

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE CHACO UNIT AREA
COUNTY OF SAN JUAN, STATE OF NEW MEXICO
I-Sec. _____

This AGREEMENT made and entered into as of the _____ day of _____, 1952, by and between the parties subscribing, ratifying or consenting hereto and herein referred to as the "parties hereto",

W I T N E S S E T H :

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

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

WHEREAS the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Chapter 88 Laws 1943, New Mexico Statutes 1941 Annotated, Sections 8-1138 to 8-1141) to consent to and approve the development or operation of lands of the State of New Mexico under this Agreement; and

WHEREAS the rules and regulations governing the leasing of restricted allotted and Tribal Indian lands for oil and gas except allotments made to the members of the five civilized tribes and Osage Indians in Oklahoma, promulgated by the Secretary of the Interior (25 C.F.R. 189.24(c)) under and pursuant to the Act of March 3, 1909, 35 Stat. and the Tribal Land Mineral Leasing Act of May 11, 1938, 52 Stat. 347, 25 U.S.C 396A et seq., and the oil and gas leases covering said allotted and Tribal Indian lands provide for the commitment of such leases to a cooperative or unit plan of development or operation; and

WHEREAS the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Chapter 72 Laws 1935) to approve this Agreement and the conservation provisions hereof; and

WHEREAS the parties hereto hold sufficient interest in the Chaco Unit Area covering the land hereinafter described to give reasonably effective control of operations thereon; 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 below-defined 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 as to federal lands, provided such regulations are not inconsistent with the terms of this Agreement; as to Indian lands, the Acts of March 3, 1909 and May 11, 1938, 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, provided such regulations are not inconsistent with the terms of this Agreement; and as to State of New Mexico 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 New Mexico 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:

New Mexico Principal Meridian

Township 23 North, Ranges 8 and 9 West

All of these two townships, containing
46,080 acres, more or less.

Exhibit "A" attached hereto is a map showing the Unit Area and 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 land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "State Commissioner", and not less than seven (7) copies of the revised exhibits shall be filed with the Supervisor and at least one (1) copy thereof shall be filed with the State Commissioner and one (1) copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "State Commission". The Commissioner of Indian Affairs shall hereafter be referred to as the "Indian Commissioner".

The above described unit area shall, when practicable, be expanded to include therein any additional tract or 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 provisions of this Agreement. Such expansion or contraction shall be effected 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 State 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 State Commissioner, and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that thirty (30) days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor and the State 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 expansion or contraction shall, upon approval by the Director and the State Commissioner, 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 and gas 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.

El Paso Natural Gas Company, a Delaware corporation with offices at El Paso, Texas, is hereby designated as Unit Operator and by signature hereto as Unit Operator commits to this Agreement all interests in unitized substances vested in it as set forth in Exhibit "B" hereto 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 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 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 a participating area 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 Director and the State Commissioner, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the Supervisor as to federal and Indian lands and by the State Commissioner as to state and privately-owned 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 a participating area established hereunder is in existence, but provided, however, 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 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 determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Director and State Commissioner. If removal because of default or failure occurs during the existence of a participating area established hereunder, the working interest owners jointly shall be responsible for performance of the duties of the Unit Operator until a successor unit operator is selected and approved as herein provided and shall, not later than the effective date of such removal, appoint a common agent to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title, or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective such Unit Operator shall deliver possession of all equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR.

Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator; provided, that, if a majority but

less than seventy-five per cent (75%) of the working interests qualified to vote are owned by one party to this Agreement, a concurring vote of sufficient additional working interest owners shall be required so as to constitute in the aggregate not less than seventy-five per cent (75%) of the total working interests in order to select a new 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 State 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 in the first instance by Unit Operator and such costs and expenses so paid by Unit Operator shall be apportioned among and borne by the owners of working interests and the Unit Operator reimbursed, 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 the Unit Agreement and the unit operating agreement, this Unit Agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section shall be filed with the Supervisor.

Notwithstanding any provision contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

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 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.

