

35082

FILED

MAY - 3 1972

SECRETARY
CORPORATION COMMISSION
OF OKLAHOMA

PLAN OF UNITIZATION

MILROY UNIT

CARTER AND STEPHENS COUNTIES, OKLAHOMA

EXHIBIT NO. 1

13.2 Resignation or Removal. Unit Operator may resign at any time. The Operating Committee may remove Unit Operator by the affirmative vote of at least Seventy-Five percent (75%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator who resigns or is removed shall not be released from its obligations hereunder for a period of Three (3) months after its resignation or discharge unless a successor Unit Operator shall have taken over the operations hereunder prior to the expiration of said period.

13.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by the Operating Committee. If the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of Sixty-Five percent (65%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 14

AUTHORITIES AND DUTIES OF UNIT OPERATOR

14.1 Exclusive Right to Operate Unit. Subject to the provisions of the Plan of Unitization and to instructions from the Operating Committee, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

14.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with the Operating Committee and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable for damages, unless such damages result from its gross negligence or willful misconduct.

14.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area free from all liens and encumbrances occasioned by Unit Operations, except the lien of Unit Operator granted hereunder.

14.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

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

14.6 Reports to Lessees. Unit Operator shall furnish Lessees a report of operations on a monthly basis, or at such other interval as may be specified by the Operating Committee.

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

14.8 Engineering and Geological Information. Unit Operator shall furnish to each Lessee, upon written request, any engineering and geological data available to Unit Operator pertaining to Unit Operations.

14.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Ten Thousand Dollars (\$10,000.00) without prior approval of Lessees. Unit Operator shall furnish the Operating Committee a detailed Authority for Expenditure for their approval of any expenditure in excess of Ten Thousand Dollars (\$10,000.00). If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Lessees, as promptly as possible, the nature of the emergency and the action taken. Unit Operator shall furnish Lessees with information copies of any AFE's it may prepare for expenditures of less than Ten Thousand Dollars (\$10,000.00).

14.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the prevailing rate in the area. The rate of such charge shall be approved by the Operating Committee before drilling operations are commenced, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

14.11 Nondiscrimination. Operator agrees in its performance of this agreement to comply with all of the provisions of the Nondiscrimination Clause which is hereto annexed as Exhibit E and made a part hereof.

14.12 Restoration of Surface Conditions Existing Prior to Unitization. Unit Operator shall be authorized to fill pits, remove concrete foundations, or perform any other restoration work necessary to restore surface damage which existed prior to Effective Date. The cost of any such work to restore surface to a condition that is acceptable to the proper regulatory body shall be borne entirely by the Lessee or Lessees who contributed such lands to the Unit; provided, however, that any restoration work charged to original Lessee must be performed within one year after Effective Date, and must further be in compliance with regulatory body requirements in effect on such Effective Date.

ARTICLE 15

TAXES

15.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Lessee used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the Lessees in proportion to their Unit Participation in effect at the time; however, if the interest of a Lessee is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of one-eighth (1/8) royalty, such Lessee shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom. Any Lessee may elect to render for ad valorem and pay such taxes as pertains to his interest in the real and personal property subject to this Plan of Unitization; provided, any Lessee electing to render and pay such taxes separately shall notify Unit Operator in writing at least thirty (30) days prior to last day for filing a timely rendition.

15.2 Direct Taxes and Assessments. Each Lessee shall pay or cause to be paid all production, severance, gathering and other direct taxes and assessments imposed upon or on account of the production or handling of its share of Unit Production.

ARTICLE 16

INSURANCE

16.1 Insurance. Unit Operator, with respect to Unit Operations shall do the following:

16.1.1 Comply with the workmen's compensation law of the State of Oklahoma.

16.1.2 Require that each contractor and subcontractor engaged in Unit Operations comply with the workmen's compensation law of the State of Oklahoma.

16.1.3 Carry or provide such other insurance as set forth in Exhibit "D".

ARTICLE 17

ADJUSTMENT OF INVESTMENT

17.1 Personal Property Taken Over. Upon the Effective Date hereof, Lessees shall deliver to Unit Operator the following:

17.1.1 Wells. All wells completed in the Unitized Formation and shown on Exhibit "B".

17.1.2 Well and Lease Equipment. The tubing and casing in each well, together with the wellhead connections thereon and all rods, pipe and other lease and operating equipment used in the operation of such wells which the Operating Committee shall determine is necessary or desirable for conducting Unit Operations. Provided, however, any special equipment and property necessary for the operation of wells completed in the Unitized Formation and in a non-unitized formation and not needed for Unit Operations shall not be turned over to Unit Operator and shall not be included in the inventory provided in Section 17.2 of this Article.

17.1.3 Records. A copy of all production and well records that pertain to such wells, purchaser number and voluntary unitization agreements.

17.2 Inventory and Evaluation of Personal Property. An initial inventory of material and equipment shall be taken at Unit expense. The personal property taken over shall be evaluated and priced by the Operating Committee. The inventory shall include all "controllable equipment" as defined in Exhibit "C", including casing in the wells, and such other items of "non-controllable" equipment as may be determined by the Operating Committee.

17.3 Investment Adjustment. Upon approval by the Operating Committee of such inventory and evaluation, each Lessee shall be credited with the value of its interest in all personal property so taken over by the Unit Operator under Section 17.1.2 and charged with an amount equal to that obtained by multiplying the total value of all personal property taken over by Unit Operator under Section 17.1.2 by such Lessee's Phase II Unit Participation. If the charge against

any Lessee is greater than the amount credited to such Lessee, the resulting net charge shall be paid and in all respects be treated as any other 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.

17.4 General Facilities. The acquisition of warehouse, warehouse stocks, lease houses, camps, facility systems and office buildings necessary for Unit Operations shall be by negotiations by and between the owners thereof and Unit Operator, subject to the approval of the Operating Committee.

17.5 Ownership of Personal Property and Facilities. Each Lessee, individually, shall, by virtue hereof, own an undivided interest in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Plan of Unitization equal to its Phase II Unit Participation.

17.6 Well Investment. There shall be no adjustment of intangible well costs for any wells taken over by Unit Operator.

ARTICLE 18

UNIT EXPENSE

18.1 Basis of Charge to Lessees. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development and operation of the Unit Area. All charges, credits and accounting for such costs and expenses shall be in accordance with Exhibit "C". Except as may be otherwise hereinafter provided, the Lessee or Lessees, obligated or responsible for the costs and expenses of operating a 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 such costs and expenses charged against such Tract.

During the period when Phase I is in effect, Unit Expense shall be apportioned among and assessed against Tracts as follows: Unit Expense of an investment nature shall be borne on the basis of Phase II Tract Participation; Unit Expense of an operating nature including overhead charges shall be borne on the basis of Phase I Tract Participation. During the period when Phase II is in effect all Unit Expense shall be borne on the basis of Phase II Tract Participation.

18.2 Budgets. Before or as soon as practical after the Effective

Date hereof, Unit Operator shall prepare a budget of estimated costs and expenses for the remainder of the calendar year and on or before the first day of each August thereafter shall prepare a budget of estimated costs and expenses for the ensuing calendar year. Such budgets shall set forth the estimated costs and expenses by quarterly periods. 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 adjustment or correction is proper. A copy of each such budget and adjusted budget shall be promptly furnished each Lessee.

18.3 Advance Billing. Unit Operator shall have the right at its option to require Lessees to advance their respective proportions of Unit Expense by submitting to Lessees, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each Lessee shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Lessees shall be adjusted accordingly.

18.4 Commingling Funds. No funds received by Unit Operator under this Plan of Unitization need be segregated by Unit Operator or maintained by it as a joint fund, but may be commingled with its own funds.

