

**FEDERAL / STATE / ALLOTTED INDIAN  
EXPLORATORY UNIT**

**UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE**

**PONDEROSA UNIT AREA**

**SAN JUAN COUNTY, NEW MEXICO**

**NO. \_\_\_\_\_**

**BEFORE THE OIL CONVERSION  
DIVISION**

**Santa Fe, New Mexico**

**Exhibit No. 2**

**Submitted by: Encana Oil & Gas (USA) Inc.**

**Hearing Date: June 9, 2016**

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
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FEDERAL/ STATE / ALLOTTED INDIAN  
EXPLORATORY UNIT  
Form 2/10/2014

**PONDEROSA UNIT AREA**

COUNTY OF SAN JUAN  
STATE OF NEW MEXICO

NO. \_\_\_\_\_

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UNIT AGREEMENT  
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OF THE

PONDEROSA UNIT AREA

COUNTY OF SAN JUAN  
STATE OF NEW MEXICO

NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 1<sup>st</sup> day of July, 2013, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

THIS AGREEMENT, is limited in applicability to wells containing a lateral or laterals drilled, completed or recompleted so that horizontal component of the completion interval extends at least one thousand feet (1,000') in the objective formation ("Horizontal Well(s)"). All pre-existing and future vertical wells within the Unit boundary drilled and completed in the Mancos Shale Group (see 3. UNITIZED LAND AND UNITIZED SUBSTANCES) are excluded from this Agreement.

WITNESSETH:

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 Statute 437, as amended 30 U.S.C. Section 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 unit plan of development or operations of any oil and 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 Act of March 3, 1909, (35 Stat. 783) as amended by the act of August 9, 1955, (69 Stat. 540), the Act of May 11, 1938, (52 Stat. 347 as amended, 25 U.S.C., Sec. 396a-g), Act of August 4, 1947, (61 Stat. 732), Indian Mineral Development Act of 1982 (25 U.S.C. 2101-2108), provides that all operations under any oil and gas lease on tribal and/or allotted Indian lands shall be subject to the rules and regulations of the Secretary of the Interior, and regulations issued pursuant to said statute provide that, in the exercise of his judgment, the Secretary may take into consideration, among other things, the Federal laws, state laws or regulations by competent Federal or State authorities or lawful agreements among operators regulating either drilling or production or both (25 C.F.R. Sec. 211.28 and 212.28); and,

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 19-10-45, 46, 47 NM Statutes 1978 Annotated) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interest of the State of New Mexico; and

WHEREAS, the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division", is authorized by an act of the Legislature (Chapter 70 and 71, NM Statutes 1978 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Ponderosa Unit Area covering the land hereinafter described 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 covenant to this agreement their respective interests in the below-defined unit area, and agree severally among themselves as follows:

1. **ENABLING ACT AND REGULATIONS.** The Acts of March 3, 1909 and 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 and Indian trust lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal and non-Indian trust lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

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

See map attached hereto marked as Exhibit "A" is hereby designated and recognized as constituting the Unit Area containing 19,839.48 acres more or less.

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A" and "B" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized officer, hereinafter referred to as "AO", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner", and not less than four (4) copies of the revised Exhibits shall be filed with the proper Bureau of Land Management office, and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Division of the Energy and Minerals Department, hereinafter referred to as "Division".

The above-described unit area shall, when practicable, be expanded to include therein any additional lands whenever such expansion is deemed to be necessary or advisable to conform with the purposes of this agreement. Such expansion shall be effected in the following manner:

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO and the Federal Indian Minerals Office (FIMO)), or on demand of the AO or FIMO, or the Land Commissioner (after preliminary concurrence by the AO and FIMO and the Land Commissioner) shall prepare a Notice of Proposed Expansion describing the contemplated changes in the boundaries of the unit area, the reasons therefore, any plans for additional drilling, and the proposed effective date of the expansion, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the proper Bureau of Land Management office, the Land Commissioner and the Division, and copies thereof mailed to the last known address of each working interest owner, lessee and lessor whose interest 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 AO, the Land Commissioner and the Division, evidence of mailing of the Notice of Expansion and a copy of any objections thereto which have been filed with Unit Operator together with an application in triplicate, for approval of such expansion and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion shall, upon approval by the AO and FIMO, the Land Commissioner and the Division, become effective as of the date prescribed in the notice thereof or such other appropriate date.

3. **UNITIZED LAND AND UNITIZED SUBSTANCES.** All land now or hereafter committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". For the purposes used in this unit agreement, the term "unitized land" shall include all unleased Federal lands, which shall, for all purposes, upon the authorized officers' approval of the unit be deemed committed to this agreement to govern development and operations of the unitized substances thereunder. Nothing in this agreement shall be deemed to grant rights to the use of surface overlying such unleased Federal lands for any oil and gas operations conducted under this agreement. All oil and gas in the Mancos Shale Group, including genetically related rocks from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone as shown in the R G Federal #1 well (API #30-045-25087) in Section 8, Township 23 North, Range 10 West, N.M.P.M., extending from 3,450' to 5,155', are unitized under the terms of this agreement and herein are called "unitized substances" (see type log attached as Exhibit "C").

4. **UNIT OPERATOR.** Encana Oil & Gas (USA) Inc., hereby designated as Unit Operator and by signature hereto as Unit Operator 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 the capacity and not as an owner of interest 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 only when such an interest is owned by it.

5. **RESIGNATION OR REMOVAL OF UNIT OPERATOR.** Unit Operator shall have the right to resign at any time prior to the establishment of unitized production or areas hereunder, 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 notice of intention to resign has been served by Unit Operator on all working interest owners and the AO, and the Land Commissioner and the Division, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO as to Federal and Indian trust lands, and the Division as to State lands unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time after a producing unit area established hereunder is in existence, but in all instances of resignation or removal, until a successor Unit Operator is selected and approved 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 common agent to represent them in any action to be taken hereunder.

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the AO and the Land Commissioner.

