

## EXPLORATION AGREEMENT

This EXPLORATION AGREEMENT ("**Agreement**") is made and entered into as of July 1, 1999, by and between KUKUI, INC., a Texas corporation ("**KUKUI**"), and The Allar Company, a Texas corporation, Talus, Inc., a Texas corporation, and Twin Montana, Inc., a Texas corporation. The Allar Company, Talus, Inc., and Twin Montana, Inc. may be referred to herein individually and collectively, jointly and severally as "**The Allar Group**."

### RECITALS

A. Each member of the Allar Group has entered into a Geological Consulting Agreement (described more fully below) with John Thoma ("**Thoma**"), a geologist, who has been represented by The Allar Group to have extensive experience generating oil and gas exploration prospects in the area described in *Appendix 1* hereto (the "**Project Area**"), to expend all (100%) of his professional efforts in identifying and evaluating geological features within the Project Area that are of sufficient geological interest to merit the acquisition of exploration and production rights by various means.

B. Each of the parties hereto currently owns certain interests in leases within the Project Area.

C. Subject to the terms and conditions hereof, KUKUI desires to participate with The Allar Group in acquiring interests in certain portions of the Project Area and, in certain cases, conducting joint exploration and development activities thereon.

In consideration of the foregoing recitals, and for other good and valuable consideration received by each of the parties hereto, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

### ARTICLE 1 DEFINITIONS

1.1 Definitions: As used herein, the following terms shall have the meanings indicated below:

"**Acquired Interests**" shall have the meaning set forth in *Section 3.4*.

"**Acquiring Party**" shall have the meaning set forth in *Section 6.3*.

"**Acquisition Costs**" shall mean, with respect to any Acquired Interests, the sum of (i) the acquisition price thereof, (ii) title examination costs, transfer taxes, bonuses, rentals and ad valorem taxes, if any, paid with respect to said Acquired Interests that apply to the acquisition of such Acquired Interests, (iii) fees paid to third parties for legal, accounting, reservoir engineering,

landman, abstracting, and other services directly incurred in connection with the acquisition of such Acquired Interests, and (iv) direct expenses incurred for geological, geophysical, seismic, engineering, drafting, reservoir engineering and other like services performed by third parties prior to or incident to the acquisition of such Acquired Interests; provided, however, that notwithstanding the foregoing, the term "**Acquisition Costs**" shall not include any administrative or overhead costs of any member of The Allar Group without regard to the time when the same were incurred.

**"AFE"** means a written authority for expenditure.

**"AMI"** shall have the meaning set forth in *Section 6.3*.

**"Approved Prospect"** shall have the meaning set forth in *Section 3.4*.

**"The Allar Group"** shall have the meaning set forth in the preamble above.

**"Business Day"** shall have the meaning set forth in *Section 2.1*.

**"ECHO"** shall mean Echo Production, Inc., a Texas corporation, which is wholly owned by Twin Montana, Inc. and the owners of Twin Montana, Inc.

**"Existing Burdens"** shall mean all valid and existing royalties, overriding royalties, production payments, net profits interests or other burdens that are created prior to or in connection with the acquisition of Exploration Rights by an Acquiring Party and that are measured by or payable out of production and that cover and affect the Acquired Interests as such existing burdens may be increased or reduced from time to time hereafter by reason of the conversion of a leasehold interest into another type of leasehold interest, the commencement or termination of reversionary interests or determinable estates or otherwise, including, but not limited to any overriding royalties held by or assignable to Thoma pursuant to the terms hereof.

**"Exploration Rights"** shall mean all real, personal, corporeal and incorporeal rights, hereditaments, appurtenances and interests in or relating to oil, gas, other hydrocarbons and other substances produced in conjunction therewith, including but not limited to: (i) rights arising under oil and gas leases or oil, gas and mineral leases, (ii) overriding royalty interests, (iii) any contractual right to acquire oil and gas properties and interests, including but not limited to options to acquire leases, farmin rights, and rights arising under operating agreements or acreage contribution agreements, (iv) interests acquired under pooling or similar orders; (v) access rights and surface or platform use agreements, (vi) permits, (vii) easements, and (viii) rights-of-way.

**"Excluded Properties"** shall mean any Exploration Rights owned by either party hereto and located within the Project Area with respect to which, as of the date of this Agreement: (i) are currently producing or capable of producing oil and/or gas, (ii) either party is bound to an area of mutual interest agreement, preferential purchase right, right of first refusal or other similar arrangement whereby any third party is or may be entitled to acquire or participate in the acquisition

of any Exploration Rights in such property owned or acquired by a party to this agreement, or (iii) are non-producing mineral interests in the Project Area owned by any of the parties to this Agreement. Such Excluded Properties are more particularly described in *Exhibit A* attached hereto.

***"Initial Payment"*** shall have the meaning set forth in *Section 2.1*.

***"KOC"*** shall have the meaning set forth in *Section 5.1*.

***"KUKUI"*** shall have the meaning set forth in the preamble above.

***"Offer"*** shall have the meaning set forth in *Section 6.3*.

***"Offeree"*** shall have the meaning set forth in *Section 6.3*.

***"Offer Recipient"*** shall have the meaning set forth in *Section 6.3*.

***"Operating Agreement"*** shall have the meaning set forth in *Section 5.1*.

***"Other Party"*** shall have the meaning set forth in *Section 6.3*.

***"Payout"*** shall mean, with respect to each Prospect, the first day of the next ensuing month following the date on which the cumulative total of the revenues received by KUKUI attributable to KUKUI's interest in said Prospect, net of the burden of the lessor's royalty (including any severance tax in the form of a royalty) and all other Existing Burdens shall equal KUKUI's proportionate share of the sum of the following costs: (i) all costs and expenses of acquiring the Acquired Interests relating to said Prospect, including but not limited to lease bonus, delay rentals, engineering reports, title costs, environmental studies, due diligence costs and all other third party charges, land and legal fees, and closing costs, (ii) all costs that are incurred and paid by KUKUI that are properly chargeable under the controlling joint operating agreement applicable to such Prospect, and (iii) the Prospect Evaluation Fees paid by KUKUI hereunder that are allocable to said Prospect in accordance with the allocation method set forth in *Appendix 5*.

***"Personal Trading"*** shall have the meaning set forth in *Section 11.7* of this Agreement.

***"Post-Expiration AMI"*** shall have the meaning set forth in *Section 6.2*.

***"Prospect Evaluation Fee"*** shall have the meaning set forth in *Section 2.2*.

***"Project Area"*** shall have the meaning set forth in the recitals above.

***"Proposal"*** shall have the meaning set forth in *Section 3.3*.

**"Prospect"** shall mean a geographical area within the Project Area that is designated by The Allar Company as agent for The Allar Group pursuant to *Section 3.1* below, as such area may be expanded pursuant to *Section 3.5* below.

**"Rejected Prospect"** shall have the meaning set forth in *Section 3.4*.

**"Specified Costs"** shall have the meaning set forth in *Section 6.3*.

**"Thoma"** shall have the meaning set forth in the recitals.

**"Thoma Geological Consulting Agreement"** shall mean the Geological Consulting Agreement dated November 10, 1998, as amended by that certain First Amendment to Geological Consulting Agreement, dated July 1, 1999, but to be effective as of the date of this Agreement, by and between the members of The Allar Group and Thoma, copies of which have been attached hereto as *Appendix 7* except that Section 4 of the November 10, 1998, Geological Consulting Agreement relating to the Consulting Fee to be paid by The Allar Group to Thoma has been deleted.

1.2 Other Definitional Provisions. All definitions contained in this Agreement are equally applicable to the singular and plural forms of the terms defined. The words "hereof," "herein," and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all Article and Section references are to the Articles and Sections of this Agreement. All references to Exhibits are to the Exhibits attached to this Agreement, and all of said Exhibits are incorporated herein and made a part of this Agreement. Any references herein to "third parties" shall not include Thoma.

## ARTICLE 2 PAYMENTS AND ACREAGE CONTRIBUTIONS

2.1 Initial Payment. One or more members of The Allar Group have incurred certain expenses in retaining Thoma, relocating him to Graham, Texas, and providing computer hardware and software to support his professional efforts in connection with the Project Area. As full and complete compensation to each member of The Allar Group for the benefits to be received therefrom by KUKUI and for The Allar Group entering into this Agreement and originating and locating Prospects hereunder KUKUI shall pay to The Allar Company as agent for The Allar Group \$65,000.00 (the **"Initial Payment"**). The Initial Payment shall not be refundable and shall be paid by KUKUI to The Allar Company, for the benefit of The Allar Group within five (5) Business Days of the execution and delivery of this Agreement by the parties. As used herein, the term **"Business Day"** means a day other than a Saturday, Sunday, legal holiday for commercial banks under the laws of the State of Texas, or any other day when banking is suspended in the State of Texas.

2.2 Prospect Evaluation Fees. During the term of this Agreement (and only for so long as this Agreement has not been terminated pursuant to the terms hereof), and subject to all of the

terms and conditions hereof, KUKUI, automatically on the fifteenth day of each month, will pay The Allar Company, for the benefit of The Allar Group, a fee of \$27,000.00 per month in arrears (the "***Prospect Evaluation Fee***") as full and complete compensation for the prospect evaluation and generation activities of Thoma and each member of The Allar Group hereunder.

2.3 **KUKUI Acreage.** Upon execution of this Agreement, KUKUI shall execute and deliver to The Allar Group an assignment on the form attached hereto as *Appendix 2*, and on any forms that may be required by tribal or governmental authorities for state, federal or tribal leases, for the purpose of conveying to The Allar Group, in undivided proportions as follows: The Allar Company - fifty (50.00%) percent, Talus, Inc. - twenty-five (25.00%) percent, and Twin Montana, Inc. - twenty-five (25.00%) percent, an undivided 40% interest in and to KUKUI's existing Exploration Rights located within the Project Area; provided, however, such assignment shall not include any interest in Excluded Properties. Said assignment shall be executed and delivered by KUKUI in consideration of The Allar Group entering into this Agreement, and The Allar Group shall not be required to pay any additional consideration therefor.

### ARTICLE 3 EVALUATION AND DESIGNATION OF PROSPECTS

3.1 **Prospect Evaluation.** Each of the members of Allar Group has contracted with Thoma, on a continuing basis throughout the term hereof, to study and evaluate geological, geophysical and engineering data available to them and shall, from time to time during the term hereof, recommend one or more geographical areas within the Project Area which he has identified as prospective for the accumulation of oil and/or gas, for the acquisition of Exploration Rights by the parties hereto (each such area herein a "***Prospect***"). The recommendation may occur before or after the acquisition of the Exploration Rights but shall not diminish the obligation of The Allar Group to present such Prospect to KUKUI hereunder. The Allar Group shall use its best efforts to select and review Prospects hereunder with a view toward the designation of three (3) to five (5) Prospects per year during the term hereof. The Allar Group shall not be liable if it proposes fewer than three (3) Prospects hereunder; however, no member of The Allar Group shall acquire Exploration Rights within the Project Area for its own account or present such Exploration Rights to third parties during the term hereof unless such member of The Allar Group also presents such Exploration Rights to KUKUI in accordance with the Prospect proposal procedures set forth in this *Article 3*, and KUKUI has made or is deemed hereunder to have made its election as to participation therein.

3.2 **Roles of Thoma and The Allar Group in Prospect Evaluation.** Thoma's activities shall be managed solely by The Allar Group pursuant to the Thoma Geological Consulting Agreement. Each member of The Allar Group covenants and agrees that it will not, without the consent of KUKUI, alter or amend the Thoma Geological Consulting Agreement and that it will cause 100% of Thoma's professional services under the Thoma Geological Consulting Agreement to be dedicated to the evaluation, generation and identification of Prospects hereunder. Each

member of The Allar Group represents to KUKUI that the copies of the Thoma Geological Consulting Agreement that are attached hereto as *Appendix 7* are true and correct copies of the entire agreement between Thoma and each member of The Allar Group with respect to the subject matter contained therein except that said copies have been redacted to delete Section 4 of the November 10, 1998, Geological Consulting Agreement relating to the Consulting Fee to be paid by The Allar Group to Thoma. KUKUI shall be an intended third party beneficiary of the Thoma Geological Consulting Agreement to the extent of the non-competition, non-solicitation and confidentiality covenants, and by Thoma's limited execution of this Agreement, Thoma expressly agrees that KUKUI shall be an intended third party beneficiary of the non-competition, non-solicitation and confidentiality covenants contained in the Thoma Geological Consulting Agreement. The Allar Group shall be solely responsible for the payment of all fees and expenses of Thoma; provided, however, that any Acquired Interests (defined below) assigned to KUKUI shall bear their pro rata share of any overriding royalties burdening said Acquired Interests in favor of Thoma as set forth in *Section 4.2* below. This Agreement shall not be construed to give rise to any contractual or other legal relationship (except as third party beneficiary as described above) between KUKUI and Thoma other than to satisfy KUKUI's proportionate part of Thoma's overriding royalties.

3.3 Method of Proposal. From time to time, The Allar Company on behalf of The Allar Group may deliver to KUKUI a written recommendation for KUKUI's acquisition of Exploration Rights in a particular Prospect (a "**Proposal**"). Each Proposal shall include: (i) a description of the lands included in the proposed Prospect (which shall include only the lands all or a portion of which reasonably are anticipated to be overlying a common pool or reservoir based upon Thoma's good faith geological interpretation), (ii) an AFE for the estimated total Acquisition Costs for the Prospect, (iii) a description of the proposed material terms and conditions of the Exploration Rights proposed and the proposed closing date of the acquisition thereof, (iv) a summary, in sufficient detail to enable KUKUI to make an informed judgment, of The Allar Group's and Thoma's internal review of the Prospect, including the rationale for recommending KUKUI's acquisition of Exploration Rights therein, and (v) all other information and data relating to the Proposal that KUKUI may request, and that The Allar Group reasonably are able to provide, following receipt of the summary.

3.4 Acceptance or Rejection of Proposals. Within fifteen (15) days following the receipt of a Proposal, KUKUI shall have the option to purchase sixty percent (60%) of the Exploration Rights acquired or to be acquired by any one or more members of The Allar Group in the proposed Prospect, except any interest in Excluded Properties, according to the terms of the Proposal (said interests acquired or to be acquired in each Prospect shall be referred to herein as the "**Acquired Interests**"). In the event KUKUI fails to respond to The Allar Group's notice within said period of 15 days, KUKUI shall be deemed to have declined participation in the Proposal. If KUKUI elects not to participate in the Proposal, KUKUI shall so notify The Allar Company as agent for The Allar Group in writing of its election, and the Prospect that was the subject of the Proposal shall be a "**Rejected Prospect**." Except as provided in the proviso of the last sentence of *Section 9.6* hereof, if KUKUI rejects or is deemed to have rejected a Proposal, KUKUI shall have no further rights to nor interest in the Rejected Prospect and associated Exploration Rights that were the subject of such Proposal. If KUKUI approves a Proposal by giving The Allar Company as agent for The Allar Group

timely written notice of such approval and by timely making all payments to The Allar Company as agent for The Allar Group required in accordance with such election, as set forth herein, the Prospect that was the subject of the Proposal shall be an "*Approved Prospect*".

3.5 Expansion of Prospects. If it is subsequently determined that a reservoir or other common source of supply of oil, gas or other hydrocarbons is located in and under a Prospect and under adjacent tracts or leases, either party may propose that such Prospect be expanded to include such other adjacent tracts or leases, or portions thereof, under which such reservoir or other common source of supply is located. A Prospect shall not be expanded into a Rejected Prospect that is acquired by any member of The Allar Group or into Excluded Property. In the event the parties are unable to agree as to whether a Prospect should be expanded on account of disagreement as the extent or location of the underlying reservoir(s) or common sources of supply, then such issues shall be resolved by arbitration pursuant to *Section 9.12* hereof. Any arbitrators appointed to resolve such issue shall be geologists and/or petroleum engineers with no less than 15 years experience in the oil and gas industry.

#### ARTICLE 4 ACQUISITION OF ACQUIRED INTERESTS

4.1 Acquisition of Acquired Interests; Acquisition Costs. If KUKUI approves a Proposal presented by The Allar Group pursuant to *Article 3* above, The Allar Group shall proceed expeditiously to use their best efforts to acquire the Exploration Rights recommended to be acquired in the Proposal. In addition to the Initial Payment and Prospect Evaluation Fees referred to above, KUKUI shall pay to The Allar Company as agent for The Allar Group sixty percent (60%) of the Acquisition Costs of the Acquired Interests within thirty (30) days of KUKUI's receipt of an invoice therefore, unless exigent circumstances exist requiring immediate payment (such as the conduct of a state or federal lease sale or bid), in which case payment will be made by wire transfer on or before the next Business Day after the receipt by KUKUI of written request for payment together with a brief explanation of the exigent circumstances that give rise to the requirement for next Business Day payment. Said request for payment may be sent by fax and shall include the wiring instructions. If payment is not received by The Allar Company within the allotted time periods above, The Allar Company may send notice of non-payment to KUKUI, and if payment is not received within two (2) Business Days after KUKUI's receipt of such notice, KUKUI shall be deemed to have forfeited to The Allar Group, proportionately, all of KUKUI's right, title, and interest in and to the Exploration Rights which were the subject of the invoice or request for payment which was not timely paid.

4.2 Assignments; Existing Burdens. As soon as practicable, but in no event later than ten days (10) after any member of The Allar Group obtains the Acquired Interests in any Approved Prospect, such member of The Allar Group shall assign, or cause to be assigned, to KUKUI its pro rata interest therein, with a special warranty of title only by, through and under such member of The Allar Group, in the form attached hereto as *Appendix 6* and on any forms that may be required by tribal or governmental authorities for state, federal or tribal leases. Any such assignment to KUKUI shall be subject to its pro rata share of all Existing Burdens, including but not limited to KUKUI's

pro rata share of an overriding royalty interest of 1.5% of 8/8ths in favor of Thoma (such Existing Burdens shall be proportionately reduced, and said overriding royalty interest of Thoma shall be subject to reduction in accordance with the provisions of Section 5.1 (ii) of the Thoma Geological Consulting Agreement). Thoma's overriding royalty interest shall be conveyed to Thoma by assignment substantially in the form attached hereto as *Appendix 3* and shall be convertible, at Thoma's option, after Payout, to a 5% working interest in the Acquired Interests. Payout shall be determined separately with respect to the 60% interest of KUKUI and the 40% interest of The Allar Group. Payout for KUKUI shall be determined as defined in *Section 1.1* of this Agreement, and Payout for each member of The Allar Group shall be determined as defined the Thoma Geological Consulting Agreement. Said working interest shall be carved out the working interests of the parties hereto in proportion that the overriding royalties of Thoma burden their respective working interests. Further, Thoma shall be entitled to the above described overriding royalty interest and optional working interest after Payout in and to any Exploration Rights conveyed by KUKUI to each member of The Allar Group hereunder insofar as said Exploration Rights cover and affect any Approved Prospect. By Thoma's limited execution of this Agreement, Thoma expressly agrees that his overriding royalty interests in and to an Approved Prospect shall be determined according and subject to the provisions of this *Section 4.2* of this Agreement.

4.3 Documentation of Project Area. The Allar Group shall provide KUKUI, at no cost to KUKUI, copies of all geological and geophysical maps and interpretations, leases, agreements, assignments and any other information and data that KUKUI may reasonably request pertaining to the Project Area, and KUKUI shall jointly own all such documentation as tenants in common with The Allar Group.

## ARTICLE 5

### OPERATIONS; THE ALLAR GROUP'S MANAGEMENT AND REPORTING DUTIES

5.1 Operating Agreement. Two of every three Prospects designated hereunder shall be operated by KUKUI Operating Company, a Texas corporation, (hereinafter "**KOC**"), a wholly-owned subsidiary of KUKUI, and one of every three Prospects designated hereunder shall be operated by ECHO in each case pursuant to the terms of an operating agreement in the form attached hereto as *Appendix 4* (the "**Operating Agreement**"). The parties shall attempt to designate the operator of each Prospect designated hereunder by mutual agreement in accordance with the general principle stated above. In the event the parties disagree as to whether a given Prospect should be operated by ECHO or KOC, the matter shall be resolved by an essentially random process such as the flip of a coin in which each party has an even chance of being selected the operator. If KUKUI is the winner, KOC shall operate that Prospect and the next Prospect designated hereunder. If The Allar Company as agent for The Allar Group is the winner, ECHO shall operate that Prospect. The parties intend that if there is any conflict or inconsistency between this Agreement and the Operating Agreement, the terms of this Agreement shall prevail. After the parties have determined whether ECHO or KOC will operate a given Prospect, each of the parties hereto and the operator will enter into an operating agreement covering the Prospect in the form attached hereto as *Appendix 4*.



5.2 Technical Meetings. The parties shall hold technical meetings from time to time, but at least once each calendar quarter, during the term hereof to disclose information that either of them believes would be advantageous to the other in developing an understanding of any Proposal or any proposed operations on an Approved Prospect or to discuss and review the status of work in progress toward the generation of potential Prospects within the Project Area. Such technical meetings shall be held in either Graham, Texas, at the offices of ECHO, or in Houston, Texas, at the offices of KOC, or any other place mutually acceptable to the parties.

5.3 Inspection of Books and Records. KUKUI is hereby granted the right to inspect, at its sole cost and expense, the data, books and records (including all geological, seismic, engineering, and land records) of any member of The Allar Group that relate to this Agreement and the accounts of the operations conducted pursuant to this Agreement (and to make copies thereof and to take extracts therefrom) during normal business hours at the offices of The Allar Company. Each member of the Allar Group will make such records available to KUKUI either in its offices or at the offices of The Allar Company, at KUKUI's option. With respect to Acquired Interests, KUKUI shall have the audit rights provided for in the applicable Operating Agreement. This provision shall not limit any rights KUKUI may have in law or in equity. Each member of The Allar Group shall have identical reciprocal rights with respect to the data, books and records of KUKUI and KOC that relate to this Agreement, and the accounts of the operations conducted pursuant to this Agreement; provided, however, that the members of The Allar Group shall designate The Allar Company to conduct any audits of KUKUI's records to avoid redundant audit activities.

## ARTICLE 6 AREA OF MUTUAL INTEREST

6.1 During the Term of this Agreement. If KUKUI or The Allar Group acquires an interest in Exploration Rights within the Project Area (other than the proposal of a Prospect pursuant to the Proposal procedure set out in *Article 3* hereof) during the term hereof (and for so long as this Agreement has not been terminated pursuant to the terms hereof), such party shall afford to the other party the right to acquire a portion of said Exploration Rights in accordance with *Section 6.3* below. With respect to any Exploration Rights acquired by KUKUI or The Allar Group within the Project Area during the term hereof (and for so long as this Agreement has not been terminated pursuant to the terms hereof), as between The Allar Group and KUKUI, The Allar Group's proportionate interest therein shall be deemed to be 40%, and KUKUI's proportionate interest therein shall be deemed to be 60%.

6.2 After Expiration of this Agreement. Upon expiration (including earlier termination pursuant to the terms hereof) of this Agreement, the lands and depths covered by each Approved Prospect shall constitute an area of mutual interest (a "***Post-Expiration AMI***"). If either party acquires an interest in Exploration Rights within any Post-Expiration AMI within two (2) years after the expiration of this Agreement, the Acquiring Party shall afford the other party hereto the right to acquire a portion of said Exploration Rights in accordance with *Section 6.3* below. With respect to any Exploration Rights acquired within a Post-Expiration AMI during said two (2) year period, the

parties' proportionate interests in such Post-Expiration AMI shall be in accordance with the ratio of their participation percentages in the Approved Prospect from which such Post-Expiration AMI was created.

