

**UNIT OPERATING AGREEMENT  
RANGELY WEBER SAND  
UNIT AREA**

**Rio Blanco County, Colorado**

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# UNIT OPERATING AGREEMENT

Rangely Weber Sand Unit Area  
Rio Blanco County, Colorado

This agreement entered into as of the 1st day of March, 1957, by and between the parties who now or hereafter join herein,

## WITNESSETH:

The parties hereto are the owners of working interests, as hereinafter defined, with respect to the Weber Sand in the Rangely Field, Rio Blanco County, Colorado, and are hereinafter collectively called "Working Interest Owners." Said owners, together with the owners of royalty interests have executed as of the date hereof, a unit agreement known as the Rangely Weber Sand Unit Agreement, which has for its purpose the development and operation, as a unit, of the Weber Sand in the Rangely Field, in order to promote the conservation and substantially increase the ultimate recovery therefrom of oil, gas, and other substances.

As contemplated by the Rangely Weber Sand Unit Agreement, this agreement is executed to provide among the Working Interest Owners the basis of their participation in the burdens and benefits of developing and operating the land committed to that agreement.

## NOW, THEREFORE,

In pursuance of the foregoing objectives and in consideration of the benefits to be derived by each party hereto and of the covenants and agreements each to the other in this agreement set forth, each of the parties hereto does hereby join in this agreement and does hereby agree to all its following terms and conditions:

### SECTION I—DEFINITIONS

101. The RANGELY WEBER SAND UNIT AGREEMENT shall mean that certain agreement, hereinafter referred to as "Unit Agreement," of even date herewith, entered into under the Act of Congress, approved February 25, 1920, 41 Stat. 437, as amended 30 U.S.C. Secs. 181, et seq., for the development and operation of the Weber Sand in the Rangely Field, Rio Blanco County, Colorado. All terms used in this agreement shall have the same meaning as indicated in the Unit Agreement unless otherwise defined herein or clearly indicated by the context.

102. A "WORKING INTEREST" is an interest committed hereto which is obligated to bear or share, either in cash or out of production (other than by permitting the use of Unitized Substances for development, production, pressure maintenance, or secondary recovery purposes), a portion of all costs and expenses of drilling, developing, producing, and operating the Unitized Land under this agreement and the Unit Agreement; and a "WORKING INTEREST OWNER" is the owner of a Working Interest. A Working Interest Owner is sometimes referred to herein simply as an "Owner" or a "Party Hereto." Working Interest Owners are either (a) Participating Working Interest Owners who are those Working Interest Owners obligated to pay currently for the cost of drilling, developing, producing, and other operations conducted by Unit Operator under the provisions of this agreement and the Unit Agreement, or (b) Carried Working Interest Owners who are those Working Interest Owners whose respective portions of the cost of drilling, developing, producing, and other operations conducted by Unit Operator under the provisions of this agreement and the Unit Agreement are advanced by Participating Working Interest Owners in accordance with existing contracts or agreements between such parties.

103. THE RANGELY GASOLINE PLANT is a system of vessels and connections which by absorption and by adjustment of temperatures and pressures is capable of extracting from natural gas so many of its liquefiable components as it may be practicable to extract, together with compressors and related equipment, which said plant was constructed and is being operated under that certain "Agreement for the Construction and Operation of the Rangely Gasoline Plant," dated as of the 23d day of July, 1948, by and between The California Company, as Operator, and The Texas Company, Stanolind Oil and Gas Company, et al.

104. FORCE MAJEURE is any cause or event not within reasonable control of any party hereto thereby affected including, but not limited to, strikes, acts of God, Federal, State or Municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond reasonable control whether similar to matters herein enumerated or not.

## SECTION II—UNIT PLAN CONFIRMED

201. Working Interest Owners do hereby confirm the Unit Agreement and all exhibits attached thereto and make it a part of this agreement by reference. In the event of any conflict between the provisions of the Unit Agreement and the provisions of this agreement, the provisions of the Unit Agreement shall control.

## SECTION III—MANAGEMENT AND CONTROL

301. THE CALIFORNIA COMPANY is hereby designated as Unit Operator. Unit Operator may resign or be removed from office in the manner particularly set forth in the Unit Agreement, Section 5, and a successor Unit Operator selected, as provided for in Section 6 of said agreement. Each Unit Operator, during the period of his tenure, shall enjoy all the rights and privileges conferred by this agreement and the Unit Agreement upon Unit Operator and shall be bound by all duties and obligations imposed by this agreement and the Unit Agreement upon Unit Operator.

302. To the extent necessary or convenient for the conduct of operations hereunder, and subject to the limitations herein contained, Working Interest Owners hereby delegate to Unit Operator all rights, powers, and privileges, granted to or conferred upon them by virtue of any contract or lease covering any land in the Unit Area, or by virtue of the Unit Agreement.

303. Subject to all provisions of this agreement, Unit Operator shall, on behalf of all Working Interest Owners, conduct all operations hereunder, the conduct of which is not expressly reserved to the Working Interest Owners collectively, or to any Working Interest Owner individually, including, in particular, but not as limitations of Unit Operator's general powers, the following: the production, handling, treating, and injection or reinjection, of all Unitized Substances; the drilling, operation, maintenance, and repair, of all wells drilled for the joint account, whether for production or injection; the operation, maintenance, and repair, of all wells taken over by Unit Operator for the joint account, as elsewhere herein provided; and the installation, construction, and operation, of all other structures and facilities of whatever character necessary or convenient for the conduct of operations hereunder.

