

1           It is the intent of this section that a participating area shall represent  
2           the area known or reasonably estimated to be productive in paying quantities;  
3           but, regardless of any revision of the participating area, nothing herein con-  
4           tained shall be construed as requiring any retroactive adjustment for produc-  
5           tion obtained prior to the effective date of the revision of the participating area.

6           In the absence of agreement at any time between the Unit Operator and  
7           the Director as to the proper definition or redefinition of a participating area, or  
8           until a participating area has, or areas have, been established as provided  
9           herein, the portion of all payments affected thereby may be impounded in a  
10           manner mutually acceptable to the owners of working interests, except royalties  
11           due the United States, which shall be determined by the Supervisor and the  
12           amount thereof deposited, as directed by the Supervisor, to be held as un-  
13           earned money until a participating area is finally approved and then applied as  
14           earned or returned in accordance with a determination of the sum due as Federal  
15           royalty on the basis of such approved participating area.

16           Whenever it is determined, subject to the approval of the Supervisor,  
17           that a well drilled under this agreement is not capable of production in paying  
18           quantities and inclusion of the land on which it is situated in a participating  
19           area is unwarranted, production from such well shall, for the purposes of  
20           settlement among all parties other than Working Interest Owners, be allocated  
21           to the land on which the well is located so long as such land is not within a  
22           participating area established for the pool or deposit from which such produc-  
23           tion is obtained. Settlement for working interest benefits from such a well  
24           shall be made as provided in the Unit Operating Agreement.

25           12. ALLOCATION OF PRODUCTION. All unitized substances pro-  
26           duced from each participating area established under this agreement, except  
27           any part thereof used in conformity with good operating practices within the  
28           unitized area for drilling, operating, camp and other production or development  
29           purposes, for repressuring or recycling in accordance with a plan of development  
30           approved by the Supervisor, or unavoidably lost, shall be deemed to be produced