

Model Form of Statutory Unit Operating Agreement

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MODEL FORM OF STATUTORY UNIT OPERATING AGREEMENT

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FOREWORD

The API Model Form of Statutory Unit Operating Agreement and the companion Model Form of Statutory Operating Agreement were issued as First Editions, March 1974. The revised Second Editions, April 1993, supersede and replace the First Editions of these model forms. The revised editions have been prepared to update these model forms to include revisions found from experience to be desirable.

These model forms are designed for use in states where so-called "fieldwide" units may be established by order of the appropriate regulatory agency for the purpose of increasing the ultimate recovery of oil and gas.

Because of similarities in accomplishing unitization, either voluntarily or under statutory authority, these model forms are patterned after *Model Form 5U01: Model Form of Voluntary Unit Agreement*, Fourth Edition, April 1993, and *Model Form 5U02: Model Form of Voluntary Unit Operating Agreement*, Fourth Edition, April, 1993. Appropriate modifications and footnotes reflect requirements and prohibitions of various state statutes. *Being general in nature, these forms require adaptation to conform to conditions of particular units and to requirements concerning execution, acknowledgment, and recordation.*

Statutes of some states contemplate that the Unit Agreement and Unit Operating Agreement will be consolidated into a single document for approval by participants and the appropriate regulatory agency. The single document would consist of two parts corresponding to the two model forms. In other states, the model forms can be used as separate documents.

The revised model forms were prepared by the Subcommittee on Unit Operations under the administration of the API Executive Committee on Drilling & Production Practices.

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 requirements 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 interest of the parties, is proper under the applicable business circumstances, and is appropriate under the governing statute. 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.

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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.

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UNIT OPERATING AGREEMENT¹

UNIT²

COUNTY,³

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,³ _____", 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 1⁴

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

¹Nebraska and New Mexico: Add "(Operating Plan)" below title, "Unit Operating Agreement".

²Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota and Oklahoma: Delete lines 4 through 14.

³Alaska: Use "Borough", Louisiana: Use "Parish", throughout this Agreement.

⁴Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, and Oklahoma: See Part I of Supplement.

⁵Louisiana: Add "and Exhibit C", and redesignate subsequent exhibits accordingly.

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 a list of the wells contributed to the Unit.

2.1.6 "Exhibit G", Gas Balancing.

2.1.7 "Exhibit H", Non-discrimination and Certification of Non-segregated Facilities.

2.1.8 "Exhibit I", Memorandum of Unit Operating Agreement.

2.2 Inconsistencies. If any provision of any Exhibit, except "Exhibit G" and "Exhibit H", 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 G" and "Exhibit H" 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 Owners² 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 Owners² 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 program to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, 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

¹See Part V of Supplement.

²Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners". The "Operating Committee" must be defined in the Unit Agreement.

_____ 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 15, 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 Changes and Amendments. The changing of the Unit Area or the amending of this Agreement or the Unit Agreement as provided by Article 11 of the Unit Agreement.

3.2.13 Investment Adjustment. The adjustment and readjustment of investments.

3.2.14 Termination of Unit Agreement. The termination of the Unit Agreement as provided therein.

3.2.15 Adjustments of Expenditures and Settlements. The adjustment of expenditure and settlement limitations provided for in Section 7.10 and Section 13.3.

¹ Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners". The "Operating Committee" must be defined in the Unit Agreement.

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 alternate¹ 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 Owners² 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 Owners² shall determine all matters by the affirmative vote of ____³ 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,

¹Alaska, Nevada, North Dakota, and Oklahoma: Insert "on the Operating Committee".

²Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners". The "Operating Committee" must be defined in the Unit Agreement.

³Kansas: Insert "a minimum of two (2)", unless there is only a single Working Interest Owner.

1 cable, facsimile or by telephone, promptly confirmed in writing. If a meeting is not
 2 requested, as provided in Section 4.2, within ____ () days after a written proposal
 3 is sent to Working Interest Owners, the above vote shall become final. Unit Operator
 4 will give prompt notice of the results of such voting to all Working Interest Owners.

5 **ARTICLE 5**

6 **INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS**

7 **5.1 Reservation of Rights.** Working Interest Owners severally reserve to themselves all their
 8 rights, except as otherwise provided in this Agreement and the Unit Agreement.