6.3 Area of Mutual Interest Procedures. As used in this *Section 6.3*, the term "**AMI**" means: (i) prior to the expiration of this Agreement, the Project Area, and (ii) after expiration of this Agreement, the Post-Exploration AMI. A party that acquires an interest in Exploration Rights subject to *Section 6.1* or *Section 6.2* (the "**Acquiring Party**") shall immediately notify the other party hereto ("**Offeree**") in writing of such acquisition. In such event, the Offeree shall have the right to acquire its proportionate interest in such Exploration Rights in accordance with the other provisions of this *Section 6.3*. The written notice required hereby shall include a copy of all instruments of acquisition and copies of all documents creating the Exploration Rights. The Acquiring Party shall also enclose an itemized statement of the actual costs and expenses incurred by the Acquiring Party in acquiring such Exploration Rights, excluding, however, costs and expenses of its own personnel ("**Specified Costs**"). Offeree shall have a period of thirty (30) days (inclusive of Saturday, Sunday, and legal holidays) after receipt of the written notice within which to furnish the Acquiring Party written notice of the Offeree's election to acquire its proportionate interest in the subject Exploration Rights. If the Acquiring Party does not receive written notice of Offeree's election to acquire its proportionate interest within the 30-day period, the Offeree shall be deemed to have elected not to acquire an interest in the Exploration Rights offered. Promptly after the Offeree's election to acquire, the Acquiring Party shall invoice the Offeree for its proportionate share of the Specified Costs. Offeree shall immediately reimburse the Acquiring Party for its share of the Specified Costs, as reflected in the invoice. Upon receipt of such reimbursement, the Acquiring Party shall execute and deliver, or cause to be executed and delivered, an appropriate assignment to Offeree. Any assignment made by the Acquiring Party to an Offeree hereunder shall be made with only special warranty of title by, through and under assignor. If the Exploration Rights covers lands both inside and outside the AMI, the entire Exploration Rights acquired will be considered as part of the AMI.

6.4 Overriding Royalty Interest of Thoma. Thoma shall be entitled to an overriding royalty interest of 1.5% of 8/8ths (proportionately reduced) in and to any Exploration Rights that are acquired within the AMI prior to expiration of the Post Exploration AMI and that are included in an Approved Prospect. Such overriding royalty interest shall be convertible to a 5% working interest after Payout (as defined in *Section 4.2* above) on the basis set forth in *Section 4.2* above. Said overriding royalty interest shall be conveyed to Thoma by the Acquiring Party by assignment in the form attached hereto as *Appendix 3*. Said the overriding royalties and after payout working interest of Thoma in such AMI properties shall burden or be carved out of the working interests of KUKUI and each member of The Allar Group in the proportion that each has elected to participate in the acquisition of the burdened Exploration Rights pursuant to the terms of this *Article 6*.

## ARTICLE 7 RELATIONSHIP OF THE PARTIES

7.1 No Partnership: Except as expressly set forth in *Sections 7.2, 7.3 and 7.4* to the contrary, the rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective. It is the express purpose and intention of the parties hereto that the ownership of any Exploration Rights or Acquired Interests shall be as tenants in common. Nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, association, agency or trust or as imposing upon any one or more of the parties hereto any partnership or fiduciary duty, obligation or liability. Except as expressly set forth in *Section 7.2, 7.3 and 7.4* to the contrary, each party hereto shall be individually responsible only for such party's obligations as set out in this Agreement.

7.2 Agency of The Allar Company; Joint and Several Liability of Members of the Allar Group. Each member of The Allar Group hereby irrevocably designates and appoints The Allar Company as its agent for the purposes of giving notices, making elections and receiving payments for the account of each member of The Allar Group hereunder. Each member of The Allar Group irrevocably authorizes The Allar Company to take such action on its behalf under the provisions of this Agreement and to exercise the powers and perform the duties of each member of The Allar Group under the terms of this Agreement, together with such other powers as are reasonably incidental thereto. KUKUI shall not be obligated to see to the application of any payments made to The Allar Company for the use and benefit of any member of The Allar Group and KUKUI's payment to The Allar Company shall discharge all of KUKUI's obligations with respect to any such payment to the extent of the amount paid and without regard to the application, misapplication or non-application of such funds by The Allar Company. Subject to the provisions of *Section 7.3.2* below, all obligations of any member of The Allar Group to KUKUI hereunder shall constitute joint and several obligations of each member of The Allar Group; provided, however, that no provision hereof shall be construed to create a mining or other partnership or association among any of the parties hereto.

### 7.3 Guarantee of ECHO's Performance.

7.3.1 Each member of The Allar Group, jointly and severally, absolutely, unconditionally and irrevocably guarantees the full and punctual payment and performance of all obligations of ECHO, when due and owing under the terms hereof or under any Operating Agreement referred to herein. If ECHO fails to pay or to perform any of said obligations when due and owing, The Allar Group shall forthwith fully pay or perform said obligations in the place and stead of ECHO, within ten (10) days of receipt of written notice from KUKUI of such nonpayment or nonperformance. Each member of the Allar Group, jointly and severally, hereby waive presentment for payment, protest, notice of protest, bringing of suit and diligence in taking any action with respect to ECHO and any and all defenses that may be available to any of them on account of KUKUI's failure to timely or properly enforce its remedies against ECHO hereunder or under the relevant Operating Agreement. Each member of the Allar Group agrees that the guarantee provided

for herein is a guarantee of payment and performance and not of collection. It is, therefore, not conditioned or contingent upon any attempt to collect from ECHO. KUKUI shall not be obligated to bring collection proceedings or otherwise enforce any legal remedies against ECHO hereunder or under any Operating Agreement prior to recovering on the guarantee provided for herein.

7.3.2 Notwithstanding anything in this Agreement to the contrary, the obligations of The Allar Company with respect to the guarantee of payment and performance by ECHO as set forth in *Section 7.3.1* above shall terminate on January 1, 2001.

7.4 Guarantee of KOC's Performance. KUKUI absolutely, unconditionally and irrevocably guarantees the full and punctual payment and performance of all obligations of KOC, when due and owing under the terms hereof or under any Operating Agreement referred to herein. If KOC fails to pay or to perform any of said obligations when due and owing, KUKUI shall forthwith fully pay or perform said obligations in the place and stead of KOC, within ten (10) days of receipt of written notice from any member of The Allar Group of such nonpayment or nonperformance. KUKUI hereby waives presentment for payment, protest, notice of protest, bringing of suit and diligence in taking any action with respect to KOC and any and all defenses that may be available to KUKUI on account of any failure by any member of The Allar Group to timely or properly enforce its remedies against KOC hereunder or under the relevant Operating Agreement. KUKUI agrees that the guarantee provided for herein is a guarantee of payment and performance and not of collection. It is, therefore, not conditioned or contingent upon any attempt to collect from KOC. No member of The Allar Group shall be obligated to bring collection proceedings or otherwise enforce any legal remedies against KOC hereunder or under any Operating Agreement prior to recovering on the guarantee provided for herein.

7.5 Tax Matters: Although the rights and liabilities of KUKUI, on one hand, and the members of the Allar Group, on the other hand, are several and not joint or collective, and, as among themselves, the rights and liabilities of The Allar Group are several and not joint or collective, if, however, solely for federal income tax purposes, this Agreement and the relationship established hereby should be regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986 (as amended), as permitted and authorized by Section 761 of said Code and the regulations promulgated thereunder. Should the Internal Revenue Service require that any party hereto furnish further evidence for its election, each party agrees to execute such additional documents as may be required. Further, each of the parties hereto elects to be excluded from the application of any similar provisions in any state income tax law now or hereafter in effect.

## ARTICLE 8

### TERM

Subject to the terms hereof, the term of this Agreement shall begin on July 1, 1999 and end on June 30, 2002; provided, however, that either party shall have the right to terminate this Agreement, with or without cause, effective as of January 1, 2001, by giving the other party not less

than 30 days' prior written notice of termination. After June 30, 2002, this Agreement may be renewed for consecutive periods of one year by the written agreement of the parties hereto. Expiration of this Agreement shall not relieve either party of any accrued liabilities or obligations. The provisions of *Article 6* shall survive the termination of this Agreement for the period stated therein. Each member of The Allar Group acknowledges that KUKUI would not have entered into this agreement without The Allar Group's having entered into the Thoma Geological Consulting Agreement which provides that Thoma will direct and dedicate all (100%) of his professional efforts to the evaluation and generation of Prospects within the Project Area, subject to the terms of this Agreement. Accordingly, if, during the term hereof Thoma dies, becomes disabled, fails to direct all (100%) of his professional efforts to the evaluation and generation of Prospects within the Project Area or if the Thoma Geological Consulting Agreement is terminated, then KUKUI's shall have the right to terminate this Agreement immediately upon written notice to The Allar Group, without further obligation to The Allar Group for the Project Evaluation Fee attributable to periods subsequent to KUKUI's termination of this Agreement.

## ARTICLE 9 GENERAL PROVISIONS

9.1 Successors and Assigns; Prohibited Assignments. During the term of this Agreement (and for so long as this Agreement has not been terminated pursuant to the terms hereof), neither KUKUI nor any member of The Allar Group may sell, assign, transfer or otherwise dispose of any of their rights or obligations hereunder or in any Acquired Interests without the prior written consent of the other party; provided, however, that: (i) such consent will not be withheld unreasonably with respect to Acquired Interests within an Approved Prospect in which there has been drilled and completed at least one oil and/or gas well which is capable of producing in paying quantities, (ii) no such consent shall be required with respect to Acquired Interests within a Rejected Prospect, and (iii) without such consent the parties may assign all or any portion of their interests to affiliates, 50% or more of the ownership of which is under common ownership. After the expiration or earlier termination of this Agreement, KUKUI and any member of The Allar Group may sell, assign, transfer or otherwise dispose of their interests in any Acquired Interests to the extent permitted under the applicable joint operating agreement and other applicable agreements. Subject to the foregoing provisions of this Section, this Agreement shall be binding upon and inure to the benefit of the parties signatory hereto, and their respective, successors and permitted assigns.

9.2 BROKERS. EACH PARTY HERETO AGREES TO DEFEND, INDEMNIFY AND HOLD HARMLESS THE OTHER PARTIES FROM AND AGAINST ANY CLAIMS BY THIRD PARTIES CLAIMING UNDER SUCH PARTY FOR BROKERAGE, COMMISSION, FINDERS OR OTHER FEES RELATIVE TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, TOGETHER WITH ANY COURT COSTS, ATTORNEYS' FEES OR OTHER COSTS OR EXPENSES ARISING THEREFROM.

9.3 No Third Party Beneficiaries. Except as to Thoma's right to enforce his overriding royalty interests, nothing in this Agreement (express or implied) is intended or shall be construed to confer upon any person or entity not a party hereto any right, remedy or claim under or by reason of this Agreement.

9.4 Subject Headings. The subject headings of the articles, sections and subsections of this Agreement are included solely for purposes of convenience and reference only, and shall not be deemed to explain, modify, limit, amplify or aid in the meaning, construction or interpretation of any of the provisions of this Agreement.

9.5 Securities Laws. KUKUI and each member of The Allar Group has entered into this Agreement for their own accounts and shall acquire any Exploration Rights hereunder for their own accounts and not with the intent to make a distribution thereof within the meaning of Securities Act of 1933 and the rules and regulations pertaining to it or distribution thereof in violation of any applicable securities laws.

9.6 Personal Trading. Except as specifically provided herein to the contrary, each of the parties hereto individually, collectively or in conjunction with anyone, may purchase, sell, develop and exploit: (i) properties of any type outside the Project Area, and (ii) Exploration Rights rejected under this Agreement. Such trading is sometimes herein referred to as "***Personal Trading.***" There shall be no duty under this Agreement on the part of any party to account to any other party hereto for any part or all of any of such properties or interests acquired by Personal Trading, or for the benefit of, or the returns from, any such properties or interests so acquired. Nothing herein shall prevent the parties hereto from acting jointly with other parties in Personal Trading; provided, however, if a Proposal is presented to and rejected by either party and an interest in the Prospect that was the subject of such Proposal or any Exploration Rights therein is acquired on terms more favorable than those set forth in the rejected Proposal, the rejecting party shall have a further election to participate therein on the more favorable terms.

9.7 Notices. All notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be considered as properly given or made if hand delivered; if mailed from within the United States by certified mail, return receipt requested, postage paid; if telegraphed, by prepaid telegram; by facsimile; or by prepaid courier service and addressed to the recipient at the address set forth below. Notices shall be deemed received on the date of the actual receipt thereof; provided, however, that a notice given or received on a day that is not a Business Day shall be deemed given or received on the next Business Day following the day it is actually given or received.

If to The Allar Group

Mr. Ed Graham  
The Allar Company  
P.O. Box 1567  
Graham, Texas 76450  
Facsimile: 940-549-0742

and

Mr Ken Haggart  
Talus, Inc.  
P.O. Box 1210  
Graham, Texas 76450  
Facsimile: 940-549-5162

and

Mr. H. T. Hunnewell  
Twin Montana, Inc.  
P.O. Box 1210  
Graham, Texas 76450  
Facsimile: 940-549-5162

If to KUKUI:

Mr. Dennis E. Fern  
6600 Kalaniana'ole Highway  
Suite 224  
Honolulu, Hawaii 96825  
Facsimile: 808-394-0689

With a copy to:

Mr. Steve Sandlin  
Vice-President  
KUKUI, INC.  
1415 Louisiana Street, Suite 3650  
Houston, Texas 77002  
Facsimile 713-428-0888

Any party hereto may change its address by giving notice in writing, stating its new address to the other party hereto and commencing ten (10) days after the giving of such notice, such newly designated address shall be such notifying party's address for the purposes of all notices or other communication required or permitted to be given pursuant to this Agreement. If the time for responding to any notice or other communication hereunder would otherwise expire on a day that is not a Business Day, the period within which response shall be made hereunder shall automatically be extended to the end of the next following Business Day.

9.8 Further Assurances. Each party hereto shall from time to time do and perform such further acts and execute and deliver such further instruments, assignments and documents as may be required or reasonably requested by the parties hereto to carry out and effect the intentions and purposes of this Agreement.

9.9 Rights Cumulative. The rights, remedies and powers granted to the parties under this

Agreement shall be cumulative and shall not be exclusive rights, remedies and powers, but shall be in addition to all other rights, remedies and powers available at law or in equity, by virtue of any statute or otherwise, and may be exercised from time to time concurrently or independently and as often and in such order as deemed expedient.

9.10 No Waiver. The failure of any party hereto to insist upon strict performance of any provision hereof shall not constitute a waiver of or estoppel against asserting, the right to require such performance in the future, nor shall a waiver or estoppel in any one instance constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise.

9.11 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REFERENCE TO CONFLICT OF LAWS RULES, EXCEPT WHERE THE REAL PROPERTY LAWS OF THE STATE OF NEW MEXICO ARE REQUIRED TO BE APPLIED. All disputes shall be resolved by binding arbitration pursuant to *Section 9.12*, as between the parties hereto.

9.12 Arbitration. Pursuant to the Federal Arbitration Act, the parties hereby agree that any controversy, claim, or alleged breach, including but not limited to torts and statutory claims, arising out of or related to this Agreement shall be settled by binding arbitration administered by the American Arbitration Association ("AAA") in accordance with its Commercial Arbitration Rules. Demand for arbitration may be made no later than the time that such action would be permitted under the applicable statute of limitation. Any disputes regarding the timeliness of the demand for arbitration shall be decided by the arbitrator(s). Judgment upon the award rendered by the arbitrator(s) may be entered in any Court having jurisdiction thereof in order to obtain compliance therewith. Any case in which any claim, or combination of claims, exceeds \$500,000.00 shall be subject to the AAA's Large, Complex Case Procedures and decided by the majority of a panel of three (3) neutral arbitrators. In rendering the award, the arbitrators shall determine the rights and obligations of the parties according to the laws of the State of Texas without reference to its conflicts of law rules, except where the real property laws of the State of New Mexico are required to be applied. The arbitration proceedings and hearings shall be conducted at the Houston Regional Office of the AAA or at such other place as may be selected by mutual agreement. No arbitrator or party hereto may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of all parties. The arbitrator or arbitrators shall not award punitive or multiple damages in any arbitration proceeding brought hereunder. The arbitrator or arbitrators may grant interim measures including injunctions, attachments and conservation orders in appropriate circumstances, which measures the parties agree may be immediately enforced by the arbitrator(s) or by a court of competent jurisdiction. Any party may apply to a court of competent jurisdiction for interim measure, and the parties agree that seeking and obtaining such measures shall not waive the right to arbitration.

9.13 Amendment. This Agreement may not be amended, altered or modified except by instrument in writing and signed by all of the parties.



9.14 Time of Essence. Time is of the essence of this Agreement.

9.15 Unenforceable Provisions. If any part of this Agreement is invalid or unenforceable, the other provisions of this Agreement shall remain in full force and effect and shall be liberally construed to effectuate the intent of this Agreement.

9.16 Entire Agreement. This is the entire Agreement between the parties with respect to the matters covered by this Agreement. It supersedes all prior agreements, understanding, negotiations and discussions, oral or written, with respect to these matters.

9.17 Counterparts. This Agreement may be executed in a number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement. It shall not be necessary that the parties hereto execute any single counterpart hereof, and this Agreement shall be effective when each party hereto has executed a counterpart hereof (whether or not any other party has executed the same counterpart).

9.18 Confidentiality. Any data, information, and progress reports obtained by a party under this agreement shall be held by such party with reasonable care and precaution to prevent the publication, dissemination, or disclosure of any such data, information, and reports or copies thereof, to any third person whomsoever. Each party shall have the right, however, to make such data, information and reports or copies thereof available to (i) prospective lenders of such party and (ii) such party's consultants for evaluation purposes so long as such lenders and consultants agree to be bound by the confidentiality provisions of this agreement. In the event that either party or any of its representatives become legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar process) to disclose any of the information required to be kept confidential pursuant to the terms hereof, that party shall provide the other party with prompt prior written notice of such requirement so that the other party may seek a protective order or other appropriate remedy and/or waive compliance with the terms of this *Section 9.18* of this Agreement. In the event that such protective order or other remedy is not obtained, or that the other party waives compliance with the provisions hereof, each party agrees to furnish only that portion of the subject confidential information that it is advised by written opinion of counsel is legally required to be disclosed and to exercise best efforts to obtain assurance that confidential treatment will be accorded such confidential information. "Confidential information" as used in this *Section 9.18* does not include any information that (i) at the time of disclosure or thereafter is generally available to and known by the public (other than as a result of a disclosure directly or indirectly by the disclosing party or its representatives), (ii) was available to the disclosing party on a non-confidential basis from a source other than the other party or its advisors, provided that such source is not and was not bound by a confidentiality agreement with the other party, or (iii) has been independently acquired or developed by the disclosing party without violating any of its obligations under this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates set forth opposite their respective signatures, but effective as of the year and date first set forth above.

KUKUI, INC.

By: Dennis E. Fern  
Name: Dennis E. Fern  
Title: President

SS  
8/19/99

The Allar Company

By: Edwin S. Graham III  
Edwin S. Graham, III, President

Talus, Inc.

By: Ken Haggart  
Ken Haggart, President

Twin Montana, Inc.

By: H. T. Hunnewell  
H. T. Hunnewell, President

For the limited purposes of *Section 3.2 and 4.2* hereof:

John Thoma  
John Thoma

## Exhibit A

(Attached to and made a part of Exploration Agreement dated July 1, 1999, between  
The Allar Group and KUKUI, INC.)

### DESCRIPTION OF EXCLUDED PROPERTY

The following described lands and all Exploration Rights therein, whether now owned or  
hereafter acquired:

#### San Simon Area

T-21-S, R-35-E, Lea County, New Mexico ✓

Section 33:	All	Section 28:	S/2
Section 32:	E/2	Section 29:	SE/4
Section 34:	W/2	Section 27:	SW/4

T-22-S, R-35-E, Lea County, New Mexico ✓

Section 3: NW/4  
Section 4: N/2  
Section 5: NE/4

#### New State 28 Area

T-21-S, R-35-E, Lea County, New Mexico ✓

Sections: 15, 19, 20, 21, 22, 27, 28, 29, 30

#### Estacado/High Plains Area

T-14-S, R-34-E, Lea County, New Mexico

Sections: 1, 2, 10-16, 21-28, 33-36 ✓

T-14-S, R-35-E, Lea County, New Mexico

Sections: 4-9, 16-21, 28-35 ✓

T-15-S, R-34-E, Lea County, New Mexico

Section 1 ✓

T-15-S, R-35-E, Lea County, New Mexico

Sections: 2, 3, 4, 5, 6, 9, 10, 11 ✓

**Eidson Ranch Area**

T-16-S, R-35-E, Lea County, New Mexico ✕

Section 23:	All	Section 22:	E/2
Section 26:	All	Section 27:	E/2
Section 14:	S/2	Section 35:	N/2
Section 15:	SE/4	Section 34:	NE/4

**Cool Blue Area**

T-17-S, R-35-E, Lea County, New Mexico

Sections: 1, 2, 10, 11, 12, 13, 14

## **THE ALLAR GROUP EXCLUDED PROPERTIES**

The following lands, and all Exploratory Rights therein, whether now owned or hereafter acquired:

**I. Producing Leases in which Twin Montana, Inc. and Talus, Inc. own an interest.**

1. **Texaco Federal Lease**  
Township 18 South, Range 33 East, NMPM  
NE/4 NW/4, SW/4 NW/4  
Section 14  
Lea County, New Mexico                      80 acres
2. **Eidson Lease**  
Township 16 South, Range 35 East, NMPM  
Section 35: W/2  
Lea County, New Mexico                      320 acres
3. **Avion Federal**  
Township 23 South, Range 32 East, NMPM  
Section 22: E/2, NW/4  
Lea County, New Mexico                      480 acres

**Note: The Allar Company also owns an interest in Avion Federal.**

II. Producing Leases in wt. ) The Allar Company owns an inte. t.

<u>LEASE</u>	<u>LOCATION</u>	<u>OPERATOR</u>
SUNBURST COX	36-10S-32E	MANZANO OIL CORPORATION
AMOCO STATE	13-20S-35E	MANZANO OIL CORPORATION
CLEMMONS SUNBURST FED.	13-9S-32E	MANZANO OIL CORPORATION
SUNBURST SPENCE FED.	13-9S-32E	MANZANO OIL CORPORATION
SIDEWINDER STATE	36-10S-32E	MANZANO OIL CORPORATION
YATES STATE	35-10S-32E	MANZANO OIL CORPORATION
CANDY COM #1	5-11S-33E	MANZANO OIL CORPORATION
DIAMOND BACK STATE	25-10S-32E	MANZANO OIL CORPORATION
TENNECO STATE	25-10S-32E	MANZANO OIL CORPORATION
XION FED.	18-18S-32E	MANZANO OIL CORPORATION
SHELL STATE	26-10S-32E	MANZANO OIL CORPORATION
JORDAN STATE	12-10S-32E	MANZANO OIL CORPORATION
LEE	2-18S-35E	SAGA PETROLEUM
COTTON DRAW AJT FED.	22 & 23-24S-31E	YATES
QUEEN LAKE 36 STATE	36-24S-28E	PRIMERO OPERATING
AMETHYST STATE COM.	32-24S-29E	NEARBURG EXPLORATION CO
DIAMOND 31 STATE	31-24S-29E	NEARBURG EXPLORATION CO
EMERALD 32 FED.	32-24S-29E	NEARBURG EXPLORATION CO
PICKETT DRAW FED. 1	9-25S-29E	MARALO
LATHAM FED. 15	15-25S-29E	TURNCO
PICKETT DRAW 2	10-25S-29E	TURNCO
EXXON FED.	8-25S-29E	MARALO
PICKETT DRAW 3	10-25S-29E	TURNCO
CORRAL DRAW 9 FED.	9-25S-29E	BURLINGTON
GOLD RUSH 30	30-23S-30E	MARALO
STATE 20	20-24S-33E	TURNCO
MARIGOLD UNIT	7-12S-38E	TURNCO

III. Leases The Allam Company owns an undivided 7.5% (approximately) working interest in.

(A) Cobra Oil & Gas Corporation's Tatum Basin Prospect  
Lea County, New Mexico

See attached list of leases.

(B) Cobra Oil & Gas Corporation's North Gladiola Project  
Lea County, New Mexico

See attached list of leases.