18.5 Unpaid Unit Expense. If any Lessee fails or is unable to meet promptly its financial obligations in connection with the Unit, the unpaid balance of its share of Unit Expense shall be carried and paid by either Unit Operator at Unit Operator's option or by all non-defaulting Lessees who are signatory to this Plan of Unitization in the proportion that the Unit Participation of each bears to the total Unit Participation of all such Lessees. Such amount shall bear interest at the rate of ten percent (10%) per annum. Lessees so paying the same shall be reimbursed therefor, together with interest thereon, when the amount so carried and the interest thereon are collected from the Lessees primarily chargeable therewith. The amount carried shall be due and payable out of the proceeds from the defaulting Lessee's share of Unitized Production including overriding royalty interests, oil and gas payments, or other interests in excess of a 1/8 royalty interest to which such Lessee's interest is subject. During the time that any Lessee fails to pay its share of the Unit Expense, the Unit Operator shall be entitled to collect and receive from the purchaser the proceeds from such Lessee's share of the Unit Production. All credits to any such defaulting Lessee on account of the sale or other disposal of Unit Equipment, or otherwise, shall also be applied against the unpaid share of Unit Expense charged against such Lessee.

18.6 Liens and Foreclosures. The Unit shall have a first and prior lien upon the leasehold interest, exclusive of a 1/8 royalty interest, in and to each Tract, the interest of the owners thereof in and to the Unit Production and all equipment in possession of the Unit, to secure payment of all costs and expenses incurred in the development and operation of the Unit Area and properly charged to and against such Tract, provided that such lien may be enforced against overriding royalty interest, or other interests (exclusive of 1/8 royalty interest) which are otherwise not chargeable with such costs and expenses, only in the event the owner of the interest or interests primarily responsible fail to pay such costs and expenses when due, and the Unit 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 costs and expenses for the purpose of protecting such interest, or if the amount of such unit costs and expenses in whole or in part is deducted from the Unit Production credited to such interest, the owner shall, to the extent of such payment or deduction, be subrogated to all of the rights of the Unit and the Unit Operator with respect to the interest or interests primarily chargeable with such unit costs and expenses. A One-Eighth (1/8) part of the Unit Production allocated to each Tract shall in all events be regarded as royalty to be distributed to and among the proceeds thereof paid to the Royalty Owners free and clear of all unit costs and expenses 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 Parties 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 Party 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 in the manner provided by law.

ARTICLE 19

OPERATION OF NON-UNITIZED FORMATIONS

19.1 Right to Operate in Non-Unitized Formations. Any Lessee now having, or hereafter acquiring, the right to drill for and produce oil, gas or other minerals within the Unit Area other than from the Unitized Formation, shall have the right to do so notwithstanding this Plan of Unitization. In exercising said right, however, such Lessee shall exercise reasonable precaution to prevent unreasonable interference with operations hereunder. No Lessee shall produce Unit Production from the Unitized Formation in any well drilled or operated by it. If a Lessee drills any well into or through the Unitized Formation, the Unitized Formation shall be cased or otherwise protected in such a manner that operations hereunder in the Unitized Formation will not be adversely affected.

19.2 Operation of Multiple Completed Wells. Although wells taken over by Unit Operator on or after the Effective Date hereof may be completed in formations in addition to the Unitized Formation, no such wells may be multiple completed unless such is approved by and carried out in a manner prescribed by the Operating Committee. However, there is expressly reserved to any Lessee who delivers to Unit Operator a well completed in formations in addition to the Unitized Formation the use of such well for the purpose of exploring, developing and operating such other formations for the production of Oil and Gas; provided that such Lessee shall at his sole cost, risk and expense explore, develop and operate such other formations and furnish, install and maintain equipment necessary to segregate such Lessee's production from the Unit Production both in the well and on the surface, all in a manner approved by the Operating Committee. In the event it becomes necessary to workover, recondition or redrill a multiple completed well by reason of operations for production from such other formation, or the abandonment thereof, said workover, reconditioning, redrilling or abandonment shall be done by and at the sole cost, risk and expense of the Party or Parties responsible for operations in such other formations and at the approval of and under the supervision of the Operating Committee. In the event of an emergency or the failure of such Party or Parties to comply with the requirements

of the Operating Committee, the Operating Committee shall have the authority to perform all work necessary to protect the Unitized Formation. In the event it becomes necessary to workover, recondition or redrill a multiple completed well by reason of the development, operation or abandonment of the Unitized Formation, said workover, reconditioning or redrilling shall be done by the Unit Operator under the supervision of the Operating Committee and any extra expense incurred in such workover, reconditioning or redrilling resulting from or occasioned by the well being multiple completed in such other formation shall be borne by the Party or Parties responsible for operations in such other formation. The term "extra expense" as used above shall mean the difference between the normal charges incurred in working over, reconditioning or redrilling a multiple completed well and the normal charges for doing the same work on a well which is not multiple completed. The Unit Operator shall furnish said Party or Parties with an estimate of such charges prior to commencement of such work. In the event there is a conflict of interest between the Unit and the Party or Parties responsible for operations in such other formations, the interests of the Unit shall prevail. Except for bad faith or gross negligence, neither the Unit nor the Unit Operator shall be liable or responsible for any damage to or loss of production from any other common sources of supply, nor for damage to the property, equipment, or facilities of such Lessee used in development and operations of such multiple completed well.

ARTICLE 20

CLAIMS AND SUITS

20.1 Settlements. In the event claim is made against any Lessee or any Lessee is sued on account of any matter or thing arising from the development and operation of the Unit Area and over which such Lessee individually has no control because of the rights, powers and duties herein granted the Unit, said Lessee shall immediately notify the Unit Operator in writing of such claim or suit. The Operating Committee shall assume and take over the handling of such claim or suit and all costs and expenses of handling, settling or otherwise discharging such claim or suit shall be treated, regarded and paid as any other item of Unit Expense, provided that Unit Operator shall have the authority to settle any single suit or claim not involving a payment in excess of Thirty-Five Hundred Dollars (\$3,500.00) provided such payment is a complete settlement of the claim or suit.

20.2 Notice of Damages, Claims and Suits. Unit Operator shall report to Lessee as soon as practicable after each occurrence, damages or losses to Unit equipment, accidents, occurrences, claims or suits involving third party bodily injury or property damage which are not covered by insurance carried for benefit of Lessees.

ARTICLE 21

FORCE MAJEURE

21.1 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, federal, state or municipal laws, 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 or other instruments subject hereto shall not be terminated by reason of suspension of Unit Operations due to the aforesaid causes.

ARTICLE 22

INTERNAL REVENUE PROVISION

22.1 Internal Revenue Provision. Each Lessee hereby elects that it and the operations covered by this Plan of Unitization be excluded from the application of Subchapter K of Chapter I of Subtitle A of the Internal Revenue Code of 1954, or such portion or portions thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Lessee such additional or further evidence of said election as may be required by regulations issued under said Subchapter K, or should said regulations require each party to execute such further evidence, each Lessee agrees to execute or join in the execution thereof. Election hereby made in the other provision of this paragraph shall apply in like manner to applicable State Laws, regulations and rulings now in effect. In making this election, each of the Lessees hereto hereby states that the income derived by it from the operations under this Plan of Unitization can adequately be determined without the computation of partnership taxable income.

ARTICLE 23

NOTICES

23.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram to the last known address of the representative of each Lessee on the Operating Committee in accordance with Article 12 hereof.

ARTICLE 24

ORGANIZATION OF UNIT AND EFFECTIVE DATE OF PLAN

24.1 Call of Organizational Meeting. Subject to call by the Lessee designated herein as the Unit Operator, the representatives designated by the Lessees shall meet to perfect the organization of the Operating Committee. Such meeting may be held at any time after Twenty (20) days from the entry of the Order of the Commission approving this Plan of Unitization. Notice of time and place of 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 Lessee calling said meeting, 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 the notice is to be sent.

