 Supervisor and the Commissioner.

The initial plan of operation shall be filed with the Supervisor and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor and the Commissioner may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

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

SECTION 13. TRACT PARTICIPATION: In Exhibit "B" attached hereto, there are listed and numbered the various tracts within the Unit Area, and set forth opposite each tract are figures which represent the percentage of participation allocated to each tract in the Unit Area calculated on a 100 percent commitment. The participation percentages of each tract were determined as follows: Two participation percentages are used, one applicable to Primary Recovery and the second applicable to Secondary Recovery.

The primary participations percentages for each tract were derived by the use of the following formula:

Primary Recovery Percentage Participation
of each Tract for all Wells, Old and New =

$$100\% \left[\begin{array}{l} \text{Additional} \\ \text{Reserves of} \\ \text{New Wells} \\ \text{on Tract} \end{array} + \begin{array}{l} (1) \\ 7,592,197 \end{array} \right] \left[\begin{array}{l} \text{Tract \% of} \\ \text{Current} \\ \text{Production} \\ 20\% \end{array} + \begin{array}{l} \text{Tract \% of} \\ \text{Cumulative} \\ \text{Production} \\ 50\% \end{array} + \begin{array}{l} \text{Tract \% of} \\ \text{Remaining} \\ \text{Primary} \\ \text{Recovery} \\ 30\% \end{array} \right]$$

$$\left[7,592,197 + \text{Additional Reserves of All New Wells} \right]$$

with (1) being zero for wells completed prior to July 1, 1959; with (2) being zero for wells completed after June 30, 1959; with additional reserves of new wells being defined as the reserves remaining as of the effective date of unitization; and with current production, cumulative production, and remaining primary production being defined in definitions (m), (n), and (o).

The additional reserves for new wells shall be determined by the South Caprock Queen Engineering Committee. Whenever possible, the Committee shall use decline curves as the basis of the reserves determination; in those cases where the decline is indeterminate, the Committee shall determine the reserves by the utilization of volumetric data, performance of offset wells, and other available reservoir and performance data.

The additional reserves for new wells, as defined herein, shall be added to the total remaining primary reserves of wells completed prior to July 1, 1959, as previously determined by the South Caprock Queen Engineering Committee.

The secondary participation percentages for each tract were derived by the use of the following formula:

$$\begin{array}{l} \text{Secondary Recovery} \\ \text{Percentage} \\ \text{Participation} \\ \text{of Each Tract} \end{array} = 70\% \frac{(\text{Total Tract Acre Feet})}{(\text{Total Unitized Acre Feet})}$$

plus

$$30\% \frac{(\text{Total Tract Pore Volume})}{(\text{Total Unitized Pore Volume})}$$

The primary participation percentages shall be applicable until 7 o'clock a.m. on the first day of the calendar month after 7,592,197 barrels of oil, plus the number of barrels of additional ultimate primary recovery allocated because of new wells as determined herein, including that which was produced prior to the effective date of this Agreement, have been recovered as reported to the Commission from the Unit Area; thereafter, the secondary participation percentages shall be applicable.

Appropriate adjustment for any tract not committed hereto as of the effective date hereof, and thereafter as needed, pursuant to Section 15 (Allocation of Unitized Substances), shall be made promptly by Unit Operator by using the same tract factors and formulae which were used in arriving at the percentage participation of each tract as set forth in Exhibit "B", but applying the same to the committed tracts only.

SECTION 14. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof the tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances therefrom shall be those tracts within the Unit Area and more particularly described in said Exhibit "B" that are qualified as fol-

(a) Each Tract as to which Working Interest Owners owning one hundred (100) percent of the Working Interest have signed or ratified this Agreement and the Unit Operating Agreement and Royalty Owners owning seventy-five (75) percent or more of the Royalty Interest have signed or ratified this Agreement; and

(b) Each Tract as to which Working Interest Owners owning one hundred (100) percent of the Working Interest have signed or ratified this Agreement and the Unit Operating Agreement and Royalty Owners owning less than seventy-five (75) percent of the Royalty Interest have signed or ratified this Agreement, and as to which (a) all Working Interest Owners in such Tract join in a request for the inclusion of such Tract in the Unitized Formation upon the basis of such commitment status and further as to which at least (b) eighty (80) percent of the combined voting interests of Working Interest Owners in all Tracts which meet the requirements of Section 14(a) vote in favor of the inclusion of such Tract. For the purpose of this Section 14(b), the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) which the total of such Working Interest Owner's Unit Participation attributable to Tracts which qualify under Section 14(a) bears to the total of the Unit Participation of all Working Interest Owners attributable to all Tracts which qualify under said Section 14(a), as such percentages are shown in Exhibit "B"; and