Company Id. COB

Cobra Oil & Gas Corporation  
Leases with Acreage/Description

08/04/99

Page: 1

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop Pay
XXXX-XXX-XX 1306-030-00	xxxx xx 1306 Tatum Basin NEW MEXICO, STATE OF	xx xx ST State Oil & Gas Lease N2 Non-Producing - Bill Others	xxxxx.xxxx 480.0000	xxxxxxx.xx 240.00	
Lease Date: 07/01/95 Lessor: STATE OF NEW MEXICO Lessee: CHARLES L. HOUSE Expire Date: 07/01/00 Rental Date: 07/01/96 - 12 Annual SP-Spud Well					
County: LEA State: NEW MEXICO 17 Lease Gross: 480.0000 Lease Net: 480.0000					
Legal Description: 01 SEC 17-10S-37E: N/2; N/2 S/2 01 STATE OF NEW MEXICO #V04686					
1306-031-00	1306 Tatum Basin STATE OF NEW MEXICO	ST State Oil & Gas Lease N2 Non-Producing - Bill Others	160.0000	80.00	
Lease Date: 04/01/95 Lessor: STATE OF NEW MEXICO Lessee: CHARLES L. HOUSE Expire Date: 04/01/00 Rental Date: 04/01/96 - 12 Annual SP-Spud Well					
County: LEA State: NEW MEXICO 31 Lease Gross: 160.0000 Lease Net: 160.0000					
Legal Description: 01 SEC 31-10S-37E: SE/4 01 (STATE OF NEW MEXICO LEASE NO. VA13710000)					
1306-032-00	1306 Tatum Basin NEW MEXICO, STATE OF	ST State Oil & Gas Lease N2 Non-Producing - Bill Others	640.0000	320.00	
Lease Date: 07/01/95 Lessor: STATE OF NEW MEXICO Lessee: CHARLES L. HOUSE Expire Date: 07/01/00 Rental Date: 07/01/96 - 12 Annual SP-Spud Well					
County: LEA State: NEW MEXICO 36 Lease Gross: 640.0000 Lease Net: 640.0000					
Legal Description: 01 SEC 36-10S-36E: ALL 01 STATE OF NEW MEXICO #V04684					
1306-033-00	1306 Tatum Basin NEW MEXICO, STATE OF	ST State Oil & Gas Lease N2 Non-Producing - Bill Others	637.1200	318.56	
Lease Date: 07/01/95 Lessor: STATE OF NEW MEXICO Lessee: CHARLES L. HOUSE Expire Date: 07/01/00 Rental Date: 07/01/96 - 12 Annual SP-Spud Well					
County: LEA State: NEW MEXICO 07 Lease Gross: 637.1200 Lease Net: 637.1200					
Legal Description: 01 SEC 7-10S-36E: LOTS 1 (39.22 ACS); 2 (39.26 ACS); 3 (39.30 ACS); 01 4 (39.34 ACS); E/2; E/2 W/2 01 STATE OF NEW MEXICO #VA13930000					

Tatum Basin Prospect  
III A



Cobra Oil & Gas Corporation  
Leases with Acreage/Description

08/04/99

Page: 2

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop Pay
1306-034-00	1306 Tatum Basin NEW MEXICO, STATE OF Lease Date: 12/01/86 Lessor: STATE OF NEW MEXICO Expire Date: 10/11/00 Rental Date: 12/01/87 - 12 Annual SP-Spud Well	ST State Oil & Gas Lease H4 H.B.P. - Others Bill Lessee: GANDY CORPORATION	319.3700	159.68	
County: LEA State: NEW MEXICO 07 Lease Gross: 319.3700 Lease Net: 319.3700					
Legal Description: 01 SEC 7-10S-37E: LOTS 3 & 4; E/2 SW/4; SE/4 01 SUBJECT TO CERTAIN DEPTH LIMITATIONS 01 STATE OF NEW MEXICO LEASE NO V-2113					
1306-035-00	1306 Tatum Basin NEW MEXICO, STATE OF Lease Date: 07/01/94 Lessor: STATE OF NEW MEXICO Expire Date: 12/01/97 Rental Date: 07/01/96 - 12 Annual SP-Spud Well	ST State Oil & Gas Lease H2 H.B.P. - Bill Others Lessee: ENERGYPRO, INC.	320.0000	160.00	
County: LEA State: NEW MEXICO 21 Lease Gross: 80.0000 Lease Net: 80.0000					
Legal Description: 01 INSOFAR AS IT COVERS: 01 SEC 21-10S-36E: E/2 NE/4 01 STATE OF NEW MEXICO #V-4402					
1306-036-00	1306 Tatum Basin NEW MEXICO, STATE OF Lease Date: 10/01/93 Lessor: STATE OF NEW MEXICO Expire Date: 12/01/97 Rental Date: 10/01/96 - 12 Annual SP-Spud Well	ST State Oil & Gas Lease H2 H.B.P. - Bill Others Lessee: ENERGYPRO, INC.	160.0000	80.00	
County: LEA State: NEW MEXICO 22 Lease Gross: 80.0000 Lease Net: 80.0000					
Legal Description: 01 INSOFAR AS IT COVERS: 01 SEC 22-10S-36E: W/2 NW/4 01 STATE OF NEW MEXICO #V-4206					
1306-038-00	1306 Tatum Basin NEW MEXICO, STATE OF Lease Date: 07/01/93 Lessor: STATE OF NEW MEXICO Expire Date: 07/01/98 Rental Date: 07/01/96 - 12 Annual SP-Spud Well	ST State Oil & Gas Lease H5 H.B.P. - No Rental Due Lessee: DOUG J. SCHUTZ	639.8800	320.00	
County: LEA State: NEW MEXICO 03 Lease Gross: 639.8800 Lease Net: 639.8800					
Legal Description: 01 SEC 3-10S-36E: ALL 01 STATE OF NEW MEXICO #VA-957					

Company Id. COB

08/04/99  
Page: 3

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop Pay
XXXX-XXX-XX 1306-043-00	xxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx 1306 Tatum Basin	xx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx ST State Oil & Gas Lease	xxxxx.xxxx 318.6200	xxxxxxx.xx .00	
	UNITED STATES OF AMERICA	H5 H.B.P. - No Rental Due			
	Lease Date: 08/01/46 Lessor: UNITED STATES OF AMERICA	Lessee: A. A. CARRUTH			
	Expire Date: 08/01/51 Rental Date: --/--/-- - 00 Paid-Up				
	CO-Commence Oper for Drilling				
	County: LEA	State: NEW MEXICO	** Lease Gross: 318.6200 Lease Net: 318.6200		
	Legal Description: 01 INSOFAR AS IT COVERS:				
	01 SEC 6-9S-37E: NE/4 NE/4; SE/4 NE/4; SW/4 SW/4; SE/4 SW/4				
	01 SEC 17-9S-37E: SW/4				
1306-060-00	1306 Tatum Basin	FD Federal Oil & Gas Lease	1432.7300	2149.50	
	BUREAU OF LAND MANAGMT NM96067	N2 Non-Producing - Bill Others			
	Lease Date: 11/27/95 Lessor: BUREAU OF LAND MANAGMT NM96067	Lessee: RANDALL R. FORT			
	Expire Date: 12/01/05 Rental Date: 12/01/96 - 12 Annual				
	SP-Spud Well				
	County: LEA	State: NEW MEXICO	** Lease Gross: 1432.7300 Lease Net: 1432.7300		
	Legal Description: 01 SEC 17-9S-37E: E/2 NE/4; NW/4; SE/4				
	01 SEC 18-9S-37E: LOTS 1, 2, 3, 4; E/2 NE/4; E/2 NW/4; W/2 SE/4				
	01 SEC 19-9S-37E: LOTS 1, 3; S/2 NE/4; E/2 NW/4; N/2 SE/4				
	01 SEC 20-9S-37E: S/2 NE/4; N/2 NW/4; N/2 SW/4; S/2 SE/4				
	01 BLM LEASE NO. NMNM 96067				
1306-061-00	1306 Tatum Basin	FD Federal Oil & Gas Lease	480.0000	720.00	
	BUREAU OF LAND MANAGMT NM96057	N2 Non-Producing - Bill Others			
	Lease Date: 11/27/95 Lessor: BUREAU OF LAND MANAGMT NM96057	Lessee: LEE HOUSE			
	Expire Date: 12/01/05 Rental Date: 12/01/96 - 12 Annual				
	SP-Spud Well				
	County: ROOSEVELT	State: NEW MEXICO	** Lease Gross: 480.0000 Lease Net: 480.0000		
	Legal Description: 01 BLM LEASE NO NMNM96057				
	01 SEE ATTACHED DESCRIPTION				
	01 SEC 27-8S-36E: SW/4				
	01 SEC 34-8S-36E: N/2				
1306-062-00	1306 Tatum Basin	FD Federal Oil & Gas Lease	1397.4100	2097.00	
	BUREAU OF LAND MANAGMT NM96059	N2 Non-Producing - Bill Others			
	Lease Date: 11/27/95 Lessor: BUREAU OF LAND MANAGMT NM96059	Lessee: RANDALL R. FORT			
	Expire Date: 12/01/05 Rental Date: 12/01/96 - 12 Annual				
	SP-Spud Well				
	County: LEA	State: NEW MEXICO	** Lease Gross: 1397.4100 Lease Net: 1397.4100		

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop	Pay
XXXX-XXX-XX	xxxx xx	xx xx	xxxxx.xxxx	xxxxxxx.xx		
1306-062-00	( * Continued * )					
	Legal Description: 01 BLM LEASE NO NM96059					
	01					
	01 SEE ATTACHED DESCRIPTION					
	01 SEC 5-9S-36E: S/2					
	01 SEC 6-9S-36E: LOTS 1, 2, 3, 4, 5, 6; S/2 NE/4; SE/4 NW/4; E/2 SW/4;					
	01 SE/4					
	01 SEC 7-9S-36E: LOT 1					
	01 SEC 8-9S-36E: NE/4; N/2 SW/4; SE/4 SW/4					
	01 INSOFAR AS IT COVER: SEC 9-9S-36E: NE/4					
	01 SUBJECT TO CERTAIN DEPTH LIMITATIONS					
	01 BLM LEASE NO. NMNM 96059					
1306-065-00	1306 Tatum Basin	AQ Acquired Oil & Gas Lease	40.0000	320.12		
	NEW MEXICO, STATE OF	H2 H.B.P. - Bill Others				
	Lease Date: 07/01/95	Lessor: STATE OF NEW MEXICO				
	Expire Date: 07/01/00	Rental Date: 07/01/96 - 12 Annual				
	CO-Commence Oper for Drilling					
	County: LEA	State: NEW MEXICO	4 Lease Gross:	40.0000 Lease Net:	40.0000	
	Legal Description: 01 INSOFAR AS IT COVERS:					
	01 SEC 4-10S-36E: SE/4 SE/4; SUBJECT TO CERTAIN DEPTH LIMITATIONS					
	01 STATE OF NEW MEXICO #V04678					

Company Id. COB

08/04/99  
Page: 5

GRAND TOTALS:

Total Number of Leases:	13
Total Lease Net Acres:	6705.1300
Total Base Lease Gross Acres:	7025.1300
Total Delay Rental Amount:	6964.86

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop Pay
XXXX-XX-XX	XXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	xx XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX.XXXX	XXXXXXXX.XX	
1319-001-00	1319 North Gladiola	ST State Oil & Gas Lease	393.4400	196.72	
	NEW MEXICO, STATE OF	N2 Non-Producing - Bill Others			
	Lease Date: 09/01/95	Lessor: STATE OF NEW MEXICO			Lessee: CHARLES L. HOUSE
	Expire Date: 09/01/00	Rental Date: 09/01/96 - 12 Annual			
	SP-Spud Well				
	County: LEA	State: NEW MEXICO	01 Lease Gross: 393.4400	Lease Net: 393.4400	
	Legal Description: 01	SEC 1-11S-37E: LOTS 1 (18.33 ACS); 2 (18.35 ACS); 3 (18.37 ACS);			
		01 4 (18.39 ACS); S/2			
		01 STATE OF NEW MEXICO LEASE NO. VO-4722			
1319-022-00	1319 North Gladiola	FD Federal Oil & Gas Lease	80.1000	162.00	
	BUREAU OF LAND MANAGMT NM89862	N2 Non-Producing - Bill Others			
	Lease Date: 11/16/92	Lessor: BUREAU OF LAND MANAGMT NM89862			Lessee: FRANCES S. PAGEDAS
	Expire Date: 12/01/02	Rental Date: 12/01/96 - 12 Annual			
	SP-Spud Well				
	County: LEA	State: NEW MEXICO	04 Lease Gross: 80.1000	Lease Net: 80.1000	
	Legal Description: 01	SEC 4-12S-38E: LOT 1; SE/4 NE/4			
		01 BLM LEASE NO. NMNM89862			
1319-041-0A	1319 North Gladiola	AQ Acquired Oil & Gas Lease	320.0000	.00	
	CLEVELAND CHRISTIAN HOME	N5 Non-Producing - No Rental Due			
	Lease Date: 10/15/97	Lessor: CLEVELAND CHRISTIAN HOME			Lessee: COBRA EXPLORATION COMPANY
	Expire Date: 10/15/00	Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling				
	County: LEA	State: NEW MEXICO	9 Lease Gross: 320.0000	Lease Net: 160.0000	
	Legal Description: 01	SEC 9-11S-37E: E/2			
1319-041-0B	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	BRATTON, HOWARD C.	N5 Non-Producing - No Rental Due			
	Lease Date: 10/15/97	Lessor: HOWARD C. BRATTON			Lessee: COBRA EXPLORATION COMPANY
	Expire Date: 10/15/00	Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling				
	County: LEA	State: NEW MEXICO	9 Lease Gross: 320.0000	Lease Net: 10.0000	
	Legal Description: 01	SEC 9-11S-37E: E/2			
1319-041-0C	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	SCHENCK TRUSTS, KIRBY D.	N5 Non-Producing - No Rental Due			
	Lease Date: 01/15/98	Lessor: KIRBY D. SCHENCK TRUSTS			Lessee: COBRA EXPLORATION COMPANY
	Expire Date: 01/15/01	Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling				

North Gladiola Project  
III B

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental Drop Pay	Recommendation
1319-041-0C	( * Continued * )				
	County: LEA State: NEW MEXICO	9 Lease Gross:	320.0000 Lease Net:	10.0000	
	Legal Description: 01 SEC 9-11S-37E: E/2				
1319-041-0D	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	NEW MEXICO OIL CORPORATION	N5 Non-Producing - No Rental Due			
	Lease Date: 11/24/97 Lessor: NEW MEXICO OIL CORPORATION	Lessee: COBRA EXPLORATION COMPANY			
	Expire Date: 11/24/00 Rental Date: --/--/-- - 00 Paid-Up				
	CO-Commence Oper for Drilling				
	County: LEA State: NEW MEXICO	9 Lease Gross:	320.0000 Lease Net:	10.0000	
	Legal Description: 01 SEC 9-11S-37E: E/2				
1319-041-0E	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	NEW MEXICO, UNIVERSITY OF	N5 Non-Producing - No Rental Due			
	Lease Date: 11/24/97 Lessor: UNIVERSITY OF NEW MEXICO	Lessee: COBRA EXPLORATION COMPANY			
	Expire Date: 11/24/00 Rental Date: --/--/-- - 00 Paid-Up				
	CO-Commence Oper for Drilling				
	County: LEA State: NEW MEXICO	9 Lease Gross:	320.0000 Lease Net:	8.0000	
	Legal Description: 01 SEC 9-11S-37E: E/2				
1319-058-0A	1319 North Gladiola	AQ Acquired Oil & Gas Lease	80.0000	.00	
	MCDONALD, MICKEY KENT	N5 Non-Producing - No Rental Due			
	Lease Date: 01/15/98 Lessor: MICKEY KENT MCDONALD	Lessee: SCANA PETROLEUM RESOURCES			
	Expire Date: 01/15/01 Rental Date: --/--/-- - 00 Paid-Up				
	CO-Commence Oper for Drilling				
	County: LEA State: NEW MEXICO	29 Lease Gross:	80.0000 Lease Net:	6.0000	
	Legal Description: 01 SEC 29-11S-38E: E/2 SE/4				
1319-058-0B	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	MARTIN, CONNIE MARIE	N5 Non-Producing - No Rental Due			
	Lease Date: 01/15/98 Lessor: CONNIE MARIE MARTIN	Lessee: SCANA PETROLEUM RESOURCES			
	Expire Date: 01/15/01 Rental Date: --/--/-- - 00 Paid-Up				
	CO-Commence Oper for Drilling				
	County: LEA State: NEW MEXICO	29 Lease Gross:	80.0000 Lease Net:	6.0000	
	Legal Description: 01 SEC 29-11S-38E: E/2 SE/4				

Company Id. COB

Cobra Oil & Gas Corporation  
Leases with Acreage/Description

08/04/99  
Page: 3

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop	Pay
XXXX-XXX-XX	xxxx xx	xx xx	xxxxx.xxxx	xxxxxxxx.xx		
1319-058-0C	1319 North Gladiola MCDONALD, FRED	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000		.00	
	Lease Date: 01/15/98 Lessor: FRED MCDONALD	Lessee: SCANA PETROLEUM RESOURCES				
	Expire Date: 01/15/01 Rental Date: --/--/-- - 00 Paid-Up					
	CO-Commence Oper for Drilling					
	County: LEA State: NEW MEXICO	29 Lease Gross:	80.0000 Lease Net:	6.0000		
	Legal Description: 01 SEC 29-11S-38E: E/2 SE/4					
1319-058-0D	1319 North Gladiola PEAK, BETTY JANE	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000		.00	
	Lease Date: 01/15/98 Lessor: BETTY JANE PEAK	Lessee: SCANA PETROLEUM RESOURCES				
	Expire Date: 01/15/01 Rental Date: --/--/-- - 00 Paid-Up					
	CO-Commence Oper for Drilling					
	County: LEA State: NEW MEXICO	29 Lease Gross:	80.0000 Lease Net:	6.0000		
	Legal Description: 01 SEC 29-11S-38E: E/2 SE/4					
1319-058-0E	1319 North Gladiola MCDONALD, ALEX CRAIG	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000		.00	
	Lease Date: 01/15/98 Lessor: ALEX CRAIG MCDONALD	Lessee: SCANA PETROLEUM RESOURCES				
	Expire Date: 01/15/01 Rental Date: --/--/-- - 00 Paid-Up					
	CO-Commence Oper for Drilling					
	County: LEA State: NEW MEXICO	29 Lease Gross:	80.0000 Lease Net:	6.0000		
	Legal Description: 01 SEC 29-11S-38E: E/2 SE/4					
1319-058-0F	1319 North Gladiola CONE, S. E. JR.	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000		.00	
	Lease Date: 12/05/97 Lessor: S. E. CONE JR.	Lessee: SCANA PETRO RESOURCES, INC.				
	Expire Date: 12/05/99 Rental Date: --/--/-- - 00 Paid-Up					
	SP-Spud Well					
	County: LEA State: NEW MEXICO	29 Lease Gross:	80.0000 Lease Net:	6.3334		
	Legal Description: 01 SEC 29-11S-38E: E/2 SE/4					
1319-082-0A	1319 North Gladiola KEYES LIV TR, CONRAD G. ET UX	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	80.0000		.00	
	Lease Date: 08/01/97 Lessor: CONRAD G. KEYES LIV TR ET UX	Lessee: COBRA EXPLORATION COMPANY				
	Expire Date: 08/01/02 Rental Date: --/--/-- - 00 Paid-Up					
	CO-Commence Oper for Drilling					
	County: LEA State: NEW MEXICO	23 Lease Gross:	80.0000 Lease Net:	2.5000		

Company Id. COB

Cobra Oil & Gas Corporation  
Leases with Acreage/Description

08/04/99

Page: 4

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental Drop Pay
XXXX-XXX-XX	xxxx xx	xx xx	xxxxx.xxxx	xxxxxxxx.xx
1319-082-0A	( * Continued * )			
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4			
1319-082-0B	1319 North Gladiola LEMON, HELEN JOAN OVERPECK	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00
	Lease Date: 08/01/97 Lessor: HELEN JOAN OVERPECK LEMON	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 08/01/02 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	23 Lease Gross:	80.0000 Lease Net:	.3333
	Legal Description: 02 SEC 23-11S-37E: W/2 SE/4			
1319-082-0C	1319 North Gladiola KEYES, ROBERT G.	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00
	Lease Date: 08/01/97 Lessor: ROBERT G. KEYES	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 08/01/02 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	23 Lease Gross:	80.0000 Lease Net:	2.5000
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4			
1319-082-0D	1319 North Gladiola DAVIDSON, BARBARA	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00
	Lease Date: 08/01/97 Lessor: BARBARA DAVIDSON	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 08/01/02 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	23 Lease Gross:	80.0000 Lease Net:	2.5000
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4			
1319-082-0E	1319 North Gladiola AINSWORTH, MARY LOUISE	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00
	Lease Date: 08/01/97 Lessor: MARY LOUISE AINSWORTH	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 08/01/02 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	23 Lease Gross:	80.0000 Lease Net:	3.3333
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4			



Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Gross Acres	Total Rental	Recommendation Drop Pay
XXXX-XXX-XX 1319-082-0F	xxxx xx 1319 North Gladiola MEYER, MARJORIE	xx xx AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	xxxxx.xxxx .0000	xxxxxxxx.xx .00	
Lease Date: 08/01/97 Lessor: MARJORIE MEYER Lessee: COBRA EXPLORATION COMPANY					
Expire Date: 08/01/02 Rental Date: --/--/-- - 00 Paid-Up					
CO-Commence Oper for Drilling					
County: LEA State: NEW MEXICO 23 Lease Gross: 80.0000 Lease Net: 2.5000					
Legal Description: 01 SEC 23-11S-37E: W/2 SE/4					
1319-082-0G	1319 North Gladiola REESE MINERALS LTD PARTNERSHIP	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
Lease Date: 09/09/97 Lessor: REESE MINERALS LTD PARTNERSHIP Lessee: COBRA EXPLORATION COMPANY					
Expire Date: 09/09/00 Rental Date: --/--/-- - 00 Paid-Up					
CO-Commence Oper for Drilling					
County: LEA State: NEW MEXICO 23 Lease Gross: 80.0000 Lease Net: 32.0000					
Legal Description: 01 SEC 23-11S-37E: W/2 SE/4					
1319-082-0H	1319 North Gladiola MARKHAM, RODERICK ALLEN	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
Lease Date: 10/15/97 Lessor: RODERICK ALLEN MARKHAM Lessee: COBRA EXPLORATION COMPANY					
Expire Date: 10/15/99 Rental Date: --/--/-- - 00 Paid-Up					
SP-Spud Well					
County: LEA State: NEW MEXICO 23 Lease Gross: 80.0000 Lease Net: 1.7500					
Legal Description: 01 SEC 23-11S-37E: W/2 SE/4					
1319-082-0I	1319 North Gladiola JOHNSTON, TOM B. JR.	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
Lease Date: 10/15/97 Lessor: TOM B. JOHNSTON JR. Lessee: COBRA EXPLORATION COMPANY					
Expire Date: 10/05/02 Rental Date: --/--/-- - 00 Paid-Up					
CO-Commence Oper for Drilling					
County: LEA State: NEW MEXICO 23 Lease Gross: 80.0000 Lease Net: 1.0000					
Legal Description: 01 SEC 23-11S-37E: W/2 SE/4					
1319-082-0J	1319 North Gladiola CHRISTMANN MINERAL COMPANY	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
Lease Date: 10/15/97 Lessor: CHRISTMANN MINERAL COMPANY Lessee: COBRA EXPLORATION COMPANY					
Expire Date: 10/15/99 Rental Date: --/--/-- - 00 Paid-Up					
SP-Spud Well					
County: LEA State: NEW MEXICO 23 Lease Gross: 80.0000 Lease Net: 5.0000					

Company No. 001  
Company Id. COB

Cobra Oil & Gas Corporation  
Leases with Acreage/Description

08/04/99  
Page: 6

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop Pay
XXXX-XXX-XX	XXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX.XXXX	XXXXXX.XX	
1319-082-0J	( * Continued * )				
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4				
	01 SUBJECT TO CERTAIN DEPTH LIMITATIONS				
1319-082-0K	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	CANNON, HAZEL BALES	N5 Non-Producing - No Rental Due			
	Lease Date: 08/01/97 Lessor: HAZEL BALES CANNON	Lessee: COBRA EXPLORATION COMPANY			
	Expire Date: 08/01/00 Rental Date: --/--/-- - 00 Paid-Up				
	CO-Commence Oper for Drilling				
	County: LEA State: NEW MEXICO	23 Lease Gross: 80.0000	Lease Net: 3.3330		
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4				
1319-082-0L	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	MCMULLEN, MANON MARKHAM	N5 Non-Producing - No Rental Due			
	Lease Date: 10/15/97 Lessor: MANON MARKHAM MCMULLEN	Lessee: COBRA EXPLORATION COMPANY			
	Expire Date: 10/15/99 Rental Date: --/--/-- - 00 Paid-Up				
	SP-Spud Well				
	County: LEA State: NEW MEXICO	23 Lease Gross: 80.0000	Lease Net: 1.7500		
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4				
	01 SUBJECT TO CERTAIN DEPTH LIMITATIONS				
1319-082-0M	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	WELBORN TRUST, J. M.	N5 Non-Producing - No Rental Due			
	Lease Date: 10/15/97 Lessor: J. M. WELBORN TRUST	Lessee: COBRA EXPLORATION COMPANY			
	Expire Date: 10/15/99 Rental Date: --/--/-- - 00 Paid-Up				
	SP-Spud Well				
	County: LEA State: NEW MEXICO	23 Lease Gross: 80.0000	Lease Net: 5.0000		
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4				
	01 SUBJECT TO CERTAIN DEPTH LIMITATIONS				
1319-082-0N	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	KECK, KATHERINE CONE	N5 Non-Producing - No Rental Due			
	Lease Date: 12/05/97 Lessor: KATHERINE CONE KECK	Lessee: COBRA EXPLORATION COMPANY			
	Expire Date: 12/05/99 Rental Date: --/--/-- - 00 Paid-Up				
	SP-Spud Well				
	County: LEA State: NEW MEXICO	23 Lease Gross: 80.0000	Lease Net: .1667		