9 **5.2 Specific Rights.** Each Working Interest Owner shall have, among others, the following
 10 specific rights:

11 **5.2.1 Access to Unit Area.** Access to the Unit Area at all reasonable times at Working
 12 Interest Owners' sole risk and expense to inspect Unit Operations, all wells, and the
 13 records and data pertaining thereto.

14 **5.2.2 Reports.** The right to receive from Unit Operator, upon written request, copies of all
 15 reports to any governmental agency, reports of crude oil runs and stocks, inventory
 16 reports, and all other information pertaining to Unit Operations. The cost of gather-
 17 ing and furnishing information not ordinarily furnished by Unit Operator to all
 18 Working Interest Owners shall be charged to the Working Interest Owner that
 19 requests the information.

20 **ARTICLE 6**

21 **UNIT OPERATOR**

22 **6.1 Unit Operator.** _____ is designated as the initial Unit Operator.

23 **6.2 Resignation or Removal.** Unit Operator may resign at any time. Unit Operator may be
 24 removed at any time by the affirmative vote of Working Interest Owners having ____ percent
 25 (____%) or more of the voting interest remaining after excluding the voting interest of Unit Opera-
 26 tor.² Such resignation or removal shall not become effective for a period of ninety (90) days after
 27 the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior
 28 to the expiration of such period.³

29 **6.3 Selection of Successor.** Upon the resignation or removal⁴ of a Unit Operator, a successor
 30 Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed
 31 or has resigned fails to vote or votes only to succeed itself, the successor Unit Operator shall be
 32 selected by the affirmative vote of Working Interest Owners having ____ percent (____%) or more
 33 of the voting interest remaining after excluding the voting interest of the Unit Operator that was
 34 removed or resigned.

35 **6.4 Delivery of Property.** On the effective date of resignation or removal, Unit Operator shall

¹Kansas: Insert "two (2) or more".

²North Dakota: Revise second sentence in Section 6.2 to read "Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having a simple majority of the Working Interest in the Unit Area".

³Montana: Add to Section 6.2 the additional provisions contained in Part II of Supplement.

⁴Montana: Insert "(other than by challenge)".

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,¹ 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 Owners¹. Approval by Working Interest Owners¹ 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

¹ Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners". The "Operating Committee" must be defined in the Unit Agreement.

1 with the emergency. Unit Operator shall report to Working Interest Owners,¹ as promptly as
2 possible, the nature of the emergency and the action taken.

3 **7.10 Expenditure Adjustments.** The expenditure limit may be adjusted by the Unit Operator
4 upon approval of the Working Interest Owners¹ as provided in Article 4 and Article 15 provided
5 that such adjustment may not occur more than once every ___ months and in no event within ___
6 year(s) from the Effective Date.

7 **7.11 Wells Drilled by Unit Operator.** All wells drilled by Unit Operator shall be at the usual
8 rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the
9 charge therefor shall not exceed the rates provided in "Exhibit D", and the work shall be performed
10 by Unit Operator under the same terms and conditions as are usual in the area in contracts of
11 independent contractors doing work of a similar nature.

12 **ARTICLE 8**

13 **TAXES**

14 **8.1 Ad Valorem Taxes.** Beginning with the first calendar year after the Effective Date hereof,
15 Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the
16 proper taxing authorities with respect to all property of each Working Interest Owner used or held
17 by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom.
18 All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account of all
19 Working Interest Owners; however, if the interest of a Working Interest Owner is subject to a
20 separately assessed royalty interest, overriding royalty interest, production payment, or other
21 similar interest in excess of _____ (___), such Working Interest Owner shall notify Unit
22 Operator of such interest prior to the rendition date and shall be given credit for the reduction in
23 taxes paid resulting therefrom.

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

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

30 **8.2 Other Taxes.** Each Working Interest Owner shall pay or cause to be paid all production,
31 severance, gathering, and other taxes imposed upon or with respect to the production or handling
32 of its share of Unitized Substances.

33 **ARTICLE 9**

34 **INSURANCE**

35 **9.1 Insurance.** Unit Operator, with respect to Unit Operations, and chargeable as a cost
36 hereunder, shall carry insurance with coverages and in amounts as are set forth in "Exhibit E"
37 hereof.

¹ Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners".
The "Operating Committee" must be defined in the Unit Agreement.

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 F".

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 Owners¹ 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 Owners¹ shall, at Unit Expense, inventory and evaluate, as determined by Working Interest Owners,¹ 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,¹ 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.² 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.¹

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.

¹Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners". The "Operating Committee" must be defined in the Unit Agreement.