304. Anything in this agreement to the contrary notwithstanding, it is expressly understood and agreed that action with respect to each of the following matters may be taken only with the approval thereof by the Working Interest Owners in accordance with Section IV hereof.

- (a) The drilling or abandonment of any well not included in an approved operating and development plan;
- (b) The making of an expenditure of more than \$20,000.00, exclusive of expenditures for drilling wells and of expenditures expressly authorized as a part of some other expenditure; however, whether the expenditure involved be more or less than \$20,000.00, prior approval of the Working Interest Owners must be secured for the following: The workover, recompletion, or change of status of any well in the Unit Area or use of any such well for injection or other purposes;
- (c) The adoption or submission of any operating and development plan to the Supervisor or any regulatory body;
- (d) The determination, with due regard to sound engineering principles, of the quantity of Unitized Substances to be produced from and the quantity of Unitized Substances or other substances to be injected into the Weber Sand over any period of time;
- (e) The taking over of property and equipment, as provided for in Subsection 506 hereof;
- (f) The joinder in or institution of litigation to protect the joint property, as provided in Subsections 309 and 604 hereof, including the employment of attorneys in connection therewith;
- (g) Any direct charges to the joint account for services by consultants or by Unit Operator's technical personnel not permanently assigned in the area and to the unit operations;
- (h) The subsequent joinder of any Working Interest Owner or royalty owner in this agreement or in the Unit Agreement as provided for in the Unit Agreement, and the determination of the percentage participation to be assigned to any tract committed to this agreement and to the Unit Agreement after the effective date thereof, as provided for in the Unit Agreement;
- (i) The preparation or any revision of Exhibit "C" to the Unit Agreement, as provided for in the Unit Agreement;
- (j) Any expansion of the Unit Area as provided for in the Unit Agreement;
- (k) The approval or disapproval of the recommendations of the Audit Committee, as provided for in Subsection 914 hereof;
- (l) The approval or disapproval of the annual budget, as provided for in Subsection 916 hereof;

- (m) Any revision or amendment of the overhead rates or of any other provision in the Accounting Procedure, attached hereto, marked Exhibit "1", and hereby made a part hereof;
- (n) The determination as to what matters should be submitted to any regulatory body for action and approval and the designation of a representative to appear before any court or regulatory body in matters pertaining to unit operations;
- (o) The appointment or designation of the purposes of committees or subcommittees necessary for the study of any problem in connection with unit operations;
- (p) The adjustment and readjustment of the Investment Account as hereinafter defined;
- (q) The termination of the Unit Agreement;
- (r) Selling or otherwise disposing of any major item of surplus material or equipment, the current list price of new equipment similar thereto being \$1,500.00 or more;
- (s) The interpretation of any provision of this agreement or the Unit Agreement; provided, however, that nothing in this agreement or in the Unit Agreement shall be deemed to authorize the Working Interest Owners to decide matters which are not within the contemplation of said agreements or to decide matters specifically covered thereby in a manner inconsistently therewith.

305. In case of blowout, explosion, fire, flood, or other sudden emergency, Unit Operator may take such steps, and incur such expense as, in its opinion, are required to deal with the emergency and to safeguard life and property; provided that Unit Operator shall, as promptly as possible, report the emergency to the Owners.

306. Any action, determination, or decision which has been approved by the Working Interest Owners shall be binding upon each and every Working Interest Owner, even though any such Owner has not voted, or has voted to the contrary.

307. Each Party Hereto through its authorized representative shall have access to the entire Unit Area at all reasonable times to inspect and observe the operations of every kind and character under this agreement.

308. Unit Operator agrees to conduct all operations hereunder entrusted to it as Unit Operator, with reasonable diligence and ordinary care; but Unit Operator shall not be liable to the Parties Hereto for the result of any errors of judgment or for the loss of or damage to any joint property not resulting from the willful or wanton misconduct of Unit Operator.

309. In the event claim is made against any Working Interest Owner or any Working Interest Owner is sued on account of any matter or thing arising from the development and operation of the Unitized Land and over which such Working Interest Owner individually has no control because of the rights, powers and duties granted by this agreement and the Unit Agreement, said Working Interest Owner shall immediately notify the other Working Interest Owners, through Unit Operator, of such claim or suit. The Working Interest Owners, or Unit Operator if authorized by the Working Interest Owners, shall assume and take over the further handling of such claim or suit and all costs and expenses of handling, settling or otherwise discharging, such claim or suit shall be borne by the Working Interest Owners as any other cost or expense of operating the Unit Area.

310. Each Party Hereto shall be responsible to the other Parties Hereto only for its own obligations as set out herein and shall be liable to the other Parties Hereto only for its proportionate share of costs chargeable to the Working Interest Owners hereunder. It is expressly agreed and understood that by this agreement and the Unit Agreement it is not the intention of the Parties Hereto to create a partnership or association. The duties, obligations, and liabilities of the Parties Hereto are intended to be several and not joint or collective and nothing contained in this agreement or in the Unit Agreement shall ever be construed to create a trust or association or to impose a partnership duty, obligation, or liability, with respect to any one or more of the Parties Hereto.

311. All Parties Hereto hereby agree and elect to be excluded from the application of all provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 as authorized by Section 761(a) thereof and Regulations issued thereunder. The Working Interest Owners hereby authorize and direct Unit Operator to execute and file with the proper administrative office or agency the documents required to effectuate this election in accordance with such Regulations.

