

UNIT AGREEMENT AND PLAN OF UNITIZATION
FOR THE DEVELOPMENT AND OPERATION
OF THE

_____ UNIT AREA
COUNTY OF _____
STATE OF _____

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UNIT AGREEMENT AND PLAN OF UNITIZATION

FOR THE DEVELOPMENT AND OPERATION

OF THE

_____ UNIT AREA

COUNTY OF _____

STATE OF _____

CONTRACT NO. _____

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

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 term "Working Interest" as used herein shall mean the interest held in Unitized Substances or in lands containing Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, which is chargeable with and obligated to pay or bear all or a portion of the costs of drilling, developing, producing, and operating the land under the unit or cooperative agreement. "Royalty Interest" as used herein shall mean a right to, or interest in, any portion of the Unitized Substances or proceeds thereof other than a Working Interest. The owner of oil and gas rights that are free of lease or other instrument conveying the Working Interest rights to another shall be regarded as a Working Interest Owner to the extent of a seven-eighths (7/8ths) interest in and to such oil and gas rights, and as a Royalty Interest Owner to the extent of the remaining one-eighth (1/8th) interest therein; and

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

WHEREAS, the State Statute, _____, empowers the Board of Oil and Gas Conservation, State of _____, hereinafter referred to as the "Board," upon application, to determine the need for and make orders providing for the operation as a unit of one or more pools, or parts thereof, in a field after approval of _____ percent (____) of the parties involved, which order shall be binding on all parties in said Unit Area; and

WHEREAS, the parties hereto hold sufficient interests in the _____ Unit Area covering the land hereinafter described to give reasonably effective control of operations herein; 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 Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid, pertinent regulations including operating and unit plan regulations, heretofore issued there under or valid, pertinent, and reasonable regulations hereafter issued there under are accepted and made a part of this Agreement as to Federal Lands, provided such regulations are not inconsistent with the terms of this Agreement; and as to non-Federal Lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State of _____, are hereby accepted and made a part of this Agreement.

2. UNIT AREA.

The area specified on the plat attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area containing _____ 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 land in the Unit Area. Exhibit "C" attached hereto is a schedule showing the percentage of participation credited to each Tract in the Unit Area based upon a presumed one hundred percent (100%) commitment. (Tract means each parcel of land described as such and given a Tract Number in Exhibit "B.") However, nothing herein or in said schedule or map shall be construed as a representation by any party 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 BLM Authorized Officer, hereinafter referred to as "AO," or by the Board. In such case, not less than four (4) copies of the revised exhibits shall be filed with the AO.

3. EXPANSION OF UNIT AREA.

Any enlargement of the Unit Area shall require approval by the AO, and shall be in accordance with the provisions of _____ State Statutes. The Unit Area may, with the approval of the AO, be expanded to include therein any additional lands whenever such expansion is necessary or advisable to conform with the purposes of this Agreement. Subject to such approval of the AO, any such expansion may be accomplished by the Unit Operator negotiating an agreement or agreements with the owners of such lands fixing the tract participation of each tract

and providing for the commitment of the interest of such owners to this agreement and to the Unit Operating Agreement, the Unit Operator acting on behalf of the Working Interest Owners collectively after having been duly authorized by them as provided for in the Unit Operating Agreement. Whenever the Unit Area is enlarged so as to admit additional land qualified for participation, Exhibit "C" shall be revised as set forth in Section 12, Participation and Allocation of Production. Any such expansion shall be effected in the following manner:

- (a) Unit Operator, on its own motion, after preliminary concurrence by the AO, or on demand of the AO, shall prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reasons therefore, and the proposed effective date thereof, preferably the first day of the month subsequent to the date of notice.
- (b) Said notice shall be delivered to the proper AO, 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 thirty (30) day period provided in the preceding item (b) hereof, Unit Operator shall file with the AO evidence of mailing of the notice of expansion and a copy of any objections thereto which have been filed with the Unit Operator, together with an application and appropriate joinder with a sufficient number of copies for approval of such expansion.
- (d) After due consideration of all pertinent information, the expansion shall, upon approval by the AO, become effective as of the date prescribed in the notice thereof or such other appropriate date as determined by the AO.

4. UNITIZED LAND AND UNITIZED SUBSTANCES.

All lands, including unleased Federal land, committed to this Agreement as provided in Section 5, Tracts Qualified for Participation, as to the Unitized Formation defined immediately below, shall constitute land referred to herein as "Unitized Land," land subject to this Agreement. All oil and gas in and produced from the Unitized Formation is unitized under the terms of this Agreement and herein is called "Unitized Substances."