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop Pay
XXXX-XX-XX	xxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx	xx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx	xxxxx.xxxx	xxxxxxx.xx	
1319-082-0N	( * Continued * )				
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4				
1319-082-00	1319 North Gladiola CONE, S. E. JR.	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
	Lease Date: 12/05/97 Lessor: S. E. CONE JR.	Lessee: COBRA EXPLORATION COMPANY			
	Expire Date: 12/05/99 Rental Date: --/--/-- - 00 Paid-Up				
	SP-Spud Well				
	County: LEA State: NEW MEXICO	23 Lease Gross: 80.0000 Lease Net:		.1667	
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4				
1319-082-0P	1319 North Gladiola MORGAN, WILLIS E. IND & TRT	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
	Lease Date: 09/26/97 Lessor: WILLIS E. MORGAN IND & TRT	Lessee: COBRA EXPLORATION COMPANY			
	Expire Date: 09/26/02 Rental Date: --/--/-- - 00 Paid-Up				
	CO-Commence Oper for Drilling				
	County: LEA State: NEW MEXICO	23 Lease Gross: 80.0000 Lease Net:		1.3333	
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4				
1319-082-0Q	1319 North Gladiola CAPROCK MINERALS, LLC	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
	Lease Date: 01/01/98 Lessor: CAPROCK MINERALS, LLC	Lessee: COBRA EXPLORATION COMPANY			
	Expire Date: 01/01/01 Rental Date: --/--/-- - 00 Paid-Up				
	SP-Spud Well				
	County: LEA State: NEW MEXICO	23 Lease Gross: 80.0000 Lease Net:		2.6667	
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4				
1319-082-0R	1319 North Gladiola BOWERMAN, JAN CONE	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
	Lease Date: 12/05/97 Lessor: JAN CONE BOWERMAN	Lessee: COBRA EXPLORATION COMPANY			
	Expire Date: 12/05/99 Rental Date: --/--/-- - 00 Paid-Up				
	SP-Spud Well				
	County: LEA State: NEW MEXICO	23 Lease Gross: 80.0000 Lease Net:		2.2500	
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4				

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental Drop Pay
XXXX-XXX-XX 1319-082-0S	xxxx xx 1319 North Gladiola	xx xx AQ Acquired Oil & Gas Lease	xxxxx.xxxx .0000	xxxxxxx.xx .00
	CONE, JAMES RAYMOND JR.	N5 Non-Producing - No Rental Due		
	Lease Date: 12/05/97 Lessor: JAMES RAYMOND CONE JR.	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 12/05/99 Rental Date: --/--/-- - 00 Paid-Up			
	SP-Spud Well			
	County: LEA State: NEW MEXICO	23 Lease Gross:	80.0000 Lease Net:	2.2500
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4			
1319-082-0T	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00
	MORGAN, JOSEPH KENNETH	N5 Non-Producing - No Rental Due		
	Lease Date: 12/05/97 Lessor: JOSEPH KENNETH MORGAN	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 12/05/02 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	23 Lease Gross:	80.0000 Lease Net:	1.3333
	Legal Description: 01 SEC 23-11S-37E: W/2 SE/4			
1319-083-0A	1319 North Gladiola	AQ Acquired Oil & Gas Lease	160.0000	.00
	TAYLOR, A. C.	N5 Non-Producing - No Rental Due		
	Lease Date: 08/01/97 Lessor: A. C. TAYLOR	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 08/01/00 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	26 Lease Gross:	160.0000 Lease Net:	20.0000
	Legal Description: 01 SEC 26-11S-37E: NE/4			
1319-083-0B	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00
	HOLEMAN, ELLA BELLE ET AL	N5 Non-Producing - No Rental Due		
	Lease Date: 08/01/97 Lessor: ELLA BELLE HOLEMAN ET AL	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 08/01/00 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	26 Lease Gross:	160.0000 Lease Net:	40.0000
	Legal Description: 01 SEC 26-11S-37E: NE/4			
1319-083-0C	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00
	TAYLOR, DORIS	N5 Non-Producing - No Rental Due		
	Lease Date: 08/01/97 Lessor: DORIS TAYLOR	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 08/01/00 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	26 Lease Gross:	160.0000 Lease Net:	40.0000

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop Pay
XXXX-XXX-XX	xxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx	xx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx	xxxxx.xxxx	xxxxxxxx.xx	
1319-083-0C	( * Continued * )				
	Legal Description: 01 SEC 26-11S-37E: NE/4				
1319-083-0D	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	WRIGHT, RUTH TAYLOR	N5 Non-Producing - No Rental Due			
	Lease Date: 08/01/97	Lessor: RUTH TAYLOR WRIGHT			Lessee: COBRA EXPLORATION COMPANY
	Expire Date: 08/01/00	Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling				
	County: LEA	State: NEW MEXICO	26 Lease Gross:	160.0000 Lease Net:	40.0000
	Legal Description: 01 SEC 26-11S-37E: NE/4				
1319-083-0E	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	THOMPSON, KYLA TAYLOR	N5 Non-Producing - No Rental Due			
	Lease Date: 08/01/97	Lessor: KYLA TAYLOR THOMPSON			Lessee: COBRA EXPLORATION COMPANY
	Expire Date: 08/01/00	Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling				
	County: LEA	State: NEW MEXICO	26 Lease Gross:	160.0000 Lease Net:	20.0000
	Legal Description: 01 SEC 26-11S-37E: NE/4				
1319-084-0A	1319 North Gladiola	AQ Acquired Oil & Gas Lease	80.0000	.00	
	CRISWELL, CAROL C.	N5 Non-Producing - No Rental Due			
	Lease Date: 07/25/97	Lessor: CAROL C. CRISWELL			Lessee: COBRA EXPLORATION COMPANY
	Expire Date: 07/25/02	Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling				
	County: LEA	State: NEW MEXICO	23 Lease Gross:	80.0000 Lease Net:	40.0000
	Legal Description: 01 SEC 23-11S-37E: E/2 SE/4				
1319-084-0B	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00	
	COMPTON, CLAUDIA A.	N5 Non-Producing - No Rental Due			
	Lease Date: 07/25/97	Lessor: CLAUDIA A. COMPTON			Lessee: COBRA EXPLORATION COMPANY
	Expire Date: 07/25/02	Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling				
	County: LEA	State: NEW MEXICO	23 Lease Gross:	80.0000 Lease Net:	40.0000
	Legal Description: 01 SEC 23-11S-37E: E/2 SE/4				

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop Pay
XXXX-XX-XX	XXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	XXXXX.XXXX	XXXXXXXX.XX	
1319-085-0A	1319 North Gladiola ATKINS, DEENA DICKINSON	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	320.0000	.00	
	Lease Date: 08/15/97 Lessor: DEENA DICKINSON ATKINS	Lessee: CHARLES L. HOUSE			
	Expire Date: 08/15/99 Rental Date: --/--/-- - 00 Paid-Up				
	SP-Spud Well				
	County: LEA State: NEW MEXICO	** Lease Gross: 320.0000 Lease Net: 28.4721			
	Legal Description: 01 SEC 25-11S-36E: W/2 SW/4				
	01 SEC 35-11S-36E: SW/4; W/2 NW/4				
1319-085-0B	1319 North Gladiola DICKINSON, OWEN STEVEN	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
	Lease Date: 08/15/97 Lessor: OWEN STEVEN DICKINSON	Lessee: CHARLES L. HOUSE			
	Expire Date: 08/15/99 Rental Date: --/--/-- - 00 Paid-Up				
	CO-Commence Oper for Drilling				
	County: LEA State: NEW MEXICO	** Lease Gross: 320.0000 Lease Net: 23.4733			
	Legal Description: 01 SEC 25-11S-36E: W/2 SW/4				
	01 SEC 35-11S-36E: SW/4; W/2 NW/4				
1319-085-0C	1319 North Gladiola DICKINSON, DAN KING	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
	Lease Date: 08/15/97 Lessor: DAN KING DICKINSON	Lessee: CHARLES L. HOUSE			
	Expire Date: 08/15/99 Rental Date: --/--/-- - 00 Paid-Up				
	CO-Commence Oper for Drilling				
	County: LEA State: NEW MEXICO	** Lease Gross: 320.0000 Lease Net: 9.9982			
	Legal Description: 01 SEC 25-11S-36E: W/2 SW/4				
	01 SEC 35-11S-36E: SW/4; W/2 NW/4				
1319-085-0D	1319 North Gladiola WEST, LUCINDA DEE	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
	Lease Date: 08/15/97 Lessor: LUCINDA DEE WEST	Lessee: CHARLES L. HOUSE			
	Expire Date: 08/15/99 Rental Date: --/--/-- - 00 Paid-Up				
	CO-Commence Oper for Drilling				
	County: LEA State: NEW MEXICO	** Lease Gross: 320.0000 Lease Net: 23.4732			
	Legal Description: 01 SEC 25-11S-36E: W/2 SW/4				
	01 SEC 35-11S-36E: SW/4; W/2 NW/4				
1319-085-0E	1319 North Gladiola HOOPER, YANSCI	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
	Lease Date: 08/15/97 Lessor: YANSCI HOOPER	Lessee: CHARLES L. HOUSE			
	Expire Date: 08/15/99 Rental Date: --/--/-- - 00 Paid-Up				
	SP-Spud Well				

Company Id. COB

Cobra Oil & Gas Corporation  
Leases with Acreage/Description

08/04/99  
Page: 11

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental Drop Pay
XXXX-XXX-XX	xxxx xx	xx xx	xxxxx.xxxx	xxxxxxxx.xx
1319-085-0E	( * Continued * )			
	County: LEA State: NEW MEXICO	** Lease Gross: 320.0000 Lease Net: 28.4720		
	Legal Description: 01 SEC 25-11S-36E: W/2 SW/4			
	01 SEC 35-11S-36E: SW/4; W/2 NW/4			
1319-085-0F	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00
	DICKINSON, W. GORDON ET AL	N5 Non-Producing - No Rental Due		
	Lease Date: 08/15/97 Lessor: W. GORDON DICKINSON ET AL	Lessee: CHARLES L. HOUSE		
	Expire Date: 08/15/99 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	** Lease Gross: 320.0000 Lease Net: 50.0001		
	Legal Description: 01 SEC 25-11S-36E: W/2 SW/4			
	01 SEC 35-11S-36E: SW/4; W/2 NW/4			
1319-086-0A	1319 North Gladiola	AQ Acquired Oil & Gas Lease	160.0000	.00
	EVANIL OIL COMPANY	N5 Non-Producing - No Rental Due		
	Lease Date: 08/01/97 Lessor: EVANIL OIL COMPANY	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 08/01/02 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	30 Lease Gross: 160.0000 Lease Net: 1.3698		
	Legal Description: 01 SEC 30-11S-38E: SW/4			
1319-086-0B	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00
	PARTEE, W. C.	N5 Non-Producing - No Rental Due		
	Lease Date: 09/01/97 Lessor: W. C. PARTEE	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 09/01/00 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	30 Lease Gross: 160.0000 Lease Net: 1.9510		
	Legal Description: 01 SEC 30-11S-38E: SW/4			
1319-086-0C	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00
	MELLON, ELIZABETH T.	N5 Non-Producing - No Rental Due		
	Lease Date: 09/01/97 Lessor: ELIZABETH T. MELLON	Lessee: COBRA EXPLORATION COMPANY		
	Expire Date: 09/01/02 Rental Date: --/--/-- - 00 Paid-Up			
	CO-Commence Oper for Drilling			
	County: LEA State: NEW MEXICO	30 Lease Gross: 160.0000 Lease Net: 4.2767		

Company Id. COB

Cobra Oil & Gas Corporation  
Leases with Acreage/Description

08/04/99  
Page: 12

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop	Pay
XXXX-XXX-XX	xxxx xx	xx xx	xxxx.xxxx	xxxxxxxx.xx		
1319-086-0C	( * Continued * )					
	Legal Description: 01 SEC 30-11S-38E: SW/4					
1319-086-0D	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00		
	FOSTER, RAY BETH	N5 Non-Producing - No Rental Due				
	Lease Date: 08/01/97 Lessor: RAY BETH FOSTER	Lessee: COBRA EXPLORATION COMPANY				
	Expire Date: 08/01/02 Rental Date: --/--/-- - 00 Paid-Up					
	CO-Commence Oper for Drilling					
	County: LEA State: NEW MEXICO	30 Lease Gross: 160.0000	Lease Net: 2.0000			
	Legal Description: 01 SEC 30-11S-38E: SW/4					
1319-086-0E	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00		
	GRAHAM, WALTER K. ET UX	N5 Non-Producing - No Rental Due				
	Lease Date: 08/01/97 Lessor: WALTER K. GRAHAM ET UX	Lessee: COBRA EXPLORATION COMPANY				
	Expire Date: 08/01/02 Rental Date: --/--/-- - 00 Paid-Up					
	CO-Commence Oper for Drilling					
	County: LEA State: NEW MEXICO	30 Lease Gross: 160.0000	Lease Net: .1469			
	Legal Description: 01 SEC 30-11S-38E: SW/4					
1319-087-0A	1319 North Gladiola	AQ Acquired Oil & Gas Lease	480.0000	.00		
	READ, CHARLES B.	N5 Non-Producing - No Rental Due				
	Lease Date: 10/01/97 Lessor: CHARLES B. READ	Lessee: COBRA EXPLORATION COMPANY				
	Expire Date: 10/01/00 Rental Date: --/--/-- - 00 Paid-Up					
	SP-Spud Well					
	County: LEA State: NEW MEXICO	** Lease Gross: 480.0000	Lease Net: 40.4167			
	Legal Description: 01 SEC 23-11S-37E: SW/4					
	01 SEC 9-11S-37E: E/2					
1319-088-00	1319 North Gladiola	ST State Oil & Gas Lease	320.0000	160.00		
	NEW MEXICO, STATE OF	N2 Non-Producing - Bill Others				
	Lease Date: 09/01/97 Lessor: STATE OF NEW MEXICO	Lessee: CHARLES L. HOUSE				
	Expire Date: 09/01/02 Rental Date: 09/01/98 - 12 Annual					
	CO-Commence Oper for Drilling					
	County: LEA State: NEW MEXICO	22 Lease Gross: 320.0000	Lease Net: 320.0000			
	Legal Description: 01 SEC 22-11S-36E: S/2					
	01 STATE OF NEW MEXICO LEASE NO. VA1647					





Company Id. COB

Cobra Oil & Gas Corporation  
Leases with Acreage/Description

08/04/99  
Page: 14

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop	Pay
XXXX-XXX-XX	xxxx xx	xx xx	xxxxx.xxxx	xxxxxxx.xx		
1319-089-0E	( * Continued * )					
	Legal Description: 01 SEC 23-11S-37E: SW/4					
1319-089-0F	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00		
	WEBB LIV TR, SIDNEY & EMMALEE	N5 Non-Producing - No Rental Due				
	Lease Date: 10/15/97 Lessor: SIDNEY & EMMALEE WEBB LIV TR	Lessee: COBRA EXPLORATION COMPANY				
	Expire Date: 10/15/00 Rental Date: --/--/-- - 00 Paid-Up					
	CO-Commence Oper for Drilling					
	County: LEA	State: NEW MEXICO	23 Lease Gross: 160.0000	Lease Net: 26.6667		
	Legal Description: 01 SEC 23-11S-37E: SW/4					
1319-089-0G	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00		
	WEBB, ROBERT D. ET UX	N5 Non-Producing - No Rental Due				
	Lease Date: 10/15/97 Lessor: ROBERT D. WEBB ET UX	Lessee: COBRA EXPLORATION COMPANY				
	Expire Date: 10/15/00 Rental Date: --/--/-- - 00 Paid-Up					
	CO-Commence Oper for Drilling					
	County: LEA	State: NEW MEXICO	23 Lease Gross: 160.0000	Lease Net: 13.3333		
	Legal Description: 01 SEC 23-11S-37E: SW/4					
1319-089-0H	1319 North Gladiola	AQ Acquired Oil & Gas Lease	.0000	.00		
	WEBB, JOE E. ET UX	N5 Non-Producing - No Rental Due				
	Lease Date: 10/15/97 Lessor: JOE E. WEBB ET UX	Lessee: COBRA EXPLORATION COMPANY				
	Expire Date: 10/15/00 Rental Date: --/--/-- - 00 Paid-Up					
	CO-Commence Oper for Drilling					
	County: LEA	State: NEW MEXICO	23 Lease Gross: 160.0000	Lease Net: 13.3300		
	Legal Description: 01 SEC 23-11S-37E: SW/4					
1319-090-0A	1319 North Gladiola	AQ Acquired Oil & Gas Lease	560.0000	.00		
	HUBBARD, CLAYTON	N5 Non-Producing - No Rental Due				
	Lease Date: 10/01/97 Lessor: CLAYTON HUBBARD	Lessee: CHARLES L. HOUSE				
	Expire Date: 10/01/00 Rental Date: --/--/-- - 00 Paid-Up					
	SP-Spud Well					
	County: LEA	State: NEW MEXICO	** Lease Gross: 560.0000	Lease Net: 10.8333		
	Legal Description: 01 SEC 25-11S-36E: SW/4 NW/4; SW/4; W/2 SE/4; SE/4 SE/4					
	01 SEC 35-11S-36E: SW/4; W/2 NW/4					

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop Pay
XXXX-XXX-XX	xxxx xx	xx xx	xxxxx.xxxx	xxxxxxx.xx	
1319-090-0B	1319 North Gladiola HUBBARD, CRAIG	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
Lease Date: 10/01/97 Lessor: CRAIG HUBBARD Lessee: CHARLES L. HOUSE					
Expire Date: 10/01/00 Rental Date: --/--/-- - 00 Paid-Up					
SP-Spud Well					
County: LEA State: NEW MEXICO ** Lease Gross: 560.0000 Lease Net: 10.8333					
Legal Description: 01 SEC 25-11S-36E: SW/4 NW/4; SW/4; W/2 SE/4; SE/4 SE/4					
01 SEC 35-11S-36E: SW/4; W/2 NW/4					
1319-090-0C	1319 North Gladiola ANDERSON, BARBARA	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
Lease Date: 12/05/97 Lessor: BARBARA ANDERSON Lessee: COBRA EXPLORATION COMPANY					
Expire Date: 12/05/00 Rental Date: --/--/-- - 00 Paid-Up					
CO-Commence Oper for Drilling					
County: LEA State: NEW MEXICO ** Lease Gross: 560.0000 Lease Net: 21.6667					
Legal Description: 01 SEC 25-11S-36E: SW/4 NW/4; SW/4; W/2 SE/4					
01 SEC 35-11S-36E: SW/4; W/2 NW/4					
1319-090-0D	1319 North Gladiola MITCHELL, KATHRYN	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
Lease Date: 12/05/97 Lessor: KATHRYN MITCHELL Lessee: COBRA EXPLORATION COMPANY					
Expire Date: 12/05/00 Rental Date: --/--/-- - 00 Paid-Up					
CO-Commence Oper for Drilling					
County: LEA State: NEW MEXICO ** Lease Gross: 560.0000 Lease Net: 21.6667					
Legal Description: 01 SEC 25-11S-36E: SW/4 NW/4; SW/4; W/2 SE/4; SE/4 SE/4					
01 SEC 35-11S-36E: SW/4; W/2 NW/4					
1319-090-0E	1319 North Gladiola GRIFFIN, LOUIS E.	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	.0000	.00	
Lease Date: 12/05/97 Lessor: LOUIS E. GRIFFIN Lessee: COBRA EXPLORATION COMPANY					
Expire Date: 12/05/00 Rental Date: --/--/-- - 00 Paid-Up					
CO-Commence Oper for Drilling					
County: LEA State: NEW MEXICO ** Lease Gross: 560.0000 Lease Net: 21.6668					
Legal Description: 01 SEC 25-11S-36E: SW/4 NW/4; SW/4; W/2 SE/4; SE/4 SE/4					
01 SEC 35-11S-36E: SW/4; W/2 NW/4					
1319-091-0A	1319 North Gladiola MARKHAM, RODERICK ALLEN	AQ Acquired Oil & Gas Lease N5 Non-Producing - No Rental Due	160.0000	.00	
Lease Date: 10/15/97 Lessor: RODERICK ALLEN MARKHAM Lessee: COBRA EXPLORATION COMPANY					
Expire Date: 10/15/99 Rental Date: --/--/-- - 00 Paid-Up					
SP-Spud Well					



Company Id. COB

08/04/99  
Page: 17

Lease Number	Prospect Name/Lease Name	Type of Instrument/Lease Status	Base Lease Gross Acres	Total Rental	Recommendation Drop	Pay
XXXX-XXX-XX	xxxx xx	xx xx	xxxxx.xxxx	xxxxxxx.xx		
1319-094-00	( * Continued * )					
	Legal Description: 01 SEC 26-11S-37E: NW/4					
	01. STATE OF NEW MEXICO LEASE NO. VA1669					



IV. Areas in which The Allamogosa Company owns Non-Producing Mineral Interests in Lea and Eddy Counties, New Mexico.

LEA COUNTY  
NEW MEXICO

<u>SECTION</u>	<u>TOWNSHIP</u>	<u>RANGE</u>	<u>ACRES</u>
24	20S	36E	1.50
5	23S	37E	7.00
6	23S	37E	7.00
21	25S	37E	5.00
23	25S	36E	0.67
24	25S	36E	0.67
13	25S	36E	21.34
14	25S	36E	40.00
15	24S	36E	3.56
25	20S	36E	1.50
15	24S	36E	1.33
27	24S	36E	2.25
26	24S	36E	21.33
15	20S	38E	1.37
22	20S	38E	0.56
23	20S	38E	0.56
13	20S	38E	1.11
34	19S	38E	3.33
3	20S	38E	0.694
2	20S	38E	1.11
32	18S	37E	13.33
3	20S	38E	0.47
10	20S	38E	0.24
11	20S	38E	0.24
1	20S	38E	4.84
7	20S	39E	6.49
18	20S	39E	2.97
12	20S	38E	3.21
13	20S	38E	2.16
19	20S	39E	6.00
24	19S	38E	80.00
26	16S	37E	10.67
11	11S	38E	42.67
6	13S	37E	42.67
6	13S	37E	42.67
28	12S	37E	85.33
17	12S	37E	85.33
14	12S	36E	85.33
6	13S	37E	20.67
24	12S	36E	85.33

LEA COUNTY  
NEW MEXICO

<u>SECTION</u>	<u>TOWNSHIP</u>	<u>RANGE</u>	<u>ACRES</u>
28	16S	37E	10.67
27	16S	37E	13.33
33	16S	37E	2.67
20	10S	38E	42.67
11	10S	35E	42.66
12	10S	35E	42.66
12	12S	37E	85.33
33	13S	38E	85.33
7	12S	37E	42.67
24	14S	35E	20.00
25	14S	35E	20.00
33	19S	38E	40.00
35	16S	37E	5.33
35	19S	38E	20.00
21	19S	38E	20.00
18	25S	36E	20.00
10	25S	36E	40.00
6	25S	36E	40.47
12	18S	38E	80.00
33	24S	36E	40.00
15	20S	38E	0.97
23	22S	37E	3.33
19	20S	39E	12.00
27	16S	37E	6.66
32	19S	39E	42.66
34	16S	37E	8.40
34	16S	37E	10.67



EDDY COUNTY  
NEW MEXICO

<u>SECTION</u>	<u>TOWNSHIP</u>	<u>RANGE</u>	<u>ACRES</u>
29	26S	29E	40.00
32	26S	29E	128.00

## **Appendix 1**

(Attached to and made a part of Exploration Agreement dated July 1, 1999, between The Allar Group and KUKUI, INC.)

### **DESCRIPTION OF PROJECT AREA**

All of Lea County, Eddy County, and all that portion of Chaves County located South of the north line of Township - 13 - South, New Mexico

## Appendix 2

(Attached to and made a part of Exploration Agreement dated July 1, 1999, between  
The Allar Group and KUKUI, INC.)

