

PLAN OF UNITIZATION FOR KNOX BROMIDE SANDS UNIT  
GRADY AND STEPHENS COUNTIES, OKLAHOMA

the Unit Operator save only the lien granted the Unit and the Unit Operator under this Plan of Unitization.

F. Render for ad valorem tax purposes, any and all leasehold rights and interests, facilities and personal property comprising or used in connection with the operation of the Unit Area and which may be subject to ad valorem taxation under present or future laws, and shall pay all such ad valorem taxes at the time and in the manner required by law. Taxes so paid shall be charged to the joint account as other items of Unit Expense.

10.4 Employees. The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees shall be determined by the Unit Operator. Such employees shall be the employees of the Unit Operator.

10.5 Drilling by Unit Operator. The Unit Operator shall have the right to drill any well to be drilled hereunder in the Unit Area with its own or rented tools and equipment, or to cause such well to be drilled by a responsible drilling contractor selected by the Unit Operator on a competitive bid basis. Each such well shall be drilled under the same terms and conditions as are customary and usual, in the immediate area of the Unit in contracts of independent contractors who are doing work of a similar nature. Before the commencement of drilling of any such well on which the Unit Operator uses its own or rented tools, the Operating Committee shall approve the basis on which said well shall be drilled.

10.6 Discharge of Unit Operator and Election of Successor. The Operating Committee may discharge a Unit Operator by the affirmative vote of a majority of the Lessees having not less than seventy-five percent (75%) of the combined voting interest in the Unit exclusive of the voting interest of the Unit Operator. The election of a successor Unit Operator shall be by the affirmative vote of not less than five (5) Lessees owning not less than seventy-five percent (75%) of the combined voting interest of all Lessees; provided that the discharged Unit Operator shall not vote to succeed itself as Unit Operator; provided further, that if the discharged Unit Operator fails or refuses to vote, then only seventy-five percent (75%) of the combined voting interest of Lessees other than the discharged Unit Operator shall be sufficient to designate a new Unit Operator. A Unit Operator may resign at any time; however, neither the initial Unit Operator nor any successor Unit Operator hereunder, shall be released from the powers, rights and duties of Unit Operator for six (6) months after its discharge or resignation, unless a successor Unit Operator shall have been designated by the Lessees and shall have taken over the powers, rights and duties of Unit Operator hereunder prior to the expiration of said period.

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#### UNIT EXPENSE

11.1 Payment of Cost. The Unit Operator in the first instance shall

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pay and discharge all cost and expense incurred in the development and operation of the Unit Area and in the conduct of the activities and affairs of the Unit. All such cost and expense incurred in the development and operation of the Unit Area shall be in accordance with this Plan of Unitization and the Accounting Procedure hereto attached, marked Exhibit "C" and made a part hereof; provided, however, that in all cases where a conflict exists between the body of this Plan of Unitization and said Exhibit "C", the provisions of the body of this Plan of Unitization shall control. All other costs and expenses shall be only such sums as are approved by the Operating Committee.

11.2 Apportionment of Unit Expense. All such Unit Expense as it accrues shall be charged to the several Separately Owned Tracts in the Unit Area in proportion to their respective percentages of interest in the Unit as set forth and shown in Exhibit "B".

11.3 Payment by Lessees. Except as may be otherwise hereinafter specifically provided, the Lessee or Lessees obligated or responsible for the cost and expense of operating a Separately Owned Tract for Oil and Gas in the absence of unitization shall, in the same proportion and to the same extent, be chargeable with and responsible for the payment of the Unit Expense charged against such Separately Owned Tract.

11.4 Billing and Advance Payment. The Unit Operator shall, on or before the last day of each calendar month, render to each Lessee within the Unit Area a statement of all charges and credits during the preceding month and of the amount due from or to each such Lessee with respect to each Separately Owned Tract. If the Unit Operator so elects, such statement of account may also include a charge by way of an advance of the proportionate part of the estimated Unit Expense for the ensuing month chargeable to the Lessee against whom such statement is rendered, using as a basis therefor the budget hereinafter provided for. Except as may be otherwise provided herein, each Lessee chargeable with the payment thereof shall, within twenty (20) days from the mailing of such statement, pay to the Unit Operator the amount thereof. If not paid when due, the unpaid balance shall bear interest at the rate of six percent (6%) per annum compounded annually until paid. Payment of any such statement shall not prejudice the right of any Lessee to protest or question the correctness thereof; provided, the Unit Operator shall not be required to adjust any item of charge or credit unless a claim therefor has been presented in writing within twelve (12) months after the approval by the Operating Committee of the audit for the period in which the charge or credit was made.

11.5 Budgets. Before or as soon as practical after the Effective Date hereof the Unit Operator, subject to the approval of the Operating Committee, shall prepare a budget of estimated Unit Expense for the remainder of the calendar year and on or before the first day of each October thereafter shall prepare a budget of estimated Unit Expense for the ensuing calendar year, which budgets shall set forth the estimated Unit Expense by quarterly periods. Unless otherwise specified in the budget, it shall be presumed for

the purpose of advance billings as aforesaid, that the estimated Unit Expense for each month of a quarterly period shall be one-third (1/3) of the estimate for the quarterly period. Budgets so prepared shall be estimates only and shall be subject to adjustment and correction by the Operating Committee and Unit Operator from time to time whenever it shall appear that an adjustment or correction is proper. A copy of each such budget and adjusted budget shall be promptly furnished each Lessee within the Unit Area.

11.6 Non-Payment by Individual Lessee. In the event a Lessee is unable to meet promptly its financial obligations in connection with the Unit, the unpaid balance of its portion of Unit Expense shall be carried by the other Lessees, who have executed this Plan of Unitization and such amount shall bear interest at the rate of six percent (6%) per annum, compounded annually, and shall be due and payable out of total proceeds from such defaulting Lessee's share of the Unit Production. All credits to any such Lessee on account of the sale or other disposal of surplus material or equipment, or otherwise, shall be applied against any such unpaid Unit Expense charged against such Lessee.

11.7 Billing of Defaulted Payments. Amounts so carried as aforesaid in Paragraph 11.6 shall be billed to and paid by all non-defaulting Lessees, who have executed this Plan of Unitization in the proportion that the interest of each in the Unit bears to the total interest in the Unit of all such Lessees. Lessees so paying the same shall be reimbursed therefor, together with interest thereon, as and when the amounts so carried and the interest thereon are collected from the Lessees primarily chargeable therewith.

11.8 Liens and Foreclosures. The Unit shall have a first and prior lien upon the leasehold interest (exclusive of one-eighth (1/8) royalty interest) in and to each Separately Owned Tract, the interest of the owners thereof in and to the Unit Production and all equipment in possession of the Unit, to secure the payment of the Unit Expense and other items of cost properly charged to and against such Separately Owned Tract, provided that such lien may be enforced against overriding royalty interests, Oil and Gas payments, royalty interests in excess of one-eighth (1/8) of the production, or other interests which are otherwise not chargeable with such costs, only in the event the owner of the interest or interests primarily responsible fails to pay such Unit Expense when due, and the production to the credit thereof is insufficient for that purpose. In the event the owner of any royalty interest, overriding royalty, Oil and Gas payment or other interest which under this Plan of Unitization is not primarily responsible therefor pays any part of such Unit Expense for the purpose of protecting such interest, or the amount of such Unit Expense in whole or in part is deducted from the Unit Production to the credit of such interest, the owner shall, to the extent of such payment or deduction be subrogated to all of the rights of the Unit and of the Unit Operator with respect to the interest or interests primarily chargeable with such Unit Expense. A one-eighth (1/8) part of the Unit Production allocated to each Separately Owned Tract shall in all events be regarded as royalty to be distributed to and among or the proceeds thereof

paid to the owners of the normal one-eighth (1/8) royalty free and clear of all Unit Expense and free of any lien therefor. The lien hereinabove provided for shall be for the use, benefit and protection of the Unit Operator or other Lessees or Persons entitled to receive or share in the monies, the payment of which is secured thereby, and in the event of failure of the Unit to enforce such lien, the Unit Operator or other Persons entitled to the benefit thereof, shall be subrogated to the lien rights of the Unit, including the right of foreclosure. The lien may be foreclosed at any time after a Person is in default. Foreclosure shall be made by a proceeding in equity in the District Court of Stephens County, Oklahoma, or other court having jurisdiction.