9. DRILLING TO DISCOVERY.

Within three (3) months after the effective date hereof, the Unit Operator shall begin to drill an initial test well at a location within the boundaries of Township 23 North, Range 8 West, and not later than six (6) months after the completion of said

initial test well Unit Operator shall begin to drill a second test well within the boundaries of Township 23 North, Range 9 West, each of such locations to be selected by it and to be approved by the Supervisor, if on federal or Indian land, or the State Commissioner, if on state land, unless on such effective date a well or wells is or are being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Dakota formation has been tested in both the initial and second test wells or the Unit Operator shall at any time establish to the satisfaction of the Supervisor, if on federal or Indian land, or the State Commissioner, if on state land, that the further drilling of either or both of said wells would be unwarranted or impracticable; provided, however, that Unit Operator shall not in any event be required to drill said wells to a depth in excess of eight thousand (8,000) feet.

Until 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 six (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 or Indian land, or the State 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 Director and State 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 the State 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.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION.

Within six (6) months after the completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor, the State Commissioner and the State Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the State Commissioner and the State 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 State Commissioner and the State Commission, a plan for an additional specified period for the development and operation of the unitized land. Any plans submitted pursuant to this section shall provide for the exploration of the unitized area and for the determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor and the State Commissioner and the State 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 State Commissioner and the State

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 (6) months 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 or gas in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this Agreement, or such undrilled initial test wells specified in Section 9 above, or such as may be specifically approved by the Supervisor and the State Commissioner shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY.

Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor or the State Commissioner, the Unit Operator shall submit for approval by the Supervisor, the State Commissioner and the State 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 Supervisor, the State Commissioner and the State Commission to constitute a participating area, effective as of the date of first production, said schedule 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 said schedule shall govern the allocation 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 zone or pool, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interest of the lands so to be combined and the approval of the Supervisor, the State Commissioner and the State Commission. The participating area or areas so established and approved 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, or to exclude land then regarded as reasonably proved not to be productive, and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the 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 adjustment 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 State Commissioner and the State Commission as to the proper definition or redefinition 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, Indians and the State of New Mexico, which shall be determined by the Supervisor for federal or Indian lands and the State Commissioner for state

lands and the amount thereof deposited as directed by the Supervisor and the State Commissioner 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, Indians 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 drilled on federal and Indian land and of the State Commissioner as to wells drilled on state land, and the State Commission as to wells on privately-owned 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, for the purposes of settlement among royalty interest owners, be allocated to the land on which the well is located so long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION.

All unitized substances produced from each participating area established under this Agreement, except any part thereof used in conformity with good operating practices within the Unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, the State Commissioner and the State Commission, 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 accruing under this Agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that 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, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. 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. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last mentioned participating area for sale during the life of this Agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS AND DRILLING OF WELLS NOT MUTUALLY AGREED UPON.

Any party or parties hereto owning or controlling the working interests or a majority of the working interests in any unitized land having thereon a regular well location may, with the approval of the Supervisor as to federal or Indian land, and the State Commissioner as to state land, and the State Commission as to privately-owned land, and subject to the provisions of the unit operating agreement, at such party's sole risk, cost, and expense drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, or drill any well not mutually agreed to by all interested parties, unless within ninety (90) days of receipt of notice from said party of his 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 any well drilled as aforesaid by a working interest owner 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 party or parties paying the cost of drilling such well shall be reimbursed as provided in the unit operating agreement for the cost of drilling such well, and the well shall thereafter be transferred to and operated by Unit Operator in accordance with the terms of this Agreement and the unit operating agreement.

If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this Agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT.

The United States, the Indians and the State of New Mexico and all royalty owners who, under existing contracts, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws, and regulations, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this Agreement is introduced into any participating area of the lands being operated hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Supervisor, the State Commissioner and the State Commission, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that

such withdrawal shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by the Supervisor, the State Commissioner and the State Commission 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 the United States and the Indians 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 or Indian land as provided herein at the rates specified in the respective federal or Indian leases, or at such lower rate or rates as may be authorized by law or regulation; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

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

15. RENTAL SETTLEMENT.

Rental or minimum royalties due on leases committed hereto shall be paid by working interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental or minimum royalty for lands of the United States and Indian lands subject to this Agreement shall be paid at the rate specified in the respective leases from the United States and Indians unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

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 or suspended upon the order of the State Commissioner pursuant to applicable laws and regulations.