²The investment adjustment, any readjustment of investment, and ownership of property in case of a multi-phase Unit Participation are matters that vary so greatly that no attempt is made to provide language for use in such instances.

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

11.5 Lien and Security Interests.² Each Working Interest Owner grants to the unit and each of the other Working Interest Owners a lien upon any interest it now owns or hereafter acquires

¹ Where Unit Expense is to be chargeable on a basis other than the Unit Participation in effect at the time the expense was incurred, special provisions are required.

² Each 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 Interests 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. Refer to Part VI of the Supplement.

in Oil and Gas Rights and Working Interests in the Unit Area, and a security interest and/or purchase money security interest in any interest used or obtained for use in connection therewith, to secure performance of all its obligations under this Agreement including but not limited to payment of Unit Expense, interest, attorney fees, court costs, cost of collection, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil and Gas Rights as required hereunder, and the proper performance of operations hereunder. Such lien and security interest granted by each Working Interest Owner hereto shall include such Working Interest Owner's leasehold interest, Working Interests, operating rights, and Royalty Interest and overriding royalty interests in the Unit Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this Agreement, the Unitized Substances when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from gas imbalances or from the sale of Unitized Substances at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing to the extent allowed by law.

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

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 to the extent allowed by law until the amount owned 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 payment to Unit Operator of any sum due hereunder for services performed or materials supplied by Unit Operator.

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

11.7 Unpaid Unit Expense.^{1,2} If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator,³ each non-defaulting Working Interest Owner agrees, upon request by Unit Operator, to pay its proportion-

¹Arkansas and Missouri: Delete Section 11.7 and renumber all succeeding Sections under Article 11.

²Georgia: See Part VI of Supplement.

³Colorado, Kansas, Michigan, Nebraska, Oregon, South Dakota, and Utah: Insert "or if any Working Interest Owner elects to be carried or otherwise financed,". Montana: Insert "or if any Working Interest Owner that has not executed this Agreement elects to be carried or otherwise financed,".

ate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

11.8 Carved-out Interests.¹ If any Working Interest Owner shall, after executing this Agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this Agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Lien and Security Interests". If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this Agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this Agreement under the terms and provisions of Article 16 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 11.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

ARTICLE 12

NON-UNITIZED FORMATIONS²

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 Owners³ so that the production of Unitized Substances will not be affected adversely.

ARTICLE 13

LIABILITY, CLAIMS, AND SUITS

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

¹North Dakota: Delete Section 11.8.

²See Part IV of Supplement.

³Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners". The "Operating Committee" must be defined in the Unit Agreement.

13.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed _____ Dollars (\$____) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners' shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense except that no charge for services of Unit Operator's legal staff shall be made unless agreed to by the Working Interest Owners.² If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

13.3 Settlement Adjustments. The expenditure limit for the settlement of single damage claims or suits involving Unit Operations may be adjusted by the Unit Operator upon approval of the Working Interest Owners² as provided in Article 4 and Article 15 provided that such adjustment may not occur more than once every ____ months and in no event within ____ year(s) from the Effective Date.

ARTICLE 14

LAWS AND REGULATIONS

14.1 Non-discrimination.² During the performance of work under this Agreement, Unit Operator agrees to comply with all the provisions set forth in "Exhibit H" hereto.

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

¹See Part IV of Supplement.

³If "Exhibit H" is not attached, substitute Part VI of Supplement.

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 15

NOTICES

15.1 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.

15.2 Content of Notice. Any notice that requires a response shall indicate the maximum response time specified in Section 15.3. 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.

15.3 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.

15.4 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 16

WITHDRAWAL OF WORKING INTEREST OWNER

16.1 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 interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their respective Unit Participations. The transferees,

in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same, including the cost of surface restoration of the Unit Area which may be required by law, rule, regulation, order, or contract, and of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners.^{1,2} In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners,^{1,2} incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

16.2 Limitation on Withdrawal.³ Notwithstanding anything set forth in Section 16.1, Working Interest Owners⁴ may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of (*insert lessor's royalty*) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

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

ARTICLE 17

ABANDONMENT OF WELLS

17.1 Rights of Former Owners. In the event any Working Interest Owner proposes the abandonment of a unit well, Unit Operator shall furnish such proposal to the Working Interest Owners for their approval. If Working Interest Owners⁴ decide to permanently abandon any well within the 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

¹Alaska, Nevada and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners".

²North Dakota: Insert "agreement between the withdrawing owner and Unit Operator" in lieu of "Working Interest Owners".

