

UNIT AGREEMENT FOR THE DEVELOPMENT AND  
OPERATION OF THE HUERFANO UNIT AREA,  
COUNTY OF SAN JUAN  
STATE OF NEW MEXICO

I- Sec. No. 731

DEC 8 1949

THIS AGREEMENT, entered into as of the 29<sup>th</sup> day of July, 1949,  
by and between the parties subscribing, ratifying, or consenting hereto, and  
herein referred to as the "parties hereto";

WITNESSETH:

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

WHEREAS, the term "working interest owner" as used herein and in other  
contracts between and among the parties relating to the subject lands shall mean  
and refer only to such an interest committed hereto as may be obligated to bear or  
share, either in cash or out of production (other than by permitting the use of  
unitized substances for development, production, repressuring or recycling purposes),  
a portion or all of the costs or expenses of developing, equipping or operating any  
land within the Unit Area subject to this agreement. If the working interest in any  
tract is or shall hereafter be owned by more than one party, the term "working in-  
terest owner", when used with respect to such tract, shall refer to all such parties  
owning the working interest therein; and

WHEREAS, the act of February 25, 1920, 41 Stat. 437, 30 U.S.C. Sec. 181,  
et. seq., as amended by the act of August 8, 1946, 60 Stat. 950, authorizes Federal  
lessees and their representatives to unite with each other, or jointly or separately  
with others, in collectively adopting and operating under a cooperative or unit plan  
of development or operation of any oil or gas pool, field, or like area, or any part  
thereof, for the purpose of more properly conserving the natural resources thereof  
whenever determined and certified by the Secretary of the Interior to be necessary  
or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is  
authorized by an Act of the Legislature (Chap. 88, Laws 1943) 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 (Chap. 72, Laws 1935) to approve this agree-  
ment and the conservation provisions hereof;

WHEREAS, the parties hereto hold sufficient interests in the Huerfano Unit Area to give reasonably effective control of operations therein; and

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

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

1. ENABLING ACT AND REGULATIONS: The 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, and as to non-Federal land applicable State laws are accepted and made part of this agreement.

2. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

NEW MEXICO PRINCIPAL MERIDIAN

Township 25 North, Range 9 West

*any and all formations are unitized*

|             |             |             |
|-------------|-------------|-------------|
| Sec. 7-All  | Sec. 7-All  | Sec. 14-All |
| Sec. 8-All  | Sec. 8-All  | Sec. 15-All |
| Sec. 9-All  | Sec. 9-All  | Sec. 16-All |
| Sec. 10-All | Sec. 10-All | Sec. 17-All |
| Sec. 11-All | Sec. 11-All | Sec. 18-All |

Township 25 North, Range 10 West

|            |             |             |
|------------|-------------|-------------|
| Sec. 1-All | Sec. 4-All  | Sec. 12-All |
| Sec. 2-All | Sec. 10-All | Sec. 13-All |
| Sec. 3-All | Sec. 11-All | Sec. 14-All |

Township 26 North, Range 9 West

|             |             |             |
|-------------|-------------|-------------|
| Sec. 5-All  | Sec. 18-All | Sec. 28-All |
| Sec. 6-All  | Sec. 19-All | Sec. 29-All |
| Sec. 7-All  | Sec. 20-All | Sec. 30-All |
| Sec. 8-All  | Sec. 21-All | Sec. 31-All |
| Sec. 9-All  | Sec. 22-All | Sec. 32-All |
| Sec. 15-All | Sec. 23-All | Sec. 33-All |
| Sec. 16-All | Sec. 26-All | Sec. 34-All |
| Sec. 17-All | Sec. 27-All | Sec. 35-All |