24.2 Effective Date. The Operating Committee shall determine, and give Lessees reasonable notice of, the time when the Unit will take over and commence Unit Operations. The time shall not be less than Twenty (20) days from the entry of the Order approving the Unit or more than six (6) months after the time when the Order approving the Unit becomes final.

24.3 Non-Approval of Plan of Unitization by Commission. If an Order of the Commission approving the Unit has not been entered prior to January 1, 1973, then this Plan of Unitization shall terminate on that date, hereinafter called the Termination Date, and thereafter be of no further effect, unless prior thereto this Plan of Unitization has been signed, ratified or approved by Lessees owning a combined Phase II Participation of at least sixty-five percent (65%), and Lessees owning a combined Phase II Participation of at least sixty-five percent (65%) elect to extend said Termination Date for a period not to exceed six (6) months. If the Termination Date is so extended and an Order of the Commission approving the Unit is not entered on or before the extended Termination Date, this Plan of Unitization shall terminate on the Extended Termination Date and thereafter be of no further force and effect.

24.4 Failure to Take Over Operations. In the event the Unit shall fail to assume and take over the operations of the Unit Area on or before six (6) months after the time when the Order of the Commission approving this Plan of Unitization 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 costs and expenses incurred by the Unit 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 whose representatives on the Operating Committee by their vote authorized the incurring of such expenses, on the basis of the Phase II Unit Participation. 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 hereinafter provided.

24.5 When Commission Order Becomes Final. The Order or Orders of the Commission approving this Plan of Unitization shall be regarded as having become final at the end of the time allowed by law for an appeal therefrom, if no appeal is taken, or, if an appeal is taken, then upon the final determination of any such appeal.

24.6 Certificate of Effectiveness. The Unit Operator shall within thirty (30) days after the Effective Date hereof submit to the County Clerks of Stephens and Carter Counties, Oklahoma, and to the Secretary of the Corporation Commission of Oklahoma, for filing, a written declaration signed by the Unit Operator and Secretary of the Operating Committee, setting forth,

- (a) the hour, day 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; and
- (c) the cause number, order number and date of the Commission Order approving this Plan of Unitization.

ARTICLE 25

ABANDONMENT OF WELLS

25.1 Rights of Former Owners. If the Operating Committee decides to abandon permanently any Unit well prior to termination of the Unit, Unit Operator shall give written notice thereof to the Lessees of the Tract on which the well is located, and they shall have the option for a period of Ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within Thirty (30) days after the Lessees of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by the Operating Committee to be the net salvage value of the casing and equipment in and on the well. The Lessees of the Tract, by taking over the well, agree to promptly and effectively seal off and protect the Unitized Formation in a manner satisfactory to the Operating Committee, and upon abandonment to plug the well in compliance with applicable laws and regulations.

25.2 Plugging. If the Lessees of a Tract do not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in accordance with applicable laws and regulations. Charges and credits for abandoning wells or equipment shall be shared according to provisions of Section 26.2.4.

ARTICLE 26

TERM AND ABANDONMENT OF OPERATIONS

26.1 Term. The Unit and this Plan of Unitization shall continue in effect until such time as the Operating Committee by a vote of at least 51% of the voting interest determines that Unit Production can no longer be produced in paying quantities or that Unit Operations are no longer feasible.

26.2 Abandonment of Operations. Upon abandonment of operations:

26.2.1 Oil and Gas Rights. Oil and Gas Rights in and to each of the several Tracts shall no longer be affected by this Plan of Unitization, and thereafter the owners thereof shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

26.2.2 Right to Operate. Lessees of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the casing and equipment in and on the wells taken over, as estimated by the Operating Committee, and by agreeing upon abandonment to properly plug the wells in compliance with applicable laws and regulations.

26.2.3 Salvaging Wells and Unit Equipment. Unit Operator shall salvage the Unit Equipment and as much of the casing and equipment in or on wells not taken over by Lessees of the separate Tracts as can economically and reasonably be salvaged, and shall properly plug and abandon the wells in accordance with applicable laws and regulations. Unit Operator shall have Six (6) months after cessation of the production of Unitized Substances within which to conduct the salvaging and plugging operations.

26.2.4 Abandonment Costs and Distribution of Assets. Each Lessee shall share in the plugging and abandonment costs in proportion to its ownership of the phase then in effect.

- (a) The value of the material and equipment salvaged shall be shared on the basis of Phase II ownership.
- (b) Should a decision be made to sell the Unit as a producing property in lieu of abandonment, all such sale proceeds shall be shared on the basis of Phase II ownership.

26.3 Certificate of Termination. When Unit Operations are abandoned and the affairs of the Unit terminates, Unit Operator shall submit to the County Clerk of Stephens and Carter Counties, Oklahoma, and to the Secretary of the Commission, for filing, a certificate of termination signed by the Chairman of the Operating Committee setting forth the fact and time of termination of the Unit.

26.4 Obligations Payable After Termination. If any liability or obligation incurred prior to termination of the Unit shall accrue and become payable thereafter, the amount shall be borne and paid as Unit Expense in the same manner as if it had accrued prior to termination of the Unit.

ARTICLE 27

AMENDMENT OF PLAN OF UNITIZATION AND ENLARGEMENT OF UNIT

27.1 Amendment and Enlargement. Any amendment of this Plan of Unitization or any enlargement of the Unit Area shall be in accordance with the provisions of Section 287.10, Title 52, Oklahoma Statutes, 1961, or any amendment thereto.

ARTICLE 28

RESTRICTED INDIAN LANDS

28.1 Special Provisions. In the event and to the extent restricted Indian lands are included in the Unit Area, the following additional provisions shall be applicable with respect to such Indian lands:

28.1.1 Definition of Supervisor. Supervisor means the Oil and Gas Supervisor of the United States Geological Survey having supervision of such Indian lands.

28.1.2 Copies of Notices, etc. Copies of all notices, certificates, declarations or reports, which are required by the Plan of Unitization to be filed with the Commission, County Clerk, or other governmental authority shall at the same time be mailed to the Supervisor.

28.1.3 Information Regarding Unit Operations. The Unit Operator, upon request, shall furnish the Supervisor a monthly report of operations, a statement of Unit Oil and Gas production and disposition thereof, together with such reports as are deemed necessary to compute the monthly royalties on Unit Production allocated to the restricted Indian lands.

28.1.4 Access to Unit Area. The Supervisor shall have access to the Unit Area at all reasonable times to observe any and all Unit Operations or facilities.

28.1.5 Title Disputes. Royalty or Unit Production allocated to restricted Indian lands, the title to which is in dispute, instead of being impounded by the Unit Operator, shall, if requested by the Supervisor, be paid to the appropriate governmental agency or depository designated by the Supervisor to be impounded by such agency or depository pending the determination of the title dispute.

28.1.6 Amendment of Plan of Unitization. Any amendment of the Plan of Unitization affecting the right and interests of restricted Indians shall be subject to the approval of the Supervisor.

28.1.7 Use of Water. Fresh water from restricted Indian land shall not be used without consent of the Supervisor.

28.1.8 Allocation on Unit Production. Royalty payable on Unit Production 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.

28.1.9 Right of Supervision. Nothing herein shall be construed as limiting the extent or right of supervision by the Supervisor as to the restricted Indian leases included in this Plan of Unitization.

28.1.10 Salvaging Wells and Unit Equipment. Notwithstanding the provisions of Section 26.2.3, Unit Operator, upon abandonment of Unit operations, shall, with respect to restricted Indian leases, properly plug and abandon the wells in accordance with applicable laws and regulations and salvage the equipment on said leases within Ninety (90) days after cessation of the production of Unitized Substances.

