

**UNIT AGREEMENT
NORTHEAST SQUARE LAKE (PREMIER) UNIT
EDDY COUNTY, NEW MEXICO**

BEFORE EXAMINER UTZ	
OIL CONSERVATION COMMISSION	
<i>Mobil</i>	EXHIBIT NO. <u>34431</u>
CASE NO.	<u>34431</u>

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

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THIS AGREEMENT, entered into as of the 1st day of July, 1966,
by and between the parties subscribing, ratifying or consenting hereto, and
herein referred to as "parties hereto",

W I T N E S S E T H:

WHEREAS, The parties hereto are the owners of Working, Royalty, or other
Oil and Gas Interests in the Unit Area subject to this agreement; and

WHEREAS, The Mineral Leasing Act of February 25, 1920 (41 Stat. 437, as
amended, 30 U.S.C. Secs. 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 develop-
ment 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 an Act of the Legislature (Sec. 7-11-39 N. M. Statutes 1953
Annotated, et seq.) 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 Oil Conservation Commission of the State of New Mexico is
authorized by an Act of the Legislature (Article 3, Chapter 65, Vol. 9, Part
2, 1953 Statutes), to approve this agreement and the conservation provisions
hereof; and

WHEREAS, The parties hereto hold sufficient interests in the Northeast
Square Lake (Premier) 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 institute a program of
secondary recovery to conserve natural resources, prevent waste, and secure
other benefits obtainable through development and operation of the Area sub-
ject to this agreement under the terms, conditions and limitations herein set
forth;

NOW, THEREFORE, In consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the 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 or 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 State of New Mexico and privately owned 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. DEFINITIONS: For the purpose of this agreement, the following terms and expressions as used herein shall mean:

(a) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(b) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.

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

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

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

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

(g) "Premier Sand or Unitized Formation" is defined as being that portion of the Grayburg Formation which is a continuous stratigraphic interval as represented by the interval from 3926 feet to 3976 feet on the Sonic Log dated March 24, 1960, of the Oscar Bourg Drilling Company No. 1 State, located 660 feet FSL and 660 feet FWL, Section 2, T-16-S, R-31-E, Eddy County, New Mexico.

(h) "Unitized Substances" is defined as and shall mean all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all

associated and constituent liquids or liquefiable hydrocarbons within or produced from the Unitized Formation.

(i) "Working Interest" is defined as the right to search for, produce and receive a portion of the Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, or otherwise, 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 Substance from the Unitized Formation and operating thereof hereunder.

(j) "Working Interest Owner" is defined as and shall mean any party hereto owning a Working Interest.

(k) "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.

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

(m) "Unit Operating Agreement" is defined as and shall mean 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 Article 10, infra, and shall be styled "Unit Operating Agreement, Northeast Square Lake (Premier) Unit, Eddy County, New Mexico."

(n) "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 lands.

(o) "Tract Current Production" is defined as the number of barrels of oil heretofore approved by the Working Interest Owners as having been produced from such Tract during the period January 1, 1965, through June 30, 1965.

(p) "Unit Area Current Production" is the summation of the Tract Current Production of the Tracts committed to this agreement.

(q) "Tract Remaining Primary Reserves" is defined as the estimated number of barrels of oil heretofore approved by the Working Interest Owners as the remaining oil reserves of such Tract on November 1, 1965.

(r) "Unit Area Remaining Primary Reserves" is defined as the summation of the Tract Remaining Primary Reserves of those Tracts committed to this agreement.

(s) "Tract Ultimate Primary Recovery" is defined as total cumulative amount of oil produced from such Tract to July 1, 1964, as reported to the State Oil Conservation Commission, plus the Tract Remaining Primary Reserves as of July 1, 1964.

(t) "Unit Area Ultimate Primary Recovery" is defined as the summation of the Tract Ultimate Primary Recovery of those Tracts committed to this agreement.

(u) "Tract Acre Feet" is defined as the estimated number of acre feet heretofore approved by the Working Interest Owners as the reservoir volume under such Tract.