### ASSIGNMENT

KUKUI, INC., a Texas corporation, whose mailing address is 6600 Kalaniana'ole Highway, Suite 224, Honolulu, Hawaii 96825 (hereinafter referred to as "*Assignor*"), for and in consideration of the payment to Assignor of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, hereby BARGAINS, SELLS, GRANTS, CONVEYS and ASSIGNS to

The Allar Company	an undivided twenty (20.00%) percent
P.O box 1567	
Graham, TX. 76450	

Talus, Inc.	an undivided ten (10.00%) percent
P.O. box 1210	
Graham, TX. 76450	

Twin Montana, Inc.	an undivided ten (10.00%) percent
P.O. box 1210	
Graham, TX. 76450	

(hereinafter referred to as "*Assignee*" *whether one or more*), of Assignor's right, title and interest in and to the following:

(i) rights arising under oil and gas leases or oil, gas and mineral leases described in Exhibit A hereto (the "*Subject Leases*") INsofar AND ONLY INsofar as the Subject Leases cover and affect the lands described in said Exhibit A (the "*Subject Lands*"), and whether such rights derive from the interest of the lessor or the lessee in the Subject Leases including royalty interests, working interests, overriding royalty interests and other interests carved out of the working interests in the Subject Leases;

(ii) any contractual right to acquire oil and gas properties and interests covering the Subject Lands, including but not limited to options to acquire leases, farmin rights, and rights arising under operating agreements or acreage contribution agreements covering the Subject Lands;

(iii) interests in the Subject Lands acquired under pooling or similar orders;

(iv) access rights and surface use agreement covering the Subject Lands; and

(v) permits, easements and rights-of-way, insofar and only insofar as they cover the Subject Lands.

The interests conveyed hereby in all the aforesaid properties, rights and interests are hereinafter referred to as the *"Assigned Interests."*

**Assignee hereby assumes and agrees to pay and perform all obligations attributable to any working interests conveyed hereby including but not limited to the obligation to bear and pay its pro rata share of the lessors' royalties and the obligation to plug and abandon any wells located on the Subject Lands when required by applicable laws, rules or regulations or by the terms of Subject Leases and to restore the surface of the Subject Lands in accordance with the terms of the Subject Leases and by applicable laws, rules or regulations. Any subsequent assignment by Assignee of the rights and interests conveyed hereby shall be subject to the terms and conditions hereof.**

This Assignment is the Assignment referred to in Section 2.3 of that certain Exploration Agreement made and entered into as of July 1, 1999 between Assignor and Assignee and is subject to the terms and conditions of said Exploration Agreement. The Assigned Interests are also subject to all valid and existing royalties, overriding royalties, production payments, net profits interests or other burdens, restrictions, covenants, conditions, rights-of-way, easements, mineral reservations or other interests measured by or payable out of production in favor of third parties and that cover or affect the Assigned Interests as such existing burdens may be increased or reduced from time to time hereafter by reason of the conversion of a leasehold interest into another type of leasehold interest, the commencement or termination of reversionary interest or determinable estate or otherwise affecting the Assigned Interests to the extent that the same are valid and subsisting.

TO HAVE AND TO HOLD the Assigned Interests unto Assignee, its successors and assigns, forever, in accordance with the terms and provisions of this Assignment and Assignor hereby binds and obligates itself and its successors and assigns to warrant and forever defend all and singular title to the Assigned Interests unto Assignee, its successors and assigns, against every person or entity whomsoever claiming or to claim the same or any portion thereof by, through or under Assignor, but

not otherwise, subject as aforesaid, but with full subrogation and substitution to all covenants and warranties by others heretofore given or made with respect to the Assigned Interests, or any part thereof.

IN WITNESS WHEREOF, Assignor and Assignee have caused this instrument to be executed and delivered on \_\_\_\_\_.

**ASSIGNOR:**  
KUKUI, INC.

By: \_\_\_\_\_  
Dennis E. Fern, President

**ASSIGNEE:**  
The Allar Company

By: \_\_\_\_\_  
Edwin S. Graham, III, President

Talus, Inc.

By: \_\_\_\_\_  
Ken Haggart, President

Twin Montana, Inc.

By: \_\_\_\_\_  
H. T. Hunnewell, President

THE STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_, day of \_\_\_\_\_ 1999,  
by Dennis E. Fern, President of KUKUI, INC., a Texas corporation, on behalf of said corporation.

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

Printed Name of Notary Public

My Commission Expires:

THE STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_, day of \_\_\_\_\_ 1999,  
by Edwin S. Graham, III, President of The Allar Company., a Texas corporation, on behalf of said  
corporation.

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

Printed Name of Notary Public

My Commission Expires:

THE STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_, day of \_\_\_\_\_ 1999,  
by Ken Haggert, President of Talus, Inc., a Texas corporation, on behalf of said corporation.

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

Printed Name of Notary Public

My Commission Expires:

THE STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_, day of \_\_\_\_\_ 1999,  
by H. T. Hunnewell, President of Twin Montana, Inc., a Texas corporation, on behalf of said  
corporation.

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

Printed Name of Notary Public

My Commission Expires:

### Appendix 3

(Attached to and made a part of Exploration Agreement dated July 1, 1999, between  
The Allar Group and KUKUI, INC.)

#### ASSIGNMENT OF OVERRIDING ROYALTY

\_\_\_\_\_  
(Title Holder), a Texas corporation ("*Assignor*"), for a sufficient consideration received, hereby CONVEYS to John Thoma, whose mailing address is \_\_\_\_\_ ("*Assignee*"), the hereinafter described overriding royalties on production from the oil, gas and mineral leases described in Exhibit A hereto ("*Said Leases*"), reference being here made to each of Said Leases for a more particular description of the lands covered thereby and for all other pertinent purposes.

The overriding royalties conveyed hereby are the following:

- a. On oil, one and one-half percent (1.5%) of all (8/8ths) oil which may be produced and saved from the land covered by Said Leases, delivery of such oil to be made free of cost to the credit of Assignee into the pipelines to which the wells on said premises may be connected;
- b. On gas, including casinghead gas or other gaseous or vaporous substances produced from the lands covered by Said Leases, and sold or used off said land, Assignee shall be paid the market value at the wells of one and one-half percent (1.5%) of all (8/8ths) of the gas sold or used, provided that on gas sold at the wells the royalty shall be one and one-half percent (1.5%) of all (8/8ths) of the amount realized from such sale;
- c. On all other minerals produced and saved from Said Leases one and one-half (1.5%) percent of all (8/8ths) free of all costs and expenses;

The above described overriding royalties are conveyed to Assignee subject to the following terms and provisions:

1. Neither Assignor, nor its successors or assigns, shall be under any obligation against their will to operate on any of the lands covered by Said Leases for the discovery, development or production of oil, gas or other minerals, but all of such operations and the extent and duration thereof, as well as the preservation of the leaseholds shall be solely at the will of Assignor, its successors and assigns.



2. If the Lessors in any of Said Leases own a less interest in the premises covered thereby than the entire undivided fee simple estate in all or any portion of the lands described therein or oil and gas mineral rights relating thereto, or if the Assignor owns less than 100% of the estate of the original lessee in any of Said Leases, then the overriding royalties herein assigned as to such lease shall be reduced and shall be payable to Assignee in the proportion which the interest of said Lessors in such lands and oil and gas mineral rights bears to the entire undivided fee simple estate therein and in the proportion which the interest of Assignor in Said Lease bears to the entire estate of the original lessee in Said Lease.
3. Said overriding royalties shall be charged with their proportionate part of the trucking charges, compression, transportation and other reasonable expenses of making marketable or marketing said oil and gas production, and gross production, pipeline or other severance taxes which may be levied or assessed against the same and paid by the operator of said property. Assignee shall pay all ad valorem taxes assessed against the overriding royalties.
4. Insofar as the rights of Assignee are concerned, Assignor shall have the right and power to pool or combine the lands covered by any of Said Leases or any portion thereof with any other land, lease or leases, under the same conditions and in the same manner as set out in the lease as to pooling of the acreage covered thereby. In lieu of the overriding royalties above specified, Assignee shall receive on production from a unit so pooled only such portion of the overriding royalties stipulated herein as the number of acres covered by the lease or portion thereof which is placed in any such unit bears to the total acreage so pooled in the particular unit involved.

This Assignment of Overriding Royalties is made subject to:

- (1) That certain Exploration Agreement dated as of July 1, 1999, between KUKUI, INC. and Assignor (the "*Exploration Agreement*").
- (2) That certain Geological Consulting Agreement dated November 10, 1998, as amended by that certain First Amendment to Geological Consulting Agreement, dated July 1, 1999, by and among The Allar Company, Talus, Inc., Twin Montana, Inc. and Assignee (the "*Consulting Agreement*").
- (3) All covenants, restrictions, agreements or other burdens of record which are valid and subsisting and which cover or affect Said Leases.

TO HAVE AND TO HOLD the said overriding royalties unto Assignee, its successors and assigns, forever, in accordance with the terms and provisions of Said Leases and hereof.

Within 60 days after each occurrence of ***"Payout"*** (as defined in the Exploration Agreement or in the Consulting Agreement), the owner of the working interest affected by such occurrence of Payout (the ***"Affected Working Interest Owner"***) shall notify Assignee in writing at the address set forth above or at the most recent address of Assignee then known to the Affected Working Interest Owner that such Payout has occurred. Within 30 days after Assignee receives such notice, Assignee shall notify the Affected Working Interest Owner whether Assignee elects to convert that portion of the overriding royalties conveyed hereby which burdens the leasehold working interest of the Affected Working Interest Owner to a five percent (5%) undivided interest in that part of the leasehold working interests of the Affected Working Interest Owner that is burdened by the overriding royalties created hereby (proportionally reduced by the amount of the working interests with respect to which payout has occurred). If Assignee timely elects to convert such portion of his overriding royalties to a five percent (5%) undivided interest in that part of the leasehold working interest that is burdened by the overriding royalties created hereby proportionally reduced by the amount of the working interests with respect to which payout has occurred (the ***"Burdened Interests"***), such conversion shall be effective as of the time of payout. Assignee shall reassign the converted portion of the overriding royalties created hereby to the holders of the Burdened Interests, free and clear of all liens, claims and encumbrances created by through or under Assignee, and the holders of the Burdened Interests shall assign to Assignee the above mentioned working interest. If Assignee does not timely give written notice of his election to convert the overriding royalties created hereby as provided above, Assignee shall be deemed to have elected, on an irrevocable basis, not to convert such portion of the overriding royalties created hereby.

This assignment is made without warranty or recourse, express or implied, but with full transfer, substitution and subrogation to Assignee as to all rights and actions of warranty which the Assignor may have.

EXECUTED this \_\_\_\_\_ day of \_\_\_\_\_, 1999.

**ASSIGNOR:**

\_\_\_\_\_  
(Title Holder)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**ASSIGNEE:**

\_\_\_\_\_  
John Thoma

STATE OF TEXAS

§

COUNTY OF

§

§

This instrument was acknowledged before me on \_\_\_\_\_, 1999, by \_\_\_\_\_ of (Title Holder), a \_\_\_\_\_ corporation, on behalf of said corporation.

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

My Commission Expires:

Notary's Name Printed:

\_\_\_\_\_

\_\_\_\_\_

STATE OF TEXAS

§

COUNTY OF

§

§

This instrument was acknowledged before me on \_\_\_\_\_, 1999, by John Thoma.

\_\_\_\_\_  
Notary Public in and for  
the State of Texas

My Commission Expires:

Notary's Name Printed:

\_\_\_\_\_

\_\_\_\_\_

A.A.P.L. FORM 610-1982

**MODEL FORM OPERATING AGREEMENT**

**Appendix 4**  
**To Exploration Agreement dated July 1, 1999**  
**Between KUKUI, INC. and The Allar Group**

OPERATING AGREEMENT

DATED

\_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_,  
Year

OPERATOR \_\_\_\_\_

CONTRACT AREA See Exhibit A for a description of the Contract Area

COUNTY OR PARISH OF Lea, Eddy, and Chaves STATE OF New Mexico

**TABLE OF CONTENTS**

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	<u>DEFINITIONS</u> .....	1
II.	<u>EXHIBITS</u> .....	1
III.	<u>INTERESTS OF PARTIES</u> .....	2
	<del>A. OIL AND GAS INTERESTS</del> .....	2
	B. INTERESTS OF PARTIES IN COSTS AND PRODUCTION.....	2
	C. EXCESS ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS.....	2
	<del>D. SUBSEQUENTLY CREATED INTERESTS</del> See Article XV. B. ....	2
IV.	<u>TITLES</u> .....	2
	A. TITLE EXAMINATION.....	2-3
	B. LOSS OF TITLE.....	3
	1. <del>Failure of Title</del> .....	3
	2. <del>Loss by Non Payment or Erroneous Payment of Amount Due</del> .....	3
	3. Other Losses.....	3
V.	<u>OPERATOR</u> .....	4
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR.....	4
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR.....	4
	1. Resignation or Removal of Operator.....	4
	2. Selection of Successor Operator.....	4
	C. EMPLOYEES.....	4
	D. DRILLING CONTRACTS.....	4
VI.	<u>DRILLING AND DEVELOPMENT</u> .....	4
	A. INITIAL WELL.....	4-5
	B. SUBSEQUENT OPERATIONS.....	5
	1. Proposed Operations.....	5
	2. Operations by Less than All Parties.....	5-6-7
	3. Stand-By Time.....	7
	4. Sidetracking.....	7
	C. TAKING PRODUCTION IN KIND.....	7
	D. ACCESS TO CONTRACT AREA AND INFORMATION.....	8
	E. ABANDONMENT OF WELLS.....	8
	1. Abandonment of Dry Holes.....	8
	2. Abandonment of Wells that have Produced.....	8-9
	3. Abandonment of Non-Consent Operations.....	9
VII.	<u>EXPENDITURES AND LIABILITY OF PARTIES</u> .....	9
	A. LIABILITY OF PARTIES.....	9
	B. LIENS AND PAYMENT DEFAULTS.....	9
	C. PAYMENTS AND ACCOUNTING.....	9
	D. LIMITATION OF EXPENDITURES.....	9-10
	1. Drill or Deepen.....	9-10
	2. Rework or Plug Back.....	10
	3. Other Operations.....	10
	E. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES.....	10
	F. TAXES.....	10
	G. INSURANCE.....	11
VIII.	<u>ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST</u> .....	11
	A. SURRENDER OF LEASES.....	11
	B. RENEWAL OR EXTENSION OF LEASES.....	11
	C. ACREAGE OR CASH CONTRIBUTIONS.....	11-12
	D. MAINTENANCE OF UNIFORM INTEREST.....	12
	E. WAIVER OF RIGHTS TO PARTITION.....	12
	<del>F. PREFERENTIAL RIGHT TO PURCHASE</del> .....	12
IX.	<u>INTERNAL REVENUE CODE ELECTION</u> .....	12
X.	<u>CLAIMS AND LAWSUITS</u> .....	13
XI.	<u>FORCE MAJEURE</u> .....	13
XII.	<u>NOTICES</u> .....	13
XIII.	<u>TERM OF AGREEMENT</u> .....	13
XIV.	<u>COMPLIANCE WITH LAWS AND REGULATIONS</u> .....	14
	A. LAWS, REGULATIONS AND ORDERS.....	14
	B. GOVERNING LAW.....	14
	C. REGULATORY AGENCIES.....	14
XV.	<u>OTHER PROVISIONS</u> .....	14
XVI.	<u>MISCELLANEOUS</u> .....	15

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between \_\_\_\_\_, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

**ARTICLE I.  
DEFINITIONS**

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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 II.  
EXHIBITS**

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ B. ~~Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

☐ G. ~~Exhibit "G", Tax Partnership.~~

If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.  
INTERESTS OF PARTIES

A. ~~Oil and Gas Interests:~~

~~If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.~~

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of ~~royalties to the extent of~~ all existing royalties and other burdens which are not Subsequently Created Interests which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

See Article XV. B.

~~If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:~~

~~1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,~~

~~2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.~~

ARTICLE IV.  
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or intended to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.



ARTICLE IV  
continued

1 ☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination  
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties  
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-  
4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above  
5 functions.

6  
7 Operator  
8 / Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection  
9 with leases or oil and gas interests <sup>subject to this agreement</sup> ~~contributed by such party~~. Operator shall be responsible for the preparation and recording of pooling  
10 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.  
11 This shall not prevent any party from appearing on its own behalf at any such hearing.

12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above  
13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to par-  
14 ticipate in the drilling of the well.

15  
16 **B. Loss of Title:**

17  
18 ~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a~~  
19 ~~reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days~~  
20 ~~from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acqui-~~  
21 ~~sition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil~~  
22 ~~and gas leases and interests; and,~~

23 ~~—(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be~~  
24 ~~entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,~~  
25 ~~but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

26 ~~—(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has~~  
27 ~~been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has oc-~~  
28 ~~curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract~~  
29 ~~Area by the amount of the interest lost;~~

30 ~~—(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is~~  
31 ~~increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such in-~~  
32 ~~terest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such~~  
33 ~~well;~~

34 ~~—(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has~~  
35 ~~failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties~~  
36 ~~who bore the costs which are so refunded;~~

37 ~~—(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be~~  
38 ~~borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,~~

39 ~~—(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest~~  
40 ~~claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in~~  
41 ~~connection therewith.~~

42  
43 ~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut in well~~  
44 ~~payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,~~  
45 ~~there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required~~  
46 ~~payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,~~  
47 ~~which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the~~  
48 ~~date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in~~  
49 ~~the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the~~  
50 ~~required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to~~  
51 ~~the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it~~  
52 ~~shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled~~  
53 ~~or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:~~

54 ~~—(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis,~~  
55 ~~up to the amount of unrecovered costs;~~

56 ~~—(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of~~  
57 ~~oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease~~  
58 ~~termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said~~  
59 ~~portion of the oil and gas to be contributed by the other parties in proportion to their respective interest; and,~~

60 ~~—(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest~~  
61 ~~lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~

62  
63 3. Other Losses: All losses incurred, <sup>Whether from failure of title or any other reason</sup> ~~/other than those set forth in Articles IV.B.1. and IV.B.2. above,~~ shall be joint losses  
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
65 the Contract Area.

ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

\_\_\_\_\_ shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. ~~The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected.~~ The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by 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.

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the \_\_\_\_\_ day of \_\_\_\_\_, (year) \_\_\_\_\_, Operator shall commence the drilling of a well for oil and gas at the following location:

The Initial Well shall be the first well drilled on the Contract Area. The Operator shall commence the drilling of said well at its proposed location

and shall thereafter continue the drilling of the well with due diligence to its proposed total depth

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

ARTICLE VI  
continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the  
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

6 **B. Subsequent Operations:**

8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area ~~other than the well provided~~  
9 ~~for in Article VI.A.,~~ or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all  
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-  
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice  
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-  
14 ing rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be  
15 limited to forty-eight (48) hours, exclusive of Saturday, Sunday, and legal holidays. Failure of a party receiving such notice to reply within  
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or  
17 response given by telephone shall be promptly confirmed in writing.

21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice  
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-  
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-  
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,  
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain  
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-  
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the  
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and  
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-  
30 dance with the provisions hereof as if no prior proposal had been made.

34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option  
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties  
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of  
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is  
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all  
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is  
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-  
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-  
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-  
43 ditions of this agreement.

47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable  
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as  
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours  
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-  
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and  
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for  
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,  
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have  
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such  
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.  
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their  
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-  
63 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,

ARTICLE VI  
continued

1 and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, / reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

13  
14  
15  
16  
17  
18  
19  
20  
21 (b) 400 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 400 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

22  
23  
24  
25  
26  
27  
28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

40  
41  
42  
43  
44  
45  
46 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

47  
48  
49  
50  
51  
52  
53 Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

**ARTICLE VI**  
**continued**

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

**3. Stand-By Time:** When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

**4. Sidetracking:** Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein call "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

**C. TAKING PRODUCTION IN KIND:**

Each party shall <sup>Have the right to</sup> take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing the treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

**ARTICLE VI**  
**continued**

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

2  
3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from  
4 the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for  
5 its share of all production.

6  
7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of  
8 the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not  
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the  
10 best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the  
11 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously  
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of  
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess  
14 of one (1) year.

15  
16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or  
17 deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to  
18 be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing  
19 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

20  
21 **D. Access to Contract Area and Information:**

22  
23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,  
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books  
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with  
26 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of  
27 each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of  
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-  
29 quests the information. / operation conducted hereunder shall have no right to observe such operation or have access to information  
30 pertaining to such operation until such time as the Non-Consenting party's share of the cost of such operation and the non-consent  
31 penalty applicable thereto has been recovered by the Consenting parties as provided for herein.

32  
33 **E. Abandonment of Wells:**

34  
35 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been  
36 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned  
37 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply  
38 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon  
39 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in  
40 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening  
41 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further  
42 operations in search of oil and/or gas subject to the provisions of Article VI.B.

43  
44 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted  
45 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a  
46 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
47 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within  
48 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,  
49 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other  
50 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of  
51 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. / Each abandoning party shall assign  
52 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and  
53 material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-  
54 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and  
55 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-  
56 tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-  
57 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

58 \* The failure of any party to make a specific election in writing within said thirty (30) days shall be conclusively deemed to be an  
59 election to have consented to the abandonment of such well.

**ARTICLE VI**  
**continued**

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the  
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the  
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of  
4 interests in the remaining portion of the Contract Area.

5  
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from  
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-  
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-  
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned  
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to  
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-  
12 visions hereof.

13  
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between  
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be  
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified  
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article  
18 VI.E.

**ARTICLE VII.**  
**EXPENDITURES AND LIABILITY OF PARTIES**

23 **A. Liability of Parties:**

24  
25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and  
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted  
27 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor  
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

30 **B. Liens and Payment Defaults:**

31  
32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share  
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon  
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the  
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-  
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien  
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share  
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from  
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each  
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien  
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42  
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by  
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that  
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain  
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

48 **C. Payments and Accounting:**

49  
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development  
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-  
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,  
53 showing expenses incurred and charges and credits made and received.

54  
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance  
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding  
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together  
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted  
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within  
60 fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount  
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-  
62 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

64 **D. Limitation of Expenditures:**

65  
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened  
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

**ARTICLE VII**  
continued

1 ☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including  
2 necessary tankage and/or surface facilities.

3  
4 ☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its  
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice  
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight  
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-  
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-  
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall  
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,  
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging  
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less  
13 than all parties.

14  
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or  
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall  
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage  
18 and/or surface facilities.

19  
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated  
21 to require an expenditure in excess of Twenty-five Thousand Dollars (\$ 25,000.00 )  
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been  
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden  
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required  
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other  
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting  
27 an information copy thereof for any single project costing in excess of Fifteen thousand  
28 Dollars (\$ 15,000.00 ) but less than the amount first set forth above in this paragraph.

29  
30 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

31  
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the  
33 ~~Operator / party or parties who subjected such lease to this agreement at its or their expense.~~ In the event two or more parties own and have con-  
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on  
35 behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of  
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-  
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-  
38 visions of Article IV.B. / 2.

39  
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production  
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by  
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify  
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment  
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45  
46 **F. Taxes:**

47  
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property  
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they  
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not  
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-  
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-  
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or  
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-  
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding  
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax  
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in  
58 the manner provided in Exhibit "C".

59  
60 If Operator ~~/ considers any tax assessment improper,~~ <sup>or any Non-Operator</sup> Operator may, at its discretion, protest within the time and manner  
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-  
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any  
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-  
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as  
65 provided in Exhibit "C".

66  
67 ~~Each party~~ <sup>Operator</sup> shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect  
68 to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.



**ARTICLE VII**  
**continued**

**G. Insurance:**

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

**ARTICLE VIII.**  
**ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

**A. Surrender of Leases:**

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement, but shall be subject to an operating agreement identical to the agreement changed only to reflect the names and interest of the parties owning an interest therein.

**B. Renewal or Extension of Leases:**

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement, but shall be subject to an operating agreement identical to this agreement changed only to reflect the names and interest of the parties owning an interest therein.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

**C. Acreage or Cash Contributions:**

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

**ARTICLE VIII**  
continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be  
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions  
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-  
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

5  
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such  
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8  
9 **D. Maintenance of Uniform Interests:**

10  
11 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no  
12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,  
13 equipment and production unless such disposition covers either:

14  
15 ~~1. the entire interest of the party in all leases and equipment and production; or~~

16  
17 ~~2. an equal undivided interest in all leases and equipment and production in the Contract Area.~~

18  
19 ~~Every such sale, encumbrance, transfer or other disposition made by any party~~ shall be made expressly subject to this agreement  
20 and shall be made without prejudice to the right of the other parties. Any extra expenditure incurred as a result of a partial disposition,  
21 including any additional marketing or metering costs shall be borne by the party to which such interest is transferred.