Township 26 North, Range 10 West

|             |             |             |
|-------------|-------------|-------------|
| Sec. 1-All  | Sec. 13-All | Sec. 25-All |
| Sec. 2-All  | Sec. 14-All | Sec. 26-All |
| Sec. 3-All  | Sec. 15-All | Sec. 27-All |
| Sec. 4-All  | Sec. 16-All | Sec. 28-All |
| Sec. 5-All  | Sec. 17-All | Sec. 29-All |
| Sec. 6-All  | Sec. 18-All | Sec. 30-All |
| Sec. 7-All  | Sec. 19-All | Sec. 31-All |
| Sec. 8-All  | Sec. 20-All | Sec. 32-All |
| Sec. 9-All  | Sec. 21-All | Sec. 33-All |
| Sec. 10-All | Sec. 22-All | Sec. 34-All |
| Sec. 11-All | Sec. 23-All | Sec. 35-All |
| Sec. 12-All | Sec. 24-All | Sec. 36-All |

Township 26 North, Range 11 West

Sec. 1-All  
Sec. 12-E/2

Township 27 North, Range 9 West

Sec. 31-All

Township 27 North, Range 10 West

|             |             |             |
|-------------|-------------|-------------|
| Sec. 19-All | Sec. 31-All | Sec. 34-All |
| Sec. 29-All | Sec. 32-All | Sec. 35-All |
| Sec. 30-All | Sec. 33-All | Sec. 36-All |

Township 27 North, Range 11 West

Sec. 24-All  
Sec. 25-All  
Sec. 36-All

Total Unit Area embraces 63,122.05 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the known ownership of all land and leases in said area. Exhibit "B" attached hereto is a schedule showing the percentage and kind of ownership of oil and gas interests in all land in the unit area. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or other changes render such revision necessary, but no such revision shall be retroactive. Not less than six copies of the revised exhibits shall be filed with the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", and two copies with the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner".

The above-described unit area shall when practicable be expanded to include therein any additional tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be in the following manner:

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", or on demand of the Commissioner, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof;

(b) Said notice shall be delivered to the Supervisor and Commissioner, and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections;

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor and Commissioner evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator;

(d) After due consideration of all pertinent information, the Director and Commissioner shall approve in whole or in part or reject the proposed expansion or contraction. To the extent that it may be approved, such expansion or contraction shall become effective as of the date prescribed in the notice thereof.

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

3. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

4. UNIT OPERATOR: SLICK-MOORMAN OIL COMPANY is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, 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 owner of interests in unitized substances.

The Unit Operator may resign as Unit Operator whenever not in default under this agreement, but no Unit Operator shall be relieved from the duties and obligations of Unit Operator for a period of six months after it has served notice of intention to resign on all owners of working interests subject hereto and the Director and Commissioner unless a new Unit Operator shall have been selected and approved and shall have assumed the duties and obligations of Unit Operator prior to the expiration of said six-month period. Unless a successor operator is to be selected and approved, and is to assume the duties and obligations of operator prior to the effective date of the retiring operator's relinquishment of duties, the retiring operator must place all wells drilled hereunder in a satisfactory condition for suspension or abandonment as may be required by the Supervisor and the Commissioner under applicable Federal and State oil and gas operating regulations. Upon default or failure in the performance of its duties or obligations under this agreement, the Unit Operator may be removed by a majority vote of owners of working interests determined in like manner as herein provided for the selection of a successor Unit Operator. Prior to the effective date of relinquishment by, or

within six months after removal of Unit Operator, the duly qualified successor Unit Operator shall have an option to purchase on reasonable terms all or any part of the equipment, material, and appurtenances in or upon the land subject to this agreement, owned by the retiring Unit Operator and used in its capacity as such Operator, or if no qualified successor operator has been designated, the working interest owners may purchase such equipment, material, and appurtenances. At any time within the next ensuing three months any equipment, material, and appurtenances not purchased and not necessary for the preservation of wells may be removed by the retiring Unit Operator, but if not removed shall become the joint property of the owners of unitized working interests in the participating area or, if no participating area has been established, in the entire unit area. The termination of the rights as Unit Operator under this agreement shall not terminate the right, title, or interest of such Unit Operator in its separate capacity as owner of interests in unitized substances.

5. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall relinquish the right as Unit Operator or shall be removed, the owners of the unitized working interests in the participating area on an acreage basis, or in the unit area on an acreage basis until a participating area shall have been established, shall select a new Unit Operator. A majority vote of the working interests qualified to vote shall be required to select a new Unit Operator; provided, that if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of at least one additional working interest owner shall be required to select a new Unit Operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Director and Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and Commissioner at their election may declare this unit agreement terminated.

6. UNIT ACCOUNTING AGREEMENT: If the Unit Operator is not the sole owner of working interests, all costs and expenses incurred in conducting unit operations hereunder and the working interest benefits accruing hereunder shall be apportioned among the owners of unitized working interests in accordance with a unit accounting agreement by and between the Unit Operator and the other owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "Unit Accounting Agreement". No such 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 this unit agreement and the unit accounting agreement, this unit agreement shall prevail. Three true copies of any unit accounting agreement executed pursuant to this section shall be filed with the Supervisor.

7. 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, and storing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Each working interest owner shall take in kind, or market individually or through an agent, its respective portion of the unitized substances and acting individually or through an agent shall pay all royalty, overriding royalty or other payments to which the portion of such working interest owner is subject. The right is hereby secured to the United States and the State of New Mexico under existing or future laws and regulations to elect to take its respective royalty shares in kind or value. 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.

The Unit Operator shall pay all costs and expenses of operation with respect to the unitized land; and no charge therefor shall be made against the royalty owners. If and when the Unit Operator is not the sole owner of all working interests, such costs shall be charged to the account of the owners of working interests, and the Unit Operator shall be reimbursed therefor by such owners and shall account to the working interest owners for their respective shares of the production derived from operations hereunder, all in the manner and to the extent provided in the unit accounting agreement. If the Unit Operator is the sole working interest owner, he shall bear all such costs and expenses. The Unit Operator shall render each month to the owners of unitized interests entitled thereto an accounting of the operations on unitized land during the previous calendar month, and shall pay in value or deliver in kind to each party entitled thereto a proportionate and allocated share of the benefits accruing hereunder in conformity

with operating agreements, leases, or other independent contracts between the Unit Operator and the parties hereto either collectively or individually.

The development and operation of land subject to this agreement under the terms hereof shall be deemed full performance by the Unit Operator of all obligations for such development and operation with respect to each and every part or separately owned tract of land 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 any of them.

8. DRILLING TO DISCOVERY: Within 6 months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location to be approved by the Supervisor if such location is upon lands of the United States, and if upon State lands or patented lands, such location shall be approved by the Oil Conservation Commission of the State of New Mexico, hereinafter referred to as the Commission, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until a well has been drilled to a depth of 7000 feet to adequately test the Dakota formation, unless at a lesser depth unitized substances shall be discovered which can be produced in paying quantities or the Unit Operator shall at any time establish to the satisfaction of the Supervisor as to wells on Federal land, or the Commission as to wells on State land or patented land, that further drilling of said well would not be warranted. In the event of discovery and completion of the initial or subsequent test wells as a commercial well or wells in formations above and before reaching the Dakota formation, a test well shall be drilled to the original objective, and it is agreed that such well will be begun at a location approved as above not later than 18 months after the effective date of this agreement. If the first or any subsequent test well fails to result in the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 6 months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if on Federal land or the Commissioner if on State land or patented land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign, as provided in Section 4 hereof, after any well drilled under this section

is placed in a satisfactory condition for suspension or is plugged and abandoned pursuant to applicable regulations. The Director, and the Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in their opinion, such action is warranted. Upon failure to comply with the drilling provisions of this section, the Director and Commissioner may, after reasonable notice to the Unit Operator and each working interest owner, lessee, and lessor at their last known addresses, declare this unit agreement terminated.