(v) "Unit Area Acre Feet" is defined as the summation of the Tract Acre Feet of those Tracts committed to this agreement.

(w) "Tract" means each parcel of land described as such and given a Tract number in Exhibit "B".

SECTION 3. UNIT AREA: The following described land is hereby designated and recognized as constituting the Unit Area:

Township 16 South, Range 31 East, N.M.P.M.

Section 2: SW/4
Section 3: Lots 14 & 15 and the S/2
Section 4: E/2 of the SE/4; SW/4 of the SE/4 and
SE/4 of the SW/4
Section 9: All
Section 10: All
Section 11: NW/4 and NW/4 of the SW/4

containing 2200 acres, more or less, in Eddy County, New Mexico.

SECTION 4. EXHIBITS: Attached hereto are the following exhibits which are incorporated herein by reference:

Exhibit "A", which is a map showing the Unit Area and to the extent known to the Unit Operator, the boundaries and identity of Tracts and leases in said Unit Area.

Exhibit "B", which 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.

(a) Reference to Exhibits. When reference herein is made to an exhibit, the reference is to the exhibit as originally attached, or, if revised, to the latest revision.

(b) Exhibits Considered Correct. An exhibit shall be considered to be correct until revised as herein provided.

(c) Correcting Errors. The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse Royalty or Working Interest Ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit.

(d) Filing Revised Exhibits. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes render such revision necessary or when requested by the Supervisor or by the Commissioner, 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 5. 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 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 per cent (90%) of the Working Interest Owners (on the basis of Phase II Unit Participation) have agreed to such Tract or Tracts being brought into the Unit, then Unit Operator shall, after preliminary concurrence by the Director and the 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 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, Supervisor, 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 such proposed expansion; and

(3) File, upon expiration of said thirty (30) day period as set out in (2) immediately above, with the Commission, Commissioner, and the Director the following: (a) Comprehensive statement as to mailing such 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 approval by the Commission, Commissioner and the Director, become effective as of the date prescribed in the notice thereof.

SECTION 6. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as to the Premier Sand (Unitized Formation) shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in or produced from said Unitized Formation of the "unitized land" are unitized under the terms of this agreement and herein are called "Unitized Substances". Surface rights of ingress and egress shall be maintained for the benefit of the Unit.

SECTION 7. UNIT OPERATOR: Mobil Oil Corporation is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever

reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 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, and until all unit wells are placed in a condition satisfactory to the Supervisor and the Commissioner for suspension, abandonment or operations, whichever is intended by the unit manager, 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 or removal 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 or removal.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the owners of seventy-five per cent (75%) of the committed Working Interests (based upon the then current Unit Participation) exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and the Supervisor.

In all instances of resignation or removal, until a successor Unit Operator is selected and accepted as hereinafter provided, the Working Interest Owners shall be jointly responsible for performance of the duties of 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 Unitized Land) to the new duly qualified successor Unit Operator or Unit Manager or to the owners thereof 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.

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 by affirmative vote of at least sixty-five per cent (65%) of their voting interest, based upon the then current percentages of participation as shown on Exhibit "B", select a successor Unit Operator; provided, however, that should any Working Interest Owner own a voting interest of more than thirty-five per cent (35%), the vote of said party shall not serve to disapprove the selection of a new Unit Operator approved by eighty per cent (80%) or more of the voting interests of the remaining Working Interest Owners, and provided further that the Unit Operator shall not vote to succeed itself. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) written notice of such selection shall have been filed with the Supervisor and approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and Commissioner 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 Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit 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, including secondary recovery operations, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request by Unit Operator, 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 his 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 all of the land subject to this agreement is reasonably proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this agreement is to formulate and to put into effect a secondary recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources consistent with good engineering practices expected of a prudent operator. 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, liquefied petroleum gas, and any other substance or a combination of any of said substances, whether produced from the Unitized Land or not, and that the location of input wells and the rates of

injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Commission, the Commissioner, and the Supervisor monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Supervisor, the Commission, 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, the Commission, and the Commissioner.