With respect to any lease on non-federal or non-Indian land containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals 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 thereafter until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included within a participating area.

16. 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.

17. 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, including wells on adjacent unit areas, or pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the Supervisor for federal or Indian lands or as approved by the State Commissioner for state lands.

18. 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 of 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 leases and the State Commissioner as to state leases shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of federal, Indian

and state 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 part or separately owned tract subject to this Agreement, regardless of whether there is any development of any particular part or tract of the unit area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling 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 Secretary and the State Commissioner (or their duly authorized representatives) shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land.

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands other than those of the United States, Indians 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. Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or applicable law, shall continue in full force and effect thereafter.

(e) Any federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this Agreement shall continue in force beyond the term provided therein until the termination hereof. Any other federal or Indian lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such land remains committed hereto, provided unitized substances are discovered in paying quantities within the unit area prior to the expiration date of the primary term of such lease.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States, or the Indians, 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) Any lease 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 of the effective date hereof. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts.

19. COVENANTS RUN WITH LAND.

The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, 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.

20. EFFECTIVE DATE AND TERM.

This Agreement shall become effective upon approval by the Indian Commissioner, the Director and the State Commissioner and shall terminate on October 1, 1957, unless (a) such date of expiration is extended by the Director and State 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 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 State 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 event the Agreement shall remain in effect for such term and so long as unitized substances can be produced in paying quantities, i. e., in this particular instance in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or (d) it is terminated as heretofore provided in this Agreement.

This Agreement may be terminated at any time by not less than seventy-five (75) per centum, on an acreage basis, of the owners of working interests signatory hereto, with the approval of the Director and State Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION.

All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized

person or regulatory body under any federal or state statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the State 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 State 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 State Commission.

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

22. AUTOMATIC CONTRACTION.

Notwithstanding any other provisions of this Agreement, land subject hereto, which, five years from the effective date hereof or two years after the date of first sale of unitized substances discovered hereunder, whichever period expires later, is situated one mile or more outside the boundary of participating lands then established hereunder, shall be automatically eliminated by legal subdivisions from and no longer subject to this Agreement unless on the expiration of the applicable period as specified above drilling operations by the Unit Operator are in progress at a location one mile or more outside the participating lands, in which event non-participating land shall remain subject hereto for so long as such drilling operations are continued diligently without a lapse of time of more than one year between the completion of one such well and the beginning of the next such well. Inasmuch as any contraction under this section is automatic, the Unit Operator shall, within 90 days after any such

contraction hereunder, define the area so eliminated, and upon the approval of the Director of the Geological Survey of the area to be eliminated, promptly notify all parties affected thereby.

If conditions beyond the control of the Unit Operator require modification of the provisions of this subsection, such modification, if filed 90 days in advance of any provisions hereinabove specified, may be accomplished by consent of 90 percent of the current, unitized working interests and record interests, respectively, with approval of the Director.

If non-participating lands eliminated under this section are subsequently proved productive and determined to be a logical part of this unit area, the provisions of section 2 of this Agreement prescribing procedures for expansion of the area shall become applicable just as if such lands had never been a part of the unit. Reinclusion in the unit area of such lands shall not be considered automatic commitment or recommitment thereof.

23. CONFLICT OF SUPERVISION.

Neither the Unit Operator nor the working interest owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provision thereof 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, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or thing concerning which it is required herein that such concurrence be obtained. The parties hereto, including the State Commission, agree that all powers and authority vested in the State Commission in and by any provisions of this contract are vested in the State 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.

24. APPEARANCES.

Unit Operator shall, after notice to other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Department of the Interior, the Commissioner of Public Lands and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of said Department, the State Commission or State Commissioner, or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, the State Commissioner or State Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

25. NOTICES.

All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by post-paid registered mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

26. NO WAIVER OF CERTAIN RIGHTS.

Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the state wherein said unitized lands are located, or 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.

27. 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, acts of God,

federal, state, or municipal law 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.