312. Whenever, as a result of any cause defined herein as Force Majeure, Unit Operator is prevented from complying with any obligation of this agreement, Unit Operator shall not be held in default or liable for damages and such obligation shall be suspended so long as such cause persists and for a reasonable time thereafter.

#### SECTION IV—SUPERVISION BY WORKING INTEREST OWNERS

401. Each Working Interest Owner may designate in writing a representative who will be authorized to act for such Working Interest Owner in all matters arising under this agreement or the Unit Agreement.

Each Working Interest Owner may likewise designate an alternate to act for it in the absence of its designated representative. Such representative or alternate may be changed from time to time by notice in writing to Unit Operator.

402. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit Area which requires the consent and approval of such Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total participating interest of not less than ten per cent (10%). No meeting shall be called on less than fourteen (14) days' advance written or telegraphic notice, with agenda for the meeting included. The Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding such amended items or from deciding other items presented at such meeting. The representative of Unit Operator shall be chairman of each meeting.

403. The Working Interest Owners shall act upon and determine all matters requiring their consent and approval as follows:

- (a) In voting on any matter each Working Interest Owner shall have a voting interest equal to his or its participating interest, determined in accordance with Section VII of this agreement.
- (b) Except as otherwise specifically provided, the consent and approval of the Working Interest Owners under the provisions of the Unit Agreement and this agreement shall be deemed to have been given if given by an affirmative vote of at least four Working Interest Owners owning at least sixty-five per cent (65%) of participating interest; provided, however, that if any Working Interest Owner owns a participating interest of thirty-five percent (35%) or more, its vote or failure to vote shall not serve to disapprove any matter approved by vote of ninety per cent (90%) or more of the remaining participating interest, and provided, further, that on any project involving a total expenditure in excess of \$250,000.00 or on any determination with respect to expansion of the Unit Area, an affirmative vote of at least eighty per cent (80%) of participating interest shall be required for approval. It is further understood and agreed that purchase of the Rangely Gasoline Plant by the Working Interest Owners shall require an affirmative vote of at least ninety-nine per cent (99%) of participating interest.
- (c) Any Working Interest Owner not represented at a 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.
- (d) Working Interest Owners may decide any matter by vote taken by letter or telegram, provided no meeting on the matter is called as provided in Paragraph 402, within seven days after such proposal is dispatched to the Working Interest Owners. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

#### SECTION V—INDIVIDUAL AND UNIT OPERATIONS

501. All drilling, producing and other operations shall be conducted individually by each Working Interest Owner on its own lands and leases, and at its own sole risk and expense:

- (a) With respect to the Unit Area prior to the effective date hereof; and
- (b) With respect to any formation other than the Weber Sand.

502. Working Interest Owners, individually, agree to conduct their individual operations so as not unreasonably to interfere with operations conducted hereunder by Unit Operator, on behalf of Working Interest Owners jointly, and Unit Operator, on behalf of Working Interest Owners jointly, agrees to conduct unit operations so as not unreasonably to interfere with individual operations.

503. All substances produced from the Unit Area prior to the effective date of this agreement or produced from any tract or tracts not committed to the Unit Agreement or this agreement, and from any formation other than the Weber Sand, shall belong to the Working Interest Owners and owners of royalty interests in the land or tract from which produced.

504. All Unitized Substances produced from the Unitized Land on and after the effective date of this agreement shall be owned by the Working Interest Owners in the proportions hereinafter set forth, subject to the rights of their respective royalty owners.

505. Each of the Parties Hereto has heretofore placed and used on his or its tract or tracts committed to the Unit Agreement and this agreement, various well and lease equipment and other property, equipment and facilities, including, but not limited to, pipe lines, separators, treaters, casing, tubing, christmas trees, motor vehicles and other rolling stock, buildings, shops, warehouses, and other similar and dissimilar property. It

is also recognized that additional similar equipment may hereafter be placed and used upon the Unitized Land as now or hereafter constituted. In accordance with his or its leases and agreements affecting any such equipment, each of the Parties Hereto considers any and all such equipment personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by said agreements, and it is agreed that any and all such equipment and personal property shall be and remain personal property for all purposes. It is also agreed that each of the Parties Hereto, dealing separately with respect to his or its interest in any such equipment and personal property, and apart from said mineral interest and Unitized Substances, shall exchange title to his or its interest in any such equipment and personal property taken over by Unit Operator for title to a fractional interest (equal to such party's participating interest in the Unitized Land as now or hereafter constituted) in all of such equipment and personal property taken over by Unit Operator in connection with the operation of the Unitized Land as now or hereafter constituted, as provided for in Subsection 506 hereof, subject to the cash payments and adjustments provided for in Subsections 507 and 915 hereof. Each Party Hereto warrants that its interest in all personal property taken over by Unit Operator is free and clear of any liens or any other encumbrances.