11.9 Sale of Unit Production to Pay Cost. In the event of a failure of any Lessee to pay its share of the Unit Expense when due, the Unit Operator shall be entitled to take and market, or itself purchase at the prevailing market price in the area the Unit Production to the credit of such Lessee or to the credit of the interest or interests chargeable with such Unit Expense, or to otherwise collect and receive the proceeds from the sale thereof, and shall apply all such sums so collected against the delinquent or unpaid Unit Expense due from such Lessee or interest, the balance of such proceeds, if any, to be paid to such Lessee or Person entitled thereto; provided, that such defaulting Lessee or Person shall be permitted to take its share of the Unit Production so long as it shall account to Unit Operator on a current month to month basis for its proportion of the value thereof as might have been deducted from the proceeds by Unit Operator under Paragraph 11.6 of this Section 11 had said Unit Production been sold by Unit Operator. Unit Operator shall be entitled to take and market or itself purchase such Unit Production only during such time or times as such Lessee or Person fails to pay its share of Unit Expense when due, with accrued interest thereon, if any; provided, however, that the Unit Operator shall not be entitled to take and market, or itself purchase, the Unit Production to the credit of a Lessee who fails to pay its share of Unit Expense when due, or to the credit of the interest or interests chargeable with or subject to the lien of such Unit Expense, if, and during such time, as the proceeds of such Unit Production are made payable to the Unit Operator by the execution and delivery of a good and sufficient assignment, division order, transfer order or other appropriate instrument, and such Unit Production is sold by the Lessee or other Person or Persons entitled thereto at prices not less than the current market prices prevailing from time to time. The Unit Operator may likewise take any other credit due any such Lessee or interest and apply the same against sums due from such Lessee or interest for Unit Expense.

11.10 Credits. Any and all income and credits received by Unit Operator on account of Unit operations hereunder, from whatever source received, shall currently be accounted for and credited to the Lessees or interests entitled to credit therefor.

## INITIAL ADJUSTMENT OF INVESTMENT

12.1 Property Taken Over. Upon the Effective Date hereof the Lessees shall deliver to the Unit Operator:

A. All wells within the Unit Area completed in the Bromide Sands, in suitable mechanical condition as determined by the Operating Committee, but subject to the possessory rights herein reserved to the Lessees of a Separately Owned Tract with respect to any well thereon which is dually completed so as to also produce from a formation other than the Bromide Sands.

B. All casing in such wells which shall be divided as follows:

- (1) The casing in any well completed in the Bromide Sands only shall belong to the Unit.
- (2) The casing in any well which is dually completed in the Bromide Sands and in any formation other than the Bromide Sands shall, with respect to the portion thereof between the surface and the base of the Bromide Sands, belong fifty percent (50%) to the Unit and fifty percent (50%) to the Lessees of the Separately Owned Tract on which such well is located.

C. The wellhead, tubing, packers and other equipment in the well, if a single completion in the Bromide Sands, or, if a dual completion, the like equipment which serves the Bromide Sands.

D. All other lease and operating equipment serving the Unit used in the operation of such wells except that which the Operating Committee considers obsolete or unsuitable to the future operation of the Unit.

E. All production and well records and other data pertaining thereto.

12.2 Property Not Taken Over. Upon the Effective Date the Lessees shall retain possession of:

A. The wellhead, tubing, packers and other equipment in and on a dually completed well which is serving a formation other than the Bromide Sands, and an undivided fifty

percent (50%) interest in the casing in such well between the surface and the base of the Bromide Sands, and all interest in the casing in such well below the base of the Bromide Sands.

B. Lease and operating equipment which is serving a formation other than the Bromide Sands.

12.3 Inventory and Evaluation of Personal Property. The Operating Committee shall:

A. Inventory and evaluate in accordance with the provisions of Exhibit "C" all personal property and equipment so taken over other than casing and tubing in the wells which shall be evaluated as hereinafter provided. Items of property or equipment considered obsolete or not suitable for the future operation of the Unit shall remain the property of the Lessee.

B. Inventory the respective footages of all tubular goods in each well, which tubular goods shall be assigned the following values, subject, however, to the adjustment for depreciation hereinafter stated:

20	inch	\$ 7.493	per foot
16	"	5.261	"
13	3/8 "	6.252	"
9	5/8 "	5.432	"
7	5/8 "	5.569	"
7	"	4.704	"
5	1/2 "	3.192	"
5	"	2.286	"
2	3/8 "	2.218	"
2	1/2 "	.862	"
2	"	.725	"

The values assigned tubular goods pursuant to the above schedule shall be reduced by an adjustment for depreciation, which reduction shall be determined by multiplying the respective values by a fraction the numerator of which is the number of full calendar months between the completion date of the particular well in which the inventoried goods are installed and the Effective Date of the Unit and the denominator of which is 300.

C. With respect to dually completed wells, only such tubing and other producing equipment as serves the Bromide Sands shall be included in the inventory, and only an undivided fifty percent (50%) of the casing between the surface and the base of the Bromide Sands and none of the

casing below the base of the Bromide Sands shall be included in the inventory.

D. Upon completion of the inventory and evaluation of personal property, each Lessee shall be credited with the adjusted value of its interest in all personal property taken over by the Unit under Section 12.1 hereof, and shall be charged with an amount equal to that obtained by multiplying the total adjusted value of all personal property taken over by the Unit under Section 12.1 hereof by such Lessee's aggregate unit participation. If the charge against any Lessee is greater than the amount credited to such Lessee, the resulting net charge shall be an item of Unit Expense chargeable against such Lessee. If the credit to any Lessee is greater than the amount charged against such Lessee, the resulting net credit shall be paid to such Lessee by Unit Operator out of funds received by it in settlement of the net charges described above. On and after the Effective Date hereof, each Lessee, individually, shall by virtue hereof own an undivided interest, equal to its aggregate Unit participation, in all personal property and facilities taken over or otherwise acquired by the Unit pursuant to this agreement instead of separately owning the personal property delivered by it to the Unit.

E. The cost of taking and pricing such inventory shall be borne as an item of Unit Expense.

#### 12.4 Adjustment for Intangible Drilling Costs.

A. Each of the wells to be taken over by the Unit is hereby assigned credit for the intangible drilling cost set opposite it below, which cost represents approximately the actual intangible drilling cost of such well:

Bell Sec. 7-3N-5W	\$568,500
Teter Sec. 18-3N-5W	\$700,000
Reed Sec. 20-3N-5W	\$625,500
E. E. Harrison Sec. 29-3N-5W	\$608,500
Baker Sec. 33-3N-5W	\$530,000

McKinney-Woods Sec. 17-3N-5W	\$449,000
Harrison "B" Sec. 28-3N-5W	\$621,500
Brickel Sec. 4-2N-5W	\$548,500
Kreiger Sec. 3-2N-5W	\$664,000
Hussey 1-X Sec. 10-2N-5W	\$624,500

B. The values assigned for intangible drilling costs pursuant to the above schedule shall be reduced by an adjustment for amortization, which reduction shall be determined by multiplying the respective values by a fraction the numerator of which is the number of full calendar months between the completion date of the particular well and the Effective Date of the Unit and the denominator of which is 300.

C. Upon the Effective Date of the Unit, each Lessee shall be credited with the adjusted value of its interest in all intangible drilling costs applicable to the wells specified in Section 12.4, Paragraph A, and shall be charged with an amount equal to that obtained by multiplying the total adjusted value of all intangible drilling costs specified in Paragraph A of Section 12.4 by such Lessee's aggregate Unit Participation. If the charge against any Lessee is greater than the amount credited to such Lessee, the resulting net charge shall be an item of Unit Expense chargeable against such Lessee. If the credit to any Lessee is greater than the amount charged against such Lessee, the resulting net credit shall be paid to such Lessee by Unit Operator out of the funds received by it in settlement of the net charges described above.

12.5 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, gathering facilities, processing plant facilities, and office buildings considered necessary or desirable to the operation and development of the Unit Area shall be by negotiation between the owner thereof and the Unit Operator, subject to approval of the Operating Committee. There shall be no adjustment for roads, bridges, cattle guards, and so forth.

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#### OIL AND GAS MARKETED IN EXCESS OF ALLOWABLE

13.1 Oil and Gas Marketed in Excess of Allowable. If on the Effective Date of unitization Oil and Gas in excess of allowable has been produced and marketed from a Separately Owned Tract, such excess Oil and Gas production shall be considered Unit Production delivered to such tracts.

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## PLAN OF OPERATION

14.1 Plan of Operation. From and after the Effective Date hereof the Unit Area shall be developed and operated as a Unit as follows:

A. As soon as reasonably practical after the Effective Date hereof the Operating Committee, with due diligence and in accordance with good engineering and production practices, shall undertake to build, acquire or procure the use of processing plant and gas cycling facilities sufficient in capacity to handle Unit Production, and shall initiate the injection of gas, water or other substances into the Unit Area to effectively and without waste and within economic limitations result in the greatest ultimate recovery of Oil and Gas from the Unit Area.

B. Such other methods of operations shall be conducted as may from time to time be determined by the Operating Committee to be feasible, necessary or desirable to efficiently and substantially increase the ultimate recovery of Oil and Gas from the Unit Area, provided the estimated additional cost thereof does not exceed the value of the additional Oil and Gas to be so recovered.