The Unitized Formation shall mean the _____ Formation as identified by the log run in the _____ Well, located in the _____, of Section _____, Township _____, Range _____, _____ County, _____, with the top of the Unitized Formation being found at a depth of _____ feet below the surface and the base of the Unitized Formation being found at a depth of _____ feet below the surface as measured from the Kelly Bushing elevation of _____.

5. TRACTS QUALIFIED FOR PARTICIPATION.

Inasmuch as the objective of this Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, no joinder shall be considered a commitment to this Agreement unless the Tract involved is qualified under this Section. On or after the effective date hereof, the Tracts within the Unit Area which, in the absence of an involuntary pooling order issued by the Board, shall be entitled to participation in the production of Unitized Substances

therefrom shall be those Tracts within the Unit Area, more particularly described in Exhibit "B," that are qualified as follows (for the purposes of this Section, the record interest shall replace the royalty interest as to Federal land):

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have signed or ratified this Agreement and the Unit Operating Agreement and Royalty Owners owning eighty percent (80%) or more of the royalty interest created by the basic leases have signed or ratified this Agreement.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the working interest have signed or ratified this Agreement and the Unit Operating Agreement and Royalty Owners owning less than eighty percent (80%) of the royalty interests created by the basic leases have signed or ratified this Agreement, as to which (1) all Working Interest Owners in such Tract join in a request for inclusion of such Tract in Unit Participation upon the basis of such commitment status, and further, as to which (2) eighty percent (80%) or more of the combined voting interest of Working Interest Owners in all Tracts which meet the requirements of Subsection 5(a) vote in favor of the acceptance of such Tract as qualified. For the purpose of this Subsection 5(b), the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) which the total of such Working Interest Owner's percentage participation in all Tracts which qualify under Subsection 5(a) bears to the total percentage participation of all Working Interest Owners in all Tracts which qualify under said Subsection 5(a), as such percentages are shown on Exhibit "C";

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the working interest have signed or ratified this Agreement and the Unit Operating Agreement, regardless of the percentage of royalty interest therein that is committed hereto, and as to which (1) the Working Interest Owner who operates the Tract and all of the other subscribing Working Interest Owners in such Tract have joined in a request for inclusion of such Tract in Unit Participation upon the basis of such commitment status and have tendered and executed and delivered an indemnity agreement, indemnifying and agreeing to hold the owners of the Working Interests in the other qualified Tracts harmless from and against any and all claims and demands that may be made by the non-subscribing Working Interest Owners in such Tract on account of the inclusion of the same in Unit Participation, and further, as to which (2) eighty percent (80%) or more of the combined voting interests of the Working Interest Owners in all Tracts which meet the requirements of Subsections 5(a) and 5(b) above vote in favor of the inclusion of such Tract. For the purpose of this Subsection 5(c), the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) which the total of such Working Interest Owner's percentage participation attributed to Tracts which qualify under Subsections 5(a) and 5(b) bears to the total percentage of all Working Interest Owners attributed to all Tracts which qualify under Subsections 5(a) and 5(b), as such percentages are set out in Exhibit "C."

Notwithstanding anything in this Section to the contrary, all Tracts within the Unit Area shall be deemed to be qualified for participation and be deemed committed if this Agreement and the Unit Operating Agreement are duly approved as the Plan of Unitization and Operating Plan by order of the Board, State of _____, and the AO as to the Unit Agreement, subject to any revisions pursuant to Section 12 hereof.

6. UNIT OPERATOR.

_____ is 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 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.

7. RESIGNATION OR REMOVAL OF UNIT OPERATOR.

Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate that 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 until all wells are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO, 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.

The resignation of Unit Operator shall not release the Unit Operator from any liability for 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.

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 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 or removal of Unit Operator under this Agreement shall not terminate its right, title, or interest as the owner of 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 new duly qualified successor Unit Operator or to the common agent if no such new Unit Operator is elected to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

8. 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 is negotiated by the Working Interest Owners, the owners of the working interests according to their respective allocation percentage 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.

If no successor Unit Operator is selected and qualified as herein provided, the AO at his election may declare this Unit Agreement terminated.

9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.