³North Dakota: Delete Section 16.2.

⁴Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners". The "Operating Committee" must be defined in the Unit Agreement.

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.

17.2 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 18¹

EFFECTIVE DATE AND TERM

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

18.2 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 19; (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;² and (c) there has been a final accounting.

ARTICLE 19

ABANDONMENT OF OPERATIONS

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

19.1.1 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.

19.1.2 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,² 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.

19.1.3 Salvaging Wells. Unit Operator shall salvage as much of the Unit Equipment not

¹ Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, and Oklahoma: Delete Article 18 and renumber all succeeding Articles.

² Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners". The "Operating Committee" must be defined in the Unit Agreement.

1 taken over by Working Interest Owners of separate Tracts as can economically and
 2 reasonably be salvaged, and shall cause the wells to be plugged and abandoned and
 3 the surface of the Unit Area restored in compliance with applicable laws, rules,
 4 regulations, orders, and contractual obligations.

5 **19.1.4 Cost of Abandonment and Surface Restoration.** The cost of abandonment of
 6 Unit Operations and surface restoration of the Unit Area shall be Unit Expense.

7 **19.1.5 Distribution of Assets.** Working Interest Owners shall share in the distribution
 8 of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participations.

9 **ARTICLE 20'**

10 **EXECUTION**

11 **20.1 Original, Counterpart, or Other Instrument.** An owner of a Working Interest may
 12 become a Party to this Agreement by signing the original of this instrument, a counterpart thereof,
 13 or other instrument agreeing to become a Party hereto. The signing of any such instrument shall
 14 have the same effect as if all Parties had signed the same instrument.

15 **ARTICLE 21'**

16 **SUCCESSORS AND ASSIGNS**

17 **21.1 Successors and Assigns.** This Agreement shall extend to, be binding upon, and inure to
 18 the benefit of the Parties hereto and their respective heirs, devisees, legal representatives, suc-
 19 cessors, and assigns, and shall constitute a covenant running with the lands, leases, and interests
 20 covered hereby.

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

¹Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, and Oklahoma: Delete Articles 20 and 21.

"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, OK 74101.)

"EXHIBIT E"

TO

UNIT OPERATING AGREEMENT

_____ **UNIT**

_____ **COUNTY, _____**

INSURANCE PROVISIONS

(As determined by Working Interest Owners.)

**SUPPLEMENT TO API MODEL FORM OF
STATUTORY UNIT OPERATING AGREEMENT**

This supplement contains alternate and added provisions.

PART I

In Alaska, Arizona, Kansas, Michigan, Nevada, North Dakota, and Oklahoma, substitute the following for Article 1:

ARTICLE 1

RELATIONSHIP TO UNIT AGREEMENT

1.1 Relationship to Unit Agreement. This part of the Plan, entitled "Unit Operating Agreement", contains matters affecting only the Working Interest Owners. The definitions in the Unit Agreement are incorporated herein, and if there is any conflict between this Agreement and the Unit Agreement, the Unit Agreement shall govern.

PART II

In Montana, add the following to Article 6.2:

Unit Operator, after having operated for a minimum of two (2) years, can be challenged by any other Working Interest Owner for operating of the Unit. Such challenge shall be made in writing and shall set out the conditions of operations under which the challenging Working Interest Owner proposes to operate the Unit and shall include a showing that:

- (a) he can conduct Unit Operations more efficiently and economically than the Unit Operator,
- (b) he is qualified and financially responsible, and
- (c) a majority of Working Interest Owners, both in number and in Unit Participation, exclusive of Unit Operator, approve such challenging Working Interest Owner becoming Unit Operator.

If the challenged Unit Operator does not initiate such conditions of operations within sixty (60) days of receipt of such challenge, the challenging Working Interest Owner shall become Unit Operator.

PART III

In Mississippi, substitute the following in lieu of the last two sentences in Article 11.5:

When any owner fails to pay his part thereof when due and interest thereon at the legal rate, then all of such owner's interest in the unit production and equipment may be foreclosed in the same manner and under the same procedures provided for the foreclosure of mortgages in Chancery Court.