C. Nothing herein contained shall prevent the Operating Committee from abandoning or changing, in whole or in part, any particular method or methods of operation, including the operations required under Paragraph A above.

## RIGHT TO INFORMATION

15.1 Access to Area and Records. Each and all Lessees within the Unit Area and the Supervisor shall have access to the entire Unit Area at all reasonable times to inspect and observe operations of every kind and character on the property, and shall have access at all reasonable times to any and all information pertaining to wells drilled, production secured, marketing of Unit Production and to the books, records and vouchers relating to the operation of the Unit Area. Unit Operator shall, upon request, furnish to any such Lessee a record of crude oil runs, reports of stock on hand at the first of each month, and any other pertinent information pertaining to the Unit Area or development and operation thereof.

## LIABILITY

16.1 Members of Committees. No member of the Operating Committee

or any other Committee shall be personally liable or individually responsible for any act, error, default or omission as a member of such Committee or Committees.

16.2 Unit and Unit Operator. Neither the Unit nor the Unit Operator shall be liable or responsible under any of the provisions of this Plan of Unitization for any acts or omissions resulting from causes beyond the control of the Unit or such Unit Operator, or from other causes which by the exercise of due diligence would not have been prevented or overcome.

16.3 Damage to Unit Area. Unit Operator shall not be liable or responsible for any damage to the Unit Area or the property, equipment or facilities used in the development and operation thereof, or for the loss of any production arising out of its operation of the Unit Area, except only for bad faith or gross negligence in connection therewith.

16.4 Payment. In the event, notwithstanding the foregoing provisions of this Section, the Unit, the Unit Operator, or any member of the Operating Committee, or other Committee or any Person is held liable, by a court of competent jurisdiction, for any matter or thing for which it is herein provided that the Unit or Person so named shall not be liable, the amount of such liability as finally determined shall thereupon be treated, regarded and paid as an item of Unit Expense.

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#### CHANGE OF INTEREST

17.1 Change of Interest. All transfers (by operation of law or otherwise), assignments and conveyances of any interest in, or with respect to, any of the Separately Owned Tracts within the Unit Area shall be subject to the terms, provisions and conditions of this Plan of Unitization, but shall not be binding on the Unit or the Unit Operator unless and until a photostatic or certified copy of the recorded instrument or final judicial decree evidencing such change of ownership has been delivered to the Unit Operator. Each such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon the Person or Persons acquiring such interest the obligation of the Predecessor in interest with respect to the interest so transferred and shall likewise operate to give and grant to the Person or Persons acquiring such interest all benefit attributable hereunder to such interest.

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#### AUDITS

18.1 Audits. The Operating Committee by vote, excluding the vote of Unit Operator, shall cause an audit to be made of the books, accounts and records of the Unit Operator regarding matters pertaining to the Unit and the operation of the Unit Area not more often than once each year and shall

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furnish a copy thereof to each of the Lessees within the Unit Area. Each such audit shall cover the period intervening since the last audit. The audit shall be made by an Auditor or Auditing Committee from the Accounting Staff of one or more of the Lessees within the Unit Area. The cost of all such audits shall be borne by all Lessees, excluding the Unit Operator, in proportion to the Tract Participation as set out in Exhibit "B" hereto attached.

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#### RIGHTS-OF-WAY

19.1 Rights-of-Way. The Unit and Unit Operator shall have an easement and right-of-way on, over and across all the lands in the Unit Area for the purpose of laying, constructing, building, using, maintaining, operating, changing, repairing and removing pipe lines, tanks, telegraph and telephone lines, water lines, and other facilities for the development and operation of the Unit Area for Oil and Gas and for the gathering, handling and disposal of the Unit Production; provided, the Unit shall pay all damages to growing crops, fences, improvements and structures on the land resulting from the exercise of the rights and privileges granted by this Paragraph.

19.2 Water Rights. The Unit and Unit Operator shall have free use of water from the lands within the geographical limits of the Unit Area for operations hereunder except water from private wells, lakes, ponds, or irrigation ditches of the landowners but such exceptions shall not apply to Lessees.

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#### CLAIMS, SUITS AND JUDGMENTS AGAINST INDIVIDUAL LESSEES

20.1 Method of Handling. In the event claim is made against any of the Lessees or any such Lessees are sued on account of any matter or thing growing out of the development and operation of the Unit Area by the Unit and over which such Lessee or Lessees have no control because of the rights, powers and duties herein granted to the Unit or Unit Operator, said Lessee or Lessees shall immediately notify the Operating Committee in writing of such claim or suit. The Operating Committee shall assume and take over the further handling of such claim or suit and in pursuance thereof may select an attorney or attorneys for that purpose, who subject to the directions of the Operating Committee shall have the exclusive right to direct and control the settlement or defense thereof. Should such claim be settled or final judgment be entered against any such defendant or defendants upon said cause of action and any such defendant is required to pay or satisfy such judgment or expense of litigation in whole or in part, the amount of such settlement or judgment shall be treated, regarded and paid as any other item of Unit Expense. Nothing herein contained shall apply to or relieve any such Lessee or Lessees of liability which may have

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accrued prior to the Effective Date of this Plan of Unitization or liability which may arise in consequence of the failure of title of any such Lessee to any Oil and Gas Rights in and to the Unit Area.

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#### TITLE INFORMATION

21.1 Title Information. Upon request of either the Operating Committee or the Unit Operator, the Lessees of the several Separately Owned Tracts shall furnish and make available to the Unit or the Unit Operator, as the case may be, an abstract brought to the date of the request, together with all other title information in the possession and files of such Lessees, original or true copies of all leases, assignments, contracts, curative matter and all other data and information pertaining to or otherwise affecting titles to the Oil and Gas Rights in and to the Unit Area.

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#### OTHER FORMATIONS

22.1 Rights. Although there may be other common sources of supply of Oil and Gas overlying or underlying the Bromide Sands common source of supply, this Plan of Unitization shall relate only to the Bromide Sands common source of supply. Except as specifically provided in this Plan of Unitization, all rights of any and all Persons in and to such other reservoirs or common sources of supply of oil and gas and the production therefrom, together with the right of ingress and egress and the use of the surface of the Unit Area for the exploration, development and operation of such other reservoirs or common sources of supply of oil and gas, are expressly reserved unto the separate owners thereof, and shall, except as provided hereafter remain unaffected by the creation of the Unit and the adoption of this Plan of Unitization, all to the same extent as if this Plan of Unitization had not been adopted, excepting further that in the exercise of such rights the owners thereof shall have due regard for the rights granted the Unit with respect to its operations hereunder.

22.2 Completion in Zones other than Bromide Sands. Except for those wells taken over by the Unit which are dually completed on the Effective Date of this Plan of Unitization, no other Unit wells may subsequently be dually completed unless and until the approval of the Operating Committee is obtained and such completion is made in accordance with the methods prescribed by the Operating Committee.

22.3 Commingled Wells. A Lessee who contributes a well producing from more than one zone shall be obligated to segregate such zones prior to the well being taken over by the Unit in a manner satisfactory to the Operating Committee, the cost of such work to be borne by the Lessees contributing

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such well. If such zones are not segregated prior to the Effective Date then such work shall be done by the Unit at the expense of the Lessees contributing such well.

22.4 Remedial Work by Person. Any Person who wishes to recondition, redrill or work over any well, taken over by the Unit under this Plan of Unitization for the production of Oil or Gas from any formation other than the Bromide Sands shall submit his plan to the Operating Committee for approval, and upon such approval said work shall be performed under the supervision of the Unit Operator at the Person's own risk, cost and expense. The productive capacity of the Bromide Sands in any such well prior to such reconditioning, redrilling or reworking shall be ascertained by the Unit Operator prior to the commencement of such work, and the respective Person so advised in writing. Said Person shall use all reasonable, practicable and customary methods in order to so restore the productivity of the Bromide Sands to the satisfaction of the Operating Committee.

22.5 Remedial Work by Unit. Should the Unit Operator at the direction of the Operating Committee do remedial work on the Bromide Sands in any dually completed well, and should the cost of such work be in excess of what it would have been had the formation other than the Bromide Sands not been producing in such well, the additional cost of such work shall be chargeable to the Person or Persons owning such other zone or formation in such well and such other Person or Persons shall be liable for such additional cost upon notification of the amount thereof by the Unit Operator. The words "additional cost" as used above shall mean the difference between the costs incurred in working over, reconditioning or redrilling a dually completed well and the costs for doing the same work on a comparable well which is not dually completed. The Unit shall have the right to perform remedial work on any dually completed well at any time the Operating Committee determines it to be necessary or desirable.