If the Unit Operator is not the sole owner of Working Interest, 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, whether one or more, separately or collectively, entered into by and between the Unit Operator and the owners of working interests. Any agreement or agreements, whether one more, entered into between the Working Interest Owners and the Unit Operator as provided in this Section are herein referred to as the "Unit Operating Agreement."

Such Unit Operating Agreement shall also set forth 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 Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Two (2) true copies of any Unit Operating Agreement executed pursuant to this section shall be filed with the AO prior to approval of this Unit Agreement, and thereafter promptly after any revision or amendment.

10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR.

Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto, including surface rights, 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.

11. PLAN OF OPERATION.

It is recognized and agreed by the parties hereto that the Unit Area is developed and productive, and only such drilling as is incidental to an enhanced recovery program is contemplated. Inasmuch as the primary purpose of this Agreement is to permit the institution and consummation of an enhanced recovery program for the maximum economic production of Unitized Substances

consistent with good engineering and conservation practices, Unit Operator, concurrently with the filing of this Unit Agreement for final approval, shall submit to the AO for approval a plan of operation for the Unitized Land, and upon approval thereof by the AO, such plan shall constitute the future operating obligations of the Unit Operator under this Unit Agreement for the period specified therein. Thereafter, from time to time, as determined by the AO, before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operation. These subsequent plans should normally be filed on a calendar year basis not later than March 1 each year. Said plan or plans shall be supplemented when necessary to meet changed conditions, or to protect the interest of all parties to this Unit Agreement. Reasonable diligence, as determined by the AO, shall be exercised in complying with the obligations of any approved plan of operation.

The Unit Operator shall have the right to inject into the Unitized Formation any substances for enhanced recovery purposes in accordance with a plan of operation approved by the AO, including the right to drill and maintain injection wells on the Unitized Land and completed in the Unitized Formation for said purpose, and the parties hereto, to the extent of their rights and interests, hereby grant to the Unit Operator the right to use as much of the surface of the land within the Unit Area as may be reasonably necessary for the operation and the development of the Unit Area hereunder. Unit Operator shall have free use of water from the Unitized Land for operations hereunder and for operations on adjacent lands as may be reasonably necessary for the operation and the development of the Unit Area hereunder, except water from surface owner's and royalty owner's fresh water wells, private lakes, ponds, or irrigation ditches.

12. PARTICIPATION AND ALLOCATION OF PRODUCTION.

Beginning at 7:00 a.m. on the effective date hereof, the Tract Participation of each Tract shall be based upon the following factors and formula:

Exhibit "C" attached hereto lists the tracts within the unit area and the allocation of percentage participation of each such tract in the Primary (Phase I) and Secondary Phases (Phase II) of Operation respectively, as the same are hereinafter defined.

The Primary Phase shall begin at 7:00 A.M. on the effective date hereof and continue until 7:00 A.M. on the first day of the month following the date that cumulative oil production from the unitized formation underlying the unit area equals _____ barrels of oil calculated as of _____. The Primary Phase allocation of percentage participation of each qualified tract shall be based upon the ratio of projected remaining primary reserves from each such tract to the projected remaining primary reserves from all qualified tracts in the unit area.

The Secondary Phase shall begin upon the termination of the Primary Phase. The Secondary Phase allocation of percentage participation of each qualified tract shall be based upon _____.

The figure set forth opposite each Tract in Exhibit "C" represents the Tract Participation to which such Tract is entitled if all Tracts are committed hereto and qualified as of the effective date of this Agreement.

Promptly after approval of the Unit Agreement, if all Tracts are not qualified hereto, Unit Operator shall revise Exhibit "C" to show the Tracts qualified for participation therefore, which shall be calculated by using the same Tract factors and formula which were used to arrive at the

Tract participation of each Tract as set out in the original Exhibit "C", but applying the same only to those Tracts which are qualified for participation effective as of the effective date of this Unit Agreement. Said revised Exhibit "C" shall be subject to approval by the AO and shall be effective as of the effective date of this Agreement.

If after the effective date of this Agreement any Tract or Tracts are subsequently committed hereto and qualified because of expansion of the Unit Area under Section 3, Expansion of Unit Area, or any Tract or Tracts are subsequently qualified under the provisions of Section 5, Tracts Qualified for Participation, and Section 30, Subsequent Joinder, or if any Tract is eliminated from the Unit Agreement as provided in Section 29, Loss of Title, the schedule of participation as shown in Exhibit "C" shall be revised by the Unit Operator to show the new Tract Participation of all the then qualified Tracts; and the revised Exhibit "C", upon approval by the AO, shall govern the allocation of production from the effective date thereof until a new schedule is so approved. In any such revised Exhibit "C", pursuant to this paragraph, the Tract Participation of the retained previously qualified Tracts shall remain in the same ratio one to the other.

On the effective date of this Agreement and thereafter, all Unitized Substances produced hereunder (except any part thereof used in conformity with good operating practices for drilling, operating, camp, and other production or development purposes for enhanced recovery operations in accordance with a Plan of Operation approved by the AO or unavoidably lost) shall be deemed to be produced from the several Tracts of Unitized Land, and for the purpose of determining any benefits accruing under this Agreement, each such Tract shall have allocated to it that percentage of said production equal to its Tract Participation effective hereunder during the respective period such Unitized Substances were produced, as set out in Exhibit "C."

If, as of the effective date hereof, any Tract is over-produced with respect to the allowables of the wells on that Tract as established by the State of _____ and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded as a part of the unitized substances produced after the effective date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tracts.

The amount of Unitized Substances allocated to each Tract shall be deemed to be produced from such Tract irrespective of the location of the wells from which the same is produced and regardless of depletion of wells or Tracts. In the absence of a controlling contract or agreement to the contrary, when two or more leases or part or parts thereof have been combined into a single Tract, the percentage participation assigned to such Tract shall for all purposes be divided among the separate leases or part or parts thereof, which have been put into such Tract, in proportion to the number of surface acres of the leases, or part or parts thereof contained in such Tract to the total surface acres contained in said Tract. For unleased Federal acreage, the Unit Operator must set aside all funds attributable to unleased Federal acreage in an interest-earning escrow or trust account.

13. ROYALTY SETTLEMENT.

The United States and all Royalty Owners who, under existing contract, are entitled to take in kind a share of the substance now unitized hereunder produced from any Tract, shall hereafter be entitled to the right to take in kind their proportionate share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for Royalty Interest

not taken in kind shall be made by an operator responsible, therefore, 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 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 or formations not subject to this Agreement is introduced into the Unitized Formation hereunder for use in repressuring, stimulation or production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the AO, a like amount of gas less appropriate deduction for loss or depletion from any cause, may be withdrawn from the Unitized Formation, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the AO as conforming to good petroleum engineering practice; and provided further that such right of withdrawal shall terminate on the termination of this Unit Agreement.

If natural gasoline, liquid petroleum gas fractions, or other liquid hydrocarbon substances (herein collectively called "LPGS") which were not extracted from gas produced from the Unitized Formation and upon which royalty was paid at the time of production are injected into the Unitized Formation, which shall be in conformity with a plan of operation first approved by the AO, Working Interest Owners shall be entitled to recover, royalty free, part or all of such LPGS pursuant to such conditions and formulas as may be prescribed or approved by the AO.

Royalty due the United States shall be computed as provided in the Federal operating regulations and paid in value or delivered in kind as to all Unitized Substances on the basis of the amounts hereof allocated to Unitized Federal Land as provided herein at the rates specified in the respective Federal leases, or at such lower 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 the Unitized Lands were a single consolidated lease.

As to non-Federal Lands, any royalty or other payment which varies under the terms of the instrument creating it, according to actual production from a Tract, or according to the capabilities of wells located thereon to produce, shall, on or after the effective date, be computed upon that portion of the Unitized Substances allocated to the particular Tract and not upon the actual production of oil and gas from the Tract or the capability of the well(s) thereon to produce. If any such royalty or other payment depends on the production or pipeline runs from a well, such production or pipeline runs shall be determined by dividing the Unitized Substances allocated to the Tract by the number of wells located thereon that were capable of producing or capable of being used in Unit Operations as a producing well or otherwise as of the effective date. If any Tract has no such well located thereon as of the effective date, it shall be treated as having one well within the meaning of this Section.

14. RENTAL SETTLEMENT.

Rental or minimum royalties due on leases committed hereto shall be paid by parties responsible, therefore, under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the responsible parties 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 and minimum royalty for lands of the United States subject to this Agreement shall be paid at the

rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

15. 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.

16. DRAINAGE.

The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from Unitized Land by wells on land not subject to this Agreement, or with prior consent of the AO, pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the AO. In the event compensatory royalty is so paid, it shall be treated in the same manner as Unitized Substances.