22 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may  
23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for  
24 and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such  
25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter  
26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract  
27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

28  
29 **E. Waiver of Rights to Partition:**

30  
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
32 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided  
33 interest therein.

34  
35 **F. ~~Preferential Right to Purchase:~~**

36  
37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~  
38 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~  
39 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~  
40 ~~of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase~~  
41 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~  
42 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~  
43 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~  
44 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~  
45 ~~pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

46  
47 **ARTICLE IX.**  
48 **INTERNAL REVENUE CODE ELECTION**

49  
50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association  
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several  
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax  
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded  
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as per-  
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-  
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the  
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,  
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further  
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the  
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other  
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,  
63 Subtitle "A", of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is per-  
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-  
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the  
66 computation of partnership taxable income.

**ARTICLE X.  
CLAIMS AND LAWSUITS**

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand Dollars (\$ 10,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

**ARTICLE XI.  
FORCE MAJEURE**

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspending during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

**ARTICLE XII.  
NOTICES**

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

**ARTICLE XIII.  
TERM OF AGREEMENT**

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

☒ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal, or otherwise.

☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of \_\_\_\_\_ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within \_\_\_\_\_ days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

**A. Laws, Regulations and Orders:**

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

**B. Governing Law:**

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state / <sup>of Texas</sup> ~~in which~~ the Contract Area is located. If the Contract Area is in two or more states, the law of the state of \_\_\_\_\_ shall govern.

**C. Regulatory Agencies:**

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.  
OTHER PROVISIONS

**A. Confidentiality.**

Any data, information, and progress reports obtained by a party under this agreement or under any other applicable operating agreement shall be held by such party with reasonable care and precaution to prevent the publication, dissemination, or disclosure of any such data, information, and reports or copies thereof, to any third person whomsoever. Each party shall have the right, however, to make such data, information and reports or copies thereof available to (i) prospective purchasers of such party's interest in the oil and gas leases and oil and gas interests subject hereto, (ii) prospective lenders of such party and (iii) such party's consultants for evaluation purposes so long as such prospective purchaser, lenders and consultants agree to be bound by the confidentiality provisions of this agreement.

**B. Subsequently Created Interests.**

Notwithstanding the provisions of this agreement to the contrary, if any party hereto shall subsequent to the effective date of this Agreement create an overriding royalty, production payment, net proceeds interest, or other similar interest or if such an interest was created prior to the effective date of this Agreement but was neither recorded in the county/parish in which the Contract Area is located nor disclosed in writing to all parties hereto at the time of execution hereof (any such interest shall hereafter be referred to as a "Subsequently Created Interest"), such Subsequently Created Interest shall be specifically subject to all of the terms and provisions of this Agreement, as follows:

- (1) If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the Subsequently Created Interest is derived, such party shall receive same free and clear of such Subsequently Created Interest. The party creating same shall bear and pay all such Subsequently Created Interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.
- (2) If the owner of the interest from which a Subsequently Created Interest is derived fails to pay, when due, its share of expenses chargeable hereunder, the lien granted the other parties hereto under the provisions of Article VII.B. or under the appropriate state statutes shall cover and affect the Subsequently Created Interest and the rights of the parties shall be the same as if the Subsequently Created Interest had not been created.
- (3) If the owner of the interest from which a Subsequently Created Interest is derived (i) elects to abandon a well under the provisions of Article VI.E. hereof, (ii) elects to surrender a lease (or portion thereof) under the provisions of Article VIII.A. hereof, (iii) elects not to pay rentals attributable to its interest in any lease and thereby is required to assign the lease or that portion or interest therein for which it elects not to pay rentals to those parties paying such rental, or (iv) elects not to participate in an Obligatory Operation as defined in Article XV.G., any assignment resulting from such election shall be free and clear of the Subsequently Created Interest.
- (4) The owner creating such interest shall indemnify and hold the other parties hereto harmless from any claim or cause of action by the owner of the Subsequently Created Interest.

#### C. Subdivision of Interests

If, at any time the interest of any party is divided among and owned by two or more co-owners, such co-owners shall appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof. Until the trustee or agent is appointed, the party who is assigned to one or more co-owners shall be considered for all purposes hereof as such trustee or agent with all rights and responsibilities thereof. The trustee or agent appointed or deemed to be appointed hereunder shall be liable to Operator for all costs, expenses and liabilities incurred pursuant to this agreement attributable to the interests for which the trustee or agent is appointed or deemed to be appointed. Operator shall not be required to account separately for the separate interests represented by the trustee or agent.

#### D. Obligatory Operations.

Notwithstanding the other provisions hereof and particularly Article VI, if the proposed operation is an Obligatory Operation, a party not participating in such operation shall assign to the parties participating in the operation all of its interest in the leases, or portion thereof, and to the formations and depths covered thereby which would be lost or not earned if such operation is not conducted. Such assignment shall be due upon the commencement of operations for such well and shall be free and clear of any (i) mortgages, liens or other similar encumbrances placed thereon by the non-consenting party or resulting from the non-consenting

party's ownership and operations subsequent to the date of this Agreement and (ii) Subsequently Created Interest, but otherwise without warranty of title, either express or implied. A well or other operation commenced within six (6) months prior to the date the lease or leases (or portions thereof) would expire in the absence of such operation and a well or other operation which must be drilled or conducted to "earn" or maintain a lease or farmout rights, shall constitute an "Obligatory Operation". The provisions of Article VI.B shall, however, continue to apply to any remaining portion of the Contract Area which contributes to production from the non-consenting operations (i.e., within the same drilling, production or proration unit). The leasehold interests assigned to the consenting parties by the non-consenting parties shall no longer be subject to this Operating Agreement but shall be subject to an operating agreement identical to this Agreement changed only to reflect the names and interests of the consenting parties.

**E. Area of Mutual Interest**

The parties hereto hereby create an Area of Mutual Interest ("AMI") consisting of the Contract Area described on the cover page to this Operating Agreement. This AMI shall remain in force and effect as long as this Operating Agreement remains in effect, unless sooner terminated by the Parties.

During the term of this AMI, if any party hereto ("Acquiring Party") acquires, renews or extends any oil and gas leases or any interest therein, any unleased mineral interest or any farmouts or other contracts with respect thereto which effect lands and minerals lying within the AMI ("Mineral Interest"), the Acquiring Party shall promptly advise each of the other parties hereto ("Offeree") of such acquisition. In such event, each Offeree shall have the right to acquire its proportionate interest in such Mineral Interest in accordance with the other provisions of this AMI.

Promptly upon acquiring such Mineral Interest, the Acquiring Party shall, in writing, advise the Offerees of such acquisition. The notice shall include a copy of all instruments of acquisition including, by way of example but not of limitation, copies of the leases, assignments, subleases, farmouts or other contracts affecting the Mineral Interest. The Acquiring Party shall also enclose an itemized statement of the actual costs and expenses incurred by the acquiring Party in acquiring such Mineral Interest, excluding, however, costs and expenses of its own employees ("Acquisition Costs"). Each Offeree shall have a period of fifteen (15) days after receipt of the notice within which to furnish the Acquiring Party written notice of its election to acquire its proportionate interest in the offered Mineral Interest. If, however, a well in search of oil or gas is being drilled within the AMI or at a location outside the AMI of which the result could be expected to materially affect the value of the offered Mineral Interest, each Offeree shall have a period of forty-eight (48) hours after receipt of the notice within which to elect to acquire its proportionate interest in the Mineral Interest so offered. It is provided, however, that the forty-eight (48) hour election period shall not apply unless the Acquiring Party shall give the notice to the Offerees within two (2) days after the date of which the Acquiring Party acquired the Mineral interest so offered. In addition thereto, the Acquiring Party shall also:

- (a) furnish the Offeree with the approximate location of the well then being drilled and the name of the Operator or drilling contractor drilling the well, and
- (b) specifically advise the Offeree that the Offeree shall have a period of forty-eight (48) hours within which to elect to acquire an interest in the offered Mineral Interest.

The above information shall be in addition to the information and copies of instruments provided for above in connection with the usual notices of acquisition

of a Mineral Interest. If the Acquiring Party shall not have received actual written notice of election of Offeree to acquire its proportionate interest within the fifteen (15) day or forty-eight (48) hour period, as the case may be, such failure shall constitute an election by such Offeree not to acquire its interest in the Mineral Interest. Each Offeree accepting the offered Mineral Interest shall be entitled to participate in such Mineral Interest in the proportion to which its interest under this Operating Agreement, as set forth in Exhibit "A" hereto, bears to the aggregate interest under this Operating Agreement as set forth in Exhibit "A" hereto of the Acquiring Party and all other Offerees who have elected to acquire an interest in the Mineral Interest so offered. Promptly after the time for the election shall have expired, the Acquiring Party shall invoice each Offeree electing to acquire an interest for its proportionate part of the Acquisition Costs. Each Offeree shall immediately reimburse the Acquiring Party for its share of the Acquisition Costs, as reflected by the invoice. Upon receipt of such reimbursement, the Acquiring Party shall execute and deliver an appropriate assignment to such Offeree. If the Acquiring Party does not receive the amount due from the Offeree within fifteen (15) days after the receipt by the Offeree of the invoice for its costs, the Acquiring Party may, at its election, give written notice to such delinquent party that the failure of the Acquiring Party to receive the amount due within five (5) business days after receipt of the delinquent notice by Offeree shall constitute a withdrawal by the delinquent Offeree of its former election to acquire the interest, and such Offeree shall no longer have the right to acquire an interest in the offered mineral interest.

Any assignment made by the Acquiring Party shall be made free and clear of any burdens and made without warranty of title, either express or implied. The assignment shall be made and accepted subject to, and each assignee shall expressly assume its portion of, all of the obligations of the Acquiring Party.

If the Mineral Interest covers lands within and without the AMI, the Acquiring Party shall offer the entire Mineral Interest within and without the AMI. If each party hereto acquires its proportionate interest, the lands lying outside the AMI shall become a part of the Contract Area subject hereto but the AMI shall not thereby be enlarged. If less than all of the parties acquire their proportionate interest in the Mineral Interest, the Mineral Interest so acquired shall not be subject to this Operating Agreement, but shall be subject to an operating agreement on a form identical to this Operating Agreement (without this Area of Mutual Interest provision) between the parties hereto who acquire an interest in such Mineral Interest. If two (2) or more separate Mineral Interests are included in the same notice, each Offeree shall have the separate right of election as to each separate Mineral Interest. The provisions of this AMI shall not apply to acquisitions as a result of merger, consolidation, reorganization or an acquisition from a parent, subsidiary or affiliated corporation, or, as to individuals, from ascendants or descendants or trusts of which such parties are beneficiaries. Neither shall it apply to sales and acquisitions between partners in a partnership or venturers in a joint venture, or to any acquisition by any party of an interest which interest prior to and at the time of such acquisition was subject to this Agreement, unless such acquisition was the renewal or extension of a lease which at the date of expiration was subject to this Agreement. As used herein a renewal or extension of any lease means any renewal lease, extension or new lease covering all or any portion of or any interest in the area covered by an expiring lease taken before, or taken or contracted for within one year after, the expiration of the predecessor lease.

#### F. Conflicting Elections.

Notwithstanding anything herein to the contrary, the following provisions of this paragraph shall take precedence over any other provisions which may be in conflict therewith. It is agreed that when a well drilled under the terms of this Agreement by all parties, or by one or more, but less than all, parties under

Article VI shall have been drilled to the contracted depth and the parties participating in the well cannot mutually agree upon the sequence and timing of further operations regarding said well, the following election shall control in the order enumerated hereinafter:

- (1) an election to attempt to complete the well at either the objective depth or objective formation;
- (2) an election to plug back and attempt to complete said well;
- (3) an election to deepen said well; and
- (4) an election to sidetrack the well.

Notwithstanding anything provided in this Article, any party desiring to perform additional logging, coring or other testing (other than logging, coring and testing that would be performed by a prudent operator before attempting a completion) may do so at its sole cost, risk and expense. In such event, the party or parties undertaking such additional testing shall be responsible for any damage to the hole or reservoir resulting from such testing. The parties not participating in such additional testing shall not be entitled to the logs and other data resulting from such tests.

**G. Disbursement of Royalties.**

If a purchaser of any oil, gas or other hydrocarbons produced from the Contract area declines to make disbursements of all royalties, overriding royalties and other payments out of, or with respect to, production which are payable on the Contract Area, Operator will, if any Non-Operator so desires, make such disbursements on behalf of said Non-Operator at his direction, provided that the royalties in question are not subject to litigation or subject to title disputes and provided, Non-Operator shall execute such documents as may be necessary in the opinion of Operator to enable Operator to receive all payments for oil, gas or other hydrocarbons directly from said purchaser. In that event, Operator will use its best efforts to make disbursement correctly but will be liable for incorrect disbursements only in the event of gross negligence or willful misconduct.

**H. Notice of Meetings, Hearings and Regulatory Proceedings.**

Operator shall notify non-operator(s) of all scheduled meetings, hearings, and proceedings affecting the operations on the Contract Area to be held by any regulatory agency or board having jurisdiction over said properties sufficiently in advance of such meeting, hearing or proceeding to permit non-operators to attend.

**I. Scope of Services.**

This Operating Agreement is intended to cover all services by an operator that by custom and in accordance with standard industry practice are normally provided with respect to a property.

**J Severability.**

Should any provisions of the Agreement, or any portion thereof, be determined to be invalid or unenforceable, such determination shall not affect the validity or enforceability of the other provisions hereof or the remaining portion of the provision deemed to be invalid or unenforceable.



1 **K. Multiple Proposals.**

2  
3 It is specifically provided that no notice shall be given under Article VI hereof  
4 which proposes the drilling of more than one well. Further, the provisions of  
5 Article VI, insofar as same pertains to notification by a party of its desire to drill a  
6 well, shall be suspended for so long as (1) a prior notice has been given which is  
7 still in force and effect and the period of time during which the well regarding  
8 same may be commenced has not expired, or (2) a well is then being drilled  
9 hereunder. This paragraph shall not apply under those circumstances where the  
10 well to which notice is directed is a well which is required under the terms of a  
11 lease or contract or one required to maintain a lease or portion thereof in force.  
12  
13

14  
15 **L. Interest of Operator.**

16  
17 \_\_\_\_\_ owns no leasehold interest in the Contract Area, but  
18 executes this agreement to accept the designation as Operator and to agree to  
19 perform all of the duties of Operator as set out in the Operating Agreement.  
20  
21

22 **M. Conflict of Agreements.**

23  
24 This Operating Agreement is executed and delivered subject to that certain  
25 Exploration Agreement dated as of July 1, 1999, between KUKUI, INC. and The  
26 Allar Company, Talus, Inc., and Twin Montana, Inc. In the event of any conflict  
27 or inconsistency between this Operating Agreement and the Exploration  
28 Agreement referred to above, the Exploration Agreement shall prevail.  
29  
30

31 **N. Non-participant in Initial Well.**

32  
33 Notwithstanding any of the provisions contained herein to the contrary, in the  
34 event any party hereto is a Non-Consenting Party in the drilling of the Initial Well  
35 provided for in Article VI. hereof, such Non-Consenting Party (hereinafter  
36 the "Farmor") shall farmout its leasehold interest in the Contract Area to the  
37 Consenting Parties (hereinafter the "Farmee" whether one or more) on the  
38 following basic terms and conditions:  
39

- 40  
41 1. In the event the Initial well results in a well capable of commercial  
42 production of oil and/or gas, Farmor shall assign to Farmee all of its  
43 right, title and interest in and to the leases included in the  
44 production unit established for the well and seventy-five (75.00%)  
45 percent of its interest in the balance of the Contract Area.  
46
- 47  
48 2. The assignment from Farmor to Farmee shall cover rights from the  
49 surface of the earth to (a) 100 feet below the base of the deepest  
50 producing horizon for a well completed above the top of the  
51 Morrow formation, or (b) all depths for a well completed below the  
52 top of the Morrow formation.  
53
- 54  
55 3. If the Initial Well results in a dry hole or is abandoned due to  
56 mechanical or other difficulties, Farmee shall have the right to drill  
57 a substitute well(s) to earn the interest of Farmor as outlined above  
58 provided such substitute well is commenced within ninety (90) days  
59 of rig release of the well for which it is a substitute.  
60
- 61  
62 4. At such time as Farmee has recovered out of the proceeds of  
63 production attributable to Farmee's interest in the Initial Well or  
64 its substitute, after the payment of all taxes, royalties, and  
65 overriding royalties, two hundred (200%) percent of the total cost  
66 and expense of drilling, testing, completing, equipping the Initial  
67 Well or its substitute, and operating said well during the  
68 recoupment period, Farmor shall be entitled to an assignment of  
69  
70

twenty-five (25.00%) of its original interest in the leases included in the production unit established for said well.

Farmor and Farmee shall execute a formal farmout agreement containing the above basic terms and conditions and such other mutually agreeable terms as the parties may agree.

**O. Advance Payment.**

If a proposal is made pursuant hereto for the drilling, sidetracking, deepening, completing or recompleting of any well where the estimated costs exceed \$25,000, any Party electing to participate in the proposed operation shall within 15 days after request by Operator (or 72 hours, exclusive of Saturday, Sunday and legal holidays after such request if a rig capable of performing such operations is on location at the time of such request) at the Operator's option either (I) advance its portion of the estimated costs of such operation, or (ii) furnish Operator a letter of credit from a bank acceptable to Operator containing terms reasonably acceptable to operator obligating the Bank to pay such Party's portion of the estimated costs of such operation, or (iii) make other credit arrangements satisfactory to Operator for the payment of its portion of the estimated costs of such operation. Notwithstanding anything to the contrary contained in this agreement, the failure of a Party either to advance its share of such costs, furnish such letter of credit, or to make other satisfactory credit arrangements within the time provided shall, at the option of Operator, constitute a withdrawal by the Party of its prior election to participate in the proposed operation and an election by such Party to become a Non-Consenting Party with respect to such operation. In the event the operation which is the subject of the advance payment request is a proposal to drill the Initial Well provided for herein, the interest of the Non-Consenting Party shall be subject to the application of Article XV N. above. The provisions of this Article XV. O. shall be in addition to and not in lieu of other provisions of the Operating Agreement, and particularly Article VII.B and C. The rights and obligations between Operator and other Parties as Non-Operators hereto who participate in the proposed operation shall not be affected for reason of Operator's failure to require any other Party to make advance payment, furnish a letter of credit, or make other credit arrangements.

ARTICLE XVI.  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of \_\_\_\_\_ day of \_\_\_\_\_, (year) \_\_\_\_\_.

KUKUI, INC., who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles II, III, IV, VI, VII, VIII, XIV, have been made to the form.

OPERATOR

NON-OPERATORS

## **EXHIBIT A**

**Attached to and made a part of that certain  
Operating Agreement dated July 1, 1999  
by and between \_\_\_\_\_, Operator  
and \_\_\_\_\_, Non-Operator**

**1. Identification of Lands Subject to this Agreement.**

The following described lands are subject to this agreement and are herein referred to as the Contract Area:

The Contract Area shall be the lands included in an Approved Prospect as that term is defined in the Exploration Agreement to which this Operating Agreement is attached as Appendix 4.

**2. Restrictions, if any, as to Depths, Formations, or Substances.**

Any restrictions as to depth, formations or substances shall be governed by the terms and provisions of the oil and gas leases in which the parties jointly own an interest and the Exploration Agreement to which this Operating Agreement is attached as Appendix 4.

**3. Percentages or Fractional Interests of the Parties to this Agreement**

(To be determined)

**4. The Oil & Gas Leases subject to this Agreement**

(To be determined)

**5. Addresses of the Parties for Notice Purposes**

(To be completed)

## **EXHIBIT B**

**Attached to and made a part of that certain  
Operating Agreement dated July 1, 1999  
by and between \_\_\_\_\_, Operator  
and \_\_\_\_\_, Non-Operator**

**THERE IS NO EXHIBIT B TO THIS AGREEMENT**

EXHIBIT

" C "

Attached to and made a part of \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## 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.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

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

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"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.

#### 2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

#### 3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Chase Bank of Texas N.A. on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

#### 4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator 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 Controllable Material as provided for in Section V.

## 5. Audits

- A. 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 Joint Account 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 adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

## 6. Approval By Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

### 2. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

### 3. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B 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 3A of this Section II. 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 costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

### 4. Employee Benefits

Operator's current costs 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 chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

### 5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

### 6. 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 where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- 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 where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

## 7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

## 8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed ten percent (10 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

## 9. 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 other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

## 10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

## 11. 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. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

## 12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

## 13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

## 14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

## 15. 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 of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.



### III. OVERHEAD

#### 1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

( ☒ ) Fixed Rate Basis, Paragraph 1A, or  
 ( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. 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 the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

( ) shall be covered by the overhead rates, or  
 ( ☒ ) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

( ) shall be covered by the overhead rates, or  
 ( ☒ ) shall not be covered by the overhead rates.

#### A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 4,500.00  
 (Prorated for less than a full month)

Producing Well Rate \$ 450.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

##### (a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

##### (b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
  - (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
  - (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
  - (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
  - (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April 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 calendar year preceding 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, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

#### B. Overhead - Percentage Basis

- (1) Operator shall charge the Joint Account at the following rates:

## (a) Development

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

## (b) Operating

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

## (2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

## 2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

- A. \_\_\_\_\_ 5 % of first \$100,000 or total cost if less, plus
- B. \_\_\_\_\_ 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. \_\_\_\_\_ 2 % of costs in excess of \$1,000,000.

Total cost shall mean the 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 and workover wells and artificial lift equipment shall be excluded.

## 3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. \_\_\_\_\_ 5 % of total costs through \$100,000; plus
- B. \_\_\_\_\_ 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. \_\_\_\_\_ 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

## 4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

## IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

## 1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

## 2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

## A. New Material (Condition A)

## (1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

## (2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
  - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
  - (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

## B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

- (1) Material moved to the Joint Property - To be negotiated.

~~At seventy five percent (75%) of current new price, as determined by Paragraph A.~~

- (2) Material used on and moved from the Joint Property - To be negotiated.

~~(a) At seventy five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or~~

~~(b) At sixty five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.~~

- (3) Material not used on and moved from the Joint Property - To be negotiated.

~~At seventy five percent (75%) of current new price as determined by Paragraph A.~~

The cost of reconditioning, if any, shall be absorbed by the transferring property.

## C. Other Used Material

## (1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property; provided Condition C value plus cost of reconditioning does not exceed Condition B value.

**(2) Condition D**

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

**(3) Condition E**

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

**D. Obsolete Material**

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

**E. Pricing Conditions**

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) 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 published or listed prices 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 providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided 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 ten 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.

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

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

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. 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.

**2. Reconciliation and Adjustment of Inventories**

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

**4. Expense of Conducting Inventories**

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

**EXHIBIT "C"**  
**continued**

**VI. MISCELLANEOUS**

The following, notwithstanding anything herein to the contrary, shall be made a part of and included in this Accounting Procedure:

1. In the event Non-Operator is required under any applicable provision of the Operating Agreement or under Article I (3) of the Accounting Procedure attached thereto as Exhibit "C" to advance or prepay funds for operations to which it has consented, any discounts offered by Vendors selling to the Joint Account during and applicable to such prepay situation shall be credited prorata by Operator and Non-Operator.
2. Any volume discounts or special rebates which are credited to the Operator by vendors selling to the Joint Account shall be credited to the Joint Account when received by Operator.
3. In the event Operator plans to use his own equipment for any operations hereunder, or the equipment of any subsidiary, parent company or sister company, Operator agrees that the charge to the Joint Account for the use of such equipment shall be equal to the competitive market price for the use of similar equipment or Operator's actual cost, whichever is the lesser.
4. In the event Operator plans to purchase goods and/or services for the Joint account from his own subsidiaries, parent company or sister companies, such goods and services shall be competitively priced.
5. Within thirty (30) days after close of operations on any well drilled hereunder, any unused or salvaged tubulars shall be credited to the Joint Account, offered proportionately to the Non-Operators "in-kind" or sold to a third party with a credit being reflected on the Joint Account.
6. Operator agrees to acquire any tubular goods obtained for the Joint Account at competitive market price. If Operator wishes to use tubular goods from its own inventory, or the inventory of any subsidiary, parent company or sister company, such tubulars shall be charged to the Joint Account at prices which are equal to or lower than competitive market price. In no event shall Operator charge the Joint Account for material transfers from its own inventory at mill price when mill price is in excess of competitive market price.
7. The following shall be added to the existing provisions of Article 1.5 of the Accounting Procedure:

Should a majority interest of Non-Operators, remaining after exclusion of the interest owned by Operator, elect to audit the books of the Operator, then all Non-Operators shall share the cost of the audit.