ARTICLE 29

WITHDRAWAL AND TRANSFER OF INTEREST

29.1 Withdrawal of a Lessee. A Lessee may withdraw from this Plan of Unitization by transferring, without warranty of title, either express or implied, to the other Lessees, all of its Oil and Gas Rights together with its interest in all Unit Equipment and in all wells used in Unit Operations. Such transfer shall not relieve the withdrawing Lessee from any obligation or liability incurred prior to the date of the delivery of the transfer. Each of the remaining Lessees who desire to acquire the interest of the withdrawing Lessee

shall so notify the Unit Operator within 30 days of notice of withdrawal. The interest transferred shall then be owned by the participating Lessees in proportion to their respective Phase II Unit Participation. Lessees, in proportion to the respective interests so acquired, shall pay withdrawing Lessee for its interest in Unit Equipment, the fair salvage value thereof as estimated and fixed by the Operating Committee. After the date of delivery of the transfer, the withdrawing Lessee shall be relieved from all further obligations and liability under this Plan of Unitization, and the rights of such Lessee under this Plan of Unitization shall cease insofar as they existed by virtue of the interest transferred.

29.2 Effect of Transfers. Any transfer, assignment or conveyance of all or any part of an interest owned by any party hereto with respect to any Tract shall be subject to this Plan of Unitization. No such transfer, assignment or conveyance shall be binding for any purpose upon any party hereto other than the party so conveying the same, until the first day of the calendar month next succeeding the date of receipt by Unit Operator of a certified copy of the recorded instrument evidencing such change of ownership.

ARTICLE 30

SIGNING, RATIFICATION OF APPROVAL

30.1 Original, Counterparts or Ratifications. This Plan of Unitization may be signed, ratified, or approved by signing the original of this instrument, a counterpart, or other instrument adopting the provisions hereof, all with the same effect as if all Parties had signed the same instrument. Parties signing, ratifying, or otherwise approving this Plan of Unitization, thereby agree to all the provisions thereof.

30.2 Joinder in Dual Capacity. The signing, ratification or approval of this Plan of Unitization as herein provided by any Party as either a Lessee or as a Royalty Owner shall commit all interests that may be owned or controlled by such Party.

30.3 Heirs, Successors and Assigns. The signing, ratification, or approval of this Plan of Unitization shall be binding upon the heirs, personal representatives, successors, and assigns of the Parties so signing, ratifying, or approving the same.

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

Working Interest Owners

<u>Attest, if a Corporation or Witness, if an Individual</u>	<u>Date Signed</u>	<u>Name</u>
By _____	_____	GULF OIL CORPORATION <i>A. G. Gabriel</i> Attorney in Fact
_____	_____	_____
_____	_____	_____
_____	_____	_____



EXHIBIT "A"
ATTACHED TO PLAN OF UNITIZATION

MILROY UNIT
CARTER AND STEPHENS COUNTIES, OKLAHOMA

Tract No.	Description	Percent Tract Participation	
		Phase I	Phase II
1	N/2 NW/4 SE/4 of Section 11-2S-4W	.64800	.48670
2	SE/4 SE/4 and N/2 SW/4 SE/4 and SW/4 NE/4 SE/4 and S/2 NW/4 SE/4 of Section 11-2S-4W	14.52780	6.17070
3	S/2 SW/4 SE/4 of Section 11-2S-4W	2.29430	.28170
4	S/2 SW/4 SW/4 of Section 12-2S-4W	.33110	1.72960
5	SW/4 SE/4 SW/4 of Section 12-2S-4W	2.16380	.42980
6	N/2 NW/4 NE/4 of Section 14-2S-4W	-0-	.03930
7	E/2 NE/4 NE/4 of Section 14-2S-4W	.17820	1.46140
8	NW/4 NW/4 and W/2 NE/4 NW/4 of Section 13-2S-4W	3.01440	6.83590
9	E/2 NE/4 NW/4 and W/2 NW/4 NE/4 of Section 13-2S-4W	12.68400	4.54360
10	E/2 SW/4 NE/4 of Section 14-2S-4W	12.67410	2.93290
11	N/2 SE/4 NE/4 of Section 14-2S-4W	1.03500	.94190
12	SW/4 NW/4 and NE/4 NW/4 SW/4 and W/2 W/2 SW/4, less the SW/4 4 acres of SW/4 SW/4 SW/4 of Section 13-2S-4W	-0-	6.30580
13	SW/4 SW/4 NE/4 and NW/4 SE/4 NW/4 and S/2 SE/4 NW/4 and W/2 NW/4 SE/4 and N/2 NE/4 SW/4 of Section 13-2S-4W	2.61890	7.74830
14	N/2 SW/4 NE/4 and N/2 SE/4 NE/4 and NE/4 SE/4 NW/4 of Section 13-2S-4W	4.05280	4.05430
15	NE $\frac{1}{2}$ of the NE/4 NW/4 SE/4 of Section 14-2S-4W	3.21600	1.68580
16	S/2 SE/4 NE/4 and N/2 NE/4 SE/4 and SE/4 NE/4 SE/4 and NE $\frac{1}{2}$ of the SW/4 NE/4 SE/4 and NE $\frac{1}{2}$ of the NE/4 SE/4 SE/4 of Section 14-2S-4W	5.89760	3.71810
17	SW/4 NE/4 SW/4 and SE/4 NW/4 SW/4 and W/2 SE/4 SW/4 and E/2 SW/4 SW/4 of Section 13-2S-4W	7.38040	4.75740

Tract No.	Description	Percent Tract Participation	
		Phase I	Phase II
18	S/2 SW/4 SE/4 and SE/4 NE/4 SW/4 and E/2 SE/4 SW/4 of Section 13-2S-4W	3.57130	7.22660
19	SE/4 NW/4 NE/4 of Section 13-2S-4W	-0-	.30990
20	S/2 NE/4 NE/4 of Section 13-2S-4W	-0-	.30040
21	NW/4 NW/4 SW/4 of Section 18-2S-3W	-0-	.25450
22	SE/4 NW/4 SE/4 and N/2 SW/4 SE/4 and NW/4 SE/4 SE/4 of Section 13-2S-4W	4.66020	4.46400
23	NE/4 NW/4 SE/4 and NE/4 SE/4 and SE/4 SW/4 NE/4 and S/2 SE/4 NE/4 of Section 13-2S-4W	-0-	6.90490
24	S/2 NW/4 SW/4 of Section 18-2S-3W	4.92830	1.64810
25	SW/4 SE/4 SE/4 of Section 13-2S-4W	-0-	1.25850
26	E/2 SE/4 SE/4 of Section 13-2S-4W	1.05000	3.51830
27	SW/4 SW/4 of Section 18-2S-3W	-0-	3.74975
28	NE/4 NE/4 NW/4 of Section 24-2S-4W	-0-	.22030
29	E/2 NW/4 NE/4 and NW/4 NW/4 NE/4 of Section 24-2S-4W	1.72120	3.14060
30	NE/4 NE/4 of Section 24-2S-4W	6.71530	3.45520
31	N/2 SW/4 NW/4 and W/2 NE/4 NW/4 and NW/4 NW/4 of Section 19-2S-3W	1.30530	5.96090
32	SW/4 NW/4 NE/4 and NE/4 SW/4 NE/4 of Section 24-2S-4W	1.41830	1.44980
33	W/2 NE/4 NE/4 of Section 14-2S-4W	1.91370	.74090
34	S/2 NW/4 NE/4 of Section 14-2S-4W	-0-	.49520
35	NE/4 SE/4 NW/4 and NW/4 SW/4 NE/4 and NE/4 of SW/4 SW/4 NE/4 of Section 14-2S-4W	-0-	.37230
36	SE/4 NE/4 NW/4 of Section 14-2S-4W	-0-	.05140
37	W/2 SE SW of Section 18-2S-3W	-0-	.38525
TOTAL UNIT		100.00000	100.00000

PARTICIPATION FORMULAS

Phase I: 75% current production and 25% remaining primary reserves for the first 300,000 barrels of oil produced after January 1, 1972.