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 wells, equipment, materials, and appurtenances used in conducting the unit operations to the newly qualified successor Unit Operator or to the common agent, if no such new Unit Operator is selected, elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

6. **SUCCESSOR UNIT OPERATOR.** Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator as negotiated by the working interest owners, the owners of the working interests according to their respective acreage interest in all unitized land shall, pursuant to the approval of the parties requirements of the unit operating agreement, select a successor 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 AO and FIMO and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the AO and FIMO and the Land Commissioner, at their election may declare this unit agreement terminated.

7. **ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.** If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working 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 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 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 this agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed in the proper Bureau of Land Management office and one true copy with the Land Commissioner, and one true copy with the Division prior to approval of this unit agreement.

8. **RIGHTS AND OBLIGATIONS OF UNIT OPERATOR.** Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with 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.

9. **DRILLING TO DISCOVERY.** For the purposes of this Unit Agreement, the Encana Good Times D06 2309 01H well with a surface location in the NW4NW4 of Section 6, Township 23 North, Range 9 West, N.M.P.M., and a 4,594 foot horizontal lateral in the Mancos Shale Group located in the center of said Section 6, which Unit Operator commenced on July 4, 2013 and completed on September 10, 2013, shall hereby be approved by the AO, FIMO, the Land Commissioner and the Division as the obligation well necessary to validate this Unit Agreement (Initial Well). In addition, the Encana Good Times P36A 2410 01H well with a surface location in the SE4SE4 of Section 36, Township 24 North, Range 10 West, N.M.P.M., and a 5,606 foot horizontal lateral in the Mancos Shale Group located in the W2E2 of Section 1, Township 23 North, Range 10 West,

N.M.P.M., and the Encina Good Times P36A 2410 03H well with a surface location in the SE4SE4 of Section 36, Township 24 North, Range 10 West, N.M.P.M. and a 5,031 foot horizontal lateral in the Mancos Shale Group located in the E2E2 of Section 1, Township 23 North, Range 10 West, N.M.P.M. are both existing horizontal wells located within the boundary of the Unit Agreement which were drilled and completed in the Unitized formation subsequent to the effective date of this Unit Agreement and subsequent to the completion of the Initial Well (Existing Wells). Within six (6) months after final approval of this Unit Agreement, the Unit Operator shall submit a paying well determination report for the Initial Well to the AO to determine if the Initial Well can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit). If the Initial Well is not capable of producing in paying quantities, then, Unit Operator shall submit a paying well determination report to the AO for the first of the Existing Wells which commenced after the Initial Well, and likewise thereafter, each succeeding Existing Well drilled until it is determined that one of the Existing Well(s) is capable of producing in paying quantities. If paying well determination reports have been submitted for the Initial Well and all of the Existing Wells and none have proven to be capable of producing in paying quantities, then the Unit Operator shall continue drilling one well at a time, allowing not more than one (1) year between the completion of one well and the commencement of drilling operations for the next well, the first of which shall commence within one (1) year from non-paying determination by AO of the last Existing Well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO, if on Federal or Indian trust land, or the Land Commissioner if on State land or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

The AO and the Land Commissioner may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well as provided for in this section within the time allowed including any extension of time granted by the AO and the Land Commissioner, this agreement will automatically terminate. Upon failure to continue drilling diligently any well commenced hereunder, the AO and the Land Commissioner may, after fifteen (15) days notice to the Unit Operator, declare this unit agreement terminated. The parties to this agreement may not initiate a request to voluntarily terminate this agreement during the first six (6) months of its term unless at least one obligation well has been drilled in accordance with the provisions of this section. The failure to commence a well subsequent to the drilling of the initial obligation well, or in the case of multiple well requirements, if specified, subsequent to the drilling of those multiple wells, as provided for in this (these) section(s), within the time allowed including any extension of time granted by the AO and the Land Commissioner, shall cause this agreement to terminate automatically. Upon failure to continue drilling diligently any well other than the obligation well(s) commenced hereunder, the AO and the Land Commissioner may, after 15 days notice to the Unit Operator, declare this unit agreement terminated. Failure to commence drilling the initial obligation well, or the first of multiple obligation wells, on time and to drill it diligently shall result in the unit agreement approval being declared invalid ab initio by the AO and the Land Commissioner. In the case of multiple well requirements, failure to commence drilling the required multiple wells beyond the first well, and to drill them diligently, may result in the unit agreement approval being declared invalid ab initio by the AO and the Land Commissioner.

**10. PLAN OF FURTHER DEVELOPMENT AND OPERATION.** Within twelve (12) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and the Division, an acceptable plan of development and operation for the unitized land which, when approved by the AO, the Land Commissioner and the Division, shall constitute the further drilling and development 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 AO, the Land Commissioner and the Division, a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calendar year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

Any plan submitted pursuant to this section shall provide for the timely exploration of the unitized area, and for the diligent drilling necessary for determination of the area or areas capable of producing unitized substances in paying quantities. This plan shall be as complete and adequate as the AO, the Land Commissioner and the Division, 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) provide a summary of operations and production for the previous year.

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 and operation. The AO, the Land Commissioner and the Division are authorized to grant a reasonable extension of the 12-month period herein prescribed for submission of an initial plan of development and on operation where such action is justified because of unusual conditions or circumstances.

After completion of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the AO, the Land Commissioner and the Division shall be drilled except in accordance with an approved plan of development and operation.

**11. ALLOCATION OF PRODUCTION.** All unitized substances produced under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production or development purposes, or for repressuring or recycling in accordance with a plan of development and operations that has been approved by the AO, or unavoidably lost shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land. Each such tract shall have allocated to it such percentage of said production as the number of acres of such tract bears to the total acres of unitized land. There shall be allocated to the working interest owner(s) of each tract of unitized land (excluding unleased Federal land), such percentage of the production attributable to the unleased Federal land within the unitized area as the number of acres of such unleased Federal land included in said unitized area bears to the total acres of unitized land, subject to the payment of the compensatory royalty specified in section 15(b) of this agreement. Allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, including compensatory royalty obligations under section 15, shall be prescribed as set forth in the unit operating agreement or as otherwise mutually agreed by the affected parties, whether in conformity with the basis of allocation herein set forth or otherwise.