22.6 Remedial Work Required by Operating Committee. When and if the Operating Committee determines that the operation of a well that has been dually completed in a formation other than the Bromide Sands is interfering with the efficiency of the Unit Plan of Operation by impairing production from or injection into the Bromide Sands by such well, Unit Operator shall advise the Person operating such formation that it must undertake whatever remedial action, short of shutting in and squeezing off the other formation, is required to reduce the interference to a minimum. Such Person shall have the optional right to squeeze off or rework the well under the direction of the Unit Operator and to the satisfaction of the Operating Committee to remove, in so far as possible, the cause of the interference with Unit operations. The work shall be done at the sole cost, risk and expense of such Person. If the Person shall fail or refuse to perform the work as directed by the Unit Operator, then the work shall be performed by Unit Operator at the sole risk, cost and expense of such Person; provided, however, that the Unit Operator shall not squeeze off such other formation without the written consent of such

other Person. Such Person and Unit Operator may agree upon the amount of such costs, but if they fail to agree, then the work shall be done on a competitive basis.

ABANDONMENT OF WELLS

23.1 Abandonment of Wells. If the Operating Committee at any time desires to abandon any Unit well, such abandonment shall be as follows:

A. If the well is then completed to produce only from the Bromide Sands, the Lessee or Lessees of the Separately Owned Tract on which the well is located shall be notified in writing of such decision and shall have and be granted ninety (90) days from receipt of such notice within which to elect to take over such well for the purpose of completing the same in some other formation not a part of the Unit Area.

B. If the well is then dually completed to produce from the Bromide Sands and a formation other than the Bromide Sands, then the Lessee or Lessees of the Separately Owned Tract on which the well is located shall be notified in writing of the decision and shall have and be granted ninety (90) days from receipt of such notice within which to elect either to acquire the Unit's interest in such well or to participate with the Unit in the abandonment thereof, it being understood that failure to make an affirmative election within the time permitted shall be construed as an election to acquire the Unit's interest in the well.

C. Any Lessee or Lessees electing to take over a well pursuant to sub-paragraphs A or B of this Paragraph 23.1 shall pay to the Unit Operator the salvage value of the Unit's interest in the tubular goods and other equipment in and on the well determined in accordance with Exhibit "C", less the estimated reasonable cost of salvaging the same, and shall agree to assume full responsibility for the proper plugging and abandonment thereof at such time as the well is ultimately abandoned. No such well shall thereafter be operated or used for the production of Oil and Gas from the Unit Area, and to that end the Lessee taking over such a well shall immediately cause the Bromide Sands in such well to be sealed off in a manner satisfactory to the Operating Committee.

D. In the event the Lessee or Lessees of a Separately Owned Tract do not elect to take over a well which is then completed to produce only from the Bromide Sands, the Unit

Operator shall proceed to properly plug and abandon the same and salvage the casing and other equipment therefrom. In the event the Lessee or Lessees of a Separately Owned Tract elect to participate in the abandonment of a well which is then dually completed, the Unit Operator shall proceed to properly plug and abandon the same and to salvage the casing and other equipment therefrom, it being understood that the cost of the operation shall be apportioned between the Unit and the Lessee or Lessees of the Separately Owned Tract on an equitable basis, and that tubular goods, when salvaged, shall be delivered to the Unit or the Lessees in accordance with their prior ownership thereof. Casing jointly owned by the Unit and Lessees shall, insofar as possible, be divided in kind, but if not susceptible to division in kind, shall be sold and the proceeds of sale divided between the Unit and the Lessees equally.

23.2 Abandonment of Other Formations. If, with respect to any well which is dually completed to produce from the Bromide Sands and from a formation other than the Bromide Sands, the Person who owns the right to produce such other formation permanently ceases producing it while the Bromide Sands are still being produced, said Person shall upon demand be entitled to prompt payment by Lessees of the salvage value of the Person's interest in the tubular goods and other equipment in and on the well determined in accordance with Exhibit "C", less the estimated reasonable cost of salvaging same and plugging that portion of the hole below the Bromide Sands.

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#### SALVAGE OF EQUIPMENT

24.1 Disposal of Surplus Equipment. If any equipment taken over by the Unit becomes no longer necessary to Unit operations, the Unit Operator shall salvage the same and offer it for sale under the following conditions:

A. If there are three (3) bids upon the lot offered and none exceeds \$2,500.00, then the Unit Operator may proceed to sell the same to the highest bidder without approval of the Operating Committee.

B. If, however, any bid upon any salvage lot offered exceeds \$2,500.00, then any Lessee within the Unit may, within ten (10) days after written notice by the Unit Operator that such bids have been received, elect to take the salvage lot in kind and his interest in the Unit shall be charged with the amount of the highest bid; provided, that if two or more Lessees elect to take in kind, they shall take in proportion to their Unit participation interests.

C. In the event no Lessee elects to take such salvage lot in kind, after the Unit Operator has given the

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ten (10) days written notice to all Lessees within the Unit, then the Unit Operator may proceed to sell the salvage lot to the highest bidder upon approval of the Operating Committee.

D. All offers for the sale of salvage materials shall be subject to these provisions, and any bidder shall be so advised by Unit Operator prior to making a bid.

E. The proceeds from the sale of such equipment shall be distributed among the Lessees in accordance with their respective interests in the Unit, except that in the event there is a charge against any Lessee or Lessees for operating expenses, investment or adjustment of equipment, such Lessees' portion of such proceeds may be applied in satisfaction of such charge.

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#### ABANDONMENT OF OPERATIONS AND DISSOLUTION OF UNIT

25.1 Time of Abandonment. At such time as it is determined by the Operating Committee that Unit Production can no longer be produced from the Unit Area in paying quantities the further development and operation of the Unit Area by the Unit shall be abandoned, the Unit dissolved and its affairs terminated.

25.2 Effect. Upon abandonment of Unit operations:

A. All rights in and to the several Separately Owned Tracts shall revert to the separate owners and Lessees thereof.

B. The owners or Lessees of a Separately Owned Tract shall be given the opportunity to take over any well or wells thereon pursuant to the procedure specified in Section 23 hereof.

C. With respect to all wells not taken over by the owner or Lessees of the Separately Owned Tracts, as provided above, the Unit Operator shall salvage so much of the casing and other equipment therein as can be economically and reasonably salvaged, and shall cause such well to be properly plugged and abandoned.

D. The salvaging, liquidation or other distribution of assets and properties held by the Unit shall be in a manner determined by the Operating Committee; provided, any Lessee desiring to take its share of the physical assets or any portion thereof may do so to the extent possible.

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25.3 Filing of Notice. At such time as the Unit operations are abandoned and the affairs of the Unit terminated, the Unit Operator shall submit, for filing a declaration in writing to that effect with the Secretary of the Corporation Commission, the County Clerks of Grady and Stephens Counties, Oklahoma, and the Supervisor, whereupon the rights, powers and duties of the Unit shall be at an end; provided, however, if any liabilities or obligations incurred prior thereto should accrue and become payable thereafter, the amount thereof shall be borne and paid as Unit Expense in the same manner as if it accrued prior to the dissolution of the Unit.

26

AMENDMENT TO PLAN OF UNITIZATION  
AND ENLARGEMENT OF UNIT

26.1 Amendment and Enlargement. Any amendment of this Plan of Unitization or any enlargement of the Unit or Unit Area shall be in accordance with the provisions of Title 52, Oklahoma Statutes, 1951, Sections 287.1-287.15, or any amendment thereto.

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GENERAL

27.1 Separate Counterparts or Ratifications. This Plan of Unitization may be executed in any number of counterparts and each executed counterpart shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument; or, this Plan of Unitization may be ratified by a separate instrument in writing referring to this Plan of Unitization each such ratification having the force and effect of an executed counterpart hereof, and, in effect, incorporating by reference, all of the provisions hereof.

27.2 Joinder in Dual Capacity. It shall not be necessary for Persons owning both working interests and royalty interests to execute this Plan of Unitization in both capacities in order to commit both classes of interests. Execution hereof by any such Person in one capacity shall also constitute execution in the other capacity.

27.3 Execution Binding on all Signatory Parties. The execution hereof by Lessees and Royalty Owners within the Unit Area shall be binding upon such parties, their heirs, personal representatives, successors and assigns.

27.4 Right to Revoke. If the order or orders of the Commission creating the Unit and determining that this Plan of Unitization has been ratified or approved by the requisite Lessees and Royalty Owners required by law is not entered on or before July 1, 1962, any subscriber may revoke its execution hereof by filing notice of such revocation with the Secretary of the Commission, provided such notice is so filed prior to the entry of such an order or orders of the Commission.

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27.5 Force Majeure. All obligations of each party hereto, except for the payment of money, shall be suspended while said party is prevented from complying therewith, in whole or in part, by strikes, fire, war, civil disturbances, acts of God, state or federal orders or regulations, inability to secure materials, or other causes beyond the reasonable control of said party; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed; and provided, further, that no party shall be required against its will to adjust or settle any labor dispute. This Plan of Unitization or the leases subject hereto shall not be terminated by reason of suspension of Unit operations due to the aforesaid causes.