506. Effective as of the effective date of this agreement, Unit Operator shall take over for the joint account of the Parties Hereto (1) all wells located on the Unitized Land which are completed in or producing from the Weber Sand, together with all tangible well and lease equipment used or useful in connection therewith, and (2) all other property, equipment and facilities used for Weber Sand operations in the field and which are necessary or convenient to the conduct of operations hereunder. The election by Unit Operator as to which property shall be taken over or rejected shall be subject to the approval of the Working Interest Owners in accordance with Subsection 304(e) and Section IV hereof. An Inventory and Valuation Committee, composed of a representative of each Working Interest Owner desiring to participate therein, is hereby created. Unit Operator shall, as soon as practicable, after the effective date hereof, call a meeting of said committee for the purpose of taking an inventory of all property which, in the opinion of Unit Operator, should be taken over pursuant hereto. Such inventory shall be limited to controllable material as defined by the "Material Classification Manual," 1953 print, prepared by the Petroleum Accountants Society of Oklahoma. As each individual tract is inventoried, a list of the material inventoried shall be turned over to the Working Interest Owner, which operated the tract prior to the effective date hereof, for valuation in accordance with the following:

- (a) All tangibles with respect to the equipment and facilities in (1), (2), (3) and (4) below, except as set forth in Subsection 506(c) hereof, shall be valued at sixty-six and two-thirds per cent (66 2/3%) of original cost.
  - (1) Well equipment, including but not limited to tubing and rods, but excluding casing;
  - (2) Lease equipment, including but not limited to tank batteries, flow lines, and heater treaters;
  - (3) Lease facilities, including but not limited to compressors, injection lines, fuel, drainage and water systems, warehouse stock, and office equipment, but excluding buildings as set out in (d) below; and
  - (4) Automotive equipment, production tools, general field equipment, and other items of a like nature.
- (b) Original cost, as used in Subsection 506(a) hereof shall be determined by:
  - (1) Vendor's price as reflected by invoices on record, adjusted to arrive at a price, FOB Rangely, Colorado.
  - (2) For used material transferred into Rangely, other than to stock, the original cost shall be seventy-five per cent (75%) of the current replacement price, FOB Rangely, as of the date of transfer.
  - (3) For both new and used material transferred from stock accounts, the original cost shall be one hundred per cent (100%) of the current replacement price, FOB Rangely, as of the date of transfer, provided, however, that for used material which can be readily identified as having been such at the time of its original transfer into the Rangely Field, the original cost shall be seventy-five per cent (75%) of the current replacement price, FOB Rangely, as of the date of transfer;
  - (4) For material included in properties acquired from other operators, the original cost shall be one hundred per cent (100%) of the current replacement price, FOB Rangely, as of the date of installation by the original owner.
  - (5) Should it be impossible to make an accurate determination by the foregoing methods then such cost shall be determined on the basis of the current replacement cost as of the date of installation at Rangely or, in the case of materials and equipment which are not installed, on the basis of the current replacement cost as of the date of delivery at Rangely.
- (c) Insofar as the valuation of the property referred to in Subsection 506(a) above is concerned, no value shall be assigned to the cost incurred in installing such property, said costs being sometimes designated

as "intangible costs," it being the intention of the Parties Hereto that there be no readjustment of investments with respect to such costs.

- (d) All buildings such as shops, houses, office buildings, and warehouses shall be valued at sixty-six and two-thirds per cent (66 2/3%) of original installed cost.

507. All property and equipment taken over by Unit Operator shall become joint property and the value thereof shall be charged to the joint account. Credit shall be given to the several owners of the property and equipment taken over and an adjustment for the value thereof shall be made between the Working Interest Owners in accordance with Subsection 915 hereof.

508. Every Weber Sand well commenced and drilled in the Unitized Land after the effective date of this agreement shall be drilled by Unit Operator for the joint account and at joint risk and expense.

509. In the event the Working Interest Owners should approve the abandonment of any well taken over by Unit Operator under Subsection 506 hereof, or drilled by Unit Operator under Subsection 508 hereof, and it is not contemplated that such well will thereafter be used in connection with operations on the Unitized Land, Unit Operator shall first offer the Working Interest Owner or Owners upon whose land said well is located the opportunity to take over said well upon payment to Unit Operator, for the joint account, of the value of the controllable material and equipment in said well, including casing, less estimated cost of salvage. Such value shall be determined in accordance with Section V of Exhibit "1"; provided that with respect to equipment, except casing, which was on the well when taken over by Unit Operator, such value shall not exceed the value placed thereon by the Inventory and Valuation Committee in accordance with Subsection 506 hereof. Upon the election to take over the well by such Working Interest Owner or Owners, it or they shall be entitled to recomplete and use said well in any formation other than the Weber Sand. If the affected Working Interest Owner or Owners do not elect within ninety (90) days to so acquire said well, Unit Operator shall abandon said well without further reference to the terms of this Subsection, but in accordance with applicable laws.

#### **SECTION VI—TITLES**

601. Each Working Interest Owner warrants and guarantees the title to the tract or tracts it commits to this agreement insofar as its interest is shown in Exhibit "B" of the Unit Agreement.

602. In the event title to any tract of Unitized Land shall fail and the true owner cannot be induced to join this agreement and the Unit Agreement, then, unless such tract qualifies under Subsection 1202 of this agreement, it shall automatically be regarded as not committed hereto and the Investment Account shall be adjusted as required as the result of such failure. The adjusted Investment Account shall thereupon be reapportioned but without exchange of cash to conform to the revised participating interests. In no event, however, shall there be any retroactive adjustment of costs or benefits. In the event of a dispute as to title, as to any royalty, Working Interest, or other interests subject thereto, payment or delivery on account thereof may be withheld by Unit Operator without liability for interest until the dispute is finally settled; provided that as to Federal land or leases no payments of funds due the United States should be withheld, but such funds shall be deposited, as directed by the Supervisor, to be held as unearned money pending final settlement of the title dispute and then applied as earned or returned in accordance with such final settlement.