Phase II: 50% floodable acre feet and 50% cumulative production.

Current Production, Remaining Primary Reserves, Floodable Acre Feet and Cumulative Production as defined in the Feasibility Study dated September 1971.

TABLE OF CONTENTS

<u>ARTICLE</u>	<u>TITLE</u>	<u>PAGE</u>
1.	Definitions	1
2.	Exhibits	3
3.	Creation and Effect of Unit	4
4.	Plan of Operation	5
5.	Allocation of Unit Production	5
6.	Production as to the Effective Date	8
7.	Use or Loss of Unit Production	8
8.	Titles	8
9.	Easements or Use of Surface	9
10.	Relationship of Parties	10
11.	General Powers of Unit	10
12.	Creation of Operating Committee and Supervision of Unit Operations ..	11
13.	Unit Operator	13
14.	Authorities and Duties of Unit Operator	14
15.	Taxes	15
16.	Insurance	16
17.	Adjustment of Investment	16
18.	Unit Expense	17
19.	Operation of Non-Unitized Formations	19
20.	Claims and Suits	20
21.	Force Majeure	20
22.	Internal Revenue Provision	21
23.	Notices	21
24.	Organization of Unit and Effective Date of Plan	21
25.	Abandonment of Wells	23
26.	Term and Abandonment of Operations	23
27.	Amendment of Plan of Unitization and Enlargement of Unit	24
28.	Restricted Indian Lands	24
29.	Withdrawal	25
30.	Signing, Ratification of Approval	26

EXHIBIT " C "

Attached to and made a part of Plan of Unitization for
Milroy Unit, Carter and Stephens Counties, Oklahoma

ACCOUNTING PROCEDURE (JOINT OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this "Accounting Procedure" is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

Where an agreement or other action of Non-Operators is expressly required under this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the agreement or action of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C 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. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator 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 **ten per cent (10%) per annum until paid.**

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators to protest or question the correctness thereof; provided however, all bills and statements rendered to Non-Operators 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 a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of the Joint Property as provided for in Section VII.

7. 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, the making of an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 6 of this Section I. 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. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

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 however, the total of such charges shall not exceed fifteen per cent of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

4. Material

Material purchased or furnished by Operator for use on 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 and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property 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 like material is available, except by agreement with Non-Operators.
- 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 to the nearest reliable supply store or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
- C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.

6. Services

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. Legal Expense

All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section II), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

10. Insurance Premiums

Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties

11. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

- Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- Paragraph 4. (Combined fixed rate)

1. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages 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 office located at or near (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)		PRODUCING WELL RATE (Use Current Producing Depth)	
	Each Well	First Five	Next Five	All Wells Over Ten
.....
.....
.....

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. Operator's Fully Owned Warehouse Operating and Maintenance Expense
(Describe fully the agreed procedure to be followed by the Operator.)

4. Combined Fixed Rates

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	All Wells	Next Five	All Wells Over Ten
All Depths	\$700	\$95	.	

Said fixed rate (which) (shall not) include salaries and expenses of production foremen.

5. Application of Administrative Overhead or Combined Fixed Rates

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

- A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. The status of wells shall be as follows:
 - (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
 - (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
 - (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
 - (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property.
 - (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
 - (6) Wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
- C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
- D. The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.
6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:
 - A. Total cost less than \$25,000, no charge.
 - B. Total cost more than \$25,000 but less than \$100,000, 3 % of total cost.
 - C. Total cost of \$100,000 or more, 3 % of the first \$100,000 plus 2 % of all over \$100,000 of total cost.
 Total cost shall mean the total gross cost of any one project. For the purpose of this Paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.
7. The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. Purchases

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

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material
- (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 classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV 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 Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment 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 Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall 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-Operators

Material purchased by either the Operator or Non-Operators 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-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator 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 claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, 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 Account as secondhand at seventy-five percent (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. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

B. Is serviceable for original function but not suitable for reconditioning.

5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. Junk Material

Junk Material (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 Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, 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.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

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

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. 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 whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

EXHIBIT "E"

NONDISCRIMINATION

Gulf Oil Company—U.S., a division of Gulf Oil Corporation, hereinafter referred to as "Gulf," is a "contractor" within the meaning of Executive Order No. 11246 dealing with nondiscrimination and equal employment opportunity.

GULF OIL CORPORATION

hereinafter called "contractor" in this Exhibit, agrees, unless exempt therefrom, to comply with all provisions of Executive Order 11246 which are incorporated herein by reference, and (a) if contractor has more than 50 employees or a contract with Gulf in excess of \$10,000, contractor must file Standard Form 100 (EEO-1), (b) if contractor has 50 or more employees and a contract of \$50,000 or more, contractor is required to develop a written "Affirmative Action Compliance Program" for each of its establishments according to the Rules and Regulations published by the United States Department of Labor in 41 C.F.R., Chapter 60. Further, contractor hereby certifies that it does not now and will not maintain any facilities provided for its employees in a segregated manner or permit its employees to perform their services at any location under its control where segregated facilities are maintained, as such segregated facilities are defined in Title 41, Chapter 60-1.8, Code of Federal Regulations, revised as of 1/1, 69, unless exempt therefrom. Contractor further warrants that no other law, regulation or ordinance of the United States, or any state, or any governmental authority or agency has been violated in the manufacture, procurement or sale of any goods furnished, work performed or service rendered pursuant to this contract.

Unless exempt by rules, regulations or orders of the United States Secretary of Labor, issued pursuant to §204 of Executive Order 11246, dated September 24, 1965, during the performance of this contract, the contractor agrees as follows:

"(1) The contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

"(2) The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

"(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the contractor's commitments under section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

"(4) The contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

"(5) The contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

"(6) In the event of the contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in executive order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

"(7) The contractor will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon such subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance. Provided however, that in the event the contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States."

EXHIBIT "E"

PLAN OF UNITIZATION

For

MILROY UNIT

CARTER & STEPHENS COUNTIES, OKLAHOMA

WITNESSETH

The following shall constitute the Plan of Unitization applicable to the Milroy Unit, Stephens and Carter Counties, Oklahoma, created pursuant to authority of Section 287.1 - 287.15, inclusive, Title 52, Oklahoma Statutes, 1961, and having for its purpose the unitized management, operation and further development of the Deese Sands of the Pennsylvania Age, a common source of supply of oil and gas underlying the Unit Area herein defined, all to the end that a greater ultimate recovery of oil and gas and associated minerals may be had therefrom, waste prevented and the correlative rights of the respective owners protected.

ARTICLE 1

DEFINITIONS

As used in this Plan of Unitization, the terms hereinafter set out shall have the following meaning:

1.1 Unit shall mean the Milroy Unit.

1.2 Unit Area shall mean the lands described by Tracts in Exhibit "A" and shown on Exhibit "B".

1.3 Unitized Formation shall mean that subsurface portion of the Unit Area commonly known as the Deese Sands of the Pennsylvania Age, which are encountered between the depths of 3,070 feet and 3,906 feet as indicated on the electric log of the Powell Briscoe Queen Harris #1 located in the center SW SE SE of Section 13-2S-4W, Stephens County, Oklahoma.

1.4 Unitized Substances (Unit Production) shall mean and include all Oil and Gas within or produced from the Unitized Formation from and after the Effective Date of the Plan of Unitization.

1.5 Oil and Gas shall not only refer to oil and gas as such in combination one with the other, but shall have reference to oil, gas, casinghead gas, casinghead gasoline, condensate, or other hydrocarbons, or any combination or combinations thereof, which may be found in or produced from the Unitized Formation.