(c) Each Tract as to which Working Interest Owners owning less than one hundred (100) percent of the Working Interest have signed or ratified this Agreement and the Unit Operating Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto, and as to which (a) the Working Interest Owner who operates the Tract and all of the other subscribing Working Interest Owners in such Tract have joined in a request to the committed Working Interest Owners for inclusion of such Tract in the Unitized Formation upon the basis of such commitment status, and have executed and delivered an

indemnity agreement, identical to that attached as Exhibit "E" to the Unit Operating Agreement, indemnifying and agreeing to hold such parties harmless from and against all claims and demands that may be made by the non-suscribing owners in such Tract on account of such inclusion in the Unitized Formation and further as to which (b) at lease ninety (90) percent of the combined voting interest of the Working Interest Owners in all Tracts which meet the requirements of Sections 14(a) and 14(b) above, vote in favor of the inclusion of such Tract. For the purposes of this Section 14(c), the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) which the total of such Working Interest Owner's Unit Participation attributable to Tracts which qualify under Sections 14(a) and 14(b) bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts which qualify under said Sections 14(a) and 14(b), as such percentages are set out in Exhibit "B".

If, on the effective date of this Agreement, there is any tract or tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such tract or tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Commissioner and the Director, file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in the production from the Unitized Formation hereunder. Said schedule shall set forth opposite each such committed tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such tract which shall be computed according to the participation formula set out in Section 13 (Tract Participation) above. This schedule of participation shall be a part of Exhibit "B" and, upon approval thereof by the Commissioner and the Director, shall become a part of this Agreement and shall govern the allocation of production of Unitized

Substances until a new schedule is filed and approved by the Commissioner and the Director.

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

The Unitized Substances allocated to each tract shall be distributed among, or accounted for, to the parties executing, consenting to or ratifying this Agreement entitled to share in the production from such tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such tracts, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal force and effect.

No tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances, and nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the joinder of any tract.

If the working Interest and the Royalty Interest in any tract

are divided with respect to separate parcels or portions of such tract and owned severally by different persons, the percentage participation assigned to such tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit 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 may be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unitized land, provided the same are so constructed, maintained and operated as not to interfere with Unit operations carried on pursuant hereto.

If, after the effective date of this Agreement, there is any tract or tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any tract or tracts within the Unit Area not committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Section 31 (Non-Joinder and Subsequent Joinder), or if any tract is excluded from the Unit Area as provided for in Section 30 (Loss of Title), the schedule of participation as shown in Exhibit "B", subject to Section 13 (Tract Participation) or Section 31 (Non-Joinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Commissioner, and the Director to show the new percentage of participation of all the then effectively committed tracts; and the revised schedule, upon approval by the Commissioner and the Director,

shall govern all the allocation of production from and after the effective date thereof until a new schedule is filed and approved by the Commissioner and the Director.

SECTION 16. ROYALTY SETTLEMENT: The State of New Mexico and the United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the 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 repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan approved pursuant to Section 12 (Plan of Operations), a like amount of gas, less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation, royalty free as to dry gas, but not as to the products extracted therefrom; provided such withdrawal shall be pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor and the Commissioner; and provided, further, that such right of withdrawal shall terminate as of the effective date of termination of this Unit Agreement.

All Royalty due the State of New Mexico and the United States of

America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective tract or tracts committed hereto, in lieu of actual production from such tract or tracts.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a tract or tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a tract or tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

SECTION 17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any 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. Rental or minimum royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 18. CONSERVATION: Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 19. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal and 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 any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing or secondary recovery operations performed hereunder upon any tract of unitized lands shall be accepted

and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioner and the Supervisor 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 lands.

(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 embracing lands of the State of New Mexico, which is made subject to this Agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(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 Unitized Substances are, or have 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 Unitized Substances, 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.

(h) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17(b) of said Act of February 25, 1920, as amended by the Act of July 29, 1954, (68 Stat. 583, 585): "Any (Federal) lease hereafter committed to any such plan (unit) embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof, but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities".

SECTION 21. MATHEMATICAL ERRORS: It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the pertinent exhibits to this Agreement upon approval of the Commissioner and the Director.

SECTION 22. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder

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

SECTION 23. EFFECTIVE DATE AND TERM: This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock a.m. of the first day of the month next following:

(a) Approval of this Agreement by the Commissioner and the Commission, the Secretary or his duly authorized representative.

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

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

This Agreement may be terminated with the approval of the Commissioner and the Director by Working Interest Owners owning ninety (90) percent unit participation whenever such Working Interest Owners determine that Unit operations are no longer profitable, feasible or in

the interest of conservation. Notice of any such termination shall be given by Unit Operator to all parties hereto.

Upon termination of this Agreement, the further development and operation of the Unit Area as a Unit shall be abandoned, Unit operations shall cease, and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate tracts.

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

SECTION 24. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION:

All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately-owned lands subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this Section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice.

SECTION 25. FAIR EMPLOYMENT: In connection with the performance of work under this Agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

The Unit Operator agrees to insert the foregoing provision in all sub-contracts hereunder, except subcontracts for standard commercial supplies or raw materials.

SECTION 26. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner, the Department, and the Commission, and to appeal from any order issued under the rules and regulations of the Commissioner, the Department, 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, the Department, or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 27. NOTICES: All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail, addressed

to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 28. NO WAIVER OF CERTAIN RIGHTS: Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

SECTION 29. UNAVOIDABLE DELAY: All obligations under this Agreement requiring the Unit Operator to commence or continue secondary recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 30. LOSS OF TITLE: In the event title to any tract of unitized land shall fail so as to render the tract inoperable under this Agreement and the true owner cannot be induced to join this Unit Agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any Royalty,

Working Interest or other interest subject thereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State or Federal land or leases, no payments of funds due the State of New Mexico or the United States of America shall be withheld, but such funds shall be deposited as directed by the Commissioner or the Supervisor (as the case may be), to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 31. NONJOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a tract within the Unit Area fails or refuses to subscribe, ratify, or consent in writing to this Agreement, the Working Interest Owner in that tract who has executed or ratified this Agreement may withdraw said tract from this Agreement by written notice to the Director, the Commissioner, and Unit Operator prior to the effective date of this Agreement. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Unit Agreement.

Any oil or gas interest in the Queen Sand not committed hereto prior to submission of this Agreement to the Director for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Unit Participation) hereof, at any time up to the effective date hereof and for a period to and including six (6) months

thereafter, on the same basis of participation as provided in said Section 14, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after six (6) months from the effective date hereof the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by ninety (90) percent of the Working Interest Owners. Such joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 a.m. as of the first day of the month following the filing with the Commissioner and the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any tract or interest to this Agreement, unless objection to such joinder by the Commissioner or the Director is duly made within sixty (60) days after such filing.

SECTION 32. COUNTERPARTS: This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

SECTION 33. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 34. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this Agreement are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

SECTION 35. BORDER AGREEMENTS: Subject to the approval of the Director and the Commissioner, the Unit Operator, with concurrence of sixty-five (65) percent of the Working Interest Owners, may enter into a border protection agreement or agreements with the Working Interest Owners of adjacent lands along the boundaries of the Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

SECTION 36. NO PARTNERSHIP: It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, expressed or implied, or any operations conducted hereunder, shall create or be deemed to create a partnership or association between the parties hereto or any of them.

SECTION 37. JOINDER IN DUAL CAPACITY: It shall not be necessary for parties owning both Working Interests and Royalty Interests to execute this Agreement in both capacities in order to commit both classes of interest. Execution hereof by any such party in one capacity shall also constitute execution in the other capacity.

SECTION 38. LIMITATION OF APPROVALS: Notwithstanding anything herein contained to the contrary, if no Federal lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Department, the Secretary, the Director, or the Supervisor, and it shall not be necessary to file any instrument hereunder with said officers or agencies unless and until Federal lands are so committed to this Agreement; likewise if no State lands are committed to this Agreement, then no consents or approvals provided herein shall be required of the Commissioner, and it shall not be necessary to file any instrument hereunder with said officer unless and until State lands are so committed to this Agreement.

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

(Individual)

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1960, by _____, husband and wife.

Notary Public

My Commission Expires:

(Corporate)

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1960, by _____ of _____, a _____ corporation on behalf of said corporation.

Notary Public

My Commission Expires:

(Individual)

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1960, by _____, husband and wife.

Notary Public

My Commission Expires:

(Corporate)

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1960, by _____ of _____, a _____ corporation on behalf of said corporation.

Notary Public

My Commission Expires:

(Individual)

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1960, by _____, husband and wife.

Notary Public

My Commission Expires:

(Corporate)

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1960, by _____ of _____, a _____ corporation on behalf of said corporation.

Notary Public

My Commission Expires:

(Individual)

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1960, by _____, husband and wife.

Notary Public

My Commission Expires:

(Corporate)

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1960, by _____ of _____, a _____ corporation on behalf of said corporation.

Notary Public

My Commission Expires:
