

Model Form of Voluntary Unit Operating Agreement

API MODEL FORM 5U02
FOURTH EDITION, JUNE 1, 1993

American Petroleum Institute
1220 L Street, Northwest
Washington, DC 20005



Issued by
AMERICAN PETROLEUM INSTITUTE
Exploration & Production Department

FOR INFORMATION CONCERNING TECHNICAL CONTENT OF
THIS PUBLICATION CONTACT THE API EXPLORATION & PRODUCTION DEPARTMENT,
1201 MAIN STREET, SUITE 2535, DALLAS, TX 75202-3994 — (214) 748-3841.
SEE BACK COVER FOR INFORMATION CONCERNING HOW TO OBTAIN
ADDITIONAL COPIES OF THIS PUBLICATION.

Users of this publication should become familiar with its scope
and content. This publication is intended to supplement rather
than replace individual engineering judgment.

OFFICIAL PUBLICATION



REG. U.S. PATENT OFFICE

Copyright © 1993 American Petroleum Institute

MODEL FORM OF VOLUNTARY UNIT OPERATING AGREEMENT

TABLE OF CONTENTS

<i>SECTION</i>	<i>PAGE</i>
Foreword	v
Special Notes	vi
Preliminary Recitals	1

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1	1
-----------	---

ARTICLE 2

EXHIBITS

2.1	1
2.1.1 Exhibits A and B	1
2.1.2 Exhibit C	1
2.1.3 Exhibit D	2
2.1.4 Exhibit E	2
2.1.5 Exhibit F	2
2.1.6 Exhibit G	2
2.1.7 Exhibit H	2
2.1.8 Exhibit I	2
2.1.9 Exhibit J	2
2.2	2
2.3	2
2.4	2

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1	2
3.2	2
3.2.1 Method of Operation	2
3.2.2 Drilling of Wells	2
3.2.3 Well Recompletions and Change of Status	2
3.2.4 Disposition of Unit Equipment	2
3.2.5 Appearance Before a Court or Regulatory Agency	3
3.2.6 Audits	3
3.2.7 Inventories	3
3.2.8 Technical Services	3
3.2.9 Legal Counsel	3
3.2.10 Assignments to Committees	3
3.2.11 Removal of Operator	3
3.2.12 Enlargement of Unit Area	3
3.2.13 Investment Adjustment	3
3.2.14 Termination of Unit Agreement	3
3.2.15 Adjustments of Expenditures and Settlements	3

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1	3
4.2	3
4.3	4
4.3.1 Voting Interest	4
4.3.2 Vote Required	4

<i>SECTION</i>	<i>PAGE</i>
4.3.3 Vote at Meeting by Non-attending Working Interest Owner	4
4.3.4 Poll Votes	4
 ARTICLE 5	
INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS	
5.1 Reservation of Rights	4
5.2 Specific Rights	4
5.2.1 Access to Unit Area	4
5.2.2 Reports	5
 ARTICLE 6	
UNIT OPERATOR	
6.1 Unit Operator	5
6.2 Resignation or Removal	5
6.3 Selection of Successor	5
6.4 Delivery of Property	5
 ARTICLE 7	
AUTHORITY AND DUTIES OF UNIT OPERATOR	
7.1 Exclusive Right to Operate Unit	5
7.2 Workmanlike Conduct	5
7.3 Liens and Encumbrances	5
7.4 Employees	6
7.5 Records	6
7.6 Reports to Working Interest Owners	6
7.7 Reports to Governmental Authorities	6
7.8 Engineering and Geological Information	6
7.9 Expenditures	6
7.10 Expenditure Adjustments	6
7.11 Wells Drilled by Unit Operator	6
 ARTICLE 8	
TAXES	
8.1 Ad Valorem Taxes	6
8.2 Other Taxes	7
 ARTICLE 9	
INSURANCE	
9.1 Insurance	7
 ARTICLE 10	
ADJUSTMENT OF INVESTMENTS	
10.1 Personal Property Taken Over	7
10.1.1 Wells	7
10.1.2 Well and Lease Equipment	7
10.1.3 Records	7
10.2 Inventory and Evaluation of Personal Property	7
10.3 Investment Adjustment	7
10.4 General Facilities	8
10.5 Ownership of Personal Property and Facilities	8
 ARTICLE 11	
UNIT EXPENSE	
11.1 Basis of Charge to Working Interest Owners	8
11.2 Budgets	8
11.3 Advance Billings	8
11.4 Commingling of Funds	8

SECTION	PAGE
11.5 Lien and Security Interests	9
11.6 Memorandum of Operating Agreement	11
11.7 Default	11
11.8 Unpaid Unit Expense	11
11.9 Carved-out Interest	11
11.10 Uncommitted Royalty	11

ARTICLE 12

NON-UNITIZED FORMATIONS

12.1 Right to Operate	12
12.2 Multiple Completions	12

ARTICLE 13

TITLES

13.1 Warranty and Indemnity	12
13.2 Failure Because of Unit Operations	12

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

14.1 Individual Liability	13
14.2 Settlements	13
14.3 Settlement Adjustments	13

ARTICLE 15

LAWS AND REGULATIONS

15.1 Non-discrimination	13
15.2 Internal Revenue Provision	13

ARTICLE 16

NOTICES

16.1 Giving and Receiving Notices	14
16.2 Content of Notice	14
16.3 Response to Notices	14
16.4 Failure to Respond	14

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal	14
17.2 Limitation on Withdrawal	15

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners	15
18.2 Plugging	16

ARTICLE 19

EFFECTIVE DATE AND TERM

19.1 Effective Date	16
19.2 Term	16

ARTICLE 20

ABANDONMENT OF OPERATIONS

20.1 Termination	16
20.1.1 Oil and Gas Rights	16
20.1.2 Right to Operate	16
20.1.3 Salvaging Wells	16
20.1.4 Cost of Abandonment and Surface Restoration	17
20.1.5 Distribution of Assets	17

SECTION

PAGE

ARTICLE 21

EXECUTION

21.1	Original, Counterpart, or Other Instrument	17
------------	--------------------------------------------------	----

ARTICLE 22

SUCCESSORS AND ASSIGNS

22.1	Successors and Assigns	17
------------	------------------------------	----

EXHIBITS

Exhibit C	18
Exhibit D	18
Exhibit E	19
Exhibit F	19

FOREWORD

The API Model Form of Voluntary Unit Operating Agreement and the companion Model Form of Voluntary Unit Agreement date back to the First Editions, January 1957. The First Editions were superseded by Second Editions, January 1961. The Third Editions were issued in January 1970. The revised editions have been prepared to update these model forms by making revisions found from experience to be desirable. The majority of production units formed in the United States in recent years utilized these suggested forms in whole or in part.

The design of the model forms is to aid in the accomplishment of voluntary unitization of oil and condensate reservoirs that are substantially developed in order to conduct some form of pressure maintenance, repressuring, waterflooding, or other cooperative forms of operation to increase ultimate recovery.

These suggested forms have been prepared by the Subcommittee on Unit Operations under administration of API's Executive Committee on Drilling and Production Practices. Being general in nature, these suggested forms require a certain amount of adaptation to conform to the conditions and requirements of particular units and to the laws of different states. The latter is true in regard to matters of execution, acknowledgements, and filing for record.

USERS ARE CAUTIONED that this suggested form may not contain all the provisions that may be required by parties to an actual agreement for unit operations. In addition, the form contains numerous provisions that must be completed by inserting appropriate time periods, number of parties, voting requirements, or dollar amounts and each party must determine appropriate inserts for its particular situation or application. This is especially critical with respect to the voting requirement relating to operation of the lease. Users of the model form or portions or variations thereof should seek the advice of counsel to ensure that the agreement reflects the actual intent of the parties and is proper under the applicable business circumstances. Use of the form or any portion or variation thereof shall be at the sole discretion, risk, and liability of the user parties. American Petroleum Institute disclaims any and all interests or liability whatsoever for loss or damages that may result from use of the form or portions or variations thereof.

SPECIAL NOTES

API PUBLICATIONS NECESSARILY ADDRESS PROBLEMS OF A GENERAL NATURE. WITH RESPECT TO PARTICULAR CIRCUMSTANCES, LOCAL, STATE, AND FEDERAL LAWS AND REGULATIONS SHOULD BE REVIEWED.

API IS NOT UNDERTAKING TO MEET DUTIES OF EMPLOYERS, MANUFACTURERS, AND SUPPLIERS TO WARN AND PROPERLY TRAIN AND EQUIP THEIR EMPLOYEES, AND OTHERS EXPOSED, CONCERNING SAFETY AND HEALTH RISKS AND PRECAUTIONS, NOR UNDERTAKING THEIR OBLIGATIONS UNDER LOCAL, STATE, OR FEDERAL LAWS.

NOTHING CONTAINED IN ANY API PUBLICATION IS TO BE CONSTRUED AS GRANTING ANY RIGHT, BY IMPLICATION OR OTHERWISE, FOR THE MANUFACTURE, SALE, OR USE OF ANY METHOD, APPARATUS, OR PRODUCT COVERED BY LETTERS PATENT. NEITHER SHOULD ANYTHING CONTAINED IN THIS PUBLICATION BE CONSTRUED AS INSURING ANYONE AGAINST LIABILITY FOR INFRINGEMENT OF LETTERS PATENT.

GENERALLY, API STANDARDS ARE REVIEWED AND REVISED, REAFFIRMED, OR WITHDRAWN AT LEAST EVERY FIVE YEARS. SOMETIMES A ONE-TIME EXTENSION OF UP TO TWO YEARS WILL BE ADDED TO THIS REVIEW CYCLE. THIS PUBLICATION WILL NO LONGER BE IN EFFECT FIVE YEARS AFTER ITS PUBLICATION DATE AS AN OPERATIVE API STANDARD OR, WHERE AN EXTENSION HAS BEEN GRANTED, UPON REPUBLICATION. STATUS OF THE PUBLICATION CAN BE ASCERTAINED FROM THE AUTHORIZING EXPLORATION & PRODUCTION DEPARTMENT (TELEPHONE: 214-748-3841). A CATALOG OF API PUBLICATIONS AND MATERIALS IS PUBLISHED ANNUALLY AND UPDATED QUARTERLY BY AMERICAN PETROLEUM INSTITUTE, 1220 L ST., N. W., WASHINGTON, D. C. 20005 (TELEPHONE 202-682-8375).

USERS ARE CAUTIONED that this suggested form may not contain all the provisions that may be required by parties to an actual agreement for unit operations. In addition, the form contains numerous provisions which must be completed by inserting appropriate time periods, number of parties, voting requirements, or dollar amounts and each party must determine appropriate inserts for its particular situation or application. This is especially critical with respect to the voting requirement relating to operation of the lease. Users of the Model Form or portions or variations thereof should seek the advice of counsel to ensure that the agreement reflects the actual intent of the parties and is proper under the applicable business circumstances. Use of the form or any portion or variation thereof shall be at the sole discretion, risk, and liability of the user parties. American Petroleum Institute disclaims any and all interests or liability whatsoever for loss or damages that may result from use of the form or portions or variations thereof.

UNIT OPERATING AGREEMENT

UNIT

COUNTY,

THIS AGREEMENT, entered into as of the ____ day of ____, 19 ____, by the Parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a Party hereto,

WITNESSETH:

WHEREAS, the Parties hereto as Working Interest Owners have executed, as of the date hereof, an Agreement entitled "Unit Agreement, ____ Unit, ____ County, ____", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined,

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. If there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall govern.

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

2.1.1 "Exhibit A" and "Exhibit B" of the Unit Agreement.

2.1.2 "Exhibit C" which is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the portion of each Working Interest Owner's Unit Participation attributable to each such interest, and the Unit Participation of each Working Interest Owner. "Exhibit C", or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations

of Working Interest Owners for purposes of this Agreement until shown to be in error
and revised as herein authorized.

2.1.3 "Exhibit D" which is the Accounting Procedure applicable to Unit Operations.

2.1.4 "Exhibit E", Insurance.

2.1.5 "Exhibit F" which is the form of Indemnity Agreement provided for in Article 9 of the
Unit Agreement.

2.1.6 "Exhibit G" which is a list of the wells contributed to the Unit.

2.1.7 "Exhibit H", Gas Balancing.

2.1.8 "Exhibit I", Non-Discrimination and Certification of Non-Segregated Facilities.

2.1.9 "Exhibit J", Memorandum of Unit Operating Agreement.

2.2 Inconsistencies. If any provision of any exhibit, except "Exhibit H" and "Exhibit I", is
inconsistent with any provision contained in the body of this Agreement, the provisions of the body
of this Agreement shall prevail. The provisions of "Exhibit H" and "Exhibit I" shall prevail over
the provisions contained in the body of this Agreement in the event there is an inconsistency.

2.3 Revision of Exhibits. Whenever "Exhibit A" and "Exhibit B" are revised, "Exhibit C" shall
be revised accordingly and be effective as of the said date. Unit Operator shall also revise "Exhibit
C" from time to time as required to conform to changes in ownership of which Unit Operator has
been notified as provided in the Unit Agreement.

2.4 Reference to Exhibits. When reference is made herein to an exhibit, it is to the exhibit
as originally attached or, if revised, to the last revision.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and
control of all matters pertaining to Unit Operations pursuant to this Agreement and the Unit
Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in its
own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Specific Authority and Duties. The matters with respect to which Working Interest
Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, including the type of recovery pro-
gram to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Sub-
stances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or
change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Disposition of Unit Equipment. The selling or otherwise disposing of any item of
surplus Unit Equipment, if the current price of new equipment similar thereto is
_____ Dollars (\$____) or more. This monetary amount may be adjusted by the Unit
Operator upon approval of the Working Interest Owners as provided in Article 4 and
Article 16, provided that such adjustment may not occur more than once every

____ months, and in no event within ____ year(s) from the Effective Date.

3.2.5 Appearance Before a Court or Regulatory Agency. The designating of a representative or representatives to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.6 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; however, the audits shall:

(a) not be conducted more than once each year except upon the resignation or removal of Unit Operator, and

(b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or

(c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit, and

(d) be made upon not less than thirty (30) days' written notice to Unit Operator.

3.2.7 Inventories. The taking of periodic inventories under the terms of "Exhibit D".

3.2.8 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not provided for in "Exhibit D".

3.2.9 Legal Counsel. Notwithstanding the provisions of "Exhibit D", Unit Operator will have a vote in the selection of legal counsel.

3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.11 Removal of Operator. The removal of Unit Operator and the selection of a successor.

3.2.12 Enlargement of Unit Area. The enlargement of the Unit Area.

3.2.13 Investment Adjustment. The adjustment and readjustment of investments.

3.2.14 Termination of Unit Agreement. The termination of the Unit Agreement.

3.2.15 Adjustments of Expenditures and Settlements. The adjustment of expenditure and settlement limitations provided for in Section 7.10 and Section 14.3.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit

Participation of not less than _____ percent (____%). No meeting shall be called on less than _____ (____) days' advance written notice, except in the case of emergency, requiring a decision within less than such _____ (____) days. Any notice calling the meeting shall be in writing and shall specify the time and place of the meeting and shall include an agenda of the matters to be considered. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Unless otherwise provided herein, each Working Interest Owner shall have a voting interest equal to its Unit Participation.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of _____ (____) or more Working Interest Owners having a combined voting interest of at least _____ percent (____%); however, should one Working Interest Owner have sufficient interest to defeat approval of a matter, and if that Working Interest Owner votes against the matter, then the matter shall be decided by the affirmative vote of the Working Interest Owner or Owners having at least _____ percent (____%) of the remaining voting interest, provided that such remaining voting interest constitutes at least _____ percent (____%) of the entire voting interest. Failure of a Working Interest Owner to vote shall be deemed a negative vote.

4.3.3 Vote at Meeting by Non-attending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter, telegram, telex, telecopier, cable, or facsimile addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting.

4.3.4 Poll Votes. Any matter submitted in writing to the Working Interest Owners may be voted on by the Working Interest Owners by letter, telegram, telex, telecopier, cable, facsimile or by telephone, promptly confirmed in writing. If a meeting is not requested, as provided in Section 4.2, within _____ (____) days after a written proposal is sent to Working Interest Owners, the above vote shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this Agreement and the Unit Agreement.

5.2 Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights:

5.2.1 Access to Unit Area. Access to the Unit Area, at all reasonable times, at Working

Interest Owners' sole risk and expense to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner that requests the information.

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. _____ is hereby designated as the initial Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time. Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having _____ percent (____%) or more of the voting interest remaining after excluding the voting interest of Unit Operator. Such resignation or removal shall not become effective for a period of ninety (90) days after the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed or has resigned fails to vote or votes only to succeed itself, the successor Unit Operator shall be selected by the affirmative vote of Working Interest Owners having _____ percent (____%) or more of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed or resigned.

6.4 Delivery of Property. On the effective date of resignation or removal, Unit Operator shall deliver to the successor Unit Operator the possession of everything jointly owned by the Working Interest Owners pursuant to this Agreement.

ARTICLE 7

AUTHORITY AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this Agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner, as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for losses sustained or liabilities incurred, even if such losses or liabilities are the result of Unit Operator's own negligence, unless such losses or liabilities result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in

the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the lien and security interest of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator. However, Unit Operator may employ contractors in lieu of employees at its discretion as set forth in "Exhibit D".

7.5 Records. Unit Operator shall keep correct books, accounts, and records of Unit Operations.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish Working Interest Owners periodic reports of Unit Operations.

7.7 Reports to Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

7.8 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of the logs and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.9 Expenditures. Unit Operator shall neither make any single expenditure nor undertake any project costing in excess of _____ Dollars (\$) without prior approval of Working Interest Owners. Approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage. Notwithstanding the provisions of this Article, in the event of an emergency, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Expenditure Adjustments. The expenditure limit may be adjusted by the Unit Operator upon approval of the Working Interest Owners as provided in Article 4 and Article 16, provided that such adjustment may not occur more than once every _____ months, and in no event within _____ year(s) from the Effective Date.

7.11 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the rates provided for in "Exhibit D", and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account of all

Working Interest Owners; however, if the interest of a Working Interest Owner is subject to a separately assessed royalty interest, overriding royalty interest, production payment, or other similar interest in excess of _____ (), such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom.

Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, to protest and resist same.

If the ad valorem taxes are based in whole or in part upon separate valuations of each Party's Working Interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the Parties hereto in proportion to the tax value generated by each Party's Working Interest.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or with respect to the production or handling of its share of Unitized Substances.

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, and chargeable as a cost hereunder, shall carry insurance with coverages and in amounts as are set forth in "Exhibit E" hereof.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the Effective Date, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells. All wells shown on "Exhibit G".

10.1.2 Well and Lease Equipment. The casing and tubing in each such well, the well head connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operations.

10.1.3 Records. A copy of all production and well records for such wells.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate, as determined by Working Interest Owners, the personal property taken over. Such inventory shall include and be limited to those items of equipment considered controllable under "Exhibit D" except, upon determination of Working Interest Owners, items considered non-controllable may be included in the inventory in order to ensure a more equitable adjustment of investment. Casing shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property taken over under Section 10.1, and shall be charged with an amount equal to

that obtained by multiplying the total value of all personal property taken over under Section 10.1 by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 General Facilities. The acquisition of general facilities, including but not limited to warehouses, warehouse stocks, lease houses, facility systems, and office buildings necessary for Unit Operations, shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement.

ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation. All charges, credits, and accounting for Unit Expense shall be in accordance with "Exhibit D".

11.2 Budgets. Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and, on or before the first day of each _____ thereafter, shall prepare a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted by Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. Unit Operator shall hold for the account of the Working Interest Owners any funds of the Working Interest Owners advanced or paid to the Unit Operator, either for the conduct of operations hereunder or as a result of the sale of production from the Unit Area,

1 and such funds shall remain the funds of the Working Interest Owners on whose account they are
 2 advanced or paid until used for their intended purpose or otherwise delivered to the Working
 3 Interest Owners or applied toward the payment of debts as provided in Section 11.5. Nothing in
 4 this paragraph shall be construed to establish a fiduciary relationship between Unit Operator and
 5 Working Interest Owners for any purpose other than to account for Working Interest Owners'
 6 funds as herein specifically provided. Nothing in this paragraph shall require the maintenance by
 7 Unit Operator of separate accounts for the funds of Working Interest Owners unless the Parties
 8 otherwise specifically agree.

9 **11.5 Lien and Security Interests.**¹ Each Working Interest Owner grants to the other Work-
 10 ing Interest Owners a lien upon any interest it now owns or hereafter acquires in Oil and Gas
 11 Rights and Working Interests in the Unit Area, and a security interest and/or purchase money
 12 security interest in any interest used or obtained for use in connection therewith, to secure
 13 performance of all its obligations under this Agreement including but not limited to payment of
 14 Unit Expense, interest, attorney fees, court costs, cost of collection, the proper disbursement of all
 15 monies paid hereunder, the assignment or relinquishment of interest in Oil and Gas Rights as
 16 required hereunder, and the proper performance of operations hereunder. Such lien and security
 17 interest granted by each Working Interest Owner hereto shall include such Working Interest
 18 Owner's leasehold interest, Working Interests, operating rights, and Royalty Interests and over-
 19 riding royalty interests in the Unit Area now owned or hereafter acquired and in lands pooled or
 20 unitized therewith or otherwise becoming subject to this Agreement, the Unitized Substances
 21 when extracted therefrom and equipment situated thereon or used or obtained for use in connec-
 22 tion therewith (including, without limitation, all wells, tools, and tubular goods), and accounts
 23 (including, without limitation, accounts arising from gas imbalances or from the sale of Unitized
 24 Substances at the wellhead), contract rights, inventory and general intangibles relating thereto or
 25 arising therefrom, and all proceeds and products of the foregoing.

26 To perfect the lien and security agreement provided herein, each Party hereto shall execute and
 27 acknowledge the recording supplements and/or any financing statement prepared and submitted
 28 by any Party hereto in conjunction herewith or at any time following execution hereof, and Unit
 29 Operator is authorized to file this Agreement or the recording supplement executed herewith as
 30 a lien or mortgage in the applicable records and as a financing statement with the proper officer
 31 under the Uniform Commercial Code or other applicable laws in the state in which the Unit Area
 32 is situated and such other states as Unit Operator shall deem appropriate to perfect the security
 33 interest granted hereunder. Any Working Interest Owner may file this Agreement, the recording
 34 supplement executed herewith, or such other documents as it deems necessary as a lien or
 35 mortgage in the applicable records and/or a financing statement with the proper officer under the
 36 Uniform Commercial Code.

¹Each Working Interest Owner executing this Agreement should consult an attorney familiar with the securities rights and other laws applicable to the Oil and Gas Rights and Working Interest in the Unit Area affected hereby to determine whether a valid, enforceable mortgage, lien and/or security interest in all of the items described in this Section 11.5 is created pursuant to such laws. Otherwise, no assurance can be given that any such mortgage, lien, and/or security interest, or other enforceable right, is granted hereby.

All Working Interest Owners acquiring an interest in Oil and Gas Rights and Working Interest covered by this Agreement whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Section 11.5 as to all obligations attributable to such interest hereunder.

To the extent that Working Interest Owners have a security interest under the Uniform Commercial Code or other applicable laws of the state in which the Unit Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code or such other laws. The bringing of a suit and the obtaining of judgment by a Working Interest Owner for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of expenses, interest, or fees, or upon the improper use of funds by the Unit Operator, the other Working Interest Owners shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as provided in "Exhibit D", has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting Working Interest Owner's share of Unitized Substances. All purchasers of production may rely on a notification of default from the non-defaulting Working Interest Owner(s) stating the amount due as a result of the default, and all Working Interest Owners waive any recourse available against purchasers for releasing production proceeds as provided in Section 11.5.

If any Working Interest Owner does not perform all of its obligations hereunder, and the failure to perform subjects such Working Interest Owner to foreclosure or execution proceedings pursuant to the provisions of this Agreement, to the extent allowed by governing law, the defaulting Working Interest Owner waives any available right of redemption from and after the date of judgment, and any required valuation or appraisal of the mortgaged or secured property prior to sale, any available rights to stay execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each Working Interest Owner hereby grants to the other Working Interest Owners a power of sale as to any property that is subject to the lien and security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

To the extent permitted by applicable law, each Working Interest Owner agrees that the other Working Interest Owners shall be entitled to utilize the provisions of oil and gas lien law or other lien law of the state in which the Unit Area is situated to enforce the obligations of each Working Interest Owner hereunder. Without limiting the generality of the foregoing, to the extent permitted by applicable law, non-operators agree that Unit Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Unit Area is situated in order to secure the

1 payment to Unit Operator of any sum due hereunder for services performed or materials supplied
2 by Unit Operator.

3 **11.6 Memorandum of Operating Agreement.** In the event that "Exhibit J" is attached to
4 and made a part of this Agreement, it shall be executed by each Working Interest Owner and Unit
5 Operator shall duly file it for record in the applicable real estate records in the state in which the
6 Unit Area is located and such other states as Unit Operator deems appropriate to perfect the
7 security interest granted hereunder.

8 **11.7 Default.** If any Working Interest Owner does not pay its share of Unit Expense when due,
9 Unit Operator may give such Working Interest Owner notice that unless payment is made within
10 fifteen (15) days, such Working Interest Owner shall be in default. Any Working Interest Owner
11 in default shall not be entitled to vote on any matter until such time as said Working Interest
12 Owner's payments are current. The voting interest of each Working Interest Owner entitled to vote
13 on any issue shall be in the proportion its Unit Participation bears to the Unit Participation of
14 all non-defaulting Working Interest Owners at the time. A Working Interest Owner in default will
15 remain subject to the rights and obligations of this Agreement.

16 **11.8 Unpaid Unit Expense.** If any Working Interest Owner fails to pay its share of Unit
17 Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each non-
18 defaulting Working Interest Owner agrees, upon request by Unit Operator, to pay its proportion-
19 ate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working
20 Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall
21 be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon
22 receipt by Unit Operator of any past due amount collected from the defaulting Working Interest
23 Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of
24 Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights
25 herein granted Unit Operator.

26 **11.9 Carved-out Interest.** If any Working Interest Owner shall, after executing this Agree-
27 ment, create an overriding royalty, production payment, net proceeds interest, carried interest, or
28 any other interest out of its Working Interest, such carved-out interest shall be subject to the
29 terms and provisions of this Agreement, specifically including, but without limitation, Section 11.5
30 hereof entitled "Lien and Security Interests". If the Working Interest Owner creating such carved-
31 out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under
32 this Agreement, and the production of Unitized Substances accruing to the credit of such Working
33 Interest Owner is insufficient for that purpose, or (b) withdraws from this Agreement under the
34 terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro
35 rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest
36 were a Working Interest, and Unit Operator shall have the right to enforce against such carved-
37 out interest the lien and all other rights granted in Section 11.5 for the purpose of collecting the
38 Unit Expense chargeable to the carved-out interest.

39 **11.10 Uncommitted Royalty.** It is recognized that whenever the owner of a Royalty Interest

in a Tract is not a Party to the Unit Agreement, the royalty payable to that owner on actual production from the Tract may be more or less than the royalty that would have been payable on Unitized Substances allocated to the Tract. Accordingly, it is agreed that such royalty difference shall be borne by or inure to the benefit of all Working Interest Owners in the Unit Area in proportion to their respective Unit Participations at the time of production; provided that to the extent such royalty difference is increased or decreased because the sum of all Royalty Interests in the Tract (whether committed or not) is more than or less than _____ (___%) then the amount of such increase or decrease shall be borne by or inure to the benefit of only the Working Interest Owner(s) in the Tract.

ARTICLE 12

NON-UNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals from a formation underlying the Unit Area, other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, such Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not be affected adversely.

12.2 Multiple Completions.

(THE HANDLING OF MULTIPLE COMPLETED WELLS CANNOT BE STANDARDIZED. PROVISIONS MUST BE TAILORED TO FIT THE PARTICULAR SITUATION.)

ARTICLE 13

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in "Exhibit C", and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of 7:00 a.m. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

13.2 Failure Because of Unit Operations. The failure of title to any Working Interest in any Tract because of Unit Operations, including non-production from such Tract, shall not change the

1 Unit Participation of the Working Interest Owner whose title failed in relation to the Unit
 2 Participations of the other Working Interest Owners at the time of the title failure.

3 ARTICLE 14

4 LIABILITY, CLAIMS, AND SUITS

5 **14.1 Individual Liability.** The duties, obligations, and liabilities of Working Interest Owners
 6 shall be several and not joint or collective; and nothing herein shall ever be construed as creating
 7 a partnership of any kind, joint venture, association, or trust among Working Interest Owners.

8 **14.2 Settlements.** Unit Operator may settle any single damage claim or suit involving Unit
 9 Operations if the expenditure does not exceed _____ Dollars (\$____) and if the payment is in
 10 complete settlement of such claim or suit. If the amount required for settlement exceeds the above
 11 amount, Working Interest Owners shall assume and take over the further handling of the claim
 12 or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling,
 13 settling, or otherwise discharging such claim or suit shall be an item of Unit Expense, except that
 14 no charge for services of Unit Operator's legal staff shall be made unless approved by the Working
 15 Interest Owners. If a claim is made against any Working Interest Owner or if any Working Interest
 16 Owner is sued on account of any matter arising from Unit Operations over which such Working
 17 Interest Owner individually has no control because of the rights given Working Interest Owners
 18 and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall
 19 immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit
 20 involving Unit Operations.

21 **14.3 Settlement Adjustments.** The expenditure limit for the settlement of single damage
 22 claims or suits involving Unit Operations may be adjusted by the Unit Operator upon approval
 23 of the Working Interest Owners as provided in Article 4 and Article 16, provided that such
 24 adjustment may not occur more than once every ____ months, and in no event within ____ year(s)
 25 from the Effective Date.

26 ARTICLE 15

27 LAWS AND REGULATIONS

28 **15.1 Non-discrimination.** During the performance of work under this Agreement, Unit Opera-
 29 tor agrees to comply with all the provisions set forth in "Exhibit I" hereto.

30 **15.2 Internal Revenue Provision.** Notwithstanding any provisions herein that the rights and
 31 liabilities of the Parties hereunder are several and not joint or collective, or that this Agreement
 32 and operations hereunder shall not constitute a partnership, if for Federal income tax purposes
 33 this Agreement and the operations hereunder are regarded as a partnership, then each of the
 34 Parties hereto elects to be excluded from the application of all of the provisions of Subchapter K,
 35 Chapter 1, Subtitle A, of the *Internal Revenue Code of 1986*, as permitted and authorized by
 36 Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby
 37 authorized and directed to execute on behalf of each of the Parties hereto such evidence of this
 38 election as may be required by the Secretary of the Treasury of the United States or the Federal
 39 Internal Revenue Service, including specifically, but not by way of limitation, all of the returns,

statements, and the data required by Federal Regulations 1.761-1(a). Should there be any requirement that each Party hereto further evidence this election, each Party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each Party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Unit Area is located, or any future income tax law of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the *Internal Revenue Code of 1986*, under which an election similar to that provided by Section 761 of the Code is permitted, each of the Parties agree to make such election as may be permitted or required by such laws. In making this election, each of the Parties states that the income derived by such Party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 16

NOTICES

16.1 Giving and Receiving Notices. All notices shall be in writing and delivered in person or by mail, telex, telegraph, telecopier, cable, or facsimile; however, if a drilling rig is on location and standby charges are accumulating, such notices shall be given by telephone and immediately confirmed in writing. Notice shall be deemed given only when received by the Party to whom such notice is directed, except that any notice by certified mail or equivalent, telegraph, or cable properly addressed, pursuant to Section 4.1, and with all postage and charges prepaid shall be deemed given _____ () hours after such notice is deposited in the mail or _____ () hours after such notice is filed with an operating telegraph or cable company for immediate transmission.