1.6 Lessee means an owner of an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation.

1.7 Working Interest shall mean an interest in Unitized Substances that is owned by a Lessee.

1.8 Royalty Interest shall mean a right to or interest in any portion of the Unitized Substances other than a Working Interest.

1.9 Royalty Owner shall mean a party hereto who owns a Royalty Interest. The owner of an unleased interest in Unit Production shall be considered a Lessee as to 7/8ths of such interest and a Royalty Owner as to 1/8th of such interest.

1.10 Tract shall mean each parcel of land described as such and given a Tract number in Exhibit "A".

1.11 Unit Operator shall mean the Lessee designated by Lessees as provided in Article 13 to develop and operate the Unitized Formation, acting as Operator and not as Lessee.

1.12 Tract Participation shall mean the percentage shown on Exhibit "A" for allocating Unitized Substances to a Tract under this Plan.

1.13 Unit Participation of each Lessee shall mean the sum of the percentages obtained by multiplying such Lessee's fractional working interest in each Tract by the appropriate Phase Tract Participation of such Tract.

1.14 Outside Substances shall mean all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.

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

1.16 Unit Operations shall mean all operations conducted by the Unit or Unit Operator pursuant to this Plan for or on account of the development and operation of the Unitized Formation for Unit Production.

1.17 Unit Equipment means all personal property, lease and well equipment, plants and other facilities and equipment taken over or otherwise acquired for use in Unit Operations.

1.18 Unit Expense means all cost, expense or indebtedness incurred by the Unit or Unit Operator pursuant to this Plan of Unitization.

1.19 Operating Committee means the committee as constituted under Article 12 of this Plan of Unitization.

1.20 Effective Date means the time when the Unit takes over and commences Unit Operations.

1.21 Commission means the Corporation Commission of the State of Oklahoma.

1.22 Party means 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 entity capable of holding an interest in the Unitized Formation.

1.23 Singular and Plural - Gender. Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibit "A" is a schedule that describes each Tract in the Unit Area and shows its Phase I and Phase II Participation, along with the participation formulas used to calculate such Tract Participation.

2.1.2 Exhibit "B" is a map that shows the boundary lines of the Unit Area and the Tracts therein.

2.1.3 Exhibit "C" is the Accounting Procedure applicable to development and operation of the Unit Area. In the event of conflict between this Plan of Unitization and Exhibit "C", this Plan of Unitization shall prevail.

2.1.4 Exhibit "D" contains insurance provisions applicable to the development and operation of the Unit Area.

2.1.5 Exhibit "E" contains non-discrimination provisions.

2.2 Correcting Errors. The shapes and descriptions 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 scrivener's error has been made in the preparation of Exhibits or information shown thereon, Unit Operator, with the approval of the

Commission, may correct the mistake by revising the Exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an Exhibit shall be effective at 7:00 a.m. on the first day of the calendar month following the filing of the revised Exhibit with the Secretary of the Commission, or on such other date as may be determined by the Operating Committee and set forth in the revised Exhibit.

ARTICLE 3

CREATION AND EFFECT OF UNIT

3.1 Oil and Gas Rights Unitized. Subject to the provisions of this Plan of Unitization, all Oil and Gas Rights of Royalty Owners in and to the lands described in Exhibit A, and all Oil and Gas Rights of Lessees in and to said lands, are hereby unitized insofar as the respective Oil and Gas Rights pertain to the Unitized Formation, so that Unit Operations may be conducted as if the Unitized Formation had been included in a single lease executed by all Royalty Owners, as lessors, in favor of all Lessees, and as if the lease had been subject to all of the provisions of this Plan of Unitization.

3.2 Amendment of Leases and Other Agreements. The provisions of the various leases, agreements, division and transfer orders, or other instruments covering the respective tracts or the production therefrom are amended to the extent necessary to make them conform to the provisions of this Plan of Unitization, but otherwise shall remain in effect.

The division orders shall cover and apply to that fraction of the Unit Production as is allocated to the respective Tracts in Exhibit "A" (effective as of the Effective Date of the Unit) and purchasers of Unit Production are authorized to pay therefor in accordance with percentages set forth in Exhibit "A" without procuring new division orders.

3.3 Continuation of Leases and Term Royalties. Operations, including drilling operations, conducted with respect to the Unitized Formation on any part of the Unit Area, or production from any part of the Unitized Formation, shall, except for the purpose of determining payments to Royalty Owners, be considered as operations upon or production from each Tract and such operations or production shall continue in force and effect each lease or term royalty interest just as if such operations had been conducted and a well had been drilled on and was producing from each Tract. Each such lease and term royalty interest shall remain in force and effect so long as this Plan of Unitization remains in force and effect.

3.4 Titles Unaffected by Unitization. Nothing herein shall be construed to result in the transfer of title to the Oil and Gas rights covered hereby between the parties hereto or to Unit Operator, other than the right to exercise such Oil and Gas Rights and to share in Unit Production or in the proceeds therefrom to the extent and manner herein provided.

3.5 Injection Rights. The Unit Operator shall have the right to inject into the Unitized Formation any substances in whatever amounts the Operating Committee deems expedient for Unit Operations, including the right to drill and maintain injection wells on the Unit Area and to use producing wells completed in the Unitized Formation or abandoned Oil and Gas wells and any dry hole that was drilled for oil and gas.

3.6 Cooperative Agreements. The Operating Committee, as a prudent means in the interest of conservation and to increase the recovery of Unit Production, may execute, or authorize and empower the Unit Operator to execute in their behalf, agreements with the owners of interests in lands outside the Unit Area for cooperative development, operation, fluid injection or similar programs with respect to the equivalent of the Unitized Formation outside the Unit Area and the Unitized Formation. Any such agreement shall make provisions for the drilling or conversion, equipping and operation of compensating fluid injection wells in the Unitized Formation and adjoining equivalent of the Unitized Formation outside the Unit Area. The rate of fluid injection into such wells inside the Unit Area shall be approximately equal to the rate of injection into such wells outside the Unit Area. Any such cooperative agreement shall in no way affect or alter the percentages of participation established hereunder as to the parties hereto, nor shall the same provide for the sharing or allocation of production as between the Unit Area, as herein defined, and any outside lands.

3.7 Development Obligation. Nothing herein shall relieve the Lessees from the obligation to develop reasonably as a whole the lands and leases subject hereto.

3.8 Personal Property Excepted. Subject to provisions of Article 17, all lease and well equipment, materials, and other facilities heretofore and hereafter placed by any Lessees on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Lessees.

ARTICLE 4

PLAN OF OPERATION

4.1 Operating Methods. To the end that the quantity of Unit Production ultimately recoverable may be increased and waste prevented, the Unit Operator under direction of the Operating Committee, shall with diligence and in accordance with good engineering and production practices, conduct a secondary recovery operation by means of injecting gas, water, or other substances, or combinations thereof into the Unitized Formation.

4.2 Change of Operating Methods. Such other methods of operations as may from time to time be determined by the Operating Committee to be feasible, necessary or desirable to efficiently increase the ultimate recovery of Unit Production, may be conducted by the Unit Operator under direction of the Operating Committee. Nothing herein shall prevent the Operating Committee from discontinuing or changing in whole or in part any particular method of operation if, in its opinion, such method of operation is no longer in accordance with good engineering or production practices.

ARTICLE 5

ALLOCATION OF UNIT PRODUCTION

5.1 Tract Participation. The Phase I and Phase II Tract Participation of each Tract is shown in Exhibit A. Phase I Tract Participation percentages shall apply to Unitized Substances beginning as of 7 o'clock A.M., on the Effective Date hereof and continuing until the first day of the month following the month in which the oil produced, after January 1, 1972, from the Unitized

Formation underlying all Tracts described in Exhibit A, equals a total of 300,000 barrels of oil. Thereafter, the Phase II Participation Percentages shall apply.

5.2 Allocation to Tracts. All Unit Production, except that production used in development and operation of the Unit Area or unavoidably lost, shall be apportioned among and allocated to the several Tracts in accordance with the respective Tract Participation in effect at the time of such production. The amount of Unit Production so allocated to each Tract, and only that amount, regardless of whether it be more or less than the amount of the actual production from the well or wells, if any, on such Tract shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

5.3 Distribution Within Tracts. The Unit Production allocated to each Tract shall be distributed among, or accounted for to, the Parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Plan of Unitization not been entered into, and with the same legal force and effect.

If any Oil and Gas Rights in a Tract are or become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unit Production allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract. A one-eighth (1/8) part of the Unit Production allocated to each Tract shall in all events be regarded as royalty to be distributed to and among, or the proceeds thereof paid to, the Owners of Royalty Interest, free and clear of all Unit Expense and free of any lien thereof.

5.4 Taking Unit Production in Kind. The Unit Production allocated to each Tract shall be delivered in kind to the respective Parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such Parties. Such Parties shall have the right to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unit Production shall be borne by the receiving Party. If a Royalty Owner has the right to take in kind a share of Unit Production and fails to do so the Lessee of such Royalty Owner shall be entitled to take in kind such share of the Unit Production.

5.5 Failure to Take in Kind. If any Party fails to take in kind or separately dispose of its share of Unit Production, Unit Operator shall have the right, but not the duty, for the time being and subject to revocation at will by the Party owning the share, to purchase for its own account or sell to others such share at a price not less than the current market price prevailing in the field at the time of such purchase or sale, provided that all contracts of sale by Unit Operator of any other Party's share of Unit Production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one (1) year. The proceeds of the Unit Production so disposed of by Unit Operator shall be paid to the Party entitled thereto. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other Party's share of gas production without first giving such other Party a sixty (60) days' notice of such intended sale.

5.6 Production Where Title is in Dispute. If the title or right of any Party claiming the right to receive in kind all or any portion of the Unit Production allocated to a Tract is in dispute, Unit Operator, at the direction of the Operating Committee, shall either:

5.6.1 Require that the Party or Parties 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 Party or Parties shall fail in whole or in part, or,

5.6.2 Withhold and market the portion of Unit Production with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right there- to is established by a 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 to the Party or Parties rightfully entitled thereto.

5.7 Responsibility for Royalty Settlements. Any Party receiving in kind or separately disposing of all or part of the Unit Production allocated to any Tract, or receiving proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of, and shall indemnify all other Parties, including Unit Operator, against any liability for any and all royalties, overriding royalties, production payments, and any and all other pay- ments chargeable against or payable out of such Unit Production or the proceeds therefrom.

5.8 Sliding Scale Royalty. Any royalty or other payment which varies, under the terms of the instrument creating it, according to actual production from a Tract or according to the capability of wells located thereon to produce, shall on and after the Effective Date hereof, be computed upon that portion of the Unitized Substances allocated to the particular Tract and not upon the actual production of Oil and Gas from the Tract or the capability of the wells thereon to produce. If any such royalty or other payment depends on the production or pipe line runs from a well, such production or pipe line runs shall be determined by dividing the Unitized Substances allocated to the Tract by the number of wells located thereon that were capable of producing as of the Effective Date hereof; provided that if there are no wells on the Tract that were capable of producing as of the Effective Date hereof, then such Tract shall be treated as having One (1) well.

5.9 Royalty on Outside Substances. If any Outside Substances com- prised of hydrocarbons in a gaseous state are injected into the Unitized Forma- tion, 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 Outside Substances until the aggregate of said Fifty percent (50%) equals the accumulated volume of the Outside Substances injected into the Unitized Formation, and no payments shall be due or payable to Royalty Owners on said Fifty percent (50%). If the Outside Substances injected be liquefied petroleum gases, or other liquid hydrocarbons, as distinguished from natural gases prior to injection, the Lessees shall have the right, beginning One (1) year after injection of such liquefied petroleum gases is commenced to recover all such injected hydrocarbons without payment of royalty; and to pro- vide a reasonable and practical basis of accounting for the same, it is agreed that Ten percent (10%) of the Unit Production produced and sold from the Unit- ized Formation shall be deemed to be Outside Substances until the aggregated value of said Ten percent (10%) of said Unit Production equals the entire accumulated cost to the Lessees of such Outside Substances, such Ten percent (10%) will be in addition to that which is being recovered for natural gases

as hereinabove provided if both liquefied petroleum gas or other liquid hydrocarbons and natural gases are injected.

ARTICLE 6

PRODUCTION AS OF THE EFFECTIVE DATE

6.1 Oil or Liquid Hydrocarbons in Lease Tanks. Unit Operator shall gauge or otherwise determine the amount of merchantable oil or other liquid hydrocarbons produced from the Unitized Formation that are in lease and power-oil tanks as of 7:00 a.m. on the Effective Date. Oil or other liquid hydrocarbons in treating vessels, separation equipment, and tanks below pipeline connections shall not be considered to be merchantable. Any merchantable oil or other liquid hydrocarbons that are a part of or attributable to the prior allowable of the wells from which they were produced shall remain the property of the Parties entitled thereto as if this agreement had not been entered into. Any such merchantable oil or other liquid hydrocarbons not promptly removed may be sold by Unit Operator for the account of the Lessees entitled thereto who shall pay all royalty due thereon under the provisions of applicable leases or other contracts. Any oil or liquid hydrocarbons in excess of that attributable to the prior allowable of the wells from which they were produced shall be regarded as Unit Production produced after the Effective Date.

6.2 Overproduction. If, as of the Effective Date hereof any Tract is overproduced with respect to the allowable of the wells on that Tract and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded as a part of the Unit Production produced after the Effective Date hereof, and shall be charged to such Tract as having been delivered to the Parties entitled to Unit Production allocated to such Tract.

ARTICLE 7

USE OR LOSS OF UNIT PRODUCTION

7.1 Use of Unit Production. Unit Operator may use as much of the Unit Production as it deems necessary for the operation and development of the Unit Area, including but not limited to the injection thereof into the Unitized Formation.

7.2 Royalty Payments. No royalty, overriding royalty, production or other payments shall be payable upon or with respect to Unit Production used or consumed in the operation or development of the Unit Area or which may be otherwise lost or consumed in the production, handling, treating, transportation or storing of Unit Production.

ARTICLE 8

TITLES

8.1 Title Information. Upon request of the Operating Committee, the Lessees of a Tract shall furnish and make available to the Operating Committee or the Unit Operator, as the case may be, an abstract or such other title information in the possession of such Lessees affecting titles to the Oil and Gas Rights in and to such Tract.

8.2 Indemnity. Each Party who may claim to own Working Interest or Royalty Interest in and to any Tract or the Unitized Substances allocated thereto, shall indemnify and hold harmless all other Parties in interest from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; provided, that such indemnity shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Plan of Unitization is concerned, as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom as a result of title failure.

8.3 Creation of New Interest. If any Lessee hereunder shall create any overriding royalty, production payment or other similar interest, hereafter referred to as "New Interest", out of its interest subject to this Plan of Unitization, such New Interest shall be subject to all the terms and provisions of this Plan. In the event the Lessee owning the interest from which the New Interest was created fails to pay any expenses and costs chargeable to it under this Plan and the production to the credit of such Lessee is insufficient for that purpose, the owner of the New Interest will be liable for the pro rata portion of all costs and expenses which the original Lessee, creating such New Interest, would have been liable by virtue of his ownership of the New Interest had the same not been transferred. In this event, the lien provided in Section 18.6 may be enforced against such New Interest. If the owner of the New Interest bears a portion of the costs and expenses or the same is enforced against such New Interest, the owner of the New Interest will be subrogated to the rights of the Unit Operator with respect to the interest primarily chargeable with such costs and expenses.