The initial plan of operation shall be filed with the Supervisor, the Commission, 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, the Commission, and the Commissioner may determine to be necessary for timely operation consistent herewith. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operation. 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 reasonable extension thereof approved by the Commission, the Commissioner and the Supervisor. 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: Exhibit "B" attached hereto shows the participation allocated to each Tract in the Unit Area based upon a presumed one hundred per cent (100%) commitment. The formula as used for the calculations of such participation percentages is as follows:

$$\text{Phase I Participation} = 90\% \frac{\text{Tract Current Production}}{\text{Unit Area Current Production}}$$

plus

$$10\% \frac{\text{Tract Remaining Primary Reserves}}{\text{Unit Area Remaining Primary Reserves}}$$

Phase I Participation shall remain in effect from the effective date

hereof until 7:00 a.m. of the first day of the calendar month next following the date at which oil production from and after November 1, 1965, equals 57,300 barrels.

$$\text{Phase II Participation} = 60\% \frac{\text{Tract Ultimate Primary Recovery}}{\text{Unit Area Ultimate Primary Recovery}}$$

plus

$$40\% \frac{\text{Tract Acre Feet}}{\text{Unit Area Acre Feet}}$$

If the Unit Agreement is approved with less than one hundred per cent (100%) Tract commitment, said percentages of participation shall be revised to fit the commitment status as of the effective date hereof, and thereafter, as needed pursuant to Section 15 (Allocation of Unitized Substances).

SECTION 14. TRACTS QUALIFIED FOR UNIT PARTICIPATION: As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under this section.

On and after the effective date hereof the Tracts within the Unit Area which shall be entitled to participation (as provided in Section 13 hereof) in the production of Unitized Substances therefrom shall be those Tracts that are qualified as follows:

(a) Each and all of those Tracts as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest in said Tract and Royalty Owners owning one hundred per cent (100%) of the Royalty Interest in said Tract have subscribed, ratified or consented to this agreement; and

(b) Each and all of those Tracts in which the owners of not less than ninety-five per cent (95%) of the Working Interest therein and the owners of not less than seventy-five per cent (75%) of the Royalty Interest therein have executed this agreement, and in which the Working Interest Owners in said Tract who have executed this agreement have agreed to indemnify and hold harmless all other parties hereto, in a manner satisfactory to the owners of eighty-five per cent (85%) of the Working Interests qualified under (a), against any and all claims and demands that may be made by the non-joining Working Interest Owners or Royalty Owners, or both, on account of the commitment and joinder of such Tract to the Unit Agreement, and operation thereof under such conditions on the basis herein provided, and as to which

the owners of eighty-five per cent (85%) of the Working Interests qualified under (a), exclusive of the Working Interest Owner submitting such Tract, have voted to approve the commitment of such Tract to this Unit Agreement.

For the purposes of this Section 14 (b), a Working Interest Owner's vote shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 14 (a) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 14 (a), as such Unit Participation is determined from the Tract Participations set out in Exhibit "B".

(c) Each Tract as to which Working Interest Owners owning less than 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 qualification of such Tract 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 qualification of such Tract, and

(ii) The owners of eighty per cent (80%) of the committed Working Interest in all Tracts meeting the requirements of Sub-section (a) and (b) have voted in favor of the inclusion of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 14 (c), a Working Interest Owner's vote shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 14 (a) and 14 (b) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 14 (a) and 14 (b) as such Unit Participation is determined from the Tract Participation set out in Exhibit "B". Upon the inclusion of such a Tract in the Unit Area, 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 within the Unit Area which have not been committed to and 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, or as promptly thereafter as practicable, 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 land hereunder. Said schedule shall set forth opposite each such committed Tract the lease number and assignment number, the owner of record of the lease, and the percentages of 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 Supervisor shall become a part of this agreement and shall govern the allocation of production of Unitized Substances until the effective date of a new schedule 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 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 then effective hereunder during the respective periods such Unitized Substances were produced. The amount of Unitized Substances so allocated to each Tract (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to the parties 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 qualification of any Tract.