27.6 Internal Revenue Election. Each of the subscribers to this Plan of Unitization hereby elects to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, pursuant to Section 761 (a) thereof or similar provisions of an applicable state income tax law. Unit Operator is hereby authorized and directed to file such returns and statements as may be required to make the election effective under the law and regulations promulgated thereunder. Should said regulations subsequently require each subscriber to execute this or further evidence each party agrees to execute such evidence or join in the execution thereof.

IN WITNESS WHEREOF, The parties hereto have executed this Plan of Unitization upon the respective dates indicated opposite their respective signatures.

WORKING INTEREST OWNERS

Name	Date Signed	Attest, If a Corporation or Witness, If an Individual
COMPANY THE BRITISH-AMERICAN OIL PRODUCING COMPANY		Attest:
By _____	_____	By: _____
COMPANY		Attest:
By _____	_____	By: _____
_____	_____	_____
ROYALTY OWNERS		
_____	_____	_____

THE STATE OF                    )  
                                  ) SS. (Corporation)  
COUNTY OF                    )

BEFORE ME, \_\_\_\_\_, a Notary Public, in and for said state, on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, personally appeared \_\_\_\_\_, to me known to be the identical person who subscribed the name of \_\_\_\_\_ to the foregoing instrument as its \_\_\_\_\_, and acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

GIVEN under my hand and seal the day and year last above written.

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

My Commission Expires:

\_\_\_\_\_

THE STATE OF                    )  
                                  ) SS. (Individual)  
COUNTY OF                    )

BEFORE ME, \_\_\_\_\_, a Notary Public in and for said state, on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, personally appeared \_\_\_\_\_, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

GIVEN under my hand and seal the day and year last above written.

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

My Commission Expires:

\_\_\_\_\_

Attached to and made a part of Plan of Unitization for Knox Bromide Sands Unit, Grady and Stephens Counties, Oklahoma

## ACCOUNTING PROCEDURE

### (UNIT AND JOINT LEASE OPERATIONS)

#### I. GENERAL PROVISIONS

##### 1. Definitions

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"Non-Operator" as herein used shall be construed to mean any one or more of the non operating parties

##### 2. Statements and Billings

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Subparagraph A below:

A. Statement in detail of all charges and credits to the joint account.

B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.

C. Statements as follows:

(1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;

(2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges and credits.

##### 3. Payments by Non-Operator

Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

##### 4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

##### 5. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

#### II. DEVELOPMENT AND OPERATING CHARGES

*Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:*

##### 1. Rentals and Royalties

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

##### 2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

##### 3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

##### 4. Material

Material, equipment, and supplies purchased or furnished by Operator for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

##### 5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest suitable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

**6. Service**

**A. Outside Services:**

The cost of contract services and utilities procured from outside sources.

**B. Use of Operator's Equipment and Facilities:**

Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 1 of Section III entitled "Operator's Exclusively Owned Facilities."

**7. Damages and Losses to Joint Property and Equipment**

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

**8. Litigation Expense**

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

**9. Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

**10. Insurance and Claims**

A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

**11. District and Camp Expense (Field Supervision and Camp Expense)**

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's Production and Engineering office located at or near Oklahoma City, Oklahoma (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice. Charges to the joint property, so calculated, shall be examined by the parties hereto at the end of one year's operation, and if found to be insufficient or excessive, future charges shall be amended by the parties hereto; and at the end of each succeeding year's operation, this procedure shall be repeated.

**12. Administrative Overhead**

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

**WELL BASIS (Rate Per Well Per Month)**

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
Unitized	\$400	\$75	\$65	\$55

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. In connection with overhead charges, the status of wells shall be as follows:

- (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
- (2) Water supply wells unitized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
- (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

- (4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
  - (5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.
  - (6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.
  - (7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.
  - (8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.
- C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.
  - D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.
  - E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

### 13. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

None

### 14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

## III. BASIS OF CHARGES TO JOINT ACCOUNT

### 1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator after deduction of all discounts actually received.

### 2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

#### A. New Material (Condition "A")

- (1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on car-load basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
- (2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.
- (3) Cash discount shall not be allowed.

#### B. Used Material (Condition "B" and "C")

- (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.
- (2) Material which cannot be classified as Condition "B" but which,
  - (a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
  - (b) Is serviceable for original function but substantially not suitable for reconditioning,
 shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.
- (3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- (4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

### 3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

### 4. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

### 5. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

- A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

- (4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
  - (5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.
  - (6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.
  - (7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.
  - (8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.
- C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.
- D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.
- E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

### 13. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

None

### 14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

## III. BASIS OF CHARGES TO JOINT ACCOUNT

### 1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator after deduction of all discounts actually received.

### 2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

#### A. New Material (Condition "A")

- (1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on car-load basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
- (2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.
- (3) Cash discount shall not be allowed.

#### B. Used Material (Condition "B" and "C")

- (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.
- (2) Material which cannot be classified as Condition "B" but which,
  - (a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
  - (b) It serviceable for original function but substantially not suitable for reconditioning,
 shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.
- (3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- (4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

### 3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

### 4. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

### 5. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

- A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

- B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.
- C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.
- D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.
- E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

#### IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

##### 1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

##### 2. Division in Kind

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

##### 3. Sales to Outsiders

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

#### V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

*Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:*

##### 1. New Price Defined

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

##### 2. New Material

New material (Condition "A"), being new material procured for the joint account but never used thereon, at one hundred per cent (100%) of current new price (plus sales tax if any).

##### 3. Good Used Material

Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning:

- A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or
- B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price.

##### 4. Other Used Material

Used material (Condition "C"), at fifty per cent (50%) of current new price, being used material which:

- A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
- B. Is serviceable for original function but substantially not suitable for reconditioning.

##### 5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

##### 6. Junk

Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.

##### 7. Temporarily Used Material

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

#### VI. INVENTORIES

##### 1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

##### 2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

##### 3. Special Inventories

Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property; and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

EXHIBIT "D"  
Being Part of Plan of Unitization for  
Knox Bromide Sands Unit  
Grady and Stephens Counties, Oklahoma

INSURANCE COVERAGE

Unit Operator shall, for the joint account and at the joint expense of the parties hereto, at all times during the term of this agreement carry insurance to protect the parties hereto as follows:

1. Workmen's Compensation Insurance to comply with the laws of the State of Oklahoma and Employer's Liability Insurance with a limit of not less than One Hundred Thousand Dollars (\$100,000.00).

2. Comprehensive General Public Liability Insurance with limits, (1) as to Bodily Injury of not less than One Hundred Thousand Dollars (\$100,000.00) for each person and not less than Five Hundred Thousand Dollars (\$500,000.00) for each accident, and (2) as to Property Damage of not less than Two Hundred and Fifty Thousand Dollars (\$250,000.00) for each accident.

3. Automobile Public Liability Insurance with limits, (1) as to Bodily Injury of not less than One Hundred Thousand Dollars (\$100,000.00) for each person and not less than Three Hundred Thousand Dollars (\$300,000.00) for each accident, and (2) as to Property Damage of not less than One Hundred Thousand Dollars (\$100,000.00) for each accident.

The premiums for all such insurance shall be charged to the joint account, except that in respect of Unit Operator's fully owned automotive equipment used in connection with the joint operations, applicable premiums shall not be charged specifically to the joint account.

It is understood and agreed that Unit Operator shall not carry insurance covering loss by fire, windstorm, explosion, or tornado or any other insurance for the joint account except as may be required by the Operating Committee.

Unit Operator shall require its contractors and subcontractors working and performing services on lands committed hereto to carry insurance complying with the Workmen's Compensation laws of the State of Oklahoma, and to carry such other insurance and in such amounts as Unit Operator shall deem necessary.

PLAN OF UNITIZATION FOR KNOX BROMIDE SANDS UNIT  
GRADY AND STEPHENS COUNTIES, OKLAHOMA

KNOW ALL MEN BY THESE PRESENTS:

The following shall constitute the Plan of Unitization applicable to the Knox Bromide Sands Unit created pursuant to authority of Title 52 O.S. 1951, Sections 287.1 - 287.15 inclusive, and having for its purpose the unitized management, operation and further development of the Second and Third Bromide Sands common source of supply of Oil and Gas underlying the lands outlined by the heavy lines on the map hereto attached and marked Exhibit "A", all to the end that a greater ultimate recovery of Oil and Gas may be had therefrom, waste prevented and the correlative rights of the respective owners protected.

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DEFINITIONS

As used in this Plan of Unitization, the following terms and expressions are defined as follows:

1.1 Unit, shall mean the Knox Bromide Sands Unit.

1.2 Commission, shall mean the Corporation Commission of the State of Oklahoma.

1.3 Person, shall mean any individual, corporation, partnership, common law or statutory trust, association of any kind, the State of Oklahoma or any subdivision or agency thereof acting in a proprietary capacity, guardian, executor, administrator, fiduciary of any kind or any other entity capable of holding an interest in and to the Unit Area.