**12. ROYALTY SETTLEMENT.** The United States, the Indians, the State of New Mexico, and any royalty owner who are entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and Unit Operator, or the working interest owner in case of the operation of a well by a working interest owner as herein provided for in special cases, 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 therefore under existing contracts, laws and regulations, or by the Unit Operator on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing in this section shall operate to relieve the responsible parties of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into the unit area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery in conformity with a plan of development and operation approved by the AO, and the Land Commissioner and the Division, a like amount of gas, after settlement as herein provided for any gas transferred from any other area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of development and operation or as may otherwise be consented to by the AO, and the Land Commissioner and the Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this Unit Agreement.

Royalty due on United States and Indian trust lands, including compensatory royalty specified in Section 15(b), shall be computed as provided in 30 CFR Group 200 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized land as provided in Section 11 at the rates specified in the respective lease, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; 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 the unitized area were a single consolidated lease.

Royalty due on account of State lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

13. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by appropriate working interest owners 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 due under their leases. Rental or minimum royalty for lands of the United States and Indian trust lands subject to this agreement shall be paid at the rate specified in the respective leases from the United States, and Indian trust lands, unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

With respect to any lease on non-federal or non-Indian trust land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby, or until the unit area establishes production.

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rate specified in the respective leases.

14. 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 State or Federal law or regulation.

#### 15. DRAINAGE.

(a) The Unit Operator shall take such measures as the AO and the Land Commissioner deems appropriate and adequate to prevent drainage of unitized substances for unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO and the Land Commissioner as to State leases.

(b) Pursuant to CFR 43, §3181.5, in order to compensate the United States for drainage from any unleased Federal lands committed to this unit, twelve and one-half percent (12.50%) of the production that would be attributable to such unleased Federal lands under Section 12 of this agreement, if they were leased and committed to the unit, shall be payable as compensatory royalties to the Federal Government as prescribed under Section 11 hereunder. Payment shall accrue from the date of first production of unitized substances from the unit. If leased Federal lands that share in actual production allocation from the unit become unleased, the payment shall accrue from the date the Federal lands become unleased. Payment due under this provision shall end when the unleased Federal tract is leased; when production of unitized substances ceases within the unit; or, when the unit terminates, whichever occurs first.

16. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary, as to Federal and Indian trust leases and the Land Commissioner as to State leases, each by his approval hereof, or by the approval hereof by his duly authorized representative, shall and does hereby establish, alter, change, or revoke the drilling, producing, rental minimum royalty, and royalty requirements of Federal, State, and Indian leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of this unit area.

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will 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 the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the AO and FIMO, and the Land Commissioner or his duly authorized representative shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

(d) Each lease, sublease or contract relating to the exploration, drilling, development, or operation for oil or gas of lands other than those of the United States and Indian trust lands, and the State of New Mexico committed to this agreement which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that a well capable of production of unitized substances in paying quantities is established in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such Federal lease shall be extended for two years, and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Act of February 25, 1920, as amended. Any Indian lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production of Unitized Substances in paying quantities is established under this Unit Agreement prior to the expiration date of the term of such lease and such lease shall be extended for so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the acts governing the leasing of Indian lands.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States or Indian trust lands committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784) (30 U.S.C. 226 (m)): "Any (Federal) lease heretofore or hereafter committed to any such (Unit) plan embracing lands that are in part within and in part outside 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 non-unitized portion shall continue in force and effect for the term thereof, but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(h) In the event the Initial Test Well is commenced prior to the expiration date of the shortest term State Lease within the Unit Area, any lease embracing lands of the State of New Mexico which is made the subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as 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 being produced in paying quantities from some part of the lands embraced in such lease at the expiration of the fixed term of such lease; or if, at the expiration of the fixed term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some 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 being 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 the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

If the public interest requirement is not satisfied, the segregation of a lease and/or extension of a lease pursuant to 43 C.F.R. 3107.3-2 and 43 C.F.R. 3107.4, respectively, shall not be effective.

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 lease subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other 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, photostatic, or certified copy of the instrument of transfer.

18. **EFFECTIVE DATE AND TERM.** This effective date of this agreement shall be on July 1, 2013. The agreement shall become effective upon approval by the AO and the Federal Indian Minerals Office shall automatically terminate five (5) years from said effective date unless:

- (a) Upon application by the Unit Operator such date of expiration is extended by the AO and the Land 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 in the formations tested hereunder, and after notice of intention to terminate this agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, this agreement is terminated with approval of the AO and the Land Commissioner; or
- (c) a valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long thereafter as unitized substances can be produced as to Federal or Indian trust lands and are being produced as to State lands in quantities sufficient to pay for the cost of producing same from wells on unitized land. Should production cease and diligent drilling or re-working operations to restore production or new production are not in progress or reworking within sixty (60) days and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred; or
- (d) it is voluntarily terminated as provided in this agreement. Except as noted herein this agreement may be terminated at any time prior to the discovery of unitized substances which can be produced in paying quantities by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the AO and the Land Commissioner. The Unit Operator shall give notice of any such approval to all parties hereto. Voluntary termination may not occur during the first six (6) months of this agreement unless at least one obligation well shall have been drilled in conformance with Section 9.

19. **RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION.** The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any State-wide voluntary conservation or allocation program which is established, recognized, and generally adhered to by the majority of operators in such State. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof must be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; 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 the specific written approval thereof by the Land Commissioner and also to any lands of the State of New Mexico subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

Powers in the section vested in the AO shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

20. **APPEARANCES.** Unit Operators shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interest affected hereby before the Department of the Interior, and the Land Commissioner and the Division and to appeal from orders issued under the regulations of said Department and the Land Commissioner and the Division or to apply for relief from any of said regulations, or in any proceedings relative to operations before the Department and the Land Commissioner and the Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at its own expense to be heard in any such proceeding.