If any Working Interest or Royalty Interest in a Tract hereafter becomes divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

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 unitized land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 16 (Royalty Settlement) hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the Unitized Substances as and when produced, then so long as such conditions continue, Unit Operator, for the account and at the expense of such party and in order to avoid curtailing the operation of the Unit Area, may buy, sell or otherwise dispose of such production to itself or others on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such party shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator

shall be paid to the Working Interest Owner for payment to the parties entitled thereto under existing contracts.

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 if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all Royalty on the lease or leases and Tracts contributed by it and received into the Unit, and each such party shall hold each other party hereto harmless against all claims, demands and causes of action for such Royalty on the lease or leases and Tracts contributed by it and received into the unitized land.

If, after the effective date of this agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 5 (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 33 (Nonjoinder and Subsequent Joinder), or if any Tract is excluded from the Unit Area as provided for in Section 30 (Loss of Title), the schedules of participation as shown in Exhibit "B", subject to Section 13 (Tract Participation) or Section 33 (Nonjoinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Commissioner, and the Supervisor to show the new percentages of participation of all the then effectively committed Tracts; and the revised schedules, upon approval by the Commissioner and the Director, shall govern all the allocation of production from and after the effective date thereof until the effective date of a new schedule so approved.

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 the 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.

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 rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation.

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, sub-leases 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, sub-leases 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 Secretary 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, sub-lease, 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 so long as such land remains committed hereto.

(e) The segregation of any Federal lease committed to this agreement is governed by the following provisions in the fourth paragraph of Section 17 (j) of said Act of February 25, 1920, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "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 (2) years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(f) 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, re-working, 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. CORRECTION OF ERRORS: It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which might exist in the pertinent exhibits to this agreement; provided however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of the Commissioner, the Supervisor, and the Working Interest Owners.

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 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 as of the date such party signs the instrument by which it becomes a party hereto; and, unless sooner terminated as hereinafter provided, shall become effective as to qualified Tracts after approval by the Director at the time and date as determined by the Working Interest Owners in all the qualified Tracts, and set forth in a certificate filed for record by Unit Operator in Eddy County, New Mexico. The certificate shall also recite the percentage of the Unit Area represented by the Tracts qualified under Section 14, the book and page in which a counterpart of this agreement has been recorded, and the case number and order number of the order of approval by governmental authority, if obtained. The certificate shall not be filed until after the following requirements have been met:

(a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners owning a combined 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 sixty-five per cent (65%) of the Royalty Interest, in said Unit Area; and

(b) The approval of this agreement by the Commissioner, the Secretary or his duly authorized representative, and the Commission.

If (a) and (b) above are not accomplished on or before January 1, 1967, this agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force and effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners owning a combined Unit Participation of at least ninety per cent (90%) committed to this agreement have decided to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a) and (b) are not accomplished on or before said extended expiration date, this agreement shall ipso facto expire on said extended expiration date and thereafter be of no force or effect. For the purpose of this Section, ownership shall be computed on the basis of Phase II Unit Participation as determined from Exhibit "C" attached to the Unit Operating Agreement.

Unit Operator shall, within thirty (30) days after the effective date of this agreement, file for record a certificate to the effect that this agreement has become effective according to its terms and stating further the

effective date and the location of the governmental agency offices where copies of this agreement are filed.

The term of this agreement shall be for and during the time that Unitized Substances are produced in quantities sufficient to pay for the cost of producing same from 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 sixty (60) consecutive days and so long thereafter as Unitized Substances are produced as aforesaid. Termination under this paragraph shall be effective as of the first day of the month after the Unit Operator determines, on confirmatory data satisfactory to the Director and the Commissioner, that the unit is no longer paying.

This agreement may be terminated at any time with the approval of the Commissioner and the Director by Working Interest Owners owning ninety per cent (90%) Unit Participation. Notice of any such termination shall be given by Unit Operator to all parties hereto.

Upon termination of this agreement, 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, at 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 developing

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

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 United States or 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.