1.4 Bromide Sands, shall mean all of the Second and Third Bromide Sands common source of supply underlying the Unit Area for which drilling and spacing units have been established by the Oklahoma Corporation Commission in its Order No. 33814, as amended.

1.5 Unit Production, shall mean and include all Oil and Gas produced from the Bromide Sands in the Unit Area from and after the Effective Date hereof regardless of the well or tract within the Unit Area from which the same is produced.

1.6 Lessee, shall mean any owner, in whole or in part, of an Oil and Gas lease or any unleased mineral interest, who alone or in association with another Person or Persons has the right, except for this Plan of

Unitization to explore, develop and operate a Separately Owned Tract for Oil and Gas, and in so doing would be personally chargeable with a proportionate part of the cost and expense of the operation thereof. An owner of an overriding royalty interest, oil payment, carried interest, net profit contract, or any other Oil and Gas Rights of a similar nature, who is not personally chargeable with the cost and expense of operations, shall not be regarded as a Lessee. The owner of unleased Oil and Gas Rights in a Separately Owned Tract shall be considered as a Lessee with respect to 7/8 of the Unit Production allocated to such unleased Oil and Gas Rights and as a Royalty Owner with respect to 1/8 of such Unit Production.

1.7 Royalty Owner, shall mean each party hereto who owns a right to or interest in any portion of the Unit Production other than that of a Lessee.

1.8 Tract Participation, shall mean that percentage of Unit Production which is allocated to a Separately Owned Tract under this Plan of Unitization.

1.9 Unit Operator, shall mean and refer to the Lessee designated to carry on and conduct the unitized operations within the Unit Area as provided in Section 10 hereof.

1.10 Oil and Gas, shall refer not only to Oil and Gas as such in combination one with the other, but shall have reference to oil, gas, casing-head gas, casinghead gasoline, gas condensate or other hydrocarbons, or any combination or combinations thereof including any other marketable substances extracted therefrom or any one thereof, which may be found in or produced from the Unit Area.

1.11 Outside Substances, shall mean all substances obtained from any source other than Unit Production, and which are injected into the Unit.

1.12 Oil and Gas Rights, shall mean and include the right to explore, develop, and operate lands within the Unit Area for the production of Oil and Gas, to reduce the same to possession or to share in the production so obtained or the proceeds thereof.

1.13 Effective Date, shall mean the date on which the Unit assumes and takes over the operation of the Unit Area as is provided in Paragraph 9.3 hereof.

1.14 Unit Expense, shall include any and all cost, expense or indebtedness incurred by the Unit or Unit Operator as authorized by this Plan of Unitization or the order of the Commission creating the Unit.

1.15 Supervisor, shall mean any Oil and Gas Supervisor of the United States Geological Survey having jurisdiction.

## EXHIBITS

2.1 Exhibits. Attached hereto are the following exhibits incorporated herein by reference.

- A. Exhibit "A" is a map showing the boundary lines of the Unit Area and the Separately Owned Tracts.
- B. Exhibit "B" is a schedule describing each Separately Owned Tract in the Unit Area and showing its Tract Participation.
- C. Exhibit "C" is the Accounting Procedure.
- D. Exhibit "D" is the Insurance Coverage required elsewhere herein to be carried by Unit Operator.

## NAME AND UNIT AREA

3.1 Name. The name of the Unit created hereby shall be the Knox Bromide Sands Unit.

3.2 Unit Area. The Unit Area shall extend to and include all of the Bromide Sands underlying the lands outlined by the heavy lines on the map attached hereto as Exhibit "A".

## SEPARATELY OWNED TRACT

4.1 Separately Owned Tract. The shape and description of the respective tracts have been established by using the best information available. If it subsequently appears that any tract, because of diverse royalty or working interest ownership on the effective date hereof, should be divided into more than one tract or that any mechanical miscalculation has been made, Unit Operator shall correct the mistake by revising the exhibits to conform to the facts. The revisions shall not include any re-evaluation of engineering or geological interpretation used in determining tract participation, and all divisions of a tract shall be on an acreage basis with equal value being given to all acres within said tract. Each such revision of an exhibit shall be effective at 7:00 A.M. on the first day of the calendar month next following the filing for record of the revised exhibit.

## GENERAL POWERS

5.1 General Powers. The Unit is authorized and empowered on behalf and for the account of all the Lessees within the Unit Area, without profit

to the Unit, to supervise, manage and conduct the further development and operation of the Unit Area for the production of Oil and Gas, pursuant to the powers conferred and subject to the limitations imposed by the provisions of Title 52, Oklahoma Statutes 1951, Sections 287.1 - 287.15, inclusive, and by other applicable State and Federal Laws and by this Plan of Unitization.

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EFFECT OF UNITIZATION

6.1 Pooling of Leases. The adoption of this Plan of Unitization and the creation of the Unit as herein provided shall have the effect from and after the Effective Date hereof of unitizing all further development and operations for the production of Oil and Gas from the Bromide Sands in the Unit Area and of pooling and unitizing the production so obtained, all to the same extent as if each of the separate leases or unleased mineral interests had covered and described the entire Unit Area (rather than portions of one or more Separately Owned Tracts) and the Lessees had agreed, as tenants in common, to cooperatively develop and operate the common property in which they respectively owned undivided interests. Property rights, leases, contracts and all other rights and obligations with respect to the Oil and Gas Rights in and to the several Separately Owned Tracts within the Unit Area are hereby amended and modified to the extent necessary to make the same conform to the provisions and requirements of this Plan of Unitization, but otherwise to remain in full force and effect.

6.2 Relationship of Lessees. The relationship between the Lessees within the Unit Area, resulting from the creation of the Unit shall not be that of a trust, partnership or association but shall be in the nature of a tenancy in common.

6.3 No Transfer of Title. Nothing herein contained shall be construed to require or result in a transfer to or the vesting in the Unit of title to the Separately Owned Tracts within the Unit Area or to the leases thereon, other than the right to use and operate the same to the extent set out in this Plan of Unitization; nor shall the Unit be regarded as owning any of the Unit Production. The Unit Production and the proceeds from the sale thereof shall be owned by the several Persons to whom the same is allocated under this Plan of Unitization. All property, real or personal, acquired, held or possessed for use in the operation of the Unit Area shall be the property of the Lessees as their interests may appear under this Plan of Unitization, subject, however, to the rights and powers herein granted the Unit and the Unit Operator.

6.4 Production from Unit Area. The amount of the Unit Production allocated to each Separately Owned Tract and only that amount, regardless of the well or wells in the Unit Area from which it may be produced, and regardless of whether it be more or less than the amount of the production from the well or wells, if any, on any such Separately Owned Tract shall, for all intents, uses and purposes, be regarded and considered as production from such Separately Owned Tract.

6.5 Fulfillment of Lease Provisions. Operations carried on, under and in accordance with this Plan of Unitization shall be regarded and considered as a fulfillment of and compliance with all the provisions covenants and conditions, express or implied, of the several Oil and Gas mining leases upon lands included within the Unit Area, or other contracts pertaining to the development thereof, to the same extent that the development and operation of and the production of Oil and Gas from each of the several Separately Owned Tracts within the Unit Area would have constituted a fulfillment of and compliance with such leases and contracts. Wells drilled or operated in any part of the Unit Area, no matter where located, shall for all purposes be regarded as wells drilled on each Separately Owned Tract within the Unit Area.

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#### ALLOCATION OF UNIT PRODUCTION

7.1 Unit Production - Inclusions and Exclusions. So long as the Operating Committee considers it to be economically feasible to do so, a normal processing plant shall be operated for the purpose of extracting or separating Condensate, Natural Gasoline, Butane, and Propane, or any two or more of them in combination. The term "Unit Production" shall include not only Oil and Gas in its natural state, but also One hundred percent (100%) of those products designated above. It is contemplated that although initially all Oil and Gas produced from the Unit Area will be introduced into a normal processing plant for separation and extraction of one or more of the designated plant products, nevertheless, such processing plant will not be wholly owned by the Lessees of the Unit nor will it serve and process Oil and Gas from the Unit Area exclusively. Accordingly, the Unit, acting through its Operating Committee, shall enter into a contract with such remaining plant owners either (1) establishing a program and procedure for physically segregating the processing and storage of the Unit's Oil and Gas from Non-Unit Oil and Gas, or, in the Operating Committee's discretion, (2) establishing fair, reasonable and practicable procedures for allocating the various plant products, fuel requirements, losses, and residue gas between the Unit and Non-Unit processors if the Oil and Gas from the different sources is commingled in the plant. All products and residue gas attributed or allocated to the Unit pursuant to such contract, but only such amount, shall constitute and be regarded as Unit Production, and all fuel requirements and losses attributed or allocated to the Unit shall be regarded as production used in the development and operation of the Unit Area or as production unavoidably lost. Unit Production shall be determined and distributed or paid for as produced in its natural state, or, if processed, as to the products hereinbefore designated at the completion of the normal processing contemplated. Should facilities be installed by some or all Lessees or by others on or off the Unit Area to utilize any one or more of the normal plant products and/or residue gas hereinbefore designated as a raw material for additional extraction, refining, manufacturing or treatment beyond the normal processing herein contemplated, the operation of such additional facilities shall not be conducted as a Unit operation and the finished products derived therefrom shall not be regarded as Unit Production.