9. PLAN OF FURTHER DEVELOPMENT AND OPERATION: Within six months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor, the Commissioner, and the Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Commissioner, and the Commission, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor, the Commissioner, and the Commission, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for exploration of the unitized area and for the determination of the commercially productive area thereof in each and every productive formation and shall be as complete and adequate as the Supervisor, the Commissioner, and the Commission may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor, the Commissioner, and the Commission. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and Commissioner are authorized to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing oil and gas in paying quantities, no further wells except such as may be necessary to afford protection against operations not

under this agreement or such as may be specifically approved by the Supervisor and the Commissioner shall be drilled except in accordance with a plan of development approved as herein provided.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well pursuant to the provisions of Section 8 hereof capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor or the Commissioner, the Unit Operator shall submit for approval by the Director, the Commissioner, and the Commission a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all land in said schedule on approval of the Director, the Commissioner, and the Commission to constitute a participating area, effective as of the date of first production. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productive in paying quantities, and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month following the date of first authentic knowledge or information on which such revision is predicated, unless a more appropriate effective date is specified in the schedule. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive apportionment of any sums accrued or paid for production obtained prior to the effective date of revision of the participating area.

In the absence of Agreement at any time between the Unit Operator and the Director, the Commissioner, and the Commission as to the proper definition or re-definition of a participating area, or until a participating area has, or areas

have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the United States and the State of New Mexico which shall be determined by the Supervisor and the Commissioner and the amount thereof deposited with the district land office of the Bureau of Land Management and the Commissioner of Public Lands respectively to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor as to wells on Federal land, the Commissioner as to wells on State land, and the Commission as to patented land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall be allocated to the land on which the well is located so long as that well is not within a participating area established for the pool or deposit from which such production is obtained.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each participating area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the said participating area. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area.

12. DEVELOPMENT OR OPERATION ON NON-PARTICIPATING LAND: Any party or parties hereto, other than the Unit Operator, owning or controlling a majority of the working interests in any unitized land not included in a participating area and having thereon a regular well location in accordance with a well-spacing pattern established under an approved plan of development and operation may drill a well at such location at his or their own expense, unless within 90 days of receipt of notice from said party or parties of intention to drill the well the Unit Operator elects and commences to drill such well in like manner as other wells are drilled

by the Unit Operator under this agreement.

If such well, by whomsoever drilled, results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement, and the well shall thereafter be operated by the Unit Operator pursuant to the terms of this agreement as other wells within participating areas, and there shall be a financial adjustment between the parties who financed the well and the working interest owners in the participating area concerning their respective drilling and other investment cost, all as provided in the unit accounting agreement.

If any well, by whomsoever drilled, as provided in this section, obtains production insufficient to justify inclusion of the land on which said well is situated in a participating area, such well may be operated and produced by the party drilling the well. If the drilling of such well was financed by parties other than the working interest owners on the well tract, details of financial arrangements and operations as between such parties shall be provided for in the unit accounting agreement.

Wells drilled or produced at the sole expense and for the sole benefit of an owner of working interest other than the Unit Operator shall be operated and produced pursuant to the conservation requirements of this agreement. Royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

13. ROYALTIES AND RENTALS: Royalty on each unitized tract shall be paid or delivered by the parties obligated therefor as provided by existing leases, contracts, laws, and regulations at the lease or contract rate upon the unitized substances allocated to the tract. Nothing herein contained shall operate to relieve the lessees of Federal or State lands from their obligations under the terms of their respective leases to pay rentals and royalties.