PART IV

For multiple-completion wells, the following Section may be added to Article 12:

12.2 Multiple-Completion Wells. A Working Interest Owner who contributes a well completed in a non-unitized formation shall, prior to delivery of the well to Working Interest Owners and at its sole risk and expense, segregate such formation in a manner satisfactory to Working

Interest Owners.¹ Each Working Interest Owner reserves the right to use the well for the purpose of exploring, developing, and operating such other formations as may overlie or underlie the Unitized Formation pursuant to such conditions as Working Interest Owners¹ may prescribe. A workover, reconditioning, or redrilling of a multiple-completion well for the benefit of the non-unitized formation shall be at the sole risk and expense of the Working Interest Owners who participate in production from the non-unitized formation. Operations for the benefit of the Unitized Formation shall be at the risk and expense of all Working Interest Owners; provided that, if extra expense is incurred in such an operation because of a multiple completion, the extra expense shall be borne by the Working Interest Owners who participate in production from the non-unitized formation. The term "extra expense" as used herein shall mean the difference between the normal charges incurred in such an operation and the normal charges for doing the same work on a well which is not a multiple completion. Unit Operator shall furnish the Working Interest Owners who participate in production from the non-unitized formation with an estimate of such charges prior to commencement of the work. Before any Working Interest Owner shall commence such an operation the permission of the Working Interest Owners¹ must be secured. The interests of the unit shall prevail in the event of any conflict. Neither Working Interest Owners nor Unit Operator shall be liable for any damage to or loss of production from the non-unitized formation nor for damage to the property, equipment, or facilities used in development and operation of a multiple-completion well.

PART V

In Alaska, Nevada, North Dakota, and Oklahoma, the following alternate provisions may be substituted for Section 3.1 and subsequent Sections renumbered accordingly.

ARTICLE 3

CREATION OF OPERATING COMMITTEE AND SUPERVISION OF UNIT OPERATIONS

3.1 Creation of Operating Committee. An Operating Committee is hereby created to consist of one representative to be designated by each Working Interest Owner, provided that an individual Working Interest Owner may be a member of the Committee. Each Working Interest Owner shall, in writing, inform Unit Operator 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.

3.2 Officers. The representative of the Unit Operator shall be chairman of the Operating Committee. The Committee shall select a secretary and other officers as the Committee deems proper. The secretary and other officers may or may not be members of the Committee. The secretary shall keep and maintain the records of the action of the Committee. The officers shall

¹ Alaska, Nevada, North Dakota, and Oklahoma: Insert "the Operating Committee" in lieu of "Working Interest Owners". The "Operating Committee" must be defined in the Unit Agreement.

1 serve at the will of the Operating Committee and perform the other duties that are delegated to
2 them by the Operating Committee.

3 **3.3 Overall Supervision.** The Operating Committee shall exercise overall supervision and
4 control of all matters pertaining to Unit Operations pursuant to this Plan of Unitization.

5 PART VI

In Louisiana, the following alternate language should be used for Section 11.5:

6 **11.5 Grant of Liens, Mortgages and Security Interests.** Each Working Interest Owner
7 (each Working Interest Owner, in its capacity as grantor of the liens, mortgages, and security
8 interests described herein, and any successor-in-interest with respect thereto, being referred to as
9 "Debtor") grants to the other Working Interest Owners (and to the Unit Operator) [each Working
10 Interest Owner (and the Unit Operator), in its capacity as a lienholder, mortgagee, and secured
11 party hereunder, and any successor-in-interest with respect thereto, being referred to as a "Se-
12 cured Party"] a lien, mortgage, security interest and purchase money security interest upon any
13 interest such Debtor now owns or hereafter acquires in: (i) any leasehold interest, Working
14 Interest, operating right, and Royalty Interest and overriding royalty interest in the Unit Area
15 now owned or hereafter acquired and in the lands pooled or unitized therewith or otherwise
16 becoming subject to this Agreement; (ii) any personal property and fixtures on or used or obtained
17 for use in connection therewith; (iii) the Unitized Substances when extracted therefrom; (iv) and
18 equipment situated thereon or used or obtained for use in connection therewith (including, without
19 limitation, all wells, tools, and tubular goods); (v) accounts (including, without limitation, ac-
20 counts arising from gas imbalances or from the sale of Unitized Substances at the wellhead),
21 contract rights, inventory, and general intangibles relating thereto or arising therefrom; and (vi)
22 all proceeds and products of the foregoing items (i) through (v), to secure performance of all of such
23 Debtor's obligations under this Agreement including but not limited to payment of the Unit
24 Expense, interest, attorney fees, court costs, cost of collection, the proper disbursement of all
25 monies paid hereunder, the assignment or relinquishment of any interest in Oil and Gas Rights
26 as required hereunder, and the proper performance of operations hereunder (the "Secured
27 Obligations").