5.

7.2 Allocation to Tracts. All Unit Production, except so much thereof as is used in the development and operation of the Unit Area, including gas cycling, repressuring, pressure maintenance, waterflooding or other operations carried on in accordance with this Plan of Unitization, or is unavoidably lost, shall be apportioned among and allocated to the several Separately Owned Tracts within the Unit Area in accordance with the Tract Participation set forth and shown in Exhibit "B" hereto attached.

7.3 Distribution Among Tract Owners. Except as may be otherwise authorized or provided in this Plan of Unitization, the Unit Production allocated to each Separately Owned Tract shall be distributed among, taken in kind and separately disposed of or the proceeds thereof paid to the several Persons entitled to share in the production from such Separately Owned Tract in the same manner, in the same proportions, upon the same conditions and with the same force and effect that they would have participated, taken or shared in the production from such Separately Owned Tract, or the proceeds thereof, had not the Unit been organized. Royalty payable on Unit Production so apportioned and allocated to the restricted Indian leasehold interests in such tracts, and the rentals provided for in the restricted Indian leases involved, shall be determined and paid on the basis prescribed in such individual restricted Indian leases, and when such royalty on oil is paid in kind, such royalty oil shall be delivered as provided in the leases.

7.4 Delivery in Kind. Except as may be otherwise authorized or provided in this Plan of Unitization, and provided that adequate provisions are made for the receipt thereof, the share of the Unit Production allocated to each Separately Owned Tract shall be delivered in kind to the Persons entitled thereto by virtue of ownership of Oil and Gas Rights therein or by purchase from such owners, subject however, to the right of the Unit Operator to withhold and sell the same in payment of Unit Expense pursuant to this Plan of Unitization, and subject further to the right of the Unit Operator to take and use such portion of the Unit Production (including residue gas) as may be required for operating purposes, including repressuring, pressure maintenance, waterflooding and any other operation carried on pursuant to this Plan of Unitization. Persons so entitled to take and receive in kind any portion of the Unit Production shall have the right to construct, maintain and operate within the Unit Area all necessary facilities for that purpose at their sole risk and expense provided the same are so constructed, maintained and operated as not to interfere with the operations carried on pursuant hereto.

7.5 Failure to Take in Kind. In the event any Person entitled to take and receive in kind any portion of the Unit Production shall fail to take and receive the same currently as and when produced, the other Persons hereto entitled to receive Unit Production in kind may elect, by so notifying

the Unit Operator in writing, to purchase such production. If two or more Persons elect to purchase said production, the same shall be delivered to them proportionately; provided, that if no Person hereto elects to purchase said production, the Unit Operator, for the account and at the expense of such Person entitled to receive such production, may sell or itself purchase the same. The price to be paid, in any event, shall be at not less than the market price prevailing at the time of such sale or purchase, and payments therefor shall be made by the Persons purchasing said production or the Unit Operator, if such production is sold by it, direct to the Person or Persons for whose account the same is so marketed. Any and all authority conferred upon the Unit Operator or other Person or Persons by this Plan of Unitization to take and market, or itself purchase, the Unit Production accruing to the credit or interest of any Lessee or other Person or Persons (other than the Unit Operator) shall be limited to the marketing or purchasing of such Unit Production on a day to day basis, currently as and when produced, and nothing contained in this Plan of Unitization shall be deemed to authorize the Unit Operator or other Person or Persons to sell any such Unit Production under a contract or contracts providing for the future delivery thereof for longer than is commensurate with the minimum needs of the Industry under the circumstances and in no event for more than one year.

In case the owner of any royalty, overriding royalty or other interest in a Separately Owned Tract other than the Lessee of such tract has the right to take in kind the share of Unit Production to the credit of such interest and fails to do so, the Lessee whose lease is subject to such royalty, overriding royalty or other interest shall be entitled to take in kind the Unit Production to the credit of such interest.

7.6 Payment of Royalty and Taxes. The Person or Persons receiving in kind the Unit Production allocated to any Separately Owned Tract or receiving the proceeds of such Unit Production, if the same is marketed and sold, or purchased by the Unit Operator, shall be responsible for the payment of, and shall indemnify the Unit, the other Lessees and the Unit Operator against any liability for, any and all royalties, overriding royalties, production payments, gross production taxes and any and all other payments and taxes chargeable against or payable out of the Unit Production which is received in kind by, or the proceeds of which are paid to, such Person or Persons, and neither the Unit nor the Unit Operator shall have any responsibility or liability for payment of such royalties, overriding royalties, production payments, gross production taxes or other payments or taxes.

7.7 Title in Dispute. If at any time the title or right of any Person claiming the right to receive in kind all or any portion of the Unit Production allocated to a Separately Owned Tract is in dispute, the Unit Operator shall either (a) withhold and market, or itself purchase, the portion of the Unit Production, title to which is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by final judgment of a court of competent jurisdiction or otherwise to the satisfaction of the Operating Committee, whereupon, the proceeds so impounded shall be paid, without interest, to the Person or Persons rightfully entitled thereto; provided, that royalty accrued on any Unit Production allocated to the restricted Indian leasehold interest in a Separately Owned Tract, title

to which production is in dispute shall be paid to the Five Civilized Tribes Agency; or (b) may require that the Person or Persons to whom such Unit Production is delivered, or to whom the proceeds thereof are paid, furnish security for the proper accounting therefor to the rightful owner or owners in the event the title or right of such Person or Persons shall fail, in whole or in part.

7.8 Use of Production in Operations. The Unit Operator shall have the right to take and utilize so much of the Unit Production as may be necessary or desirable in the development and operation of the Unit Area, including but without being limited to the use of gas (including residue gas) for repressuring, pressure maintenance or other operations carried on in accordance with this Plan of Unitization. No royalties, overriding royalties, production payments or other payments shall be payable upon or with respect to that portion of the Unit Production so taken and utilized by the Unit Operator or which may be lost in handling or otherwise without want of due diligence on the part of the Unit Operator.

7.9 Accounting for Outside Substances. If any Outside Substance is injected into the Unit, fifty percent (50%) of any like substance contained in Unit Production subsequently produced and sold, or used for other than operations hereunder, shall be deemed to be an Outside Substance until the aggregate of said fifty percent (50%) equals the accumulated volume of such Outside Substance injected into the Unit. No payments shall be due or payable to Royalty Owners on any substance which is classified hereby as an Outside Substance.

8

OPERATING COMMITTEE

8.1 Creation and Representatives. An Operating Committee is hereby created to consist of one representative to be designated by each Lessee within the Unit Area, provided that an individual Lessee may himself be a member of the Committee. Such designation shall be in writing and with respect to the representative to participate at the organization meeting of the Committee shall be presented at such meeting, or if thereafter made, shall be filed with the Chairman of the Operating Committee. Any Lessee may in like manner (a) designate an alternate representative who in the absence of the Lessee or its regular representative shall have the full right and power to represent the interest of such Lessee, and (b) from time to time designate a new representative or alternate to act for such Lessee.

8.2 Powers. The Operating Committee shall have the general overall management and control of the Unit and the conduct of its business and affairs and the operations carried on by it, and is authorized and empowered, subject to the terms and provisions hereof to do all things necessary, proper and convenient for carrying out the terms and spirit of this Plan of Unitization and to that end, not excluding or limiting any other power or powers that may be necessary or proper for that purpose, shall have the following specific powers and duties:

A. To adopt rules and regulations for the proper functioning of the Operating Committee including such matters as the time and place of holding meetings, giving notice and calling thereof and the method of voting on any question all in a manner not inconsistent with the express requirements of this Plan of Unitization.

B. To remove any Unit Operator.

C. To select a successor to any Unit Operator.

D. To determine the extent of drilling operations and development to be carried on by the Unit Operator, including the approval or disapproval of the contemplated drilling, deepening, plugging back, reconditioning, abandonment, or the use to be made of any well or wells.

E. To pass upon and approve or disapprove all costs and estimates of costs and any proposed expenditures by the Unit Operator; provided, that the Operating Committee shall permit without prior approval by it, the incurring of normal operating expense and any proposed expenditure by the Unit Operator of not more than ten thousand dollars (\$10,000.00); and provided further that the approval by the Operating Committee of the drilling of any well or wells or carrying out any specific project of development or operation shall mean and include the approval of all necessary expenditures in drilling, completing and equipping such well or wells or carrying out such project.