603. Any Working Interest Owner whose title fails shall alone bear the loss and it hereby expressly agrees to indemnify all other Owners against any claim for damages arising from such failure which may be asserted against them. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

604. Notwithstanding the responsibility of individual Working Interest Owners for their own titles, Unit Operator, with the approval of the Working Interest Owners, may take such steps as it considers proper, including institution of or joinder in litigation, to protect the title and the rights and interests of all Parties Hereto.

#### **SECTION VII—BASIS OF PARTICIPATION**

701. The "Participating Interest" of each Working Interest Owner hereunder is equal to the sum total of the percentage participations assigned to the tracts in which such Working Interest Owner owns an interest; provided that, if the Working Interests in any tract are owned in undivided interests by two or more Working Interest Owners, the percentage participation assigned to such tract shall be divided among such Owners in proportion to their undivided interests; and, provided further that, if the Working Interests in any tract are divided with respect to separate parcels of such tract and owned severally by different parties, the percentage participation assigned to such tract shall, in the absence of a recordable instrument among all such parties fixing the division of ownership, be divided among such parcels in proportion to the number of surface acres in each.

702. The percentage participation assigned to each tract in the Unit Area is set forth in Exhibit "B" of the Unit Agreement, and the percentage participation to be assigned to each tract committed to this agreement and to the Unit Agreement will be set forth in a Schedule of Participation, Exhibit "C" of the Unit Agreement, to be prepared by Unit Operator, subject to the approval of the Working Interest Owners, and filed with the Director, all in accordance with the provisions of Section 10 of the Unit Agreement. Said Exhibit "C" and any revision thereof shall govern the participating interests of the Working Interest Owners hereunder.

### SECTION VIII—USE AND SALE OF UNITIZED SUBSTANCES

801. Unit Operator shall have the right to use any one or more Unitized Substances produced from the Unitized Land for all drilling operations, for pumping, transporting, handling, and treating Unitized Substances; for injection, pressure maintenance and secondary recovery programs as may be authorized and approved by the Working Interest Owners; for fuel in camps and houses of employees serving the Unitized Land, and for all other operations hereunder.

802. Each Participating Working Interest Owner shall take in kind its share of each Unitized Substance and the share of any Carried Working Interest Owner to which its interest is subject (subject to the rights of such owner), excluding the Unitized Substances used by Unit Operator under Subsection 801 hereof or unavoidably lost. Each such Owner shall take such substances as and when produced or as arranged with Unit Operator. The Parties Hereto recognize that it might be impractical to make deliveries each month of Unitized Substances in exact proportion to the participating interest of each Party Hereto; accordingly, it is agreed that any excesses or deficits in such deliveries during any month will be adjusted by increasing or decreasing deliveries during the following month. In the event any Party Hereto shall fail to take in kind or to separately dispose of its share of Unitized Substances when and as produced, Unit Operator (or any Working Interest Owner if Unit Operator fails to exercise the right) shall have the right to sell or itself purchase the same on a day to day basis at the market price in the area, if obtainable; otherwise at the best price reasonably obtainable. Any cost incurred by Unit Operator in making any such sale shall be borne by the party whose share is sold. Any such sale or purchase by Unit Operator shall be subject always to the right of the owner of such Unitized Substances to exercise at any time the right to take in kind or to separately dispose of its share of such production not previously delivered to a purchaser pursuant hereto.

803. Unit Operator is hereby authorized to deliver in kind to royalty owners the amounts of Unitized Substances to which they are entitled under the provisions of Section 11 of the Unit Agreement and to deduct such amounts from the share of each Working Interest Owner responsible therefor. Settlement for royalty interests not taken in kind shall be made by the Working Interest Owners in each tract responsible therefor under existing contracts, laws, and regulations on the basis of the amounts of Unitized Substances allocated to such tract.

804. The Working Interest Owners or their representatives have heretofore executed gas purchase contracts with the owners of the Rangely Gasoline Plant covering the sale and delivery to said Plant owners of such Working Interest Owners' shares of the gas produced from the Unitized Land. Each such Working Interest Owner does hereby authorize Unit Operator to deliver to the Rangely Gasoline Plant such Working Interest Owner's share of said gas and to receive from said Plant such Working Interest Owner's share of residue gas available therefrom for (1) lease use and (2) injection, determined in accordance with the provisions of said gas purchase contracts.

805. Subject to approval of the Working Interest Owners, Unit Operator is hereby authorized, for and on behalf of the Parties Hereto, to contract with the Rangely Gasoline Plant owners for the delivery to Unit Operator of said residue gas available for injection at such pressure or pressures as may be necessary for a pressure maintenance or secondary recovery program and at a cost not to exceed the actual cost of performing such services plus a reasonable amount for depreciation of Plant equipment.

### SECTION IX —ACCOUNTING: MISCELLANEOUS

901. Unit Operator shall keep and maintain complete and accurate records and accounts of all operations and transactions hereunder, including, but not limited to, records of all drilling operations hereunder and of any tests, surveys and logs in connection therewith; records of the production of Unitized Substances; records of the operation of the unit wells; records of the injection of all substances; records of all physical equipment and facilities; accounts of the total investment in joint property; records and accounts of the final disposition of all Unitized Substances; accounts of all receipts and expenditures for the joint account; records and accounts of the purchase and sale of all physical equipment; and, in general, records and accounts necessary to a sound understanding of all operations hereunder both from the physical and the financial standpoints. The authorized representative of each Working Interest Owner shall have access to such records

at all reasonable times. Unit Operator shall furnish to each Working Interest Owner periodic reports of the development and operation of the Unitized Land, as determined by the Working Interest Owners.

902. Each Working Interest Owner shall share in all rights and benefits arising hereunder in proportion to its participating interest and shall share in all costs, burdens, liabilities and obligations arising hereunder in the same proportion, except when otherwise expressly provided herein.

903. As soon as practicable after the end of each month, but not more than thirty (30) days thereafter, Unit Operator shall pay to each Working Interest Owner such party's share of joint receipts, if any, received during such month.

904. Unit Operator shall promptly pay and discharge all costs and expenses incurred in operations hereunder so as to take advantage of trade discounts and to avoid the imposition of liens or encumbrances upon the premises or upon any joint property. On or before the last day of each month, Unit Operator shall bill each Participating Working Interest Owner for its proportionate part of all such costs and expenses incurred during the previous month, together with the proportionate part of any Carried Working Interest Owner to which its interest is subject. Each Participating Working Interest Owner shall reimburse Unit Operator for its proportionate part of such costs and expenses, together with the proportionate part of any Carried Working Interest Owner to which its interest is subject, within twenty (20) days after receipt of the billing therefor, failing which Unit Operator shall have a lien upon all of such Owners' share of Unitized Substances and other joint property, and the following remedies: (a) to reimburse itself out of such Working Interest Owners' share of joint receipts; (b) to appropriate and sell such Owners' share of Unitized Substances in Unit Operator's possession to the extent of such Owners' indebtedness; and (c) to foreclose the lien. Delinquent accounts shall bear interest at the rate of six per cent (6%) per annum until paid. Payment by any Participating Working Interest Owner of any item or amount shown on any such billing shall not prejudice the right of such Owner to question or challenge the correctness or propriety of such item or amount.

905. Unit Operator may at its election require the Participating Working Interest Owners to advance their respective proportions of the development and operating costs hereunder, together with the proportionate part of any Carried Working Interest Owner to which their interest is subject, according to the following conditions: on or before the tenth day of each calendar month, Unit Operator shall submit to each Participating Working Interest Owner an itemized estimate of such costs for the succeeding calendar month, which costs shall be in accordance with authority granted to Unit Operator by this agreement or by appropriate approval of the Working Interest Owners. Within thirty (30) days after receipt of such estimate, each Participating Working Interest Owner shall pay to Unit Operator such Owner's proportionate part of such estimated cost, together with the proportionate part of any Carried Working Interest Owners to which its interest is subject. Should any Participating Working Interest Owner fail or refuse to pay its part, together with the proportionate part of any Carried Working Interest Owner to which its interest is subject, the same shall bear interest at the rate of six per cent (6%) per annum from the date it became payable as above provided until paid. Furthermore, Unit Operator shall have the right to protect itself in the same manner as above provided for other delinquencies in payment. Adjustments between estimates and actual costs shall be made by Unit Operator at the close of each month and the accounts of the Working Interest Owners adjusted accordingly.

906. Settlement of said costs and expenses shall be made between Participating Working Interest Owners and Carried Working Interest Owners in accordance with the existing contracts or agreements between such owners. The Carried Working Interest Owners hereby expressly adopt and ratify this agreement, and agree that their respective interests are held subject hereto, and that the respective contracts, conveyances, and agreements, under which their respective interests are credited, are modified to the extent necessary to conform to this agreement and the Unit Agreement, but otherwise to remain in full force and effect, and, particularly, without any limitation on the generalities of the foregoing, that their respective shares in the costs and expenses of operations and in production shall be determined by the principles of allocation set forth herein and in the Unit Agreement.

907. All joint costs and expenses shall be determined and all accounting hereunder shall be governed by the Accounting Procedure, Exhibit "1". If there be any conflict between the provisions of this agreement and the Accounting Procedure, the provisions of this agreement shall control.

908. All wells drilled for the joint account shall be drilled at rates comparable to competitive contract rates by properly qualified contractors; provided, however, Unit Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but in such event, the charge therefor shall not exceed the prevailing rate in the area and such work shall be performed by Unit Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

909. Any compensatory royalty which Unit Operator may be required to pay under the provisions of Section 14 of the Unit Agreement shall be charged to the joint account.

910. All ad valorem taxes assessed against the surface of privately owned land within the Unitized Land shall be paid by the owner of the land, unless otherwise provided for in any other contract or agreement between such owner and a Working Interest Owner hereunder. Each Working Interest Owner, however, shall see that the land contributed by it to the Unitized Land shall not be sold for non-payment of any ad valorem tax constituting a lien thereon; and in the event of such sale, such Working Interest Owner shall at its own expense effect the redemption of such land or take any other measures permitted by law or the terms of its lease or other agreement to prevent the loss of the land as a result of the tax sale.

911. Unit Operator shall render, adjust, pay, and charge to the joint account, all taxes on all tangible personal property and improvements owned jointly by the Working Interest Owners in the Unitized Land. Any taxes on leases or leasehold interests, or on or which might be levied against or measured by the amount or value of the Unitized Substances allocated to the several tracts of Unitized Land, shall be rendered and paid by each Working Interest Owner for its own account.

912. As to all operations hereunder, Unit Operator shall carry for the benefit and protection of the Parties Hereto the following insurance:

- (a) Workmen's Compensation and Employers' Liability Insurance;
- (b) Public Liability and Property Damage Insurance with limits of \$25,000.00 for each person and \$50,000.00 for each accident; and \$5,000.00 surface property damage each accident, \$50,000.00 aggregate.
- (c) Automobile Liability and Property Damage Insurance with limits of \$100,000.00 for each person and \$300,000.00 for each accident and \$10,000.00 property damage each accident.
- (d) Any insurance required by law.

Premiums paid for such insurance shall be charged to the joint account.

913. All damage or injury to the joint property shall be borne by the Parties Hereto in proportion to their participating interests. The liability, if any, of the Parties Hereto in damages for claims growing out of personal injury to or death of third parties or injury to or destruction of property of third parties resulting from operations conducted hereunder and not recovered through insurance hereinabove provided for shall be borne by the Parties Hereto in accordance with their participating interests. Unit Operator shall not carry fire or extended coverage insurance upon the property under its control, but it will, upon written request from any Party Hereto, attempt to secure such insurance upon the interest of such party, and if such insurance is secured, will bill such party for the entire premium thereon. Unit Operator shall require all contractors and subcontractors employed in operations hereunder to carry satisfactory Workmen's Compensation and Employers' Liability Insurance, Public Liability, and Automobile Public Liability Insurance.

914. No Party Hereto shall have the right to question or contest any charge or credit made by Unit Operator to the joint account during any calendar year unless such parties shall, not later than eighteen (18) months after the end of such year, give notice in writing to Unit Operator pointing out the error or errors claimed. The Working Interest Owners shall have the right, not more often than once a year, to require an audit of the records and accounts of Unit Operator pertaining to the operation of the joint property hereunder. Such audits shall be made by an Audit Committee composed of one representative of each Participating Working Interest Owner desiring to be represented. The Audit Committee shall prepare a report of each audit and submit the same to Unit Operator with a copy to each Working Interest Owner requesting the same.

915. Except as otherwise herein provided, costs and expenses hereunder shall be charged on the basis of participating interests existing when such costs and expenses were incurred; and receipts and other benefits shall be credited on the basis of participating interests existing when such receipts and benefits accrued; provided, however, that in order to insure the equitable distribution of certain items of joint cost representing things of a relatively durable or permanent character, Unit Operator shall maintain an "Investment Account" which shall be handled in the following manner:

- (a) The Investment Account shall include: (1) the value of all property and equipment taken over by Unit Operator from the individual Working Interest Owners for the joint account, provided in Subsection 506 hereof and (2) the capital investment incurred by Unit Operator for the joint account. The method used by Unit Operator in keeping its books for classifying capital expenditures as between tangible and intangible costs shall be used in determining the tangible capital investment incurred by Unit Operator for the joint account.
- (b) To determine each Owner's deficit or overage in its contribution to the Investment Account as of the effective date of this agreement, the total value thereof shall be multiplied by such Owner's participating interest hereunder. The difference between this product and such Owner's credit in the account shall be the amount owed to or owed by such Owner. Immediately after the effective date of each revised Exhibit "C" of the Unit Agreement, Unit Operator, except as provided in Subsection 602 hereof, shall in like manner determine the amount which each Owner should contribute to or receive from the adjusted Investment Account.
- (c) In each of the above cases set forth in (b) last above, each Owner having a deficit shall pay the amount of such deficit in cash to Unit Operator within thirty (30) days of the receipt of an invoice

from Unit Operator; failing which, Unit Operator shall have the rights provided for in Subsection 904 hereof. Unit Operator shall distribute the funds so acquired to the non-deficit Owners in such proportion that the resulting net contribution of each Owner, after such adjustment, shall be in proportion to its then participating interest.

916. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare and submit to the Participating Working Interest Owners a budget of estimated costs and expenses for the remainder of the calendar year. ~~On or before the first day of each October thereafter Unit Operator shall prepare and submit a budget of estimated costs and expenses for the ensuing calendar year and quarterly thereafter shall prepare and submit quarterly revisions thereof.~~ Such budgets shall set forth the estimated costs and expenses by quarterly periods. Approval of a budget shall not constitute the approval of any expenditure required by any other provision hereof to be approved by the Working Interest Owners.

917. Unit Operator shall make a proper and timely gauge of all lease and other tanks on the Unitized Land in order to ascertain the amount of merchantable oil in such tanks as of 7 A. M. on the effective date hereof. All such oil shall be and remain the property of the Working Interest Owners entitled thereto the same as if the unit had not been formed; and such Working Interest Owners shall promptly remove said oil from the Unitized Land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all royalty to royalty owners under the terms and provisions of the applicable lease or leases and other contracts. Similarly, Unit Operator shall ascertain the amount of merchantable oil in tankage as of 7 A. M. on the effective date of any revised Exhibit "C" of the Unit Agreement; all such oil shall be owned by the Working Interest Owners in proportion to their participating interests prior to the effective date of such revised Exhibit "C".

#### SECTION X—ASSIGNMENTS

1001. All the terms and provisions of this agreement shall be considered covenants running with the lands committed hereto and shall be binding upon every owner of any interest in any part of said lands who acquires such interest from any Party Hereto, regardless of the manner in which such interest is acquired.

1002. The rights of any Party Hereto may be sold or assigned, in whole or in part, provided that each Party Hereto agrees not to "transfer," i. e., not to assign, sell, mortgage, hypothecate, or otherwise encumber its interest hereunder, unless such transfer

- (a) shall cover all its interests in an entire tract or tracts, or an undivided interest therein; and
- (b) shall be made subject to all the terms of this agreement and of the Unit Agreement.

1003. No sale or assignment shall operate to relieve any party of any obligation hereunder which accrued or was incurred prior to the effective date of such transfer. No mortgage, hypothecation or other encumbrance by a Party Hereto shall relieve such Party of any obligation hereunder.

1004. No change in ownership of any rights hereunder, by assignment or otherwise, shall be binding on Working Interest Owners or Unit Operator until Unit Operator has been furnished with notice of such change by the party claiming the benefit thereof. Such change shall become effective on the first day of the month following the month in which Unit Operator receives such notice. Notice shall consist of original or certified copies of all recorded instruments, documents, and other information necessary to establish a complete chain of record title from a Party Hereto. No other kind of notice, whether actual or constructive, shall be binding on Working Interest Owners or Unit Operator.

#### SECTION XI—EFFECTIVE DATE AND TERM

1101. Subject to the provisions of Section XII, this agreement shall be binding on all parties who execute it regardless of the joinder or non-joinder of any other party; however, this agreement shall not become effective until the effective date of the Unit Agreement and the term hereof shall be the same as the term of said Unit Agreement.

#### SECTION XII—EXECUTION

1201. A party may execute this agreement by signing the original or any counterpart hereof or by signing any instrument of whatever character which manifests an intention to join herein and be bound by the terms hereof.

1202. Each party who executes this agreement does so with the expectation that all parties who own interests in the Unit Area will likewise execute this agreement and the Unit Agreement. However, the Unitized Land, on and after the effective date hereof and until any additional tract or tracts are committed or excluded as provided for in the Unit Agreement, shall be composed of the following:

- (a) Each tract as to which Working Interest owners owning one hundred per cent (100%) of the Working Interest have signed or ratified the Unit Agreement and this agreement and royalty owners owning seventy-five per cent (75%) or more of the royalty interest have signed or ratified the Unit Agreement; and
- (b) Each tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest have signed or ratified the Unit Agreement and this agreement and royalty owners owning less than seventy-five per cent (75%) of the royalty interest have signed or ratified the Unit Agreement, and as to which (1) all Working Interest Owners in such tract join in a request for the commitment of such tract, and further as to which (2) seventy-five per cent (75%) or more of the combined voting interests of Working Interest Owners in all tracts which meet the requirements of (a) above vote in favor of the inclusion of such tract. For the purpose of this Subsection 1202(b) the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) which the total of such Working Interest Owner's participating interest based on tracts which qualify under (a) above bears to the total of the participating interest of all Working Interest Owners based on all tracts which qualify under (a) above; and
- (c) Each tract as to which Working Interest Owners owning less than one hundred per cent (100%) of the Working Interest have signed or ratified the Unit Agreement and this agreement, regardless of the percentage of royalty interest therein that is committed to the Unit Agreement, and as to which (1) the Working Interest Owner which operates the tract and all of the other subscribing Working Interest Owners in such tract have joined in a request for commitment of such tract and have executed and delivered an indemnity agreement acceptable to all other Working Interest Owners indemnifying and agreeing to hold such parties harmless from and against all claims and demands that may be made by the nonsubscribing owners in such tract on account of the inclusion of the same in the Unitized Land and further as to which (2) seventy-five per cent (75%) or more of the combined voting interest of the Working Interest Owners in all tracts which meet the requirements of (a) and (b) above, vote in favor of the commitment of such tract. For the purposes of this Subsection 1202(c) the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) which the total of such Working Interest Owner's participating interest based on tracts which qualify under (a) and (b) above bears to the total participating interest of all Working Interest Owners based on all tracts which qualify under (a) and (b) above.

1203. Should any royalty owner under any tract committed hereto fail or refuse to execute or become bound by the Unit Agreement and as a result thereof the royalty payments with respect to such tract are more than royalty computed on the basis of the Unitized Substances allocated to such tract under the Unit Agreement, said overage shall be borne by the Working Interest Owners in proportion to their respective participating interests.

1204. Unit Operator shall, prior to the final submission of the Unit Agreement to the Director for approval, submit to the Working Interest Owners a report as to the number and the percentage in interest of the Working Interest Owners and royalty owners who have executed the Unit Agreement. The Working Interest Owners shall determine by the affirmative vote of parties owning Participating Interests of at least sixty-five per cent (65%), determined on the basis of the Percentage Participations set forth in Exhibit "B" of the Unit Agreement, whether or not submission of the Unit Agreement to the Director for final approval is justified. If an affirmative vote is obtained, all parties who have joined herein shall be bound hereby and shall remain a Party Hereto regardless of the joinder or non-joinder of any other Owner who might be entitled to join herein, but in the event of a negative vote, no Party Hereto shall thereafter be bound by the terms of either the Unit Agreement or this agreement.

IN WITNESS WHEREOF, this agreement is executed as of the date first above written.

UNIT OPERATOR AND WORKING INTEREST OWNER  
THE CALIFORNIA COMPANY

DATE: APR 15 1957

By *H. C. Teasdale*  
Its \_\_\_\_\_  
By *J. N. Narberg*  
Its ASS'T SECRETARY