17. GAUGE OF MERCHANTABLE OIL.

Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area and associated with the operation of Unitized Land in order to ascertain the amount of merchantable oil above the pipeline connections in such tanks at 7:00 a.m. on the effective date hereof. All such oil shall be and remain the property of the parties entitled thereto the same as if the Unit had not been formed and such parties shall promptly remove said oil from said tanks. Any such oil not so removed shall be sold by Unit Operator for the account of parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the terms and provisions of the applicable lease, leases, or other contracts.

18. LEASE 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 shall and 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 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 Unitized Land, 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 Land 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 Land pursuant to direction or consent of the AO 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. But, if a suspension of drilling or producing operations is limited to specific lands, it 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 on lands 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) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17(m) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784, 30 U.S.C. 226m): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization. Provided, however, that any such lease as to the 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."

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 shall be binding upon Unit Operator, nor shall any transfer of any Royalty Interest or other interest be binding on the Working Interest Owner responsible for payment or settlement thereof until the first day of the calendar month after Unit Operator or the responsible Working Interest Owner, as the case may be, is furnished with the original, photostat, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE.

This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 a.m. on the first day of the calendar month next following the approval of this Agreement by the Secretary or his duly authorized delegate.

21. TERM.

The term of this Agreement shall be for and during the time that Unitized Substances can be produced in quantities sufficient to pay for the cost of producing same from wells on Unitized Land and for as long thereafter as drilling, reworking, or other operations are prosecuted on Unitized Land without cessation of more than sixty (60) consecutive days, and so long thereafter as Unitized Substances can be produced as aforesaid, unless sooner terminated by the AO as provided in Section 8, Successor Unit Operator, or by the Working Interest Owners as provided in section 22, Termination by Working Interest Owners.

22. TERMINATION BY WORKING INTEREST OWNERS.

This Agreement may be terminated at any time by Working Interest owners owning ninety percent (90%) or more of the participation percentage in the Unitized Land with the approval of the AO. Notice of any such termination shall be given by the Unit Operator to all parties hereto.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts.

If not specified otherwise by the leases unitized under this Agreement, the Basic Royalty owners hereby grant Working Interest Owners a period of six (6) months after termination of this Agreement in which to salvage, sell, distribute, or otherwise dispose of the personal property and facilities used in connection with unit operations.

Unit Operator shall, within thirty (30) days after the termination of this Agreement has been determined, pursuant to Sections 8 and 22 hereof, file for record in the office or offices where a counterpart of this Agreement is recorded, a certificate setting forth the fact of such termination and the date thereof.

23. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION.

The AO is hereby vested with the authority to alter or modify from time to time in his discretion the quantity and rate of production under this Agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any statewide voluntary conservation or allocation program which is established, recognized, and generally adhered to by the majority of operators in such state, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with the authority to alter or modify from time to time at 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.

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

24. APPEARANCES.

Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of Interior and to appeal from order issued under the regulations of said Department or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior 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, or personally delivered to the party or sent by postpaid, registered, or certified mail, addressed to such party at the address such party has furnished to the 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 of _____, 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, provided, however, each party hereto except the United States covenants that during the existence of this Agreement, such party shall not resort to any action at law or inequity to partition the Unitized Land or the facilities used in the development or operation thereof and to that extent waives the benefits of all laws authorizing such partition.

27. UNAVOIDABLE DELAY.

All obligations under this Agreement, except the payment of money, shall be suspended while, but only so long as 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. NON-DISCRIMINATION.

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 CFR 12319, as amended, which are hereby incorporated by reference in this Agreement.

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 this Unit Agreement, such Tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any Royalty or Working Interest, or other interests subject hereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided that as to Federal Land or leases, no payments of funds due the United States should be withheld, but such funds shall be deposited as directed by the AO 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.

In order to avoid title failure which might incidentally cause the title to a Working Interest or Interests to fail, the owners of (a) the surface rights to land subject to this Agreement, (b) severed minerals or Royalty Interests in said land, and (c) improvements located on said lands, but not utilized for unit operations, shall individually be responsible for the rendition and assessment for ad valorem tax purposes of all such property, and for payment of such taxes, except as otherwise provided in any contract or agreement between such owners and Working Interest Owner or in the Unit Operating Agreement. If any ad valorem taxes are not paid by such owners responsible, therefore, when due, the Unit Operator may, at any time prior to tax sale, pay the same, redeem such property, and discharge such tax liens as may arise through non-payment. In the event the Unit Operator makes any such payment or redeems any such property from tax sale, the Unit Operator shall be reimbursed, therefore, by the Working Interest Owners in proportion to their respective percentages of Unit Participation; and the Unit Operator shall withhold from the proceeds otherwise due to said delinquent taxpayer or taxpayers an amount sufficient to defray the costs of such payment or redemption, such withholdings to be distributed among the Working Interest Owners in proportion to their respective contributions toward such payment of redemption.