16.2 Content of Notice. Any notice which requires a response shall indicate the maximum response time specified in Section 16.3. If a proposal involves a well operation, the notice shall include the proposed depth, the objective zone or zones to be tested, the surface and bottom-hole locations, the equipment to be used, and the estimated costs of the operation, including all necessary expenditures through installation of the wellhead.

16.3 Response to Notices. Each Party's response to a proposal shall be in writing to the Unit Operator. The maximum response time shall be _____ () days; however, if a drilling rig is on location and standby charges are accumulating, the maximum response time to a notice pertaining to such drilling rig shall be _____ () hours.

16.4 Failure to Respond. Failure of any Party to respond to a notice within the required period shall be deemed to be a negative vote.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all its Oil and Gas Rights, exclusive of Royalty Interests, together with its

1 interest in all Unit Equipment and in all wells used in Unit Operations, provided that such
 2 transfer shall not relieve such Working Interest Owner from any obligation or liability incurred
 3 prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery
 4 of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall
 5 be owned by the transferees in proportion to their respective Unit Participations. The transferees,
 6 in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit
 7 Equipment, the salvage value thereof less its share of the estimated cost of salvaging same,
 8 including the cost of surface restoration of the Unit Area which may be required by law, rule,
 9 regulation, order, or contract, and of plugging and abandoning all wells then being used or held
 10 for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing
 11 owner's interest in the aforesaid salvage value is less than such owner's share of such estimated
 12 costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator,
 13 for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency.
 14 Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final
 15 statement to the withdrawing owner for its share of Unit Expense, including any deficiency in
 16 salvage value, as determined by Working Interest Owners, incurred as of the first day of the month
 17 following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency
 18 hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the
 19 rendering of such final statement by the Unit Operator, the transfer shall be effective the first day
 20 of the month following its receipt by Unit Operator and, as of such effective date, withdrawing
 21 owner shall be relieved from all further obligations and liabilities hereunder and under the Unit
 22 Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the
 23 Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

24 **17.2 Limitation on Withdrawal.** Notwithstanding anything set forth in Section 17.1, Work-
 25 ing Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its
 26 Working Interest is burdened by any royalties, overriding royalties, production payments, net
 27 proceeds interest, carried interest, or any other interest created out of the Working Interest in
 28 excess of _____ lessor's royalty, unless the other Working Interest Owners willing to accept the
 29 assignment agree to accept the Working Interest subject to such burdens.

30 No Working Interest Owner shall be relieved of its obligations hereunder during a blowout, a
 31 fire, or other emergency, but may withdraw from this Agreement after termination of such
 32 emergency, provided such Working Interest Owner shall remain liable for its share of all costs
 33 arising from said emergency.

34 **ARTICLE 18**

35 **ABANDONMENT OF WELLS**

36 **18.1 Rights of Former Owners.** In the event any Working Interest Owner proposes the aban-
 37 donment of a unit well, Unit Operator shall furnish such proposal to the Working Interest Owners
 38 for their approval. If Working Interest Owners decide to permanently abandon any well within the
 39 Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice

thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after such notice is given to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation and, upon abandonment, to plug the well and assume all surface restoration obligations and any other expense associated with non-unit operations in compliance with the applicable laws, rules, regulations, orders and contractual obligations.

18.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws, rules, and regulations.

ARTICLE 19

EFFECTIVE DATE AND TERM

19.1 Effective Date. This Agreement shall become effective when the Unit Agreement becomes effective.

19.2 Term. This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all wells in the Unit Area have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20; (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

20.1 Termination. Upon termination of the Unit Agreement, the following will occur:

20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the Parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, as determined by Working Interest Owners, of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well and assume all surface restoration obligations and any other expense associated with non-unit operations in compliance with applicable laws, rules, regulations, orders and contractual obligations.

20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the Unit Equipment not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned and

1 the surface of the Unit Area restored in compliance with applicable laws, rules,
2 regulations, orders, and contractual obligations.

3 **20.1.4 Cost of Abandonment and Surface Restoration.** The cost of abandonment of
4 Unit Operations and surface restoration of the Unit Area shall be Unit Expense.

5 **20.1.5 Distribution of Assets.** Working Interest Owners shall share in the distribution of Unit
6 Equipment, or the proceeds thereof, in proportion to their Unit Participations.

7 **ARTICLE 21**

8 **EXECUTION**

9 **21.1 Original, Counterpart, or Other Instrument.** An owner of a Working Interest may
10 become a Party to this Agreement by signing the original of this instrument, a counterpart thereof,
11 or other instrument agreeing to become a Party hereto. The signing of any such instrument shall
12 have the same effect as if all Parties had signed the same instrument.

