

**APPLICATION OF CIMAREX  
ENERGY CO. FOR A NON-STANDARD  
SPACING AND PRORATION UNIT, AND  
COMPULSORY POOLING, LEA COUNTY,  
NEW MEXICO**

**RE: Lea 7 Federal Com 2h**

**Hearing Notebook**

August 2, 2017

Tab		DESCRIPTION
1.		Application
2.		C-102
3.		Lease Tract Map
4.		Model Form Operating Agreement
5.		Well Proposal and AFE
6.		Notice
7.		Structure Map
8.		Cross Map
9.		Net Pay and Development Maps
10.		Wellbore Diagram

K:\dox\client\90000\1055\W2987312.DOCX

**STATE OF NEW MEXICO  
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION**

**APPLICATION OF CIMAREX  
ENERGY CO. FOR A NON-STANDARD  
OIL SPACING AND PRORATION UNIT  
AND COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.**

CASE NO. \_\_\_\_\_

**APPLICATION**

Cimarex Energy Co. ("Cimarex"), OGRID Number 215099, through its undersigned attorneys, hereby makes an application to the Oil Conservation Division pursuant to the provisions of NMSA (1978), Section 70-2-17, for an order: (1) creating a non-standard 160-acre, more or less, oil spacing and proration unit in the Bone Spring formation, comprised of the E/2 W/2 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and (2) pooling all mineral interests in the Bone Spring formation underlying this proposed non-standard spacing and proration unit. In support of this application, Cimarex states as follows:

1. Cimarex is an interest owner in the subject lands and has a right to drill a well thereon.
2. Cimarex seeks to dedicate the E/2 W/2 of Section 7 to the proposed well to form a non-standard 160-acre, more or less, oil spacing and proration unit (the "project area").
3. Cimarex proposes to drill the **Lea 7 Federal Com 2H** well to a depth sufficient to test the Bone Springs formation. This well is a horizontal well with a surface location 505 feet



from the South line, 1597 feet from the West line of Section 7, and a terminus 330 feet from the North line, 1980 feet from the West line of Section 7.

4. This well is within the WC-025 G-08 S203506D pool (Pool Code 97983), which is subject to the statewide rules for oil spacing and proration units. The producing interval that Cimarex seeks to drill will comply with the statewide 330 foot setback requirements established under Rule 19.15.15.9(A) NMAC.

5. Cimarex sought, but has been unable to obtain a voluntary agreement from all interest owners in the Bone Spring formation underlying the proposed project area to participate in the drilling of the well or to otherwise commit their interests to the well.

6. Approval of the non-standard unit and the pooling of all interests in the Bone Spring formation underlying the proposed project area will prevent the drilling of unnecessary wells, prevent waste and protect correlative rights.

7. Notice of this application is being given in accordance with Division rules as shown on Exhibit A.

WHEREFORE, Cimarex Energy Co. requests this application be set for hearing before an Examiner of the Oil Conservation Division on July 20, 2017, and after notice and hearing as required by law, the Division enter its order:

A. Creating a non-standard oil spacing and proration unit ("project area") in the Bone Spring formation comprised of E/2 W/2 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico;

B. Pooling all mineral interests in the Bone Spring formation underlying this non-standard spacing and proration unit/project area;

C. Designating Cimarex as operator of this unit and the well to be drilled thereon;

D. Authorizing Cimarex to recover its costs of drilling, equipping and completing this well;

E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and

F. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,

MODRALL, SPERLING, ROEHL, HARRIS  
& SISK, P.A.