ARTICLE 9

EASEMENTS OR USE OF SURFACE

9.1 Grant of Easements. The Unit and Unit Operator shall have the right to use as much of the surface of the land within the Unit Area as may be reasonably necessary for the operation and development of the Unit Area hereunder; provided, that nothing herein shall be construed as leasing or otherwise conveying to the Unit a site for a water, gas injection, processing or other plant, or camp site.

9.2 Use of Water. The Unit and Unit Operator shall have free use of water from the Unit Area for Unit Operations, including the right to drill water supply wells. Unit Operator shall not use water from any well, lake, pond, or irrigation ditch of a landowner without consent of the landowner.

9.3 Surface Damages. The Unit shall pay the rightful owners for damages to growing crops, timber, fences, improvements, and structures on the Unit Area that result from Unit Operations.

ARTICLE 10

RELATIONSHIP OF PARTIES

10.1 No Partnership. The duties, obligations and liabilities of the Parties hereto are intended to be several and not joint or collective, and nothing herein contained shall ever be construed to create an association, trust or impose a partnership duty, obligation or liability with regard to any one or more of the Parties hereto. Each Party hereto shall be individually responsible for its own obligations as herein provided.

10.2 No Sharing of Market. Nothing herein shall be construed to provide, directly or indirectly, for any cooperative refining, joint sale, or marketing of Unit Production.

10.3 Information to Royalty Owners. Each Royalty Owner shall be entitled to all information in possession of Unit Operator to which such Royalty Owner is entitled by his existing agreement with any Lessee with the express stipulation that if, by reason of this Plan of Unitization, such information is not available, the nearest approximation or equivalent of such information shall be made available.

10.4 Specific Rights of Lessees. Each Lessee shall have among others, the following specific rights and privileges:

10.4.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect the operations hereunder and all wells and records and data pertaining thereto.

10.4.2 Reports by Request. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports and all other data available to Unit Operator. The cost of gathering and furnishing data not ordinarily furnished by Unit Operator to all Lessees shall be charged solely to Lessees requesting the same.

ARTICLE 11

GENERAL POWERS OF UNIT

11.1 General Powers of Unit. The Unit is authorized and empowered on behalf of and for the account of all owners of Oil and Gas Rights 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 from the Unitized Formation, pursuant to the powers conferred and subject to the limitations imposed by the provisions of Sections 287.1 - 287.15 inclusive, Title 52, Oklahoma Statutes, 1961, or any amendment thereof, and by this Plan of Unitization.

ARTICLE 12

CREATION OF OPERATING COMMITTEE AND SUPERVISION OF UNIT OPERATIONS

12.1 Creation of Operating Committee. An Operating Committee is hereby created to consist of One (1) representative to be designated by each Lessee within the Unit Area, provided that an individual Lessee may himself be a member of the Committee. Each Lessee shall advise Unit Operator in writing the name and address of its representative and alternate representative authorized to represent and bind it in respect to any matter pertaining to the development and operation of the Unit Area. Such representative or alternate may be changed from time to time by written notice to Unit Operator.

12.2 Officers. The representative of the Unit Operator shall be chairman of the Operating Committee. The Committee shall select a secretary and other officers as the Committee deems proper. The secretary and other officers need not be members of the Committee. The secretary shall keep and maintain the records of the action of the Committee. The officers shall serve at the will of the Operating Committee and perform such other duties that are delegated to them by the Operating Committee.

12.3 Overall Supervision. The Operating Committee shall exercise overall supervision and control of all matters pertaining to the development and operation of the Unit Area pursuant to this Plan of Unitization.

12.4 Particular Powers and Duties. The matters to be passed upon and decided by the Operating Committee shall include, but not be limited to the following:

12.4.1 Method of Operation. The kind, character and method of operation, including any type of pressure maintenance or secondary recovery program to be employed.

12.4.2 Drilling of Wells. The drilling of any well within the Unit Area either for production of Oil and Gas from the Unitized Formation, for use as an injection well, or for other purposes.

12.4.3 Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well in the Unit Area, or use of any such well for injection or other purposes.

12.4.4 Expenditures. Making of any single expenditure, other than expenditures for normal or recurring operating expenses, in excess of Ten Thousand Dollars (\$10,000.00) provided that approval by the Operating Committee of the drilling, recompletion, drilling deeper or plugging back of any well shall include approval of all necessary expenditures required therefor and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage.

12.4.5 Disposition of Surplus Facilities. Selling or otherwise disposing of any major item of surplus material or equipment, the current list price of new equipment similar thereto being Five Thousand Dollars (\$5,000.00) or more. The Operating Committee shall establish a procedure for disposition of such surplus material.

12.4.6 Appearance Before a Court or Regulatory Body. Authorization for a representative to appear before any court or regulatory body in matters pertaining to Unit Operations provided, however, that the authorization by the Operating Committee for the designation of any such representative shall not prevent any Lessee from appearing in person or from designating another representative in its own behalf.

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

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator, and
- (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Lessees other than Unit Operator, or
- (c) be made at the expense of those Lessees requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit, and
- (d) be made upon not less than thirty (30) days' written notice to Unit Operator.

12.4.8 Inventories. The taking of periodic inventories in accordance with Exhibit "C".

12.4.9 Technical Services. Any direct charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the charges provided for by "Exhibit 'C'."

12.4.10 Assignment to Committees. The appointment or designation of the purposes of committees or subcommittees necessary for the study of any problem in connection with Unit Operations.

12.4.11 Removal of Unit Operator. The removal of Unit Operator and selection of a successor.

12.4.12 Adjustment of Investment. The adjustment and readjustment of investments.

12.4.13 Termination. The termination of the Plan of Unitization.

12.5 Meetings of Operating Committee. 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 total Phase II Unit Participation of not less than Ten percent (10%). No meeting 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 and to decide the amended items or other items presented at the meeting, provided, however, that the Unit cost of non-agenda items voted on shall not exceed Fifty Thousand Dollars (\$50,000.00). Minutes shall be made of all meetings of the Operating Committee and kept as part of the permanent records of the Unit. A copy of the minutes of each meeting shall be mailed to each member of the Operating Committee within a reasonable time after the meeting.

12.6 Voting Procedure. The Operating Committee shall act upon and determine all matters coming before it as follows:

12.6.1 Voting Interest. In voting on any matter each Lessee shall have a voting interest equal to its Phase II Unit Participation.

12.6.2 Vote Required - Generally. Unless otherwise specifically provided herein, all matters shall be decided by an affirmative vote of Three (3) or more Lessees having Fifty-Five percent (55%) or more of the voting interest; provided, that if any one Lessee has a voting interest in excess of Thirty-Five percent (35%) and such Lessee fails to vote or votes against any matter, then the affirmative vote of Lessees having Eighty-Five percent (85%) or more of the remaining voting interest shall decide the matter, provided, however, in no event shall such affirmative vote be by less than Fifty-One percent (51%) of the total voting interest of all Lessees.

12.6.3 Vote at Operating Committee Meeting by Non-Attending Lessees. Any Lessee not represented at an Operating Committee meeting may vote on any item included in the agenda of the meeting by letter or telegram addressed to the Chairman of the meeting provided such vote is received prior to the submission of such item to vote. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

12.6.4 Poll Votes. Any matter requiring approval of the Operating Committee may be decided by letter or telegram submitted in writing to each member of the Committee, if no meeting on the matter is called as provided in Section 12.5, within Seven (7) days after such proposal is dispatched to the members. Unit Operator will give prompt notice of the results of such voting to all members of the Operating Committee.

ARTICLE 13

UNIT OPERATOR

13.1 Unit Operator. Gulf Oil Corporation, acting through Gulf Oil Company - U.S., a division of Gulf Oil Corporation, is hereby designated as Unit Operator.