30. SUBSEQUENT JOINDER.

After the effective date of this Agreement, the commitment of any interest in any Tract within the Unit Area shall be upon such equitable terms as may be negotiated by Working Interest Owners and the owner of such interest. After the effective date hereof, joinder by a Royalty 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 Royalty Interest. Joinder by any Royalty Owner at any time must be accompanied or preceded by appropriate joinder by the Owner of the corresponding Working Interest in order for the interest to be regarded as effectively committed. Joinder to this 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 Unit 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 of duly executed counterparts of all or any paper necessary to establish commitment of any Tract to this Agreement unless objection to such joinder is made within sixty (60) days by the AO.

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 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.

In the event any of the parties hereto own both Working Interests and Royalty Interests, as such interests are shown on Exhibit "B," it shall not be necessary for such party to execute this Agreement in both capacities in order to commit both classes of interest. Execution hereof by any such party in one capacity shall also constitute execution in the other capacity, provided said interest owner has also executed the Unit Operating Agreement in its capacity as a Working Interest Owner.

32. ROYALTY OWNER'S TAXES.

Unless otherwise specifically provided by law, each Royalty Owner shall render and pay all ad valorem taxes, including ad valorem taxes measured by production levied against its royalty or mineral interest. Unit Operator shall pay, as an agent for the Working Interest Owners, each Royalty Owner's share of all taxes other than ad valorem taxes levied on or measured by the Unitized Substances in and under, or that may be produced, gathered, and sold from the lands subject hereto, or upon the proceeds or net proceeds derived therefrom, and shall pay ad valorem taxes to the extent that the same are made payable by law by any Working Interest Owner. Each Working Interest Owner shall reimburse Unit Operator for taxes so paid on its behalf and such Working Interest Owner shall make proportionate deductions of said amounts in settling with its Royalty Owners in each separately owned Tract. No such taxes shall be charged to the United States or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

33. NO PARTNERSHIP.

It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this Agreement contained, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

34. BORDER AGREEMENTS.

Unit Operator, subject to the provisions of the Unit Operating Agreement and subject to approval of the AO, may enter into an agreement or agreements with the Working Interest Owners of adjacent lands with respect to operations designed to increase the ultimate recovery of oil and/or gas from the Unitized Formation, prevent waste, and protect the correlative rights of the parties.

35. CORRECTION OF ERRORS.

It is hereby agreed by all parties to this Agreement that the Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent Exhibits to this Agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners and the AO. If any such corrections are made, Unit Operator shall file not less than four (4) copies of the corrected pages of this Agreement or of the Exhibits hereto with the AO. Unit Operator shall also provide, in conformance with Section 25, Notices, such corrected pages to the parties hereto.

36. WILDLIFE STIPULATION.

Nothing in this Unit Agreement shall modify the special Federal lease stipulations applicable to lands under the jurisdiction of the United States Fish and Wildlife Service.

37. FOREST LAND STIPULATION Notwithstanding any other terms and conditions contained in this agreement, all of the stipulations and conditions of the individual leases between the United States and its lessees or their successors or assigns embracing lands within the unit area included for the protection of lands or functions under the jurisdiction of the Secretary of Agriculture shall remain in full force and effect the same as though this agreement had not been entered into, and no modification thereof is authorized except with the prior consent in writing of

the Regional Forester, United States Forest Service, _____,
_____.

38. RECLAMATION LANDS Nothing in this agreement shall modify the special, Federal lease stipulations applicable to lands under the jurisdiction of the Bureau of Reclamation.

39. POWERSITE Nothing in this agreement shall modify the special Federal lease stipulations applicable to lands under the jurisdiction of the Federal Energy Regulatory Commission.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

Date of Signature

Unit Operator

Working Interest Owners

Other Interest Owner

STATE OF _____)

COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 19__,
_____ as _____ of _____, a _____, on
behalf of this Corporation.

WITNESS my hand and official seal.

Notary Public

My Commission Expires:
