

CREATION AND EFFECT OF UNIT

3.1 Oil and Gas Rights Unitized. Subject to the terms and conditions of this agreement, all the Oil and Gas Rights of the Royalty Owners in and to the lands described in Exhibit "A", and all of the Oil and Gas Rights of the Working Interest Owners in and to said lands are hereby unitized insofar as said respective Oil and Gas Rights pertain to the Unitized Formation, all to the same extent as if the Unitized Formation had been included in a single lease executed by all the Royalty Owners, as lessors, in favor of the Working Interest Owners, as lessees, and as if said lease had been subject to all the terms and conditions of this agreement. Specifically, division orders executed by parties hereto shall remain in effect in accordance with the terms and provisions thereof, but shall apply to the respective interests in allocated production in lieu of actual production from a particular Tract.

3.2 Personal Property Excepted. Working Interest Owners have each individually heretofore placed in or on their wells and in or on lands affected by this agreement, various items of personal property which are lease and well equipment, as to all of which Working Interest Owners have the right, as provided in their respective leases, to remove such property from the premises and all of which installations were made with the intention and understanding that all of the same would be and remain personal property and that no part thereof would be or become a part of the realty. Working Interest Owners except from the terms and provisions of this agreement, and hereby sever from said lands, for all purposes, all such lease and well equipment which may be or may hereafter become located in or on the lands or in wells on the lands affected hereby. To conform their respective investments in such equipment, Working Interest Owners have made a separate Unit Operating Agreement with each other with respect thereto.

3.3 Amendment of Leases. The terms and provisions of the various leases, agreements or other instruments covering the respective Tracts are hereby amended to the extent necessary to make them conform to the terms and provisions of this agreement, but otherwise are to remain in full force and effect.

3.4 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 such Tract. Each such lease and term Royalty Interest shall remain in force and effect so long as this agreement remains in force and effect. Each oil and gas lease described in Exhibit "A" as covering a Tract is hereby ratified and confirmed as being in full force and effect and if words of grant are necessary to recognize this fact, the same are hereby implied.

3.5 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 the Unitized Substances or the proceeds therefrom to the extent and manner herein provided.

3.6 Injection Rights. Royalty Owners hereby grant unto Working Interest Owners the right to inject into the Unitized Formation, any substances in whatever amounts the Working Interest Owners deem expedient, including the right to place and maintain injection wells on the Unit Area and to use producing or abandoned oil or gas wells including wells which have never been produced for said purposes.

3.7 Development Obligation. Nothing herein shall relieve the Working Interest Owners from the obligation to develop reasonably the lands and leases as a whole committed to the Unit.

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PLAN OF OPERATIONS

4.1 Unit Operator. Working Interest Owners are, as of the effective date of this agreement, entering into a Unit Operating Agreement, designating Cities Service Production Company as Unit Operator. Unit Operator shall have, subject to the terms, provisions and limitations expressed in the Unit Operating Agreement, the exclusive right to develop and operate the Unit Area for the production of Unitized Substances. Such operations shall be conducted in conformity with the provisions of this agreement and the Unit Operating Agreement. In the event of any conflict between such agreements, this agreement shall govern.

4.2 Lien of Unit Operator. Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

4.3 Operating Methods. To the end that the quantity of Unitized Substances ultimately recovered may be increased and waste prevented, Working Interest Owners shall, with diligence and in accordance with good engineering practices, engage in secondary recovery operations by injecting into the Unitized Formation, gas, water or other fluids or combinations thereof deemed necessary or desirable to efficiently and economically increase the ultimate recovery of Unitized Substances.

4.4 Change of Operating Methods. Nothing herein shall prevent Working Interest Owners from discontinuing or changing in whole or in part any method of operation which, in their opinion, is no longer in accord with good engineering or production practices. Other methods of operation may be conducted or changes may be made by Working Interest Owners from time to time if determined by them to be feasible, necessary, or desirable to increase the ultimate recovery of Unitized Substances.