21. **NOTICES.** All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be in writing and shall be personally delivered to the party or parties, or sent by postpaid registered or certified mail, to the last known address of the party or parties.

22. **NO WAIVER OF CERTAIN RIGHTS.** Nothing contained in this agreement shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State where unitized lands are located, or of the United States, 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.

23. **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 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 agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

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

25. **LOSS OF TITLE.** In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in 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 to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal and State lands or leases, no payments of funds due the United States or the State of New Mexico should be withheld, but such funds shall be deposited as directed by the AO and such funds of the State of New Mexico shall be deposited as directed by the Land Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

26. **NON-JOINDER AND SUBSEQUENT JOINDER.** If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper Bureau of Land Management office, the Land Commissioner, the Division, and the Unit Operator prior to the approval of this agreement by the AO and the Land Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest, is a working interest, by the owner of such interest only subscribing to the unit operating agreement.

After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. 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 the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO, the Land Commissioner and the Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

27. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or 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 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 within the above-described unit area.

28. SURRENDER. Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If, as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operation hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If, as a result of any such surrender or forfeiture, working interest rights become vested in the fee owner of the unitized substances, such owner may:

- (a) accept those working interest rights subject to this agreement and the unit operating agreement; or
- (b) lease the portion of such land subject to this agreement and the unit operating agreement; or
- (c) provide for the independent operation of any part of such land.

If the fee owner of the unitized substances does not accept the working interest rights subject to this agreement and the unit operating agreement or lease such lands as above provided within six (6) months after the surrender or forfeited working interest rights become vested in the fee owner, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any monies found to be owing by such an accounting shall be made as between the parties within thirty (30) days.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

29. 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 covered by this agreement after its effective date, or upon the proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to royalty owners having interest in said tract, and may currently retain and deduct a sufficient amount 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.

30. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing contained in this agreement, 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.

31. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify or change either the special Federal lease stipulations relating to surface management or such special Federal lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

32. SEVERABILITY. Every provision of this Agreement is intended to be severable. If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity or legality of the remainder of this Agreement.

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

ENCANA OIL & GAS (USA) INC.

By \_\_\_\_\_  
Constance D. Heath

Date of Execution \_\_\_\_\_

Address 370 17th Street,  
Denver, Colorado 80202

STATE OF COLORADO )  
 ) ss.  
COUNTY OF DENVER )

On this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, before me appeared Constance D. Heath to me personally known, who, being duly sworn, did say that she is the Attorney-in-Fact of Encana Oil & Gas (USA) Inc. and that said Constance D. Heath acknowledged said instrument to be the free act of deed of said corporation.

My Commission Expires: \_\_\_\_\_

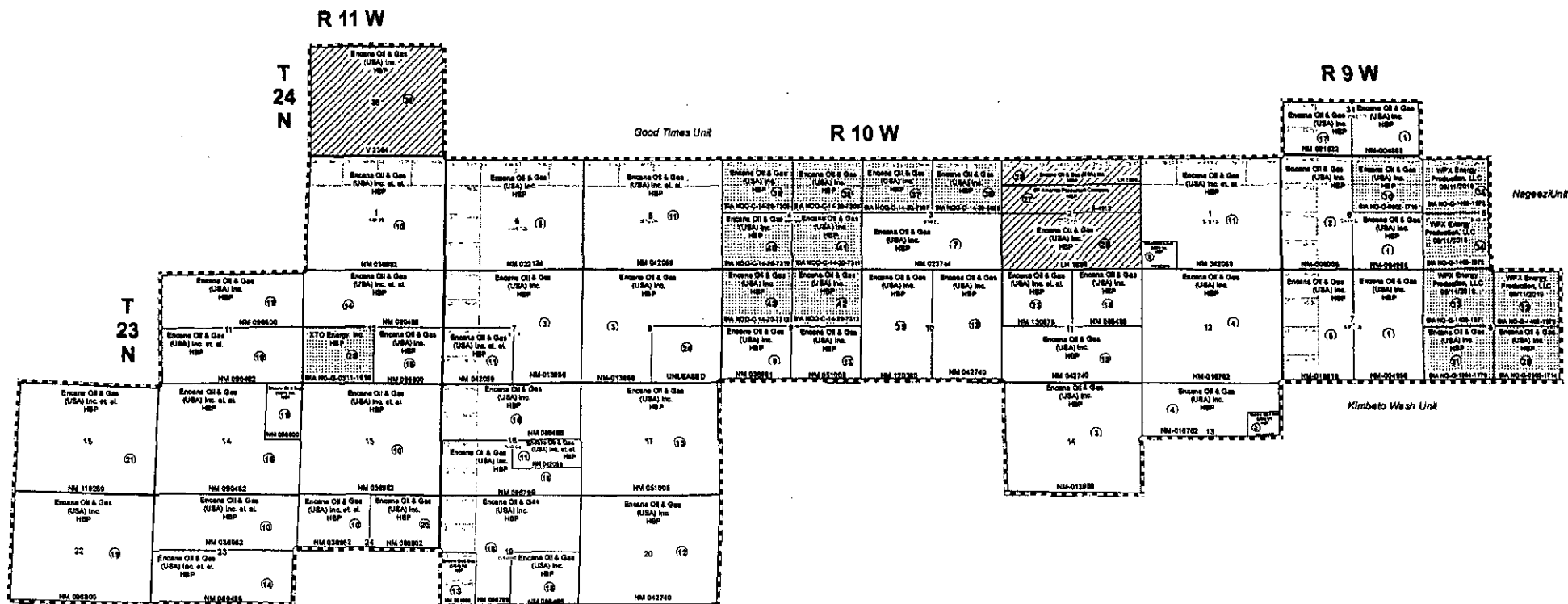
\_\_\_\_\_  
Notary Public



# Exhibit "A"

## Ponderosa Unit

San Juan County, New Mexico



### Legend

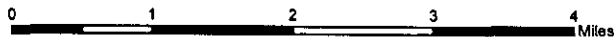


Ponderosa Unit

①

Tract Number

	Acreage	Percentage
Federal Lands	15,998.31	80.638757%
State Lands	1,277.92	6.441298%
Navajo Allotted Lands	2,563.25	12.919945%
<b>Total Unit Acres</b>	<b>19,839.48</b>	<b>100.000000%</b>



encana

01/11/2016

Note: Unless otherwise noted herein the sections on this plat contain 640.00 acres

# EXHIBIT "B"

Schedule Showing Percentage and Kind of Ownership of Oil and Gas Interests

## PONDEROSA UNIT

San Juan County, New Mexico

The Oil and Gas Lease ownerships described in this schedule are limited to the stratigraphic equivalent of the interval described as the Mancos Shale Group, including the genetically related rocks from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone as shown in the Kinbeto R G-Federal #1 well (API # 30-045-25087) well in NW4NE4 Section 8, Township 23, North, Range 10 West, N.M.P.M, extending from 3,450' to 5,155' (measured depth) as reflected on Exhibit "C" attached hereto.

Tract Number	Description of Land	Number of Acres	Serial Number and Expiration Date of Lease	Basic Royalty and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage
<b>FEDERAL LANDS:</b>						
1	Township 23 North, Range 9 West, NMPM Section 6 SE4 Section 7 E2 Township 24 North, Range 9 West, NMPM Section 31 SE4	640.00	NM-004958 Effective Date 05/01/1968 Expiration Date HBP	USA - ALL (12.50%)	Hanlad Oil Corporation Trustees of the Living Trust of Glenn R. Gentle dated 2/20/1997 Dugan Production Corp.	Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000% 1.250000% 0.500000% 1.250000%
2	Township 23 North, Range 9 West, NMPM Section 6 Lots 3 (40.27 NENW), 4 (40.82 NWNW), 5 (40.62 SWNW), 6 (40.50 NWSW), 7 (40.39 SWSW), SE4NW4, E2SW4	322.60	NM-008005 Effective Date 01/01/1969 Expiration Date HBP	USA - ALL (12.50%)	None	Encana Oil & Gas (USA) Inc. 100.000000%
3	Township 23 North, Range 10 West, NMPM Section 7 Lots 1 (39.45 NWNW), 2 (39.55 SWNW), E2NW4, E2 Section 8 W2, NE4 Section 13 SE4NE4 Section 14 All	1,639.00	NM-013956 Effective Date 07/01/1971 Expiration Date HBP	USA - ALL (12.50%)	R F Partnership, Ltd L. Claude & Betty T. Roark Claudia B. Guerrina Yates Petroleum Corp. Dugan Production Corp.	Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000% 1.000000% 1.000000% 3.000000% 0.250000%
4	Township 23 North, Range 10 West, NMPM Section 12 All Section 13 NW4, W2NE4, NE4NE4	920.00	NM-016762 Effective Date 05/01/1973 Expiration Date HBP	USA - ALL (12.50%)	Lisa K. Hood Robin J. Hood QEP Energy Company	Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000% 1.500000% 1.500000% 4.500000%

Tract Number	Description of Land	Number of Acres	Serial Number and Expiration Date of Lease	Basic Royalty and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage	
5	<u>Township 23 North, Range 9 West, NMPM</u> Section 7 Lots 1 (40.30 NWNW), 2 (40.22 SWNW), 3 (40.14 NWSW), 4 (40.06 SWSW), E2W2	320.72	NM 019816 Effective Date 01/01/1974 Expiration Date HBP	USA - ALL (12.50%)	Haymaker Holding Company, LLC D. L. & B. K. Carpenter QEP Energy Company	2.500000% 0.500000% 4.500000% Encana Oil & Gas (USA) Inc. Dugan Production Corp.	50.000000% 50.000000%
6	<u>Township 23 North, Range 10 West, NMPM</u> Section 1 SW4SW4	40.00	NM 023470 Effective Date 02/01/1975 Expiration Date HBP	USA - ALL (12.50%)	Mary Ann Spear Revocable Trust QEP Energy Company	3.000000% 4.500000% Encana Oil & Gas (USA) Inc. Dugan Production Corp.	50.000000% 50.000000%
7	<u>Township 23 North, Range 10 West, NMPM</u> Section 3 S2	320.00	NM 023744 Effective Date 02/01/1975 Expiration Date HBP	USA - ALL (12.50%)	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> QEP Energy Company  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> Questar Gas Company	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Encana Oil & Gas (USA) Inc. Dugan Production Corp.  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> Encana Oil & Gas (USA) Inc.	50.000000% 50.000000%  100.000000%
8	<u>Township 23 North, Range 10 West, NMPM</u> Section 6 Lots 1 (39.72 NENE), 2 (39.80 NWNE), 3 (39.88 NENW), 4 (39.81 (NWNW), 5 (39.02 SWNW), 6 (39.16 NWSW), 7 (39.33 SWSW), SENW4, S2NE4, E2SW4, SE4	636.72	NM 032124 Effective Date 02/01/1978 Expiration Date HBP	USA - ALL (12.50%)	D & J Trust Susan C. Sheridan Dugan Production	5.000000% 1.000000% 0.750000% Encana Oil & Gas (USA) Inc. Dugan Production Corp.	50.000000% 50.000000%
9	<u>Township 23 North, Range 10 West, NMPM</u> Section 9 SW4	160.00	NM 036951 Effective Date 08/01/1979 Expiration Date HBP	USA - ALL (12.50%)	Janet R. Larson Pucket Energy Co. Altrogge Resources Co., LLC Carl L. Kennedy Robert M. Miller Amvest West, Inc. Dugan Production Corp.	0.500000% 1.100000% 1.100000% 0.200000% 0.200000% 0.400000% 2.000000% Encana Oil & Gas (USA) Inc. Dugan Production Corp.	50.000000% 50.000000%

Tract Number	Description of Land	Number of Acres	Serial Number and Expiration Date of Lease	Basic Royalty and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage
10	<u>Township 23 North, Range 11 West, NMPM</u>	1,760.28	NM 036952	USA - ALL	<u>Insofar as to undrilled interval underlying T23N-R11W</u>	<u>Insofar as to undrilled interval underlying T23N-R11W</u>
Section 1	Lots 1 (40.02 NENE), 2 (40.05 NWNE)		Effective Date	(12.50%)	<u>Section 13 All; Section 23 N2; Section 24 NW and insofar as those depths from base of the Gallup Formation to the base of the Greenhorn Limestone underlying T23N-R11W Section 1 Lots 1-4, S2N2, S2</u>	<u>Section 13 All; Section 23 N2; Section 24 NW and insofar as those depths from base of the Gallup Formation to the base of the Greenhorn Limestone underlying T23N-R11W Section 1 Lots 1-4, S2N2, S2</u>
	3 (40.09 NENW), 4 (40.12 NWNW), S2N2, S2		08/01/1980			
			Expiration Date			
Section 13	All		HBP			
Section 23	N2				V. M. Breecher 1.000000%	Encana Oil & Gas (USA) Inc. 43.750000%
Section 24	NW4				Cramer Oil Company 3.750000%	Dugan Production Corp. 43.750000%
					Dugan Production Corp. 1.203100%	Cramer Oil Company 12.500000%
					<u>Insofar as to those depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation underlying T23N-R11W Section 1 Lots 1-4, S2N2</u>	<u>Insofar as to those depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation underlying T23N-R11W Section 1 Lots 1-4, S2N2</u>
					V. M. Breecher 1.000000%	Encana Oil & Gas (USA) Inc. 48.437500%
					Cramer Oil Company 3.750000%	Dugan Production Corp. 48.437500%
					Dugan Production Corp. 1.332000%	Cramer Oil Company 3.125000%
					<u>Insofar as to those depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation underlying T23N-R11W Section 1 S2</u>	<u>Insofar as to those depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation underlying T23N-R11W Section 1 S2</u>
					V. M. Breecher 1.000000%	Encana Oil & Gas (USA) Inc. 50.000000%
					Cramer Oil Company 4.406300%	Dugan Production Corp. 50.000000%
					Dugan Production Corp. 1.046800%	
11	<u>Township 23 North, Range 10 West, NMPM</u>	1,478.04	NM 042059	USA - ALL	Dugan Production Corp. 1.875000%	Encana Oil & Gas (USA) Inc.
Section 1	Lots 1 (39.93 NENE), 2 (39.79 NWNE)		Effective Date	(12.50%)		Dugan Production Corp.
	3 (39.65 NENW), 4 (39.51 NWNW), S2N2, N2S2, SE4SW4, S2SE4		11/01/1981			Bolack Minerals Co.
			Expiration Date			Lanford LLC
			HBP			
Section 5	Lots 1 (40.14 NENE), 2 (40.00 NWNE)					
	3 (39.88 NENW), 4 (39.74 NWNW), S2N2, S2					
Section 7	Lots 3 (39.65 NWSW), 4 (39.75 SWSW), E2SW4					
Section 18	N2SE4					
12	<u>Township 23 North, Range 10 West, NMPM</u>	1,280.00	NM 042740	USA - ALL	Maurice G. & Lorraine Olson 4.000000%	Encana Oil & Gas (USA) Inc. 50.000000%
Section 10	E2		Effective Date	(12.50%)	Dugan Production Corp. 1.750000%	Dugan Production Corp. 50.000000%
Section 11	S2		11/01/1981			
Section 20	All		Expiration Date			
			HBP			

Tract Number	Description of Land	Number of Acres	Serial Number and Expiration Date of Lease	Basic Royalty and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage
13	<u>Township 23 North, Range 10 West, NMPM</u> Section 9 SE4 Section 17 All Section 19 Lots 3 (39.97 NWSW), 4 (39.85 SWSW)	879.82	NM 051005 Effective Date 04/01/1982 Expiration Date HBP	USA - ALL (12.50%)	Alta L. McDougall Revocable Trust Dugan Production Corp.	6.250000% 0.625000% Encana Oil & Gas (USA) Inc. Dugan Production Corp. 50.000000% 50.000000%
14	<u>Township 23 North, Range 11 West, NMPM</u> Section 12 N2 Section 23 S2	640.00	NM 080498 Effective Date 02/01/1989 Expiration Date HBP	USA - ALL (12.50%)	Dugan Production Corp.	2.500000% Encana Oil & Gas (USA) Inc. Dugan Production Corp. 50.000000% 50.000000%
15	<u>Township 23 North, Range 10 West, NMPM</u> Section 11 NE4 Section 18 Lots 1 (39.85 NWNW), 2 (39.97 SWNW), E2NW4, NE4 Section 19 SE4	639.82	NM 086485 Effective Date 06/01/1991 Expiration Date HBP	USA - ALL (12.50%)	Dugan Production Corp.	2.500000% Encana Oil & Gas (USA) Inc. Dugan Production Corp. 50.000000% 50.000000%
16	<u>Township 23 North, Range 11 West, NMPM</u> Section 11 S2 Section 14 S2, NW4, W2NE4	880.00	NM 090482 Effective Date 03/01/1993 Expiration Date HBP	USA - ALL (12.50%)	Dugan Production Corp.	2.500000% Encana Oil & Gas (USA) Inc. Dugan Production Corp. 50.000000% 50.000000%
17	<u>Township 24 North, Range 9 West, NMPM</u> Section 31 Lots 3 (40.06 NWSW), 4 (40.73 SWSW), E2SW4	160.79	NM 091522 Effective Date 09/01/1993 Expiration Date HBP	USA - ALL (12.50%)	Dugan Production Corp.	2.500000% Encana Oil & Gas (USA) Inc. Dugan Production Corp. 50.000000% 50.000000%
18	<u>Township 23 North, Range 10 West, NMPM</u> Section 18 Lots 3 (40.07 NWSW), 4 (40.19 SWSW), E2SW4, S2SE4 Section 19 Lots 1 (40.19 NWNW), 2 (40.07 SWNW), E2NW2, NE4	640.52	NM 096799 Effective Date 06/01/1996 Expiration Date HBP	USA - ALL (12.50%)	Dugan Production Corp.	2.500000% Encana Oil & Gas (USA) Inc. Dugan Production Corp. 50.000000% 50.000000%

Tract Number	Description of Land	Number of Acres	Serial Number and Expiration Date of Lease	Basic Royalty and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage
19	<u>Township 23 North, Range 11 West, NMPM</u> Section 11 N2 Section 12 SE4 Section 14 E2NE4 Section 22 All	1,200.00	NM 096800 Effective Date 06/01/1996 Expiration Date HBP	USA - ALL (12.50%)	Dugan Production Corp.	Encana Oil & Gas (USA) Inc. Dugan Production Corp. 50.000000% 50.000000%
20	<u>Township 23 North, Range 11 West, NMPM</u> Section 24 NE4	160.00	NM 096802 Effective Date 06/01/1996 Expiration Date HBP	USA - ALL (12.50%)	Dugan Production Corp.	Encana Oil & Gas (USA) Inc. Dugan Production Corp. 50.000000% 50.000000%
21	<u>Township 23 North, Range 11 West, NMPM</u> Section 15 All	640.00	NM 119289 Effective Date 12/01/2007 Expiration Date 11/30/2017	USA - ALL (12.50%)	None	Dugan Production Corp. 100.000000%
22	<u>Township 23 North, Range 10 West, NMPM</u> Section 10 W2	320.00	NM 120380 Effective Date 08/01/2008 Expiration Date HBP	USA - ALL (12.50%)	None	Coleman Oil & Gas, Inc. XTO Energy, Inc. <sup>(1)</sup> 49.000000% 51.000000%
23	<u>Township 23 North, Range 10 West, NMPM</u> Section 11 NW4	160.00	NM 130878 Effective Date 12/01/2013 Expiration Date 11/30/2023	USA - ALL (12.50%)	Dugan Production Corp.	Encana Oil & Gas (USA) Inc. Dugan Production Corp. 75.000000% 25.000000%
24	<u>Township 23 North, Range 10 West, NMPM</u> Section 8 SE4	160.00	UNLEASED	UNLEASED	UNLEASED	UNLEASED
24 Federal Tracts totalling		15,998.31	acres or 80.638757% of Unit Area			

Tract Number	Description of Land	Number of Acres	Serial Number and Expiration Date of Lease	Basic Royalty and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage
<b><u>STATE LANDS:</u></b>						
25	<u>Township 23 North, Range 10 West, NMPM</u> Section 2 Lots 1 (39.45 NENE), 2 (39.47 NWNE), 3 (39.49 NENW), 4 (39.51 NWNW), S2	477.92	LH 1896 Effective Date 11/01/1982 Expiration Date HBP	State of New Mexico (12.50%)	Dugan Production Corp.  2.500000%	Encana Oil & Gas (USA) Inc. Dugan Production Corp. 50.000000%
26	<u>Township 24 North, Range 11 West, NMPM</u> Section 36 All	640.00	V 2364 Effective Date 07/01/1987 Expiration Date HBP	State of New Mexico (16.67%)	Dugan Production Corp.  1.666667%	Encana Oil & Gas (USA) Inc. Dugan Production Corp. 50.000000%
27	<u>Township 23 North, Range 10 West, NMPM</u> Section 2 S2N2	160.00	E-4912 Effective Date 12/29/1950 Expiration Date HBP	State of New Mexico (12.50%)	Charles B. Gonsales Jimski, Inc. 1.000000%	BP America Production Company 100.000000%
3 State Tract totalling		1,277.92	acres or 6.441298% of Unit Area			
<b><u>PATENTED LANDS:</u></b>						
NONE						
-0- Patented Tracts totalling		-	acres or 0.00% of Unit Area			
<b><u>NAVAJO ALLOTTED LANDS:</u></b>						
28	<u>Township 23 North, Range 11 West, NMPM</u> Section 12 SW4	160.00	BIA NO-G-0311-1696 Effective Date 11/05/2003 Expiration Date HBP	Heirs of _____ - ALL (16.67%)	James E. Fassett Oso Energy Resources Corp.  1.000000%	XTO Energy, Inc. Coleman Oil & Gas, Inc. 51.000000%
29	<u>Township 23 North, Range 9 West, NMPM</u> Section 8 SE4	160.00	BIA NO-G-0502-1714 Effective Date 02/24/2005 Expiration Date HBP	Heirs of Nah Claw Ha Pah - ALL (16.67%)	Dugan Production Corp.  1.666667%	Encana Oil & Gas (USA) Inc. Dugan Production Corp. 75.000000%

Tract Number	Description of Land	Number of Acres	Serial Number and Expiration Date of Lease	Basic Royalty and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage
30	<u>Township 23 North, Range 9 West, NMPM</u> Section 6 Lots 1 (40.64 NENE), 2 (40.45 NWNE), S2NE4	161.09	BIA NO-G-0502-1715 Effective Date 02/24/2005 Expiration Date HBP	Heirs of Nah TI Yaz Za - ALL (16.67%)	Dugan Production Corp.	1.666667% Encana Oil & Gas (USA) Inc. Dugan Production Corp. 75.000000% 25.000000%
31	<u>Township 23 North, Range 9 West, NMPM</u> Section 8 SW4	160.00	BIA NO-G-1304-1776 Effective Date 04/19/2013 Expiration Date HBP	Heirs of Yap nip pah Lopez - ALL (20.00%)	None	Encana Oil & Gas (USA) Inc. Dugan Production Corp. 75.000000% 25.000000%
32	<u>Township 23 North, Range 9 West, NMPM</u> Section 8 NE4	160.00	BIA NO-G-1408-1970 09/11/2014 Expiration Date 09/11/2019	Heirs of Es Ske Et Sosa - ALL (16.67%)	Shikis, LLC	WPX Energy Production, LLC 100.000000%
33	<u>Township 23 North, Range 9 West, NMPM</u> Section 8 NW4	160.00	BIA NO-G-1408-1971 Effective Date 09/11/2014 Expiration Date 09/11/2019	Heirs of Nal Ja Ha - ALL (16.67%)	Shikis, LLC	WPX Energy Production, LLC 100.000000%
34	<u>Township 23 North, Range 9 West, NMPM</u> Section 5 SW4	160.00	BIA NO-G-1408-1972 09/11/2014 Expiration Date 09/11/2019	Heirs of Ah Ka De Pah - ALL (16.67%)	Shikis, LLC	WPX Energy Production, LLC 100.000000%
35	<u>Township 23 North, Range 9 West, NMPM</u> Section 5 Lots 3 (40.83 NENW), 4 (40.77 NWNW) S2NW4	161.60	BIA NO-G-1408-1973 09/11/2014 Expiration Date 09/11/2019	Heirs of Hod Des Pah - ALL (16.67%)	Shikis, LLC	WPX Energy Production, LLC 100.000000%



Tract Number	Description of Land	Number of Acres	Serial Number and Expiration Date of Lease	Basic Royalty and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage
36	Township 23 North, Range 10 West, NMPM Section 3 Lots 1 (39.61 NENE), 2 (39.81 NWNE), S2NE4	159.42	BIA NOO-C-14-20-5825 Effective Date 03/05/1976 Expiration Date HBP	Heirs of Uska ye ne le wood - ALL (16.67%)	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Dugan Production Corp. 1.666667%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> None	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> Encana Oil & Gas (USA) Inc. 100.000000%
37	Township 23 North, Range 10 West, NMPM Section 3 Lots 3 (39.99 NENW), 4 (40.19 NWNW), S2NW4	160.18	BIA NOO-C-14-20-7307 Effective Date 02/25/1976  Expiration Date HBP	Heirs of Kah ne pah - ALL (16.67%)	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Dugan Production Corp. 1.666667%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> None	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> Encana Oil & Gas (USA) Inc. 100.000000%
38	Township 23 North, Range 10 West, NMPM Section 4 Lots 1 (40.27 NENE), 2 (40.25 NWNE), S2NE4	160.52	BIA NOO-C-14-20-7308 Effective Date 03/18/1976 Expiration Date HBP	Heirs of Nah ti ye ne wood - ALL (16.67%)	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Dugan Production Corp. 1.666667%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> None	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> Encana Oil & Gas (USA) Inc. 100.000000%
39	Township 23 North, Range 10 West, NMPM Section 4 Lots 3 (40.23 NENW), 4 (40.21 NWNW), S2NW4	160.44	BIA NOO-C-14-20-7309 Effective Date 03/18/1976 Expiration Date HBP	Heirs of I sin nus pah - ALL (16.67%)	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Dugan Production Corp. 1.666667%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> None	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> Encana Oil & Gas (USA) Inc. 100.000000%

Tract Number	Description of Land	Number of Acres	Serial Number and Expiration Date of Lease	Basic Royalty and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage
40	<u>Township 23 North, Range 10 West, NMPM</u> Section 4 SW4	160.00	BIA NOO-C-14-20-7310 Effective Date 03/18/1976 Expiration Date HBP	Heirs of I tah e pah - ALL (16.67%)	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Dugan Production Corp. 1.666667%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> None	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> Encana Oil & Gas (USA) Inc. 100.000000%
41	<u>Township 23 North, Range 10 West, NMPM</u> Section 4 SE4	160.00	BIA NOO-C-14-20-7311 Effective Date 03/18/1976 Expiration Date HBP	Heirs of Nah gli ye ke pah Bit sillie - ALL (16.67%)	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Dugan Production Corp. 1.666667%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> None	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> Encana Oil & Gas (USA) Inc. 100.000000%
42	<u>Township 23 North, Range 10 West, NMPM</u> Section 9 NE4	160.00	BIA NOO-C-14-20-7312 Effective Date 03/24/1976 Expiration Date HBP	Heirs of Hosteen cly - ALL (16.67%)	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Dugan Production Corp. 1.666667%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> None	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> Encana Oil & Gas (USA) Inc. 100.000000%
43	<u>Township 23 North, Range 10 West, NMPM</u> Section 9 NW4	160.00	BIA NOO-C-14-20-7313 Effective Date 03/18/1976 Expiration Date HBP	Heirs of Billy cly - ALL (16.67%)	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Dugan Production Corp. 1.666667%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> None	<u>Insofar as depths from 100' below the top of the Mancos Shale to the base of the Gallup Formation</u> Encana Oil & Gas (USA) Inc. 50.000000% Dugan Production Corp. 50.000000%  <u>Insofar as depths from the base of the Gallup Formation to the base of the Greenhorn Limestone</u> QEP Energy Company 100.000000%

<i>Tract Number</i>	<i>Description of Land</i>	<i>Number of Acres</i>	<i>Serial Number and Expiration Date of Lease</i>	<i>Basic Royalty and Percentage</i>	<i>Overriding Royalty and Percentage</i>	<i>Working Interest and Percentage</i>
	16 Navajo Allotted Tracts totalling	2,563.25	acres or 12.919945% of Unit Area			
	Total Unit Acres	19,839.48				
	Federal	15,998.31	80.638757%			
	State	1,277.92	6.441298%			
	Patented	-	0.000000%			
	Navajo Allotted	2,563.25	12.919945%			
	Total Unit Acres	19,839.48	100.000000%			

<sup>(1)</sup> Subject to terms and conditions contained in Farmout Agreement and Operating Agreement referenced in Model Form Recording Supplement recorded Book 11576, Page 311 in records of San Juan County, New Mexico.