SECTION 31. 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 and 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 32. BORDER AGREEMENTS: Subject to the approval of the Supervisor and the Commissioner, the Unit Operator, with concurrence of sixty-five per cent (65%) of the Working Interest Owners, based upon the Phase II percentages of participation, may enter into a border protection agreement or agreements with the Working Interest Owners of adjacent lands along the boundaries of the Unitized Land 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 33. 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 lands in the Unit Area not committed hereto prior to submission of this Agreement to the Commissioner and 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 per cent (90%) of the Working Interest Owners (based upon the Phase II percentages of participation) and subject to approval by the Director and Commissioner. 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, and such joinder is approved by the Commissioner as to State lands.

SECTION 34. 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 35. 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 in such tanks, above the pipe line connections, as of 7:00 a.m. on the effective date hereof. All such oil as is a part of the prior allowable of the well or wells from which the same was produced shall be and remain the property of the Working Interest Owners entitled thereto the same as if the Unit had not been formed, and such Working Interest Owners shall promptly remove said oil from the Unit Area. Any such oil not so removed may be sold by the Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty Owners

under the terms and provisions of the applicable lease or leases and other contracts. All such oil and gas 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 36. 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 subject to this agreement 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 37. 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 nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 38. 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. Execution as here-
in 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.

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

Date July 14, 1966

MOBIL OIL CORPORATION

By F. S. Wright, Jr.
Attorney in Fact

APPROVED	
JT. INT.	<input checked="" type="checkbox"/>
CONTR.	<input checked="" type="checkbox"/>
N. GAS	<input checked="" type="checkbox"/>
ENGR.	<input checked="" type="checkbox"/>
LEGAL	<input checked="" type="checkbox"/>
LAND	<input checked="" type="checkbox"/>
TITLE R	<input checked="" type="checkbox"/>

Date _____

By _____

Date _____

By _____

STATE OF TEXAS X
 X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this 14th day
of July, 1966, by F. S. Wright, Jr., Attorney in Fact for
MOBIL OIL CORPORATION, a New York Corporation, on behalf of said corporation.

My Commission Expires:
June 1, 1967

Janet S. Golightly
Notary Public, in and for
Midland County, Texas

STATE OF TEXAS Y
 Y
COUNTY OF MIDLAND Y

The foregoing instrument was acknowledged before me this _____ day of _____, 1966, by _____, Attorney in Fact for MOBIL OIL CORPORATION, a New York Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

* * * * *

STATE OF Y
 Y
COUNTY OF Y

The foregoing instrument was acknowledged before me this _____ day of _____, 1966, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

* * * * *

STATE OF Y
 Y
COUNTY OF Y

The foregoing instrument was acknowledged before me this _____ day of _____, 1966, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