28 To perfect the lien, mortgage, and security interest provided herein, each Debtor shall execute
29 and acknowledge any document, agreement, financing statement or other recording supplements
30 prepared and submitted by such Debtor in conjunction herewith or at any time following execution
31 hereof, and any Secured Party is authorized to file this Agreement or any recording supplement
32 executed herewith in the applicable records in the state in which the Unit Area is situated and
33 such other states as such Secured Party shall deem appropriate to perfect the security interest
34 granted hereunder and/or to make the lien and mortgage created hereunder effective against third
35 parties.

36 Each Debtor represents and warrants to each Secured Party with respect to such Debtor that
37 the lien, mortgage, and security interest granted by such to each such Debtor shall be a first and
38 prior lien, mortgage, and security interest and each Debtor hereby agrees to maintain the priority

of said lien, mortgage, and security interest against all persons acquiring an interest in Oil and Gas Rights and Working Interests covered by this Agreement by, through, or under such Debtor. All Debtors 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, mortgage, and security interest granted by this Section 11.5 as to all Secured Obligations attributable to such interest hereunder whether or not such Secured Obligations arise before or after such interest is acquired.

To the extent that any Secured Party has a security interest under the Uniform Commercial Code of the state in which the Unit Area is situated, such Secured Party shall be entitled to exercise the rights and remedies of a Secured Party under any such statute. The bringing of a suit and the obtaining of judgment by a Secured Party for all or a portion of the Secured Obligations shall not be deemed an election of remedies or otherwise affect the lien or mortgage rights or security interests as security for the payment and performance of such Secured Obligations.

In addition, upon default by any Debtor in the payment of its share of expenses, interest, or fees, or upon the improper use of funds by the Unit Operator, any Secured Party with respect to such expenses, interest, fees or funds: (i) shall have the right, without prejudice to other rights or remedies, to collect from every purchaser of Unitized Substances the proceeds from the sale of such defaulting Debtor's share of Unitized Substances until the amount owed by such Debtor, plus interest as provided in "Exhibit D", has been received, and (ii) shall have the right to offset the amount of expenses, interest, fees, or funds owed to such Secured Party against the proceeds from the sale of such defaulting Debtor's share of Unitized Substances. All purchasers of Unitized Substances may rely on a notification of default from any Secured Party stating the amount due as a result of the default, and all Debtors waive any recourse available against purchasers for releasing the proceeds of the sale of such Unitized Substances, as provided in this paragraph.

If any Debtor does not perform all of its Secured Obligations hereunder, and the failure to perform subjects such Debtor to foreclosure or execution proceeding pursuant to the provisions of this Agreement, to the extent allowed by governing law, the defaulting Debtor 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 Debtor hereby grants to each Secured Party with respect to such Debtor a power of sale as to any property that is subject to the lien, mortgage, 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.

In addition to all other rights and remedies granted hereunder by each Debtor in favor of each Secured Party with respect to such Debtor, each Debtor agrees and acknowledges that each Secured Party, with respect to such Debtor, shall be entitled to enforce any statutory lien created pursuant to the law of the state in which the Unit Area is situated to secure the Secured

Obligations of such Debtor hereunder. Without limiting the generality of the foregoing, to the extent permitted by applicable law, all Parties hereto other than the Unit Operator agree that Unit Operator may enforce the mechanics' or materialmen's lien law of the state in which the Unit Area is situated in order to secure the payment to Unit Operator of any sum due hereunder for services performed or materials supplied by Unit Operator.

PART VII

In Georgia the following alternate language should be used for Section 11.7:

11.7 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, Unit Operator may appropriate all of the Unitized Substances allocated to the interest in default, upon which Unit Operator has a lien, and market and sell said Unitized Substances for the payment of such charge, together with interest at a rate of _____% per annum. The remaining portion of the Unitized Substances or the proceeds derived therefrom allocated to each separately owned tract shall in all events be regarded as royalty to be paid to the owners, free and clear of all Unit Expense and free and clear of any lien therefor. The owner of any overriding royalty, oil and gas payment, or other interest who is not primarily responsible for the unpaid obligations shall, to the extent of any payment or deduction from his share be subrogated to all the rights of the Unit Operator with respect to the interest or interests primarily responsible for such payment. Any surplus received by the Unit Operator from any such sale of production shall be credited to the person or persons from whom it was deducted in the proportion of their respective interests.

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