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 regulations; provided that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

Unitized substances produced from any participating area and used therein in conformance with good operating practice for drilling, operating, camp, or other

production or development purposes or under an approved plan of operation for repressuring or cycling said participating area, or for development outside of such participating area if for the purposes of drilling exploratory wells or for camps or other purposes benefiting the unit as a whole, shall be free from any royalty or other charge except as to any products extracted from unitized substances so used. If Unit Operator introduces gas for which royalties have been paid into any participating area hereunder from sources other than such participating area for use in repressuring, stimulation of production, or increasing ultimate production in conformity with a plan first approved by the Supervisor, a like amount of gas may be sold without payment of royalty as to dry gas but not as to the products extracted therefrom; provided, that gas so introduced shall bear a proportionate and equitable share of plant fuel consumption and shrinkage in the total volume of gas processed from such participating area; and provided further, that such withdrawal shall be at such time as may be provided in the plan of operation or as may otherwise be consented to by the Supervisor as conforming to good petroleum engineering practice; provided, however, that said right of withdrawal royalty free shall terminate upon termination of the unit agreement.

Each working interest owner and lessee presently responsible for the payment of rentals, or his successor in interest, shall be responsible for and shall pay all rentals of whatsoever kind on his respective lease. Rental or minimum royalty for land of the United States subject to this agreement shall be paid at the rate specified in the respective Federal leases or such rental or minimum royalty may be waived, suspended, or reduced to the extent authorized by law and applicable regulations. Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases, or may be reduced and suspended upon the order of the Commissioner of Public Lands of the State of New Mexico pursuant to applicable laws and regulations.

14. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances, to the end that the maximum efficient yield may be obtained without waste, as defined by or pursuant to State or Federal law or regulation; and production of unitized substances shall be limited to such production as can be put to beneficial use with adequate realization of fuel and other values.

15. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or pursuant to applicable regulations pay a

fair and reasonable compensatory royalty as determined by the Supervisor for Federal land or as approved by the Commissioner as to State land. Unit Operator shall be reimbursed for the cost thereof by the working interest owners in the manner provided in the unit accounting agreement.

16. LEASES AND CONTRACTS CONFORMED TO AGREEMENT: The parties hereto holding interests in leases embracing unitized land of the United States or of the State of New Mexico consent that the Secretary of the Interior, hereinafter referred to as "Secretary", and the Commissioner, respectively, may, and said Secretary and Commissioner by their approval of this agreement do, establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of such leases and the regulations in respect thereto, to conform said requirements to the provisions of this agreement, but otherwise the terms and conditions of said leases shall remain in full force and effect.

Said parties further consent and agree, and the Secretary or his duly authorized representative, and Commissioner by their respective approvals hereof determine, that during the effective life of this agreement, drilling and producing operations performed by the Unit Operator upon any unitized land will be accepted and deemed to be operations under and for the benefit of all unitized leases embracing land of the United States and of the state of New Mexico; that no such lease shall be deemed to expire by reason of failure to produce wells situated on land therein embraced; and that all leases or other contracts concerning such land, except as otherwise provided herein, shall be modified to conform to the provisions of this agreement and shall be continued in force and effect beyond their respective terms during the life of this agreement. Any Federal lease for a term of 20 years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force until the termination hereof. Any other Federal lease committed hereto shall continue in force as to the committed land so long as the lease remains committed hereto, provided a valuable deposit of unitized substances is discovered prior to the expiration date of the primary term of such lease. Authorized suspension of all operations and production on the unitized land shall be deemed to constitute authorized suspension with respect to each unitized lease.

The parties hereto holding interests in privately owned land within the unit area consent and agree, to the extent of their respective interests, that each such lease may be continued in effect beyond the primary term of such lease and during the term of this agreement, provided however that until some portion of the land in a privately owned lease is included in a participating area said lease may

be kept in force only by the payment of the delay rentals in the time, manner and amount provided by said lease. Except as in this section otherwise provided, all leases or other contracts concerning such land shall be modified to conform to the provisions of this agreement and shall be continued in force and effect during the life of this agreement; that drilling and producing operations conducted on any tract of land committed to this agreement will be accepted and deemed to be performed on and for the benefit of each and every tract of such privately owned land committed hereto; that no lease affecting said privately owned land shall be deemed to expire by reason of failure to drill or to produce wells situated on such lands; and that authorized suspension of all operations and production on unitized land shall be deemed to constitute authorized suspension with respect to all unitized leases affecting privately owned lands.

17. 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, royalty, or other interest shall be binding on the Unit Operator until the first day of the next calendar month after the Unit Operator is furnished with the original or photostatic or certified copy of the instrument of transfer.

18. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Secretary and the Commissioner and shall have a term of 5 years commencing as of said effective date, unless (a) the date of expiration is extended by the Director and the Commissioner, or (b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Director and the Commissioner, or (c) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof, in which case the agreement shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities; or (d) it is terminated as provided in Section 5 or Section 8 hereof. This agreement may be terminated at any time by not less than 75 percentum, on an acreage

basis, of the owners of working interest signatory hereto with the approval of the Director and the Commissioner.

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

20. 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 for delay or failure in whole or in part to comply therewith to the extent that the said Unit Operator, 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 with the exercise of due diligence the concurrence of the representatives of the United States and the representatives of the State of New Mexico in and about any matters or thing concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract 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.

21. UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue drilling 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, lock-outs, acts of God, Federal, State, or municipal laws or agencies, unavoidable accidents, 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.

22. TAXES: The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered and sold from the land subject to this contract after the effective date of this agreement, or upon the proceeds or net proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to the royalty owners having interests in said tract, and may currently retain and deduct sufficient of the unitized substances or derivative products, or net proceeds thereof from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

23. COUNTERPARTS AND SUBSEQUENT JOINDER: This agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document, or this agreement may be ratified with like force and effect by a separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who execute such a counterpart, ratification or consent hereto with the same force and effect as if all such 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 affected hereby. Any owner of oil or gas interests in lands located within the unit area not subject hereto, may, with the consent of the Director, hereafter become a party hereto by subscribing to this agreement or ratifying or approving the same and, if such party is also a working interest owner holding operating rights, such party may be admitted and become a party to this agreement and his acreage become subject hereto by establishing his title to the operating rights to such land to the satisfaction of Unit Operator and by reaching an equitable agreement with the Unit Operator and the majority of the then working interest owners holding operating rights on the lands then subject to this agreement with respect to classification and participating interest of such new acreage and the sharing of the development and operating costs hereunder and by subscribing to this agreement or ratifying or approving the same and subscribing to or

ratifying the unit accounting agreement and securing the execution of such consents as shall be necessary to make this agreement effective as to all parties owning any interest in said lands or in the production therefrom, it being understood that all rights of new parties or new acreage which may become subject hereto shall attach only from the date of their admission hereto and shall in no manner be retroactive. Any separate counterpart, consent, or ratification duly executed after approval hereof by the Secretary and the Commissioner shall be effective on the first day of the month next following the filing thereof with the Supervisor and the Commissioner, unless objection thereto is made by the Director or the Commissioner and notice of such objection is served upon the appropriate parties within 60 days after such filing.

24. FAIR EMPLOYMENT: The Unit Operator shall not discriminate against any employee or applicant for employment because of race, creed, color, or national origin, and an identical provision shall be incorporated in all subcontracts.

25. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join this unit agreement, so that such tract is not committed to this unit agreement, there shall be such readjustment of participation as may be required on account of such failure of title. In the event of a dispute as to title or as to any interest in unitized land, the Unit Operator may withhold payment or delivery on account thereof without liability for interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of funds due the United States or the State of New Mexico shall be withheld, but such funds shall be deposited with the district land office of the Bureau of Land Management and the Commissioner of Public Lands of the State of New Mexico, respectively, 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.

26. 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, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

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

WITNESS:

Edgar R. Skinner  
Address: 2000 Milam Building  
San Antonio, Texas

DATE:

8/9/49

UNIT OPERATOR AND WORKING INTEREST OWNER  
SLICK-MOORMAN OIL COMPANY, a partnership  
By Tom Slick  
Tom Slick, Partner

ES