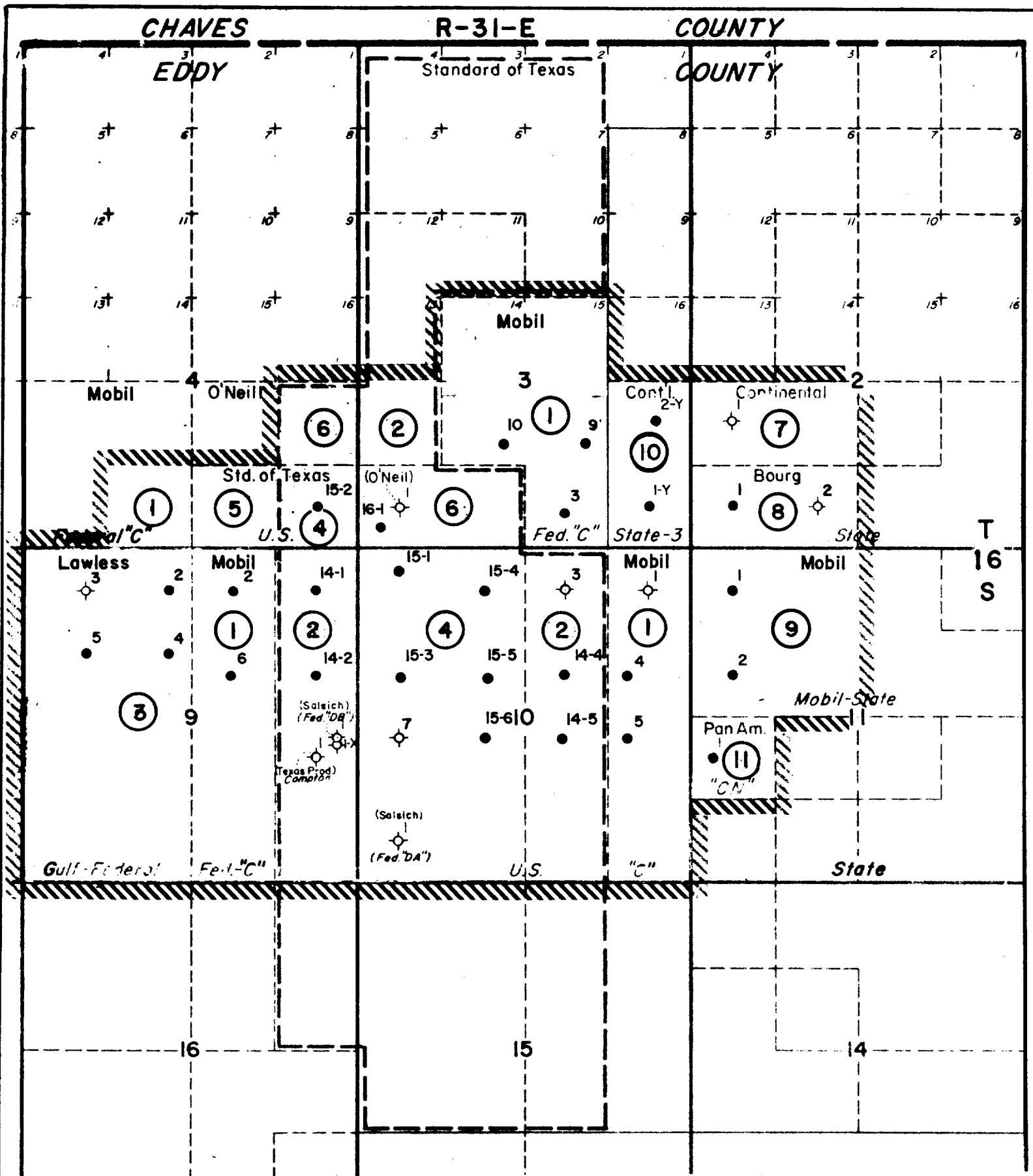
* * * * *

STATE OF Y
 Y
COUNTY OF Y

The foregoing instrument was acknowledged before me this _____ day of _____, 1966, by _____.

My Commission Expires:

Notary Public



LEGEND

//// Unit Boundary

④ Tract Number

EXHIBIT A

TO UNIT AGREEMENT

NORTHEAST SQUARE LAKE (PREMIER) UNIT

Eddy County, New Mexico

Scale: 1"=2000' 6-27-66

EXHIBIT "B"
TO
UNIT AGREEMENT
NORTHEAST SQUARE LAKE (PREMIER) UNIT
EDDY COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	SERIAL # & EXP. DATE OF LEASE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND AMOUNT	WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION PHASE I PHASE II
FEDERAL LANDS								
1	Township 16 South, Range 31 East							
	Sec. 3: Lots 14, 15, W/2 SE/4	560	NM-04421 HBP	U.S.A. 12½%	John H. Trigg	Institute Oil, Inc. .6055000 P.P.	Mobil Oil Corp. 100.00000%	43.1108 25.3078
	& NE/4 SW/4					John H. Trigg .0100000		
	Sec. 4: SE/4 SW/4							
	Sec. 9: W/2 E/2							
	Sec. 10: E/2 E/2							
2	Township 16 South, Range 31 East	360	NM-04421 HBP	U.S.A. 12½%	John H. Trigg	N. C. Dragisic, Tr. .0015525	Chevron Oil Co. 42.84285%	9.4912 15.1912
	Sec. 3: NW/4 SW/4					Institute Oil, Inc. .2600199 P.P.	Mobil Oil Corp. 42.94300%	
	Sec. 9: E/2 E/2					John H. Trigg .0042943	Pan Amer. Petr. Corp. 2.38575%	
	Sec. 10: W/2 E/2						E. T. Anderson 0.13011%	
							Edwina S. Brokaw 0.41202%	
							J. Walter Duncan, Jr. 1.50276%	
							Raymond T. Duncan 0.26807%	
							Vincent J. Duncan 0.56232%	
							Walter Duncan 1.44799%	
							James G. Hanes 0.59142%	
							Roscoe C. Hobbs Estate 0.29571%	
							Frank A. Howard Estate 0.29571%	
							C. Hilmer Lundbeck, Jr. 0.41400%	