28. 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 subcontract

29. 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, so that such tract is not committed to this Unit Agreement, or the operation thereof hereunder becomes impractical as a result thereof, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest, or other 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, Indian and State land or leases, no payments of funds due the United States, Indians or the State of New Mexico should be withheld, but such funds of the United States shall be deposited as directed by the Supervisor, and such funds of the State shall be deposited as directed by the State 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.

30. 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 said tract from this Agreement by written notice to the Director, the State Commissioner and the Unit Operator prior to the approval of this Agreement by the Director. Any such tract not so withdrawn shall be considered as unitized, and any necessary adjustments of royalty occasioned by failure of the royalty and record owner to join will be for the account

of the corresponding working interest owner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this Agreement for 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 also 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 approvals, 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. Prior to final approval hereof, joinder by any owner of a non-working interest must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. Except as may otherwise herein be provided, subsequent joinders to this Agreement shall be effective as of the first day of the month following the filing with the Supervisor, the State Commissioner and the State Commission of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this Agreement unless objection to such joinder is duly made within sixty (60) days by the Director, State Commissioner or State Commission.

31. 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 abovedescribed unit area.

32. SURRENDER.

Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party in any lease, sub-lease, 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 shall forfeit such rights and no further benefits from operations hereunder as to said land shall accrue to such party, unless within ninety (90) days thereafter said party shall execute this agreement and the unit operating agreement as to the working interest acquired through such surrender, effective as though such land had remained continuously subject to this agreement and the unit operating agreement. And in the event such agreements are not so executed, the party next in the chain of title shall be and become the owner of such working interest at the end of such ninety (90) day period, with the same force and effect as though such working interest had been surrendered to such party.

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

(1) Execute this agreement and the unit operating agreement as a working interest owner, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(2) Again lease such lands but only under the condition that the holder of such lease shall within thirty (30) days after such lands are so leased execute this agreement and the unit operating agreement, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(3) Operate or provide for the operation of such land independently of this agreement as to any part thereof or any oil or gas deposits therein not then included within a participating area.

If the fee owner of the unitized substances does not execute this agreement and the unit operating agreement as a working interest owner or again lease such lands as above provided, within six (6) months after any such surrender or forfeiture, such fee owner shall be deemed to have waived the right to execute the unit operating agreement or lease such lands, and to have agreed, in consideration for the compensation hereinafter provided, that operations hereunder shall not be affected by such surrender.

For any period the working interest in any lands are not expressly committed to the unit operating agreement as the result of any such surrender or forfeiture, 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 interest in accordance with their respective participating 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, applicable to such lands under the lease in effect when the lands were unitized, as to such participating area or areas.

Upon commitment of a working interest to this agreement and the unit operating agreement as provided in this section, an appropriate accounting and settlement shall be made, to reflect the retroactive effect of the commitment, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered working interest during the period between the date of surrender and the date of recommitment, and payment of any moneys found to be owing by such an accounting shall be made as between the parties then signatory to the unit operating agreement and this agreement within thirty (30) days after the recommitment. The right to become a party to this agreement and the unit operating agreement as a working interest owner by reason of a surrender or forfeiture as provided in this section shall not be defeated by the non-existence of a unit operating agreement and in the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor and State Commissioner may prescribe such reasonable and equitable agreement as they deem warranted under the circumstance.

Nothing in this section shall be deemed to limit the right or joinder of subsequent joinder to this agreement as provided elsewhere in this agreement. 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.

OPERATOR

EL PASO NATURAL GAS COMPANY

Date: _____ By _____
Vice President
Attest:
Address: P. O. Box 1492
El Paso, Texas _____
Assistant Secretary

WORKING INTEREST OWNERS

EL PASO NATURAL GAS COMPANY

Date: _____ By _____
Vice President
Attest:
Address: P. O. Box 1492
El Paso, Texas _____
Assistant Secretary

THREE STATES NATURAL GAS COMPANY

Date: _____ By _____
President
Attest
Address: Tower Petroleum Building
Dallas, Texas _____
Secretary

Date: _____ J. GLENN TURNER
Address: 1711 Mercantile Bank Bldg.
Dallas, Texas _____