F. To determine from time to time the rate at which, and the wells from which, the Unit Production shall be produced in conformity with good engineering practices and any applicable conservation laws or regulations.

G. To pass upon, approve or disapprove the sale or other disposition of any major item of surplus equipment the current list price of new equipment similar thereto being two thousand five hundred dollars (\$2,500.00) or more.

H. To approve and authorize the purchase, construction, location, abandonment, sale or other disposal of any processing plant, compressor plant, tank batteries, salt water disposal system or other facilities serving the Unit Area, or an undivided interest therein.

I. To determine the kind, character and method of operation of any type of recovery program to accomplish the Plan of Operation set forth in Section 14 hereof.

J. To provide for the proper auditing of the accounts of the Unit Operator with respect to the operation and development of the Unit Area as provided in Paragraph 18.1 hereof.

K. To appoint such subcommittees as it may deem proper and requisite to act under the authority and subject to the control of the Operating Committee in accordance with the terms of this Plan of Unitization.

L. To approve or disapprove any proposed plan of development or operation or amendment thereof required to be submitted to any regulatory body having jurisdiction of the subject matter thereof.

M. To approve or disapprove any proposed expenditures for expert technical advice, including any extra services rendered by the Unit Operator's technical staff, not contemplated by the provisions of the Accounting Procedure hereto attached, marked Exhibit "C".

N. To direct and consult with the Unit Operator in all matters pertaining to the duties and functions of the Unit Operator.

8.3 Voting Interest. Each Lessee within the Unit Area shall have a vote equal to the proportionate interest of said Lessee in the Unit determined as follows:

A. With respect to each Separately Owned Tract, the Lessee or Lessees thereof shall have a vote equal to the Tract Participation as shown in Exhibit "B" hereto attached.

B. Should there be more than one Lessee of a Separately Owned Tract, the vote in respect thereof, shall be divided among such Lessees in the proportion as such Lessees share in the Unit Expense chargeable to such tract.

C. The vote of a Lessee having an interest in more than one Separately Owned Tract shall be the sum total of the votes of such Lessee with respect to all such tracts.

8.4 Vote Required. Except as otherwise herein provided, all governing action of the Operating Committee shall be by affirmative vote of three or more Lessees having sixty-five percent (65%) or more of the voting interest in the Unit; provided, however, if any single Lessee has a voting interest in excess of thirty percent (30%) and such Lessee fails to vote or votes against a motion or resolution, then the affirmative vote of Lessees having ninety percent (90%) or more of the remaining voting interest in the Unit shall be sufficient to pass the motion or resolution.

8.5 Poll Vote. The Operating Committee shall establish a procedure whereby members may vote by proxy and whereby the Chairman of the Operating Committee may poll its members by letter ballot to secure their approval of any action necessary to the proper conduct of the Unit operations. The result of such poll shall be promptly reported to the Operating Committee.

8.6 Notices. Notices or other communications addressed and sent to the Unit or to the Operating Committee by United States mail or telegraph in care of the Unit Operator shall be deemed to have been properly given to or served upon the Unit or Operating Committee. The Unit Operator shall promptly deliver all such notices or communications to the Chairman or Secretary of the Operating Committee.

9

ORGANIZATION OF UNIT AND EFFECTIVE DATE

9.1 Organization Meeting. Subject to call by the Unit Operator, the representatives designated by the several Lessees to serve on the Operating Committee shall meet at some convenient place to perfect the organization of the Operating Committee. Such meeting may be held at any time after ten (10) days from the date of the order of the Commission determining that this Plan of Unitization has been ratified or approved by the requisite Lessees and Royalty Owners as required by law. Notice of the time and place of said meeting shall be mailed at least ten (10) days prior thereto to all Lessees within the Unit Area whose names and addresses are known to the Unit Operator, as well as those Lessees who shall have within ten (10) days from the date of said order notified the Secretary of the Commission in writing of their desire to be so notified of the meeting. Any Lessee within the Unit Area desiring notice of such meeting may file a statement of such desire with the Secretary of the Commission, giving its name and the address to which it desires the notice to be sent.

9.2 Officers. The Operating Committee shall organize by selecting a Chairman, a Secretary and such other officers as the Committee may deem proper. The representative of the Unit Operator shall be designated as Chairman. The Secretary and other officers may or may not be members of the Committee. The Chairman shall preside at all meetings of the Operating Committee and shall be the chief executive officer of the Unit. The Secretary shall keep and maintain all the records of the Committee and shall also be Secretary of the Unit. Such officers shall serve at the will of the Operating Committee and perform such other duties as may be delegated to them by the Operating Committee. Contracts and other legal instruments, after proper resolution by the Operating Committee, shall be executed on behalf of the Unit by the Chairman of the Operating Committee and attested by the Secretary thereof.

9.3 Effective Date. Upon completion of its organization, the Operating Committee shall proceed to make plans and preparations and take such steps as are necessary including an inventory of all properties for the

taking over of the unitized operations and further development of the Unit Area by the Unit. It shall in advance thereof fix the time when the Unit will take over such operation and development, and give the Lessees within the Unit Area reasonable notice thereof. The time so fixed shall not be less than fifteen (15) days after the entry of the order of the Commission determining that this Plan of Unitization has been ratified or approved by the requisite Lessees and Royalty Owners as required by law, nor more than six months after the time when said order shall have become final as set out in Paragraph 9.6. The time when the Unit takes over the operation and further development of the Unit Area shall be the Effective Date of this Plan of Unitization.

9.4 Failure to Take Over Operations. In the event the Unit shall fail to assume and take over the operation of the Unit Area on or before six (6) months after the time when the order or orders of the Commission creating the Unit and determining that this Plan of Unitization has been ratified or approved by the requisite Lessees and Royalty Owners as required by law shall have become final, then and in that event the Unit shall, without further action on the part of the Operating Committee or the Commission, be dissolved and all rights and obligations under this Plan of Unitization shall be at an end, except that any and all cost and expense incurred by the Unit or Unit Operator incident to its organization or preparatory to the taking over of the operation of the Unit Area shall be borne and paid for by the Lessees who have executed this Plan of Unitization in proportion as the interest of each such Lessee in and to the tracts comprising the Unit Area as set out in Exhibit "B" bears to the total interest of all such Lessees who have signed this Plan of Unitization.

9.5 Duration. In the event the Unit assumes and takes over the operation of the Unit Area within the time so named, this Plan of Unitization shall thereafter remain in force and effect until such time as the Unit is dissolved and abandoned as provided in Section 25 hereof or until otherwise superseded as provided by law.

9.6 Commission Order Final. The aforesaid order of the Commission shall be regarded as having become final at the end of the time allowed by law for any appeal therefrom, if no appeal is taken, or, if an appeal is taken, then upon the final determination of any such appeal.

9.7 Filing of Plan. The Unit Operator, on or before fifteen (15) days after the Effective Date hereof, shall file, with the County Clerks of Grady and Stephens Counties, Oklahoma, the Secretary of the Commission and the Supervisor, a written declaration signed by the Chairman and Secretary of the Operating Committee setting forth:

A. The hour, day, month and year on which the Unit took over the operation of the Unit Area.

B. A description or plat of the lands included within the Unit Area.

C. The cause number and date of the Commission order approving this Plan of Unitization, with an appropriate reference to such order and the files of the Commission for further information concerning this Plan of Unitization.

9.8 Call of Meetings. All meetings of the Operating Committee for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit Area shall be called by Unit Operator upon its own motion or at the request of one or more Lessees having a voting interest of not less than ten percent (10%). No meeting, except in case of emergency, shall be called on less than fourteen (14) days advance written notice with agenda for meeting attached. The Operating Committee shall have the right to amend items included on the agenda, deciding on amended items and deciding other items presented at such meeting.

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#### UNIT OPERATOR

10.1 Conduct of Operations. Subject to the further provisions of this Plan of Unitization, operations in connection with the development, and the operations of the Unit Area for Oil and Gas shall be carried on and conducted by Unit Operator in accordance with the instructions of the Operating Committee.

10.2 Initial Unit Operator. The British-American Oil Producing Company is hereby designated as Unit Operator.

10.3 Duties. The Unit Operator shall:

A. Conduct all such operations in a good and workmanlike manner.

B. Keep full, true and correct books, accounts and records of its operations hereunder which shall be made available for inspection at all reasonable times by any of the Lessees within the Unit Area.

C. Mail to each Lessee and the Supervisor, on or before the 20th day of each calendar month, a true and correct statement of all Unit Production for the previous calendar month showing the volume of Oil and Gas sold together with such reports as are deemed necessary to compute the monthly royalties due the restricted Indian Lessors.

D. Carry for the joint account, the Insurance specified in Exhibit "D", and shall charge the premium therefor to the joint account.

E. Keep the lands and leases within the Unit Area free from liens and encumbrances occasioned by the operations of

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