TRACT NUMBER	FEDERAL LANDS	SERIAL # & EXP. DATE	NUMBER OF ACRES	DESCRIPTION	ROYALTY BASIC	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST		UNIT PARTICIPATION	
							OWNER AND AMOUNT	OWNER AND AMOUNT	OWNER AND AMOUNT	OWNER AND AMOUNT	PHASE I	PHASE II
2 (con.)												
									J. W. McAfee 0.29571%			
									Joseph I. O'Neill, Jr. 3.78115%			
									Edward L. Shea Estate 1.00541%			
									Peter L. Shea 0.41202%			
									Florence J. Shinkle 0.20700%			
									St. Louis Union Trust Co. & Mrs. A.W. Johnson 0.20700%			
3	Township 16 South, Range 31 East Sec. 9: W/2	NM-026332 HBP	320		U.S.A. 12½%	Gulf Oil Corp.	Thomas W. Bauerdorf & George F. Bauerdorf .0250000	Jake Lawless Drlg Co. 100.000000%		10.8641	6.6025	
							George E. Conley .0125000					
							Vincent Cuccia Louise Cuccia .0125000					
							Gulf Oil Corp. .1250000					
4	Township 16 South, Range 31 East Sec. 4: SE/4 SE/4 Sec. 10: W/2	NM-026418 HBP	360		U.S.A. 12½%	Chevron Oil Co.	Lillian H. Coll .0375000	Chevron Oil Co. 42.84285%		13.5118	22.8692	
							*N.C. Dragisic, Tr. .0015525	Mobil Oil Corp. 42.94300%				
							*Bonnie R. Etz .0062500	Pan Amer. Petr. Corp. 2.38575%				
							*Anna Mae Jackson .0062500	E. T. Anderson 0.13011%				
								Edwina S. Brokaw 0.41202%				
								J. Walter Duncan, Jr. 1.50276%				
								Raymond T. Duncan 0.26807%				
							*Limited Override					

TRACT NUMBER	FEDERAL LANDS	DESCRIPTION	NUMBER OF ACRES	SERIAL # & EXP. DATE		BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION		
				OF LEASE	DATE			OWNER AND AMOUNT	PHASE I		PHASE II		
4 (Con.)													
										Vincent J. Duncan 0.56232%			
										Walter Duncan 1.44799%			
										James G. Hanes 0.59142%			
										Roscoe C.Hobbs Estate 0.29571%			
										Frank A.Howard Estate 0.29571%			
										C. Hilmer Lundbeck,Jr. 0.41400%			
										J. W. McAfee 0.29571%			
										Joseph I. O'Neill,Jr. 3.78115%			
										Edward L. Shea Estate 1.00541%			
										Peter L. Shea 0.41202%			
										Florence J. Shinkle 0.20700%			
										St. Louis Union Trust Co. & Mrs. A. W. Johnson 0.20700%			
5	Township 16 South, Range 31 East Sec. 4: SW/4 SE/4		40	NM-026418 HBP		U.S.A. 12½%	Chevron Oil Co.	Lillian H. Coll .0375000 *N.C. Drägisic, Tr. .0015525 *Bonnie R. Etz .0062500 *Anna Mae Jackson .0062500 *Limited Override		Chevron Oil Co. 100.00000%	0	0.0778	

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	SERIAL # & EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST		UNIT PARTICIPATION	
						OWNER AND AMOUNT	OWNER AND AMOUNT	OWNER AND AMOUNT	OWNER AND AMOUNT	PHASE I	PHASE II
FEDERAL LANDS											
6	Township 16 South, Range 31 East	120	NM-081381-A	U.S.A. Joseph I. O'Neill, Jr	S. B. Christy IV	Chevron Oil Co.				3.6804	3.5208
	Sec. 3: S/2 SW/4		HBP	12½%	.0037500	42.84285%					
	Sec. 4: NE/4 SE/4				N.C. Dragisic, Tr.	Mobil Oil Corp.					
					.0010837	42.94300%					
					Lamar Lunt	Pan Amer. Petr. Corp.					
					.0200000	2.38575%					
					C. D. Ross	E. T. Anderson					
					.0075000	0.13011%					
					Hoover H. Wright	Edwina Brokaw					
					.0200000	0.41202%					
						J. Walter Duncan, Jr.					
						1.50276%					
						Raymond T. Duncan					
						0.26807%					
						Vincent J. Duncan					
						0.56232%					
						Walter Duncan					
						1.44799%					
						James G. Hanes					
						0.59142%					
						Roscoe C. Hobbs Estate					
						0.29571%					
						Frank A. Howard Estate					
						0.29571%					
						C. Hilmer Lundbeck, Jr.					
						0.41400%					
						J. W. McAfee					
						0.29571%					
						Joseph I. O'Neill, Jr.					
						3.78115%					
						Edward L. Shea Estate					
						1.00541%					
						Peter L. Shea					
						0.41202%					
						Florence J. Shinkle					
						0.20700%					
						St. Louis Union Trust Co.					
						& Mrs. A. W. Johnson					
						0.20700%					
TOTAL: SIX FEDERAL TRACTS		1760 Acres or 80% of Unit Area									

TRACT NUMBER	DESCRIPTION	NUMBER OF ACRES	SERIAL # & EXP. DATE		ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST OWNER AND AMOUNT	UNIT PARTICIPATION	
			OF LEASE	BASIC			OWNER AND AMOUNT	OWNER AND AMOUNT		PHASE I	PHASE II
STATE LANDS											
7	<u>Township 16 South, Range 31 East</u> Sec. 2: N/2 SW/4	80	B-3006 HBP		State of New Mexico 12½%	Continental Oil Co	George M. Gardner & Wife Blanche M. Gardner & Roy Howley & wife Eloise Howley .0200000 P.P.	Continental Oil Co. 100.00000%		0	0.5254
8	<u>Township 16 South, Range 31 East</u> Sec. 2: S/2 SW/4	80	E-5300 HBP		State of New Mexico 12½%	Continental Oil Co	C. E. Dorsey .0625000	W.E. Bondurant, Jr. 25.00000% Oscar Bourg 25.00000% Ora R. Hall, Jr. 25.00000% J. Penrod Toles 25.00000%		3.9213	6.7217
9	<u>Township 16 South, Range 31 East</u> Sec. 11: NW/4	160	E-6418 HBP		State of New Mexico 12½%	Mobil Oil Corp.	Jack B. Chase .0546875 Mobil Oil Corp. .0117187	Oscar Bourg 3.12500% William B. Duff 12.50000% First National Bank a/c J.A. Armstrong Co.Inc 3.12500% Mobil Oil Corp. 81.25000%		7.5585	7.3275
10	<u>Township 16 South, Range 31 East</u> Sec. 3: E/2 SE/4	80	E-6484 HBP		State of New Mexico 12½%	Continental Oil Co	None	Continental Oil Co 100.00000%		2.7167	9.5916
11	<u>Township 16 South, Range 31 East</u> Sec. 11: NW/4 SW/4	40	E-9040 HBP		State of New Mexico 12½%	Pan Amer Petr Corp.	None	Pan Amer. Petr Corp. 100.00000%		5.1452	2.2645
TOTAL		: FIVE STATE TRACTS		440 ACRES OR 20% OF UNIT AREA							
GRAND TOTAL:		ELEVEN TRACTS		2200 ACRES OR 100% OF UNIT AREA				100.0000		100.0000	