13 **ARTICLE 22**

14 **SUCCESSORS AND ASSIGNS**

15 **22.1 Successors and Assigns.** This Agreement shall extend to, be binding upon, and inure to
16 the benefit of the Parties hereto and their respective heirs, devisees, legal representatives, suc-
17 cessors, and assigns, and shall constitute a covenant running with the lands, leases, and interests
18 covered hereby.

19 **IN WITNESS WHEREOF,** the Parties hereto have executed this Agreement on the dates
20 opposite their respective signatures.

"EXHIBIT C"
TO
UNIT OPERATING AGREEMENT
_____ UNIT

_____ County, _____

**WORKING INTEREST OWNERSHIP BY TRACTS
AND ATTRIBUTABLE UNIT PARTICIPATIONS**

PART I

Tract Number	Tract Name	Working Interest Owner	Working Interest	Unit Participations	
				Phase I ¹	Phase II ¹
1	Riverbed	X Oil Company	50.00000	0.19660	0.22200
		Y Oil Company	25.00000	0.09830	0.11100
		Z Oil Company	25.00000	0.09830	0.11100
			100.00000	0.39320	0.44400
2	_____	_____	_____	_____	_____
		TOTAL		100.00000	100.00000

PART II

Working Interest Owner	Tract Number	Unit Participation By Tracts		Total Unit Participations of Owners	
		Phase I ¹	Phase II ¹	Phase I ¹	Phase II ¹
X Oil Company	1	0.19660	0.22200		
	2	1.28575	1.17300		
		1.48235	1.39500	1.48235	1.39500
		TOTAL		100.00000	100.00000

"EXHIBIT D"
TO
UNIT OPERATING AGREEMENT
_____ UNIT

_____ County, _____

ACCOUNTING PROCEDURE

(Available for this purpose are a number of more or less standard printed forms of accounting procedure. For example, there is the COPAS form developed by the Council of

Petroleum Accountants Societies of North America,

printed by Kraftbilt, Inc., P. O. Box 800, Tulsa, Oklahoma 74101.)

¹Prepared as example for a two-phase Unit Participation. In case of a single-phase Unit Participation, omit column headings "Phase I" and "Phase II" and use only the single column under the main headings. If a revised Exhibit, it should show "Revision No. ____" and time and date of effectiveness.

"EXHIBIT E"
TO
UNIT OPERATING AGREEMENT
 _____UNIT

_____ County, _____
INSURANCE PROVISIONS
(As determined by Working Interest Owners.)

"EXHIBIT F"
TO
UNIT OPERATING AGREEMENT
 _____UNIT
 _____ County, _____

INDEMNITY AGREEMENT

WHEREAS, Section 9.1.3¹ of an Agreement entitled "Unit Agreement, _____
 _____ Unit, _____ County, _____", dated _____,
 provides that under certain circumstances and conditions therein stated a Tract that fails to
 qualify for inclusion in the Unit Area of the _____ Unit may be included if the
 requisite Working Interest Owners in the Tract as specified in said Section request the inclusion
 of the Tract in the Unit Area and execute and deliver, or obligate themselves to execute and
 deliver, an indemnity agreement; and

WHEREAS, Tract _____, described in the Unit Agreement is such a Tract; and

WHEREAS, the undersigned are owners of Working Interest in such Tract who have become
 Parties to the Unit Agreement and the Unit Operating Agreement and desire the inclusion of the
 Tract in the Unit Area of the _____ Unit.

NOW, THEREFORE, in consideration of and conditioned upon said Tract meeting the other
 requirements of the aforesaid Section of the Unit Agreement and its inclusion in the Unit Area
 of the _____ Unit, the undersigned hereby request the inclusion of the above Tract in
 the Unit Area and agree, together with other owners of Working Interest in the Tract who execute
 and deliver or who obligate themselves to execute and deliver like indemnity agreements, to
 indemnify and hold harmless all other Working Interest Owners in the Unit Area, against all
 claims and demands required by said Section to be the subject of such indemnity. Any liability
 arising hereunder shall be borne by the undersigned and other Working Interest Owners in the
 Tract who are committed to like indemnity agreements in the proportion that the Working
 Interest of each in the Tract bears to the total Working Interest therein of all the owners of
 Working Interest in the Tract committed to such indemnity agreements.

¹No. 1 Alternate Section 9.1.2 in Part II of the Supplement to the Unit Agreement also requires an indemnity agreement.

This indemnity shall become void with respect to all claims and demands based upon occurrences subsequent to the time when the conditions are met that would initially have qualified such Tract for inclusion in the Unit Area without this indemnity.

This Agreement shall be binding upon and inure to the benefit of the heirs, devisees, legal representatives, successors, and assigns of the respective Parties initially bound or benefitted by the provisions hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this instrument on the date opposite its signature.

[Provide for appropriate execution by corporations (with attests), individuals, and other Parties, as may be required, with a place for "date signed" after each signature. If the Indemnity Agreement is to be recorded, acknowledgments should conform to the laws of the state wherein the land is located.]

Order No. 811-10810

Additional copies available from
AMERICAN PETROLEUM INSTITUTE
Publications and Distribution Section
1220 L Street, NW
Washington, DC 20005
(202) 682-8375