By: 

Earl E. DeBrine, Jr.  
Jennifer Bradfute  
Post Office Box 2168  
Bank of America Centre  
500 Fourth Street NW, Suite 1000  
Albuquerque, New Mexico 87103-2168  
Telephone: 505.848.1800  
*Attorneys for Applicant*



**EXHIBIT A**

**CIMAREX ENERGY CO. NOTICE LIST**

**Parties to be pooled:**

AOG Mineral Partners, Ltd.  
P.O. Box 1015  
Midland, Texas 79702

Rhoades Oil Company  
P.O. Box 2673  
Midland, Texas 79702

M. Dion Lowe  
7801 Espanola Trail  
Austin, Texas 78737

John E. & Helen M. Kennann Family Trust, created January 13, 1994  
Attn: William H. Kennan, Trustee  
1430 Soquel Ave.  
Santa Cruz 95062

Realeza Del Spear, LP  
P.O. Box 1684  
Midland, Texas 79702

Charles Kenneth Moore  
18326 E. San Ignacio Ct.  
Gold Canyon, AZ 85118

The Long Family Trusts  
Larry P. Long, Managing Trustee  
118 S. Kilgore St.  
Kilgore, Texas 75662

Lowe Family, Ltd.  
P.O. Box 53775  
Lubbock, Texas 79453

Vora Lowe Hartley Mineral Trust  
Attn: Teddy L. Hartley & Robert Thomas Hartley, Trustees  
P.O. Box 1024  
Clovis, NM 88102

**Offsets:**

Marshall & Winston, Inc.  
P.O. Box 50880  
Midland, Texas 79710

Legacy Reserves LP  
P.O. Box 10848  
Midland, TX 79702

COG Operating, LLC  
One Concho Center  
600 W. Illinois Avenue  
Midland, TX 79701

**CASE NO. \_\_\_\_\_: Application of Cimarex Energy Co. for a non-standard spacing and proration unit and compulsory pooling, Lea County, New Mexico.** Applicant seeks an order from the Division: (1) creating a non-standard 160-acre, more or less, oil spacing and proration unit in the Bone Spring formation, comprised of the E/2 W/2 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and, (2) pooling all mineral interests in the Bone Spring formation underlying this proposed non-standard spacing and proration unit. This proposed non-standard spacing and proration unit will be the project area for the **Lea 7 Federal Com. #2H well**, to be horizontally drilled. The producing area for this well will be 330 feet from the project area boundary. Also to be considered will be the cost of drilling and completing said well, the allocation of these costs as well as the actual operating costs and charges for supervision, designation of Cimarex as operator of the well, and a 200% charge for risk involved in drilling said well. Said area is located approximately 11.6 miles southeast of the intersection of Hobbs Highway 180 and County Road 27-A/Marathon Road, located in Lea County, New Mexico.

District I  
1625 N. French Dr., Hobbs, NM 88240  
Phone: (575) 393-6161 Fax: (575) 393-0720  
District II  
811 S. First St., Artesia, NM 88210  
Phone: (575) 748-1283 Fax: (575) 748-9720  
District III  
1000 Rio Brazos Road, Aztec, NM 87410  
Phone: (505) 334-6178 Fax: (505) 334-6170  
District IV  
1220 S. St. Francis Dr., Santa Fe, NM 87505  
Phone: (505) 476-3460 Fax: (505) 476-3462

State of New Mexico  
Energy, Minerals & Natural Resources Department  
OIL CONSERVATION DIVISION  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Form C-102  
Revised August 1, 2011  
Submit one copy to appropriate  
District Office

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

<sup>1</sup> API Number 30-025-42546	<sup>2</sup> Pool Code 97983	<sup>3</sup> Pool Name WC-025 G-08 S203506D; BS
<sup>4</sup> Property Code 313878	<sup>5</sup> Property Name LEA 7 FEDERAL COM	<sup>6</sup> Well Number 2H
<sup>7</sup> OGRID No. 215099	<sup>8</sup> Operator Name CIMAREX ENERGY CO.	<sup>9</sup> Elevation 3674.9'

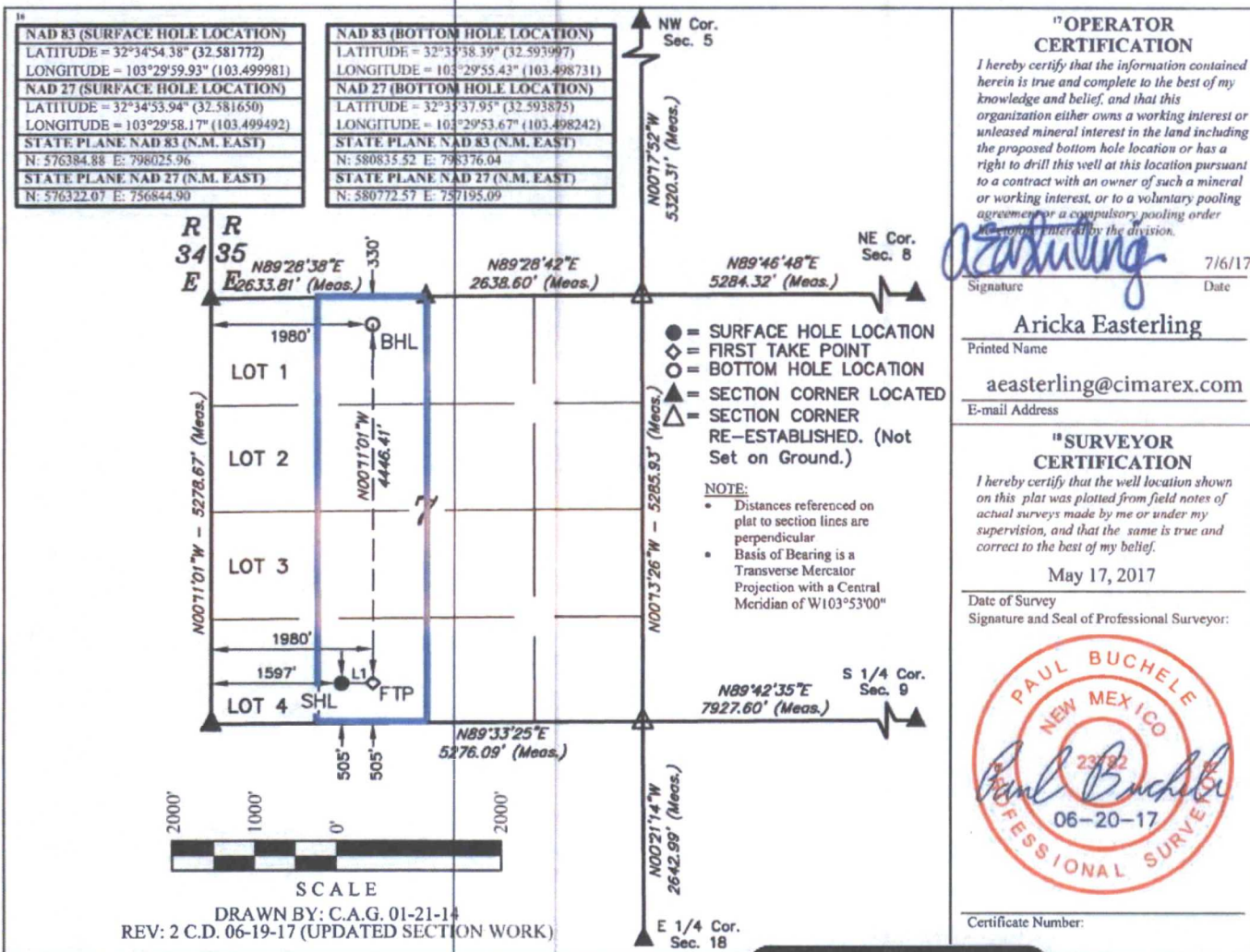
" Surface Location

UL or lot no.	Section	Township	Range	Lot 10n	Feet from the	North/South line	Feet from the	East/West line	County
N	7	20S	35E		505	SOUTH	1597	WEST	LEA

" Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot 10n	Feet from the	North/South line	Feet from the	East/West line	County
C	7	20S	35E		330	NORTH	1980	WEST	LEA
<sup>12</sup> Dedicated Acres 160	<sup>13</sup> Joint or Infill	<sup>14</sup> Consolidation Code	<sup>15</sup> Order No.						

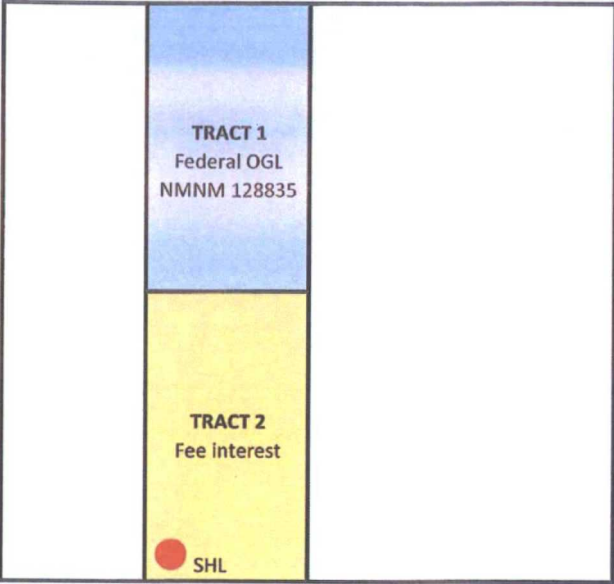
No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.



EXHIBIT

2

SECTION 7, RANGE 20 SOUTH, TOWNSHIP 35 EAST, LEA CO. NEW MEXICO  
LEA 7 FEDERAL 2H WELL (E/2 W/2 - 160 acre unit)



INTERESTS TO POOL COVERING TRACT #2

OWNER	TYPE	NET ACRES
William H. Kennann, Trustee of the John E. and Helen M. Kennann Family Truste	Unleased minerals	0.05
Realeza Del Spear, LP	Unleased minerals	4.8055568
AOG Mineral Partners, Ltd.	Leasehold	1.6406248
The Long Trusts, Larry P. Long, Managing Trustee	Unleased minerals	0.1797656
Lowe Family, Ltd.	Unleased minerals	0.0144032
Teddy L. Hartley & Roberta Thomas Hartley, as Trustees of the Vora Lowe Hartley Mineral Trust	Unleased minerals	0.0094176
<b>TOTAL</b>		<b>6.699768</b>

EXHIBIT

3

**MODEL FORM OPERATING AGREEMENT**

**OPERATING AGREEMENT**

**DATED**

June 24 , 2014 ,  
year

**OPERATOR** Cimarex Energy Co.

**CONTRACT AREA** Section 7, Township 20 South, Range 35 East, Lea County, NM

**COUNTY OR PARISH OF** Lea , **STATE OF** New Mexico

COPYRIGHT 1989 - ALL RIGHTS RESERVED  
AMERICAN ASSOCIATION OF PETROLEUM  
LANDMEN, 4100 FOSSIL CREEK BLVD.  
FORT WORTH, TEXAS, 76137, APPROVED FORM.

A.A.P.L. NO. 610 - 1989

**EXHIBIT**

**4**

**TABLE OF CONTENTS**

<b>Article</b>	<b>Title</b>	<b>Page</b>
<b>I.</b>	<b>DEFINITIONS</b>	1
<b>II.</b>	<b>EXHIBITS</b>	1
<b>III.</b>	<b>INTERESTS OF PARTIES</b>	2
	A. OIL AND GAS INTERESTS:	2
	B. INTERESTS OF PARTIES IN COSTS AND PRODUCTION:	2
	C. SUBSEQUENTLY CREATED INTERESTS:	2
<b>IV.</b>	<b>TITLES</b>	2
	A. TITLE EXAMINATION:	2
	B. LOSS OR FAILURE OF TITLE:	3
	1. Failure of Title	3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
	4. Curing Title	3
<b>V.</b>	<b>OPERATOR</b>	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
	3. Effect of Bankruptcy	4
	C. EMPLOYEES AND CONTRACTORS:	4
	D. RIGHTS AND DUTIES OF OPERATOR:	4
	1. Competitive Rates and Use of Affiliates	4
	2. Discharge of Joint Account Obligations	4
	3. Protection from Liens	4
	4. Custody of Funds	5
	5. Access to Contract Area and Records	5
	6. Filing and Furnishing Governmental Reports	5
	7. Drilling and Testing Operations	5
	8. Cost Estimates	5
	9. Insurance	5
<b>VI.</b>	<b>DRILLING AND DEVELOPMENT</b>	5
	A. INITIAL WELL:	5
	B. SUBSEQUENT OPERATIONS:	5
	1. Proposed Operations	5
	2. Operations by Less Than All Parties	6
	3. Stand-By Costs	7
	4. Deepening	8
	5. Sidetracking	8
	6. Order of Preference of Operations	8
	7. Conformity to Spacing Pattern	9
	8. Paying Wells	9
	C. COMPLETION OF WELLS; REWORKING AND PLUGGING BACK:	9
	1. Completion	9
	2. Rework, Recomplete or Plug Back	9
	D. OTHER OPERATIONS:	9
	E. ABANDONMENT OF WELLS:	9
	1. Abandonment of Dry Holes	9
	2. Abandonment of Wells That Have Produced	10
	3. Abandonment of Non-Consent Operations	10
	F. TERMINATION OF OPERATIONS:	10
	G. TAKING PRODUCTION IN KIND:	10
	(Option 1) Gas Balancing Agreement	10
	(Option 2) No Gas Balancing Agreement	11
<b>VII.</b>	<b>EXPENDITURES AND LIABILITY OF PARTIES</b>	11
	A. LIABILITY OF PARTIES:	11
	B. LIENS AND SECURITY INTERESTS:	12
	C. ADVANCES:	12
	D. DEFAULTS AND REMEDIES:	12
	1. Suspension of Rights	13
	2. Suit for Damages	13
	3. Deemed Non-Consent	13
	4. Advance Payment	13
	5. Costs and Attorneys' Fees	13
	E. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES:	13
	F. TAXES:	13
<b>VIII.</b>	<b>ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST</b>	14
	A. SURRENDER OF LEASES:	14
	B. RENEWAL OR EXTENSION OF LEASES:	14
	C. ACREAGE OR CASH CONTRIBUTIONS:	14

**TABLE OF CONTENTS**

	D. ASSIGNMENT; MAINTENANCE OF UNIFORM INTEREST: .....	15
	E. WAIVER OF RIGHTS TO PARTITION: .....	15
	F. PREFERENTIAL RIGHT TO PURCHASE: .....	15
IX.	<u>INTERNAL REVENUE CODE ELECTION</u> .....	15
X.	<u>CLAIMS AND LAWSUITS</u> .....	15
XI.	<u>FORCE MAJEURE</u> .....	16
XII.	<u>NOTICES</u> .....	16
XIII.	<u>TERM OF AGREEMENT</u> .....	16
XIV.	<u>COMPLIANCE WITH LAWS AND REGULATIONS</u> .....	16
	A. LAWS, REGULATIONS AND ORDERS: .....	16
	B. GOVERNING LAW: .....	16
	C. REGULATORY AGENCIES: .....	16
XV.	<u>MISCELLANEOUS</u> .....	17
	A. EXECUTION: .....	17
	B. SUCCESSORS AND ASSIGNS: .....	17
	C. COUNTERPARTS: .....	17
	D. SEVERABILITY .....	17
XVI.	<u>OTHER PROVISIONS</u> .....	17



# A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between CIMAREX ENERGY CO. hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually 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 "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder.

B. The term "Affiliate" shall mean a company, partnership, other legal entity or individual which controls, is controlled by, or which is under common control by an entity or individuals which control a party to this agreement. "Control" means the ownership or control of more than 50% of the shares or voting rights of a company, partnership or legal entity, and, in the case of an individual, means the power to appoint or remove the majority of the directors or trustees of the entity.

C. The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation.

D. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."

E. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser. "Deepen", as used in conjunction with horizontal drilling, shall mean a single operation whereby a well is drilled to a distance beyond the horizontal distance to which the well was previously drilled, or beyond the total horizontal distance proposed in the associated AFE.

F. 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.

G. 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 unless fixed by express agreement of the Drilling Parties.

H. The term "Drillbit" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located.

I. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.

J. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.

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

L. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or 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.

M. The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement.

N. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

O. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone.

P. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.

Q. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation operations but exclude any routine repair or maintenance work or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well.

R. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties.

S. The term "Zone" shall mean a stratum of earth containing or thought to contain a common accumulation of Oil and Gas separately producible from any other common accumulation of Oil and Gas. The terms "Initial Objective" or "Objective Zone" when used in conjunction with horizontal drilling, shall mean the total horizontal distance proposed in the associated AFE of a horizontal wellbore which Operator desires to produce.

T. The term "Interval" shall mean a well drilled, completed or recompleted in a manner in which the horizontal component within the completion interval in the geological formation exceeds the vertical component of said formation and which horizontal component extends a minimum of 150 feet horizontally into the formation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the word "person" includes natural and artificial persons, the plural includes the singular, and any gender includes the masculine, feminine, and neuter.

## 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) Description of lands subject to this agreement,
  - (2) Restrictions, if any, as to depths, formations, or substances,
  - (3) Parties to agreement with addresses and telephone numbers for notice purposes,
  - (4) Percentages or fractional interests of parties to this agreement,
  - (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
  - (6) Burdens on production.
- ☒ B. Exhibit "B," Form of Lease.
- ☒ C. Exhibit "C," Accounting Procedure.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

- 1 ☒ D. Exhibit "D," Insurance.  
2 ☒ E. Exhibit "E," Gas Balancing Agreement.  
3 ☒ F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.  
4 ☒ G. Exhibit "G," Tax Partnership.  
5 ☒ H. Other: Recording Supplement to Operating Agreement and Planning Statement  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

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

3 ARTICLE III.  
4 INTERESTS OF PARTIES

5 A. Oil and Gas Interests:

6 If any party owns an Oil and Gas Interest in the Contract Area, that Interest shall be treated for all purposes of this  
7 agreement and during the term hereof as if it were covered by the form of Oil and Gas Lease attached hereto as Exhibit "D,"  
8 and the owner thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.

9 B. Interests of Parties in Costs and Production:

10 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne  
11 and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their  
12 interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the  
13 Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter.

14 Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other  
15 burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or  
16 cause to be paid or delivered, all burdens on its share of the production from the Contract Area up to, but not in excess of,  
17 1/4th and shall indemnify, defend and hold the other parties free from any liability therefor.  
18 Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is  
19 burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts  
20 stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend  
21 and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as  
22 the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to  
23 be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s)  
24 which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any  
25 liability therefor.

26 No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's  
27 lessor or royalty owner, and if such other party's lessor or royalty owner should demand and receive settlement on a higher  
28 price basis, the party, ~~parties to pay on such higher price basis~~ contributing the affected Lease shall bear the additional royalty burden  
29 attributable to such higher price ~~payments under its leasehold.~~

30 Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby,  
31 and in the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in  
32 said Leaseholds shall be deemed separate leasehold interests for the purposes of this agreement.

33 C. Subsequently Created Interests:

34 If any party has contributed hereto a Lease or Interest that is burdened with an assignment of production given as security  
35 for the payment of money, or if, after the date of this agreement, any party creates an overriding royalty, production  
36 payment, net profits interest, assignment of production or other burden payable out of production attributable to its working  
37 interest hereunder, such burden shall be deemed a "Subsequently Created Interest." Further, if any party has contributed  
38 hereto a Lease or Interest burdened with an overriding royalty, production payment, net profits interests, or other burden  
39 payable out of production created prior to the date of this agreement, and such burden is not shown on Exhibit "A," such  
40 burden also shall be deemed a Subsequently Created Interest to the extent such burden causes the burdens on such party's  
41 Lease or Interest to exceed the amount stipulated in Article III.B. above.

42 The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and  
43 alone bear, pay and discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other  
44 parties from and against any liability therefor. Further, if the Burdened Party fails to pay, when due, its share of expenses  
45 chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the Subsequently Created Interest in the  
46 same manner as they are enforceable against the working interest of the