Operator shall have ninety (90) days from receipt of the audit report to respond in writing and resolve all exceptions listed therein. If said exceptions are not resolved within the specified time period, interest shall begin accruing at the rate prescribed in Paragraph 3 above on all amounts finally credited to the Joint Account as a result of the audit.

8. Billings and Credits

- A. Without waiving any of the rights, obligations, and privileges of Paragraph 5 of Article I, any Non-Operator shall have the right to contest any unusual charge made to the Joint Account and/or request copies of actual invoices within thirty (30) days after receipt of said billing by giving written notice to the Operator as to the amount and charge contested and the reason therefor.

Operator shall have thirty (30) days within which to respond, explain the charge in question and provide copies of invoices if required. Any adjustment in favor of Non-Operator(s) will be processed within thirty (30) days of such explanation and at Operator's election, will be issued either as (1) a check payable to Non-Operator or (2) a credit on the next occurring Joint Account billing. Any balance in favor of Operator shall be paid within thirty (30) days by Non-Operator.

- B. During the time any charge is being contested as provided for above, no disputed amounts owing shall accrue interest, unless charges are contested excessively, and/or unreasonably. Provided, however, nothing herein shall waive Non-Operator's obligation to pay charges when due.

## EXHIBIT D

Attached to and made a part of that certain Operating Agreement  
dated July 1, 1999, by and between \_\_\_\_\_, Operator  
and \_\_\_\_\_, Non-Operator

### INSURANCE

Operator shall, at the joint expense of the parties hereto, at all times while operations are conducted hereunder, procure and maintain with responsible insurance companies, the following insurance and such other insurance as Operator deems appropriate:

- (a) Worker's Compensation Insurance in accordance with the laws of the State in which the operating area is located, and Employer's Liability Insurance with limits of not less than \$1,000,000.00 per accident and \$1,000,000.00 aggregate;
- (b) Public Liability Insurance with combined single limit of not less than \$1,000,000.00 per occurrence; and,
- (c) Comprehensive Automobile Liability Insurance covering all owned, hired or non-owned vehicles with a combined single limit of not less than \$1,000,000.00 per occurrence.
- (d) Excess Liability Insurance in an amount not less than \$5,000,000.00;
- (e) Operator's Extra Expense Liability Insurance (including cost of well control, relief wells, redrilling, and pollution liability) in an amount not less than (1) \$10,000,000.00 per occurrence for wells requiring protection casing in order to enable said well to be drilled to its proposed total depth or, (2) \$5,000,000.00 per occurrence for wells that do not require protection casing in order to enable said well to be drilled to its proposed total depth, subject to such retention as Operator deems appropriate.

Each party shall have the right to acquire at its own cost such additional insurance as it desires to protect itself against any liability not covered by the insurance described above which is maintained by Operator for the joint account. All insurance maintained by any party to this Agreement shall contain a waiver by the insurance company of all rights of subrogation in favor of the parties hereto. Liability, except that covered by insurance carried by Operator for the joint account, against any of the parties hereto for damages to property of third persons or injury to or death of third persons arising out of the joint operations, including expenses incurred in defending claims or actions asserting liability of this character, shall be borne severally and not jointly by the parties hereto (or their respective insurers) in proportion to their respective undivided interests in the joint operation. All insurance carried by Operator hereunder for the joint account shall be considered primary in relation to any other insurance carried by any party hereto.

Fire, windstorm, tornado, explosion, vandalism, malicious mischief, or other extended perils insurance will not be carried by Operator to protect the joint interests. Therefore, the account of the parties shall be charged with all expenditures incurred as a result of fire, windstorm, tornado, explosion, vandalism, malicious mischief, or other casualties for which insurance is not required hereunder.

Inasmuch as Operator has agreed with each party to this Agreement to acquire, construct, operate and maintain the joint account operations on a cost basis without profit to Operator, each such party hereby releases Operator from all claims for loss by or damage to, such party arising out of, in connection with, or as an incident to, any act or omission, including negligence (but excluding gross negligence, willful misconduct, or intentional breach of any provision of the Operating Agreement) of Operator or its employees, agents or contractors, in acquiring, operating or maintaining the joint account. The obligations of each party under this Agreement are several and not joint with any other party hereto.

Operator shall require contractors and subcontractors performing work for the joint account to provide such insurance as deemed necessary by operator in relation to the work to be performed by said contractors or subcontractors.

Non-Operators shall each be named as an additional insured under all policies of insurance carried by operator pursuant hereto. Certificates of such insurance shall be obtained by Operator and furnished to Non-Operators. Each such certificate shall provide that the insurance described therein may not be cancelled without notice of at least thirty (30) days being given to Non-Operators prior to the date of the intended cancellation.

Each party, at its sole cost, shall have the right to acquire and maintain at its own cost the insurance described in clauses (d) and (e) above with respect to its interest hereunder, provided that the limits maintained are not less than the limits actually maintained by Operator and that such insurance is provided by reputable insurers, not affiliated with the insured party, with financial standing satisfactory to Operator. Any party electing to acquire such insurance shall furnish a certificate or certificates thereof executed by the insurers providing such insurance certifying that the required coverages are in full force and effect and will not be terminated, modified or cancelled without at least thirty (30) days written notice to Operator. Any party which acquires and maintains at its own cost the insurance described in clauses (d) and (e) hereof and provides Operator certificates thereof shall not be charged for the insurance maintained by Operator pursuant to clauses (d) and (e) hereof as long as such insurance maintained by such party at its own expense remains in effect.

## EXHIBIT E

Attached to and made a part of that certain  
Operating Agreement dated July 1, 1999  
by and between \_\_\_\_\_, Operator  
and \_\_\_\_\_, Non-Operator

### GAS BALANCING AGREEMENT

#### 1. DEFINITIONS

The following definitions shall apply to this Agreement:

- 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are representative of prices and delivery conditions existing under other similar agreements in the area between unaffiliated parties at the same time for natural gas of comparable quality and quantity.
- 1.02 "Balancing Area" shall mean each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a single well is completed in two or more producing intervals, each producing interval from which the Gas production is not commingled in the wellbore shall be considered a separate well.
- 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced from the Balancing Area during each month.
- 1.04 "Gas" shall mean all hydrocarbons produced from the Balancing Area, whether from a well classified as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel, recycling or reinjection, or which is vented or lost prior to its sale of delivery from the Balancing Area.
- 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.
- 1.06 "MCF" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic foot of space at a standard pressure base and at a standard temperature base.
- 1.07 "MMBTU" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.
- 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the event this Agreement is not employed in connection with an operating agreement, the individual or entity designated as the operator of the well(s) located in the Balancing Area.
- 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors, transferees and assigns.
- 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the Balancing Area pursuant to the Operating Agreement covering the Balancing Area.
- 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding royalties, production payments or similar interests.

- 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.16 "Winter Period" shall mean the month(s) of October – December in one calendar year and the month(s) of January – March in the succeeding calendar year.
2. BALANCING AREA
- 2.01 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in MMBTU's.
3. RIGHT OF PARTIES TO TAKE GAS
- 3.01 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified of the volumes nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of the Agreement
- 3.02 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production.
- 3.03 When a Party fails for any reason to take its full Share of Current Production (as such Share may be reduced by the right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the Balancing Area bear to the total Percentage Interests of such Parties
- 3.04 All Gas taken by a Party in accordance with this Agreement, regardless of whether such Party is underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party.
- 3.05 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum Monthly Availability; provided, however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.
- 3.06 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one year. Notwithstanding any provision herein, Operator will not make any sales under this Section 3.6 unless it has first notified a party with 7 days written notice that a sale hereunder is contemplated.
4. IN-KIND BALANCING
- 4.01 Effective the first day of any calendar month following at least twenty (20) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying fifty percent (50%) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage



Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than fifty percent (50%) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

4.02 Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than ten percent (10%) of its Full Share of Current Production for Makeup Gas during the Winter Period.

4.03 Notwithstanding the provisions of Section 4.1 and 4.2, at any time during the term of this Agreement, an Overproduced Party may agree to cause the increase of takes of Makeup Gas by the Underproduced Party at rates, quantities, times and from such sources as the affected Parties may agree upon in order to balance gas imbalances hereunder.

## 5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within forty-five (45) days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to the Operator any data required by the operator for preparation of the statements required hereunder.

5.2 If any Party fails to provide the data required herein for four (4) consecutive production months the Operator, or where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the required data

## 6. PAYMENTS ON PRODUCTION

6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas actually taken by such Party.

6.2 Each Party shall pay or cause to be paid all Royalty due with respect to Royalty owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its full Share of Current Production.

6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date required by such governmental authority and the method provided for herein shall be thereby superseded.

## 7. CASH SETTLEMENTS

7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Over produced Party to each Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology set out in Section 7.4

7.3 Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash settlement, accompanied by appropriate accounting detail. At the time of payment, the Overproduced Party will notify the Operator of the Gas imbalance settled by the Overproduced Party's payment.

7.4 The amount of the cash settlement will be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the Overproduced Party in excess of the Overproduced Party's full share of Current Production. Any Makeup gas taken by the Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the order of accrual.

7.5 The values used for calculating the cash settlement under Section 7.4 will include all proceeds received from the sale of the Gas by the Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments

amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of the Overproduction.

- 7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be based on the first of the month weighted average spot sales prices published for the applicable pipelines in the applicable geographic area during such month, first, using Inside FERC's Gas Market Report and, then, using Natural Gas Intelligence if Inside FERC is no longer published. Should these publications cease to exist, a mutually acceptable pricing bulletin will be used.
- 7.7 Interest compounded at the prime rate in effect at Citibank N.A. of New York plus 1% per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1, beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.
- 7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver the Underproduced Party an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.
- 7.9 That portion of any monies collected by an Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental authority.

## 8. TESTING

- 8.1 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only after ten (10) days' prior written notice to the Operator and shall last no longer than fourteen (14) days.

## 9. OPERATING COSTS

- 9.1 Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in proportion to its Percentage Interest in the Balancing Area/

## 10. LIQUIDS

- 10.1 The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated for the joint account in accordance with their Percentage Interests in the Balancing Area

## 11. AUDIT RIGHTS

- 11.1 Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not limited to information regarding Btu content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to maintain records as to the volumes and

prices of Gas sold each month and the Volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

## 12. MISCELLANEOUS

- 12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales contract, or in the event of any conflict between the provisions of the Operating Agreement, the provisions of this Agreement shall govern.
- 12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages sustained and costs incurred in connection therewith.
- 12.3 Except as otherwise provided in this agreement, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party (other than Operator) to pay any amounts owed pursuant to the terms hereof.
- 12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.
- 12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.
- 12.6 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any such person or entity.
- 12.7 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the Balancing Area.
- 12.8 In the event federal tax regulations require a uniform method of computing taxable income by all Parties, the Parties agree to negotiate in good faith to agree upon such a uniform method that is in accordance with the requirements of said tax regulations.

## 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

- 13.1 Subject to the provisions of Sections 13.2 and 13.3 hereof, and notwithstanding anything in this Agreement or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the Gas, all rights to receive or obligations to make any monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall cause its assignee or other transferee to assume its obligations hereunder.
- 13.2 Notwithstanding anything in this Agreement (including but not limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are Parties hereto in such Balancing Area of such fact at least thirty (30) days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within twenty (20) days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 13, and the overproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60) days after receipt of the Underproduced Party's demand or (ii) at

the closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days after the Overproduced Party's sale assignment, exchange or transfer of its interest in the Balancing Area for any amounts not paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance with the provisions of Section 13.1 hereof.

- 13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

## **EXHIBIT F**

**Attached to and made a part of that certain  
Operating Agreement dated July 1, 1999  
by and between \_\_\_\_\_, Operator  
and \_\_\_\_\_, Non-Operator**

### **NON-DISCRIMINATION AND CERTIFICATION ON NON-SEGREGATED FACILITIES**

In connection with the performance of work under this agreement, Operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (30 C.F.R. 12319), as amended, which are incorporated by reference in this Operating Agreement.

## **Appendix 5**

(Attached to and made a part of Exploration Agreement dated July 1, 1999, between  
The Allar Group and KUKUI, INC.)

### **ALLOCATION METHOD**

In the determination of "Payout", as that term is defined herein, the Prospect Evaluation Fee, provided for in *Section 2.2* hereof, shall be allocated to each Approved Prospect on the following basis:

On July 1<sup>st</sup> of each year during the term of this agreement, the Prospect Evaluation Fees paid during the immediately preceding twelve (12) month period, plus any unallocated Prospect Evaluation Fees attributable to any prior period, shall be allocated to each Approved Prospect approved during such twelve (12) month period proportionately based on the total number of Approved Prospects approved during such twelve (12) month period. By way of example, if, as of July 1, 2000, the parties hereto have agreed to eight (8) Approved Prospects, then \$40,500.00 shall be added to the Acquisition Costs of each of the eight (8) Approved Prospects in determining Payout of each such prospect. If there are no Approved Prospects as of July 1, 2000 but there are ten (10) Approved Prospects as of July 1, 2001, then \$64,800.00 shall be added to the Acquisition Costs of each of the ten (10) Approved Prospects in determining Payout of each such prospect.

## Appendix 6

(Attached to and made a part of Exploration Agreement dated July 1, 1999, between  
The Allar Group and KUKUI, INC.)

### ASSIGNMENT

\_\_\_\_\_(Title Holder)\_\_\_\_\_, a \_\_\_\_\_ corporation, whose mailing address is P.O. Box 1210, Graham, Texas 76450 (hereinafter referred to as "**Assignor**"), for and in consideration of the payment to Assignor of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, hereby BARGAINS, SELLS, GRANTS, CONVEYS and ASSIGNS to KUKUI, INC., a Texas corporation, whose mailing address is 6600 Kalaniana'ole Highway, Suite 224, Honolulu, Hawaii 96825 (hereinafter referred to as "**Assignee**"), an undivided sixty percent (60%) of Assignor's right, title and interest in and to the following:

- (i) all real, personal, corporeal and incorporeal rights, hereditaments, appurtenances and interests in the lands described in Exhibit A hereto oil (the "**Subject Lands**"), or the oil, gas, other hydrocarbons and other substances produced or attributable to the Subject Lands;
- (ii) rights arising under oil and gas leases or oil, gas and mineral leases described in Exhibit A hereto (the "**Subject Leases**") INsofar AND ONLY INsofar as the Subject Leases cover and affect the Subject Lands, and whether such rights derive from the interest of the lessor or the lessee in the Subject Leases including royalty interests, working interests, overriding royalty interests and other interests carved out of the working interests in the Subject Leases;
- (iii) any contractual right to acquire oil and gas properties and interests covering the Subject Lands, including but not limited to options to acquire leases, farmin rights, and rights arising under operating agreements or acreage contribution agreements covering the Subject Lands;
- (iv) interests in the Subject Lands acquired under pooling or similar orders;
- (v) access rights and surface use agreement covering the Subject Lands; and
- (vi) permits, easements and rights-of-way, insofar and only insofar as they cover the Subject Lands.

The interests conveyed hereby in all the aforesaid properties, rights and interests are hereinafter referred to as the "**Assigned Interests.**"

**Assignee hereby assumes and agrees to pay and perform all obligations attributable to any working interests conveyed hereby including but not limited to the obligation to bear and pay its pro rata share of the lessors' royalties and the obligation to plug and abandon any wells located on the Subject Lands when required by applicable laws, rules or regulations or by the terms of Subject Leases and to restore the surface of the Subject Lands in accordance with the terms of the Subject Leases and by applicable laws, rules or regulations. Any subsequent assignment by Assignee of the rights and interests conveyed hereby shall be subject to the terms and conditions hereof.**

This Assignment is the Assignment referred to in Section 4.2 of that certain Exploration Agreement made and entered into as of July 1, 1999 between Assignor and Assignee and is subject to the terms and conditions of said Exploration Agreement. The Assigned Interests are also subject to all valid and existing royalties, overriding royalties, production payments, net profits interests or other burdens, restrictions, covenants, conditions, rights-of-way, easements, mineral reservations or other interests measured by or payable out of production in favor of third parties and that cover or affect the Assigned Interests as such existing burdens may be increased or reduced from time to time hereafter by reason of the conversion of a leasehold interest into another type of leasehold interest, the commencement or termination of reversionary interest or determinable estate or otherwise affecting the Assigned Interests to the extent that the same are valid and subsisting. This Assignment is also subject to that certain Assignment of Overriding Royalties dated \_\_\_\_\_ from Assignor to John Thoma.

TO HAVE AND TO HOLD the Assigned Interests unto Assignee, its successors and assigns, forever, in accordance with the terms and provisions of this Assignment and Assignor hereby binds and obligates itself and its successors and assigns to warrant and forever defend all and singular title to the Assigned Interests unto Assignee, its successors and assigns, against every person or entity whomsoever claiming or to claim the same or any portion thereof by, through or under Assignor, but not otherwise, subject as aforesaid, but with full subrogation and substitution to all covenants and warranties by others heretofore given or made with respect to the Assigned Interests, or any part thereof.



IN WITNESS WHEREOF, Assignor and Assignee have caused this instrument to be executed and delivered on \_\_\_\_\_.

**ASSIGNOR:**

\_\_\_\_\_  
(Title Holder)

By: \_\_\_\_\_

Name:

Title:

**ASSIGNEE:**

KUKUI, INC.

By: \_\_\_\_\_

Name:

Title:

THE STATE OF \_\_\_\_\_ §

§

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_\_, day of \_\_\_\_\_ 1999,  
by \_\_\_\_\_, \_\_\_\_\_ of \_\_\_\_\_ (Title Holder), a \_\_\_\_\_ corporation, on behalf of said  
corporation.

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

Printed Name of Notary Public

My Commission Expires:

\_\_\_\_\_

THE STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_, day of \_\_\_\_\_ 1999,  
by \_\_\_\_\_, \_\_\_\_\_ of KUKUI, INC., a Texas corporation, on behalf  
of said corporation.

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

Printed Name of Notary Public

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_

## **Appendix 7**

(Attached to and made a part of Exploration Agreement dated July 1, 1999, between The Allar Group and KUKUI, INC.)

### **THOMA GEOLOGICAL CONSULTING AGREEMENT**

## GEOLOGICAL CONSULTING AGREEMENT

This Geological Consulting Agreement ("*this Agreement*") dated the 10th day of November, 1998, is entered into by and between **John Thoma**, 2601 Camarie Avenue, Midland, Texas 79705 ("*Thoma*"), as "*Party of the First Part*", and **The Allar Company**, a Texas corporation, P.O. Box 1567, Graham, Texas 76450 ("*Allar*"); **Talus, Inc.**, a Texas corporation, P.O. Box 1210, Graham, Texas 76450 ("*Talus*") and **Twin Montana, Inc.**, a Texas corporation, P.O. Box 1210, Graham, Texas 76450 ("*Twin Montana*"), as "*Parties of the Second Part*."

WHEREAS, Thoma is a petroleum geologist, and the Parties of the Second Part are oil and gas exploration companies; and

WHEREAS, the Parties of the Second Part desire to retain the services of Thoma as an independent consulting geologist, and Thoma desires to provide such services to the Parties of the Second Part, all under the terms and provisions as hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual benefits inuring to the parties hereto, the adequacy of which is hereby acknowledged, Thoma, Allar, Talus and Twin Montana agree as follows:

### Section 1--Thoma's Obligations

1.1 Thoma agrees to provide the following services during the term of this Agreement for the benefit of the Parties of the Second Part, to wit: Thoma agrees to apply his professional expertise in connection with the preparation of maps and assembling data relating to geological prospects covering areas designated or approved by the Parties of the Second Part, including but not necessarily limited to the Delaware Basin for presentation to the Parties of the Second Part for the purpose of potential oil and/or gas development.

1.2 If requested by the Parties of the Second Part, Thoma during the term of this Agreement will assist as requested in the presentation of Thoma Generated Prospects, as hereinafter defined, to third parties.

1.3 If requested, Thoma during the term of this Agreement will consult and advise with the Parties of the Second Part during any drilling or development of a Thoma Generated Prospect.

1.4 It is understood that the Parties of the Second Part are contracting for 100.00% of Thoma's professional services during the term of this Agreement. Consequently, Thoma shall not provide professional geological services to any other party, or for Thoma's own benefit, during the term of this Agreement without the prior written consent of all of the Parties of the Second Part.

1.5 It is understood that during and after the term of this Agreement, all maps, logs, ownership charts, notes, lists, and other data prepared and assembled by Thoma pursuant to this Agreement will be the confidential and proprietary property of the Parties of the Second Part, and will be divulged by Thoma to no other party except under the specific direction of all of the Parties of the Second Part, *provided, however*, that after the termination of this Agreement, Thoma may own and retain for use at his discretion copies of all data generated during the term of this Agreement insofar and only insofar as such data relates to prospects identified by Thoma in which the Parties of the Second Part, or any of them, prior to the termination of this Agreement, have elected not to develop or lease.

## **Section 2--Thoma Generated Prospects**

2.1 From time to time during the term of this Agreement, Thoma and the Parties of the Second Part shall mutually agree on the location and boundaries of specific prospect areas that have been identified by Thoma and in which the Parties of the Second Part, or any of them, are interested in possible oil and/or gas development. Each such prospect area shall be identified by name, and a plat or other legally sufficient description of the boundaries of such prospect area shall be agreed to in writing by Thoma and the Parties of the Second Part, in a written "Designation of Prospect Area." Thereafter, any reduction or enlargement of a designated prospect area must be in writing executed by all parties. Each such designated prospect area is herein referred to as a: ***"Thoma Generated Prospect"***.

2.2 It is agreed that the Parties of the Second Part shall have no obligation to purchase any leasehold interest or to pursue any oil and gas development in any Thoma Generated Prospect, and in that case the only obligation of the Parties of the Second Part to Thoma shall be the payment of the Consulting Fee and Overhead Expenses, and reimbursement of Travel Expenses, as provided below.

2.3 Thoma agrees not to acquire, or to contract for or arrange to acquire, directly or indirectly, during the term of this Agreement, any mineral, royalty, overriding royalty or leasehold interest in and to any Thoma Generated Prospect, or in any other area which was reviewed by Thoma in the course of providing services pursuant to this Agreement, except by, through, under and subject to the terms of this Agreement (***"the Non-Competition Covenant"***). The Non-Competition Covenant shall continue for a period of two years after the termination of this Agreement with respect to any Thoma Generated Prospect in which the Parties of the Second Part, or any of them, prior to the termination of this Agreement have elected to lease or develop.

## **Section 3--Expense Obligations of Parties of the Second Part**

3.1 The Parties of the Second Part agree to make office space available to Thoma for use at his discretion in connection with his services pursuant to this Agreement, and to bear the costs of all normal and customary office expenses relating thereto, including, but not limited to, rent, utilities, equipment and supplies, and also all expenses associated with the drafting and generation of base maps and geological exhibits (***"Overhead Expenses"***), provided that such must be utilized by Thoma exclusively in the furtherance of this Agreement.

3.2 The Parties of the Second Part agree to reimburse Thoma for any business travel expenses incurred by him in connection with his furtherance of this Agreement and the generation and promotion of any Thoma Generated Prospect, including, but not limited to, airfare (coach or business class only), reasonable lodging and meal expenses, and car mileage cost (at the Internal Revenue Service approved rate) ("**Travel Expenses**"). Thoma shall submit to the Parties of the Second Part each month a written request for such reimbursement, accompanied by true and correct copies of receipts for any expense for which reimbursement is sought, and such reimbursement shall be paid to Thoma on or before the last day of the month following the month in which said request for reimbursement was delivered to the Parties of the Second Part.

#### **Section 4--Consulting Fee**

#### **Section 5--Thoma ORI**

5.1 (i) In addition to the above described Consulting Fee payments, Thoma shall be entitled to receive an assignment of an overriding royalty interest equal to 1-1/2% of 8/8ths, subject to the conversion option hereinafter set forth, in and to each oil, gas and mineral lease and/or oil and gas lease ("**Leases**") covering lands within a Thoma Generated Prospect the legal or equitable title to which is acquired by or for the benefit of the Parties of the Second Part, or any of them, during the term of this Agreement or within 2 years after the termination thereof, said overriding royalty interest to be proportionately reduced by the executive mineral interest covered by such lease, and by the interest in said lease which is originally acquired by the Parties of the Second Part, or any of them ("**the Thoma ORI**"). Should a third party ("**Party of the Third Part**") be brought into a Thoma Generated Prospect by Agreement of the Parties of the Second Part for the purpose of participating with the Parties of the Second Part, or any of them, in the development of a Thoma Generated Prospect, then such Party of the Third Part will be subject to its proportionate share of the Thoma ORI under the same terms and conditions set forth in this Agreement, and Thoma shall be entitled to a Thoma ORI on any Leases in a Thoma Generated Prospect acquired by such Party of the Third Part on the same terms and conditions as if the Leases were acquired by a Party of the Second Part.

(ii) Notwithstanding the foregoing, it is intended that the net revenue interest of the Parties of the Second Part or a Party of the Third Part in any Lease shall never be less than 75.00% of 8/8ths (proportionately reduced by the interest covered by the Lease and by the interest acquired by such parties) as a result of the Thoma ORI. Consequently, if the net revenue interest in any Lease acquired by the Parties of the Second Part or a Party of the Third Part is equal to 75.00% or less (proportionately reduced as noted above), then Thoma will not be entitled to any ORI on such Lease. If the net revenue interest acquired by the Parties of the Second Part or a Party of the Third Part is greater than 75.00% but less than 76.50% in any particular Lease (proportionately reduced as noted above), then the Thoma ORI in said Lease will be reduced only to the extent necessary so that the net revenue interest of the Parties of the Second Part or the Party of the Third Part in said Lease will not be less than 75.00% (proportionately reduced as noted above) as a result of the Thoma ORI.

5.2 It is agreed that an assignment of the Thoma ORI shall be made and delivered to Thoma at the time of recording by the Parties of the Second Part, or any of them, of any Leases in which Thoma is entitled to an overriding royalty interest. Such assignment shall be made expressly subject to this Agreement. The Thoma ORI may be pooled in the same manner as the interest of the lessor, and shall apply to any new lease, or any renewal or extension of a lease, which is acquired within 1 year of the termination of a prior lease which is burdened by the Thomas ORI.

5.3 Subject to the terms hereinafter set forth, upon the occurrence of "**Project Payout**" as hereinafter defined, with respect to each Thoma Generated Prospect, Thoma shall have the option, but not the obligation, to convert all of the Thoma ORI within such prospect area that has reach Prospect Payout to a 5.00% of 8/8ths leasehold working interest in each Lease in said prospect that had been burdened by a Thoma ORI, proportionately reduced by the executive mineral interest covered by such Lease and by the initial interest in such Lease which was acquired by the Parties of the Second Part, a Party of the Third Part, or any of them, effective as of the date of the respective Prospect Payout ("**the Thoma Converted WI**").

5.4 "Prospect Payout" as used in this Agreement shall be determined separately with respect to each Thoma Generated Prospect, and also separately with respect to each of the Parties of the Second Part, and any Party of the Third Part, which has participated in said prospect. Prospect Payout as to each such party shall be deemed to have occurred on the first day of the next month following the day on which such party has received from either: (i) the sale of all or a portion of its interest in said Thoma Generated Prospect; or (ii) the sale of its share of hydrocarbons produced from such prospect (net of taxes, royalties, overriding royalties (including the Thoma ORI), and any other burdens on production), an amount of money equal to 100.00% of the costs and expenses incurred and paid by such party in connection with that particular prospect area, including, but not limited to, all costs and expenses associated with: geological costs specifically attributable to said prospect area (excluding any portion of the Consulting Fee paid to Thoma and any portion of the usual and customary office Overhead Expense attributed to Thoma, but including any drafting, copying or other expenses incurred by Thoma, or any out-of-pocket expense reimbursed to Thoma, which are specifically attributable to said prospect area); any monies paid by a Party of the Third Part to any of the Parties of the Second Part; lease

acquisition costs, including fees and expenses paid to landmen in connection with the acquisition of said leases, and lease bonuses; legal expenses attributable to said prospect area; engineering expenses attributable to said prospect area; seismic or other exploratory expenses attributable to said prospect area; and the costs of drilling, completing, equipping and operating, and plugging and abandoning, as the case may be, all wells drilled within the boundaries of said prospect area prior to the occurrence of Prospect Payout. The Parties of the Second Part and any Party of the Third Part shall be responsible for providing to Thoma a report on the status of Prospect Payout with respect to said party or parties on a quarterly basis.

5.5 The right of Thoma to convert his ORI shall be exercised sequentially and proportionately according to the interest of the Party of the Second Part or the Party of the Third Part as to whom Project Payout has been reached. [By illustration, if the Parties of the Second Part own 50.00% of the leases burdened by the Thoma ORI in a particular prospect, and a Party of the Third Part owns 50.00% of such leases, and if Project Payout is reached by the Parties of the Second Part at \$100,000.00, but Project Payout is not reached by the Party of the Third Party until \$150,000.00, then, when the Parties of the Second Part receive \$100,000.00, Thoma may convert 50.00% of his ORI, and when the Party of the Third Part has received \$150,000.00, Thoma may elect to convert the remaining 50.00% of his ORI.]

5.6 Upon the occurrence of Prospect Payout, the Party which has achieved such payout shall give to Thoma a written "Notice of Occurrence of Prospect Payout." Thoma shall have a period of 10 days after the date of his receipt of such Notice of Occurrence of Prospect Payout in which he may exercise his right to convert his Thoma ORI to a Thoma Converted WI pursuant to this Agreement (*"Election Period"*). Such option to convert may be exercised only by the tendering of Thoma to the Parties of the Second Part of his written "Notice of Election to Convert". If such Notice of Election to Convert is not delivered to the Parties of the Second Part on or before the expiration of the Election Period, it shall be conclusively deemed that Thoma has elected not to convert his Thoma ORI with respect to the party which has achieved payout.

5.7 In the event Thoma does elect to convert, Thoma and the party or parties which have achieved payout, will execute an instrument to be filed of record whereby Thoma surrenders his Thoma ORI and receives an assignment of the Thoma Converted WI pursuant to the terms of this Agreement. Such Thoma Converted WI shall be deemed to be subject to the terms and provisions of whatever Joint Operating Agreement(s) or other contract(s) or agreement(s) to which the interests of the Parties of the Second Part, or their successors or assigns, may then be subject, and Thoma agrees to be responsible for his proportionate part of all covenants, liabilities and obligations relating to the Leases within said prospect area in which he is acquiring a working interest, and all such operating agreement(s) or other contract(s), copies of which will be provided to Thoma.



## Section 6--Thoma's Option to Participate in Working Interest

6.1 The Parties of the Second Part additionally agree that Thoma shall have the option to participate for up to an undivided 5.00% of 8/8ths working interest in all Leases acquired by the Parties of the Second Part, or any of them, or a Party of the Third Part, within a Thoma Generated Prospect, on the following terms and conditions.

6.2 When the Parties of the Second Part, or any of them, or a Party of the Third Part, determine that a sufficient leasehold interest in any particular Thoma Generated Prospect and has been acquired and such parties are ready to either drill a well thereon, or to promote the sale of interests in the acquired Leases to third parties for the purposes of drilling, said party or parties shall give written "Notice of Intent to Develop" to Thoma. This notice shall include an itemization of all of the costs and expenses incurred by the Parties of the Second Part and/or any Party of the Third Part up to said date in connection with said prospect area. Thoma shall have a period of 10 days after the date of his receipt of such notice (*"Participation Election Period"*) in which he may elect to participate with the Parties of the Second Part by acquiring up to an undivided 5.00% of 8/8ths leasehold working interest in and to each of the Leases that have been acquired or that may be acquired by the Parties of the Second Part or any Party of the Third Part in said prospect area, proportionately reduced as to each Lease by the leasehold interest in said lease acquired by the Parties of the Second Part, or any Party of the Third Part or any of them (*"Thoma Participating WI"*).

6.3 This option to acquire such 5.00% working interest may be exercised by Thoma only by his delivery to the Parties of the Second Part, and to any Party of the Third Part, on or before the expiration of the Participation Election Period of his written Notice of Agreement to Participate, accompanied by his payment of up to 5.00% (depending on the amount of interest he elects to acquire) of the costs and expenses specified in the Notice of Intent to Develop, if such Notice of Agreement to Participate is not timely delivered, it shall conclusively be deemed that Thoma has forfeited his option to acquire the Thoma Participating WI in that prospect area.

6.4 By agreeing to elect to acquire this interest Thoma shall be deemed to have agreed to participate in the initial well proposed to be drilled on that particular prospect area, and shall not be entitled to go "non-consent" with respect to the drilling of said well.

6.5 Any interest acquired by Thoma pursuant to this Section 6 shall be owned and treated on the same basis as the interests of the Parties of the Second Part, *i.e.*, on a "non-promoted, ground-floor basis, and shall be subject to the same benefits (except as noted below) and bear the same burdens affecting the interest of the Parties of the Second Part, including but not limited to a proportionate share of the Thoma ORI, and any subsequent conversion thereof. Thoma shall be entitled to his proportionate share, depending on the amount of interest he elects to acquire (*i.e.*, up to 5.00%), of any benefits that may be received by the Parties of the Second Part in connection with the sale or promotion of their interests in such prospect area to a Party of the Third Part, or to any other third parties, including but not limited to, any cash payments, any lease or other real property interest acquired, and any "carried

interests", *provided, however*, that Thoma will not share in any prospect fee or similar payout, as designated by the Parties of the Second Part. Any interest that Thoma acquires pursuant to this provision shall be subject to the terms of any Participation Agreement, Operating Agreement or other agreement that may be entered into or determined to be appropriate by the Parties of the Second Part.

### Section 7--Outside Prospects

7.1 It is contemplated that Thoma, for the benefit of the Parties of the Second Part, may be requested to examine oil and/or gas prospects developed and submitted by third parties in which the parties of the second part may acquire interest ("*Outside Prospects*").

7.2 The Parties of the Second Part and Thoma shall agree in writing, on a case by case basis, as to any interest or other compensation to be paid or delivered to Thoma with respect to any such outside Prospects.

### Section 8--Respective Participation of Parties of the Second Part

8.1 The respective participation of the Parties of the Second Part in this Agreement shall be as follows:

Allar--	50.00%
Talus--	25.00%
Twin Montana--	<u>25.00%</u>
	100.00%.

8.2 Each of Allar, Talus and Twin Montana agrees to bear its proportionate share of the Consulting Fee, Overhead Expenses and Travel Expenses paid to or for the benefit of Thoma pursuant hereto during the term of this Agreement according to the above referenced percentages. Should any of the Parties of the Second Part terminate their participation in this Agreement prior to the termination of the Primary Term of Agreement, as hereinafter defined, said party shall nevertheless be liable for its proportionate remaining share of the Consulting Fee payable to Thoma for the Primary Term of this Agreement.

8.3 The Parties of the Second Part agree that their respective participation in the acquisition of any leases, mineral interests or other development of prospects within a Thoma Generated Prospect may be on the same or on different proportionate terms, but it is agreed that any of the Parties of the Second Part electing to participate in such a Thoma Generated Prospect shall bear any Thoma ORI, Thoma Converted WI or Thoma Participating WI based on their respective participation interests in said prospect area.

## Section 9--Notices

9.1 It is agreed that any notice that is to be delivered to Thoma shall be deemed delivered if hand delivered to Thoma, or if faxed to Thoma at the fax number hereinafter stated, or if mailed to Thoma by certified mail, return receipt requested, to the following address:

John Thoma  
c/o Talus, Inc.  
P.O. Box 1210  
Graham, Texas 76450  
Fax No. (940) 549-5162

9.2 It is agreed that any notice that is to be delivered to the Parties of the Second Part shall be deemed delivered if hand delivered to said parties, or if faxed to the fax numbers hereinafter stated, or if mailed by certified mail, return receipt requested, to the following address; to wit:

Talus, Inc.	
and	
Twin Montana, Inc.	The Allar Company
P.O. Box 1210	P.O. Box 1567
Graham, Texas 76450	Graham, Texas 76450
Fax No. (940) 549-5162	Fax No. (940) 549-0742

9.3 It shall be deemed that a notice is received on either the date of hand delivery, the date said notice is faxed, or on the date of receipt as reflected by the return receipt.

9.4 The addresses or fax numbers noted above may be changed by written notice of same delivered to all of the other parties hereto.

## Section 10--Term

10.1 This Agreement shall be for a term of 24 months commencing on January 1, 1999, and continuing for 24 consecutive months thereafter (*"the Primary Term"*).

10.2 After the expiration of the Primary Term, this Agreement shall be considered to be extended on a semi-annual (six month) basis, provided that either Thoma or the Parties of the Second Part, acting together, may terminate the Agreement upon thirty (30) day prior written notice.

10.3 During the Primary Term, this Agreement may be terminated by either Thoma, or by the Parties of the Second Part acting jointly, provided that if this Agreement is terminated by the Parties of the Second Part without "Just Cause", as hereinafter defined, the Parties of the Second Part shall be liable for the remaining balance of the Consulting Fee to be paid to Thoma for the remainder of the Primary

Term, which shall continue to be paid on a bi-monthly basis as provided above; if terminated for Just Cause, there shall be no obligation to pay the remainder of the Consulting Fee. If the contract is terminated by Thoma, the Parties of the Second Part shall be relieved from any obligation to pay the Consulting Fee or any other expenses relating to Thoma, or to provide Thoma an office, subsequent to the effective date of his termination of this Agreement.

10.4 "Just Cause" is defined as the breach by Thoma of any of his confidentiality or non-competition covenants as set forth in this Agreement, or his indictment for or conviction of any felony.

10.5 Notwithstanding any of the foregoing provisions, however, the right of Thoma to receive a Thoma ORI, with the option to convert same to a Thoma Converted WI in previously designated Thoma Generated Prospects shall continue during the 2 year period following the termination of the Agreement, as provided in Section 5.4 above.

10.6 Thoma and the Parties of the Second Part agree that the services to be performed by Thoma hereunder are personal in nature. In the event that Thoma should die or become disabled such that Thoma shall not be able to fully perform hereunder, then this Agreement shall forthwith terminated, and neither Thoma nor the Parties of the Second Part shall have any obligation hereunder except as to any consulting fee payable to Thoma for services previously performed hereunder, and for any Thoma ORI to which Thoma may be entitled at said time with respect to Leases that have been or that may be acquired by the Parties of the Second Part, or a Party of the Third Part, covering lands within any then existing Thoma Generated Prospect.

#### **Section 11--General Provisions**

11.1 It is understood that this Agreement is intended to and does create an independent contractor relationship between Thoma and the Parties of the Second Part. It is not intended to and shall not create an employer/employee relationship, a partnership, a joint venture, or any other relationship.

11.2 The Parties hereto agree to execute any further documents that may be deemed necessary or advisable in order to further the intentions and objectives of the parties pursuant to this Agreement.

11.3 This Agreement may be assigned by the Parties of the Second Part, and the terms and provisions hereof shall be binding upon the successors and assigns thereof.

11.4 This Agreement may not be assigned by Thoma without the written consent of all of the Parties of the Second Part. Thoma may, however, assign his interest in and to any Thoma ORI, or his right to receive same. Furthermore, Thoma may also assign his Thoma Participating WI, or his right to acquire same, provided that all of the Parties of the Second Part consent to the assignment thereof, which consent shall not be unreasonably withheld.

11.5 This Agreement, and all matters pertaining thereto, shall be governed and determined by the laws of the State of Texas. Venue for any legal action relating to this Agreement shall be proper in Young County, Texas.

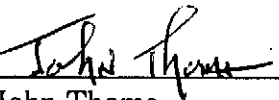
11.6 If any provision of this Agreement is determined to be unenforceable or void, such determination shall not effect the enforceability or the validity of the remainder of this Agreement.

11.7 If either the Party of the First Part or the Parties of the Second Part incur any legal expense in connection with the enforcement of their respective rights and obligations pursuant to this Agreement, and such party is successful, said party shall be entitled to recover from the other party its attorney's fees and expenses incurred in that regard.

11.8 Nothing contained in this Agreement shall be construed to vest in Thoma any power or authority as agent or attorney-in-face for the Parties of the Second Part, or any of them, and Thoma shall have no power or authority pursuant to this Agreement to contract for the Parties of the Second Part, or any of them, or to commit any of said parties to any obligation, liability or undertaking.


11.9 This Agreement is executed in four duplicate counterparts, each of which is effective as an original.

**PARTY OF THE FIRST PART**

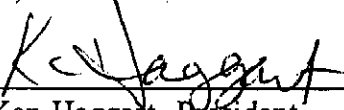
  
\_\_\_\_\_  
John Thoma

**PARTIES OF THE SECOND PART**

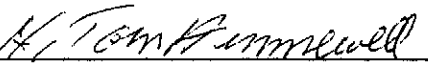
The Allar Company

By:   
\_\_\_\_\_  
Edwin S. Graham, President

Talus, Inc.

By:   
\_\_\_\_\_  
Ken Haggart, President

Twin Montana, Inc.

By:   
\_\_\_\_\_  
Tom Hunnewell, President

**FIRST AMENDMENT  
TO  
GEOLOGICAL CONSULTING AGREEMENT**

This First Amendment to Geological Consulting Agreement ("*this Amendment*") dated the 1st day of July 1999, but to be effective as provided below, is entered into by and between **John Thoma**, of Graham, Texas 75640 ("*Thoma*"), as "*Party of the First Part*", and **The Allar Company**, a Texas corporation, P.O. Box 1567, Graham, Texas 76450 ("*Allar*"); **Talus, Inc.**, a Texas corporation, P.O. Box 1210, Graham, Texas 76450 ("*Talus*") and **Twin Montana, Inc.**, a Texas corporation, P.O. Box 1210, Graham, Texas 76450 ("*Twin Montana*"), as "*Parties of the Second Part*."

WHEREAS, the Party of the First Part and the Parties of the Second Part did enter into that certain Geological Consulting Agreement dated November 10, 1998 ("*the Thoma Geological Consulting Agreement*"); and

WHEREAS, the Parties of the First Part and the Parties of the Second Part desire to amend the Thoma Geological Consulting Agreement as hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual benefits inuring to the parties hereto, the adequacy of which is hereby acknowledged, Thoma, Allar, Talus and Twin Montana agree to amend the Thoma Geological Consulting Agreement as follows:

**Amendment No. 1**

It is agreed that 100.00% of Thoma's professional services during the term of the Agreement shall be directed toward activities in Lea, Eddy and Chaves Counties, New Mexico, ("*the Project Area*"), unless otherwise expanded by mutual agreement of the Parties hereto.

**Amendment No. 2**

(a) It is understood that the Parties of the Second Part are, contemporaneously with this Amendment, entering into an Exploration Agreement with Kukui, Inc. ("**Kukui**") relating to the Project Area, ("**Kukui Exploration Agreement**"), reference to which is made the same as if fully set forth herein. It is understood and agreed that Kukui, Inc., and any successors or assigns of its rights pursuant to said Kukui Exploration Agreement, shall be considered to be a "Party of the Third Part" as contemplated in the Thoma Geological Consulting Agreement.

(b) Furthermore, it is agreed that any Approved Prospect (as defined in the Kukui Exploration Agreement) shall be considered a Thoma Generated Prospect pursuant to the Thoma Geological Consulting Agreement, and Thoma shall be entitled to the Thoma ORI, as defined in the Geological Consulting Agreement, on all Exploration Rights (as defined in the Kukui Exploration Agreement) acquired in such Approved Prospects, according to the provisions of Section 4.2 of the Kukui Exploration Agreement.

(c) Additionally, it is agreed that Prospect Payout (inadvertently called "Project Payout" in the first line of Section 5.3, and in Section 5.5, of the Thoma Geological Consulting Agreement) in connection with the right of Thoma to convert the Thoma ORI to a 5.00% Working Interest shall be determined separately with respect to the 60.00% interest of Kukui and the aggregate 40.00% interest of Allar, Talus and Twin Montana. Prospect Payout with respect to the interest of Kukui shall be determined as Payout is defined in the Kukui Exploration Agreement, and Prospect Payout with respect to Allar, Talus and Twin Montana shall be determined in the same manner as with respect to Kukui, except that the Parties of the Second Part shall not be entitled to recover revenues attributable to the amount of the Prospect Evaluation Fees paid by Kukui to the Parties of the Second Part.

#### **Amendment No. 3**

It is agreed that the Primary Term of the Thoma Geological Consulting Agreement shall be considered to be that period during which the Kukui Exploration Agreement is in effect.

#### **Amendment No. 4**

It is agreed that with respect to any Thoma Generated Prospect in which Kukui elects to participate pursuant to the Kukui Exploration Agreement, the provisions of Section 6 of the Thoma Geological Consulting Agreement shall not apply, and Thoma shall have no right to participate in a working interest pursuant to the terms of said Section 6. With respect to any Thoma Generated Prospect in which Kukui does not elect to participate pursuant to the Kukui Exploration Agreement, the provisions of the said Section 6 shall remain in effect.

#### **Effective Date of This Amendment**

It is agreed that this Amendment shall be effective only upon the effective date of the Kukui Exploration Agreement. If the Parties of the Second Part and Kukui do not enter into the Kukui Exploration Agreement, then this Amendment shall not be effective.

WHEREFORE, PREMISES CONSIDERED, Thoma, Allar, Talus and Twin Montana do hereby adopt, ratify and confirm the Thoma Geological Consulting Agreement, as amended by this Amendment, and subject to the terms hereof.


THIS AMENDMENT IS EXECUTED IN FOUR DUPLICATE COUNTERPARTS, EACH OF WHICH IS EFFECTIVE AS AN ORIGINAL.

**PARTY OF THE FIRST PART**

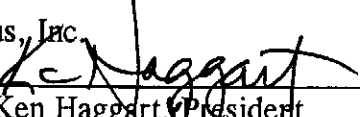
  
John Thoma

**PARTIES OF THE SECOND PART**

The Allar Company

By:   
Edwin S. Graham, III, President

Talus, Inc.

By:   
Ken Haggart, President

Twin Montana, Inc.

By:   
H.T. Hunnewell, President

Allar1stAmendGeolConsultingAgr071599.agr



**AMENDMENT TO  
EXPLORATION AGREEMENT**

This AMENDMENT TO EXPLORATION AGREEMENT ("*Amendment*") is made and entered into as of June 28, 2002, by and between KUKUI, INC., a Texas corporation ("*KUKUI*"), and The Allar Company, a Texas corporation, Talus, Inc., a Texas corporation, and Twin Montana, Inc., a Texas corporation. The Allar Company, Talus, Inc., and Twin Montana, Inc. are referred to herein individually and collectively as "*The Allar Group*."

WHEREAS, KUKUI and The Allar Group have entered into a that certain Exploration Agreement ("*Agreement*") dated as of July 1, 1999, for the purpose of acquiring leases and conducting joint exploration and development activities in the Project Area as such area is defined in the Agreement, and

WHEREAS, pursuant to ARTICLE 8 of the Agreement, the Agreement will terminate on June 30, 2002, and

WHEREAS, subject to the terms and conditions hereof, KUKUI and the Allar Group desire to extend the term of the Agreement and to amend certain other provisions thereof.

NOW THEREFORE, in consideration of the foregoing and other good and valuable consideration received by each of the parties hereto, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The Prospect Evaluation Fee (as defined in ARTICLE 2.2 of the Agreement) payable on July 15, 2002 and on the fifteenth day of each month thereafter during the term hereof shall be \$12,500.00.

2. The first and second sentences of ARTICLE 8, TERM, are hereby deleted and replaced with the following: "Subject to the terms hereof, the term of this Agreement shall begin on July 1, 1999 and end on June 30, 2003. provided, however, that from and after December 1, 2002, either party shall have the right to terminate this Agreement, with or without cause, by giving the other party not less than 30 days' prior written notice of termination."

3. Except as herein amended, all other terms and provisions of the Agreement shall remain in full force and effect as originally written.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment on the dates set forth opposite their respective signatures, but effective as of the year and date first set forth above.

KUKUI, INC.

By: Dennis E. Fern 7.1.02  
Dennis E. Fern, President Date <sup>53</sup>7/1/02

The Allar Company

By: Edwin S. Graham 7-11-02  
Edwin S. Graham, III, President Date ~~7-11-02~~

Talus, Inc.

By: Ken Haggart 7/11/02  
Ken Haggart, Vice President Date ~~7/11/02~~

Twin Montana, Inc.

By: H. T. Hunnewell 7-11-02  
H. T. Hunnewell, President Date