

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

APPLICATION OF SHELL OIL COMPANY  
FOR APPROVAL OF THE NORTH SQUARE  
LAKE PREMIER UNIT, EDDY COUNTY,  
NEW MEXICO.

Case No. 3355

A P P L I C A T I O N

Comes now Shell Oil Company, by its attorneys, and requests approval of the North Square Lake Premier Unit Agreement and in support of its application states:

1. Attached to this application and made a part hereof by reference is a copy of the North Square Lake Premier Unit Agreement.

2. The North Square Lake Premier Unit comprises 1,080 acres, more or less, of federal, state and fee lands in Sections 4, 5, 6 and 8, T. 16 S., R. 31 E., Eddy County, New Mexico, as more fully described in Exhibit B to the North Square Lake Premier Unit Agreement.

3. The unitized formation, as shown in Section 2(h) of the North Square Lake Premier Unit Agreement is as follows:

"Unitized Formation" is defined as that portion of the Grayburg formation underlying the Unit Area which includes the stratigraphic interval occurring between a point 100 feet above the top of the Premier Zone and the base of the Grayburg Formation, said interval having been penetrated between 3159 feet and 3314 feet and the top of the Premier Zone having been found at 3259 feet beneath the kelly-bushing in the Shell Oil Company Trigg Federal No. 3 Well located 1980 feet from the South line and 660 feet from the West line of Section 5, Township 16 South, Range 31 East, N.M.P.M., Eddy County, New Mexico, as recorded on the Sonic Log of said well dated July 27, 1961.

4. The North Square Lake Premier Unit is being formed to facilitate a waterflood project therein in the unitized formation.

5. Shell Oil Company will be the operator of the North Square Lake Premier Unit and of the waterflood project to be conducted therein.

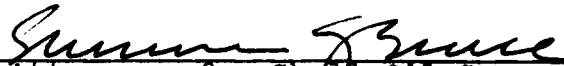
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Date 12-1-65

6. Approval of this application will prevent waste and protect correlative rights.

WHEREFORE, Shell Oil Company requests that this application be set for hearing before the Commission or one of its examiners during the month of December, 1965, and that the Commission enter its order approving the North Square Lake Premier Unit Agreement.

SETH, MONTGOMERY, FEDERICI & ANDREWS

By   
Attorneys for Shell Oil Company  
P. O. Box 2307  
Santa Fe, New Mexico

*Case 3355*

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
NORTH SQUARE LAKE PREMIER UNIT  
COUNTY OF EDDY  
STATE OF NEW MEXICO

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
NORTH SQUARE LAKE PREMIER UNIT  
EDDY COUNTY, NEW MEXICO

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

WITNESSETH: That,

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

WHEREAS, the Mineral Leasing Act of February 25, 1920 (41 Stat. 437,  
as amended, 30 U.S.C. Sections 181 et seq.) authorizes Federal lessees and  
their representatives to unite with each other or jointly or separately with  
others in collectively adopting and operating a co-operative 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 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 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 law (Volume 2, Chapter 7, Article 11, New Mexico Statutes 1953  
Annotated) 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 (Volume 9, Part 2, Chapter 65, Article 3, New Mexico  
Statutes 1953 Annotated) to approve this agreement and the conservation provi-  
sions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the North  
Square Lake Premier 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 entire respective interests in the Unitized Formation underlying the Unit Area (as those terms are defined hereinafter), 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 in which the non-Federal land is located, 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) "Director" is defined as the Director of the United States Geological Survey.
- (c) "Secretary" is defined as the Secretary of the Interior of the United States of America.
- (d) "Department" is defined as the Department of the Interior of the United States of America.
- (e) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey.
- (f) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (g) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.

(h) "Unitized Formation" is defined as that portion of the Grayburg formation underlying the Unit Area which includes the stratigraphic interval occurring between a point 100 feet above the top of the Premier Zone and the base of the Grayburg Formation, said interval having been penetrated between 3159 feet and 3314 feet and the top of the Premier Zone having been found at 3259 feet beneath the Kellybushing in the Shell Oil Company Trigg Federal No. 3 Well located 1980 feet from the South line and 660 feet from the West Line of Section 5, Township 16 South, Range 31 East, N.M.P.M., Eddy County, New Mexico, as recorded on the Sonic Log of said well dated July 27, 1961.

(i) "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.

(j) "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.

(k) "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.

(l) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.

(m) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.

(n) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".

(o) "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.

(p) "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.

(q) "Phase I" means the period of time beginning as of 7:00 a.m. on the effective date hereof and continuing until (a) such time as the total number of barrels of oil produced, saved and removed after February 28, 1965, from the Unitized Formation underlying all Tracts described in the original Exhibit "B" equals 89,135 barrels, as determined from the official production reports filed with the Oil Conservation Commission of the State of New Mexico, or (b) one year after the effective date hereof, whichever event occurs earlier. If less than all of said Tracts qualify for inclusion in the Unit Area under the provisions of Section 13, said 89,135 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.

(r) "Phase II" means the remainder of the term of this agreement after the end of Phase I.

(s) "Tract Current Production" means the cumulative total number of barrels of oil produced from the Unitized Formation underlying such Tract during the period from September 1, 1964, to February 28, 1965, inclusively, as officially reported to the Oil Conservation Commission of the State of New Mexico.

(t) "Unit Area Current Production" means the total Tract Current Production of all Tracts within the Unit Area.

(u) "Tract Remaining Primary Reserves" means the number of barrels of oil heretofore approved by Working Interest Owners as being the remaining primary oil reserves of the Unitized Formation underlying such Tract as of March 1, 1965.

(v) "Unit Area Remaining Primary Reserves" means the total Tract Remaining Primary Reserves of all Tracts within the Unit Area.

(w) "Tract Primary Ultimate Recovery" means the number of barrels of oil heretofore approved by Working Interest Owners for purposes of this agreement as representing the primary ultimate recovery of oil from the Unitized Formation underlying such Tract.

(x) "Unit Area Primary Ultimate Recovery" means the total Tract Primary Ultimate Recovery of all Tracts within the Unit Area.

(y) "Tract Original Oil in Place" means the number of barrels of oil heretofore approved by Working Interest Owners as being the amount of oil originally in place in the Unitized Formation underlying such Tract.

(z) "Unit Area Original Oil in Place" means the total Tract Original Oil in Place of all Tracts within the Unit Area.

(aa) "Unit Operating Agreement" is defined as any agreement or agreements (whether one or more) entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 9, infra, and shall be styled "Unit Operating Agreement, North Square Lake Premier Unit, Eddy County, New Mexico".

SECTION 3. EXHIBITS: Exhibit "A" attached hereto is a map showing the Unit Area and, to the extent known to Unit Operator, the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the 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.

It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical errors which may exist in the pertinent exhibits to this agreement upon first having obtained approval of Working Interest Owners having a combined Phase II Unit Participation of fifty per cent (50%) or more, the Supervisor and the Commissioner.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary, and not less than six copies of such revision shall be filed with the Supervisor, and at least 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 of 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 per cent (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 Director and Commissioner:

(1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto, and the proposed effective date thereof; and

(2) Furnish copies of said notice to the Director, Commissioner, 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 Director, 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, *infra*; and (d) Copy of any objections received.

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

There shall never by 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. OIL AND GAS RIGHTS UNITIZED: All Unitized Substances in and under the land effectively committed to this agreement, together with the surface rights of ingress and egress, are unitized under the terms of this agreement and said land shall constitute the land referred to herein as "Unit Area".

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 Unitized Formation.

SECTION 6. UNIT OPERATOR: SHELL OIL COMPANY is hereby designated as initial 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, the Director and the Commissioner, 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.

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 Operator Pro-Tem 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 Operator Pro-Tem 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 selection shall have been filed with the Supervisor and the selection shall have been approved by the Commissioner.

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. Three true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Supervisor and two true copies thereof 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 proved to be productive of Unitized Substances in paying quantities or is necessary for Unit operations and that the object and purpose of this agreement is to formulate and to put into effect a secondary recovery project in order to effect 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 Supervisor, 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 Supervisor and the Commissioner monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Supervisor, and the Commissioner 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, which revisions and changes shall be subject to approval by the Supervisor and the Commissioner.

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:

	<u>Phase I</u>
50% x (times)	$\frac{\text{Tract Current Production}}{\text{Unit Area Current Production}}$
	+ (plus)
50% x (times)	$\frac{\text{Tract Remaining Primary Reserves}}{\text{Unit Area Remaining Primary Reserves}}$
	<u>Phase II</u>
90% x (times)	$\frac{\text{Tract Primary Ultimate Recovery}}{\text{Unit Area Primary Ultimate Recovery}}$
	+ (plus)
10% x (times)	$\frac{\text{Tract Original Oil in Place}}{\text{Unit Area Original Oil in Place}}$

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 from the Unit Area from and 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 within the Unit Area are committed to this agreement as of the effective date hereof, Unit Operator shall, as soon as practicable after said effective date, prepare a revised Exhibit "C" setting forth the committed Tracts within the Unit Area and showing the revised Tract Participation of each committed Tract, which Tract Participation shall be calculated and determined by using the factors and formulas set forth hereinabove, but applying the same only to the committed Tracts. Unit Operator shall promptly file copies of such revised Exhibit "C" with the Supervisor and the Commissioner, and unless such revised Exhibit "C" is disapproved by the Supervisor or Commissioner within thirty (30) days after such filing, the revised Exhibit "C" shall, effective as of the effective date of this agreement, supersede the original Exhibit "C" attached hereto and shall thereafter govern the allocation of all Unitized Substances produced from the committed Tracts within the Unit Area, subject, however, to any further revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

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 Participations 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.

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 Director and the Commissioner, or as soon thereafter as practicable, file a schedule of those Tracts which have been committed and

made subject to this agreement, and shall set forth in said schedule opposite each such committed Tract the assigned Tract number, lease number and owner of record of such Tract. In the event that less than all of the Tracts within the Unit Area have been committed to this agreement on the effective date hereof, Unit Operator shall prepare a revised Exhibit "C" and file copies thereof with the Supervisor and the Commissioner in accordance with the provisions of Section 12.

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 or any revision thereof 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.

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 to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 16 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind.

If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the 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 therefor to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 15. 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 United States and 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.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all Unitized Substances on the basis of the amounts thereof allocated to unitized Federal

land as provided herein at the rate specified in the respective Federal leases or at such lower rate or rates as may be authorized by law or regulation; provided, that for leases on which the royalty rate depends on the daily average production per well, such average production shall be determined in accordance with the operating regulations as though the unitized lands were one lease.

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 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. 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.

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 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) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any /Federal/ lease heretofore or hereafter committed to any such /unit/ plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."
- (h) 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 Director, 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 Eddy County, New Mexico, by the Unit Operator; and

(d) The filing with the Supervisor and the Commissioner in the office of the County Clerk of Eddy 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 October 1, 1966 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 drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of 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 Director and the Commissioner by Working Interest Owners having at least ninety per cent (90%) Phase II Unit Participation, as determined from Exhibit "C", whenever such Working Interest Owners determine that Unit operations are no longer profitable, feasible or in the interest of conservation. Notice of 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.

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

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

SECTION 24. NONDISCRIMINATION: In connection with the performance of work under this agreement, Unit Operator agrees to comply with all of the provisions of Section 301(1) to (7) inclusive, of Executive Order 10925 (28 F.R. 6485), which are incorporated by reference in this agreement.

SECTION 25. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Department, the Commissioner, and the Commission and to appeal from any order

issued under the rules and regulations of the Department, 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 Department, 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 26. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 27. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any 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 28. 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 29. 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 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 Director and 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 Director and 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 Federal or State land or leases, no payments of funds due the United States of America or the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Supervisor or the Commissioner (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 30. NONJOINDER AND SUBSEQUENT JOINDER: If the owner of any interest in a Tract within the Unit Area fails or refuses to subscribe or consent in writing to this agreement, such Tract shall not be deemed committed to this agreement unless such Tract may be and is qualified as provided in Section 13, Tracts Qualified for Unit Participation, hereof. Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement 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 Director 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 to this agreement, as to Tracts within the Unit Area, shall be effective as of the first day of the month following the approval thereof by the Director or the Supervisor and the Commissioner.

SECTION 31. 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 32. JOINDER IN DUAL CAPACITY: 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 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, or 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.

SECTION 35. 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 interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 36. 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 37. LIEN OF UNIT OPERATOR: Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

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

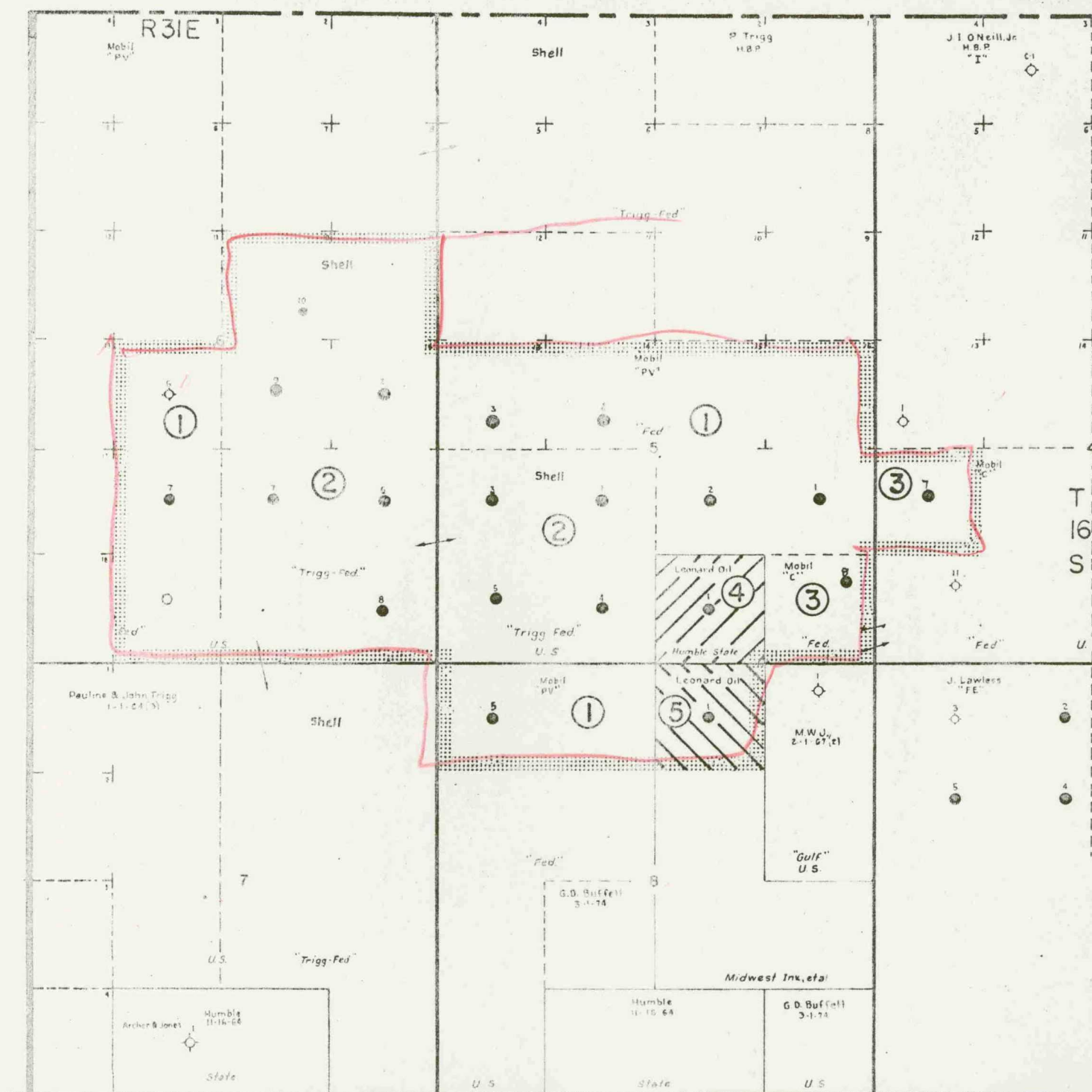
SHELL OIL COMPANY

DATE: \_\_\_\_\_

By \_\_\_\_\_  
Attorney in Fact

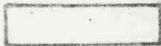
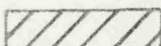
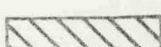


Address: P. O. Box 1509  
Midland, Texas

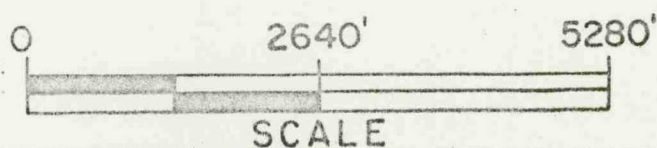
UNIT OPERATOR AND  
WORKING INTEREST OWNER



# NORTH SQUARE LAKE PREMIER UNIT EDDY COUNTY, NEW MEXICO EXHIBIT "A"

## LEGEND

-  FEDERAL ACREAGE
-  STATE ACREAGE
-  FEE ACREAGE
-  UNIT BOUNDARY
-  TRACT NUMBER



**EXHIBIT "B"**

**TRACT  
NO.**

1

2

3

4

5

**Total - 1,080 Acres**

EXHIBIT " C "  
NORTH SQUARE LAKE PREMIER UNIT  
EDDY COUNTY, NEW MEXICO

SCHEDULE OF TRACT PARTICIPATION

<u>Tract Number</u>	<u>Tract Participation</u>	
	<u>Phase I (%)</u>	<u>Phase II (%)</u>
1	18.400527	25.827061
2	64.659722	60.118261
3	15.873366	11.723071
4	.720618	1.439616
5	.345767	.891991
Total	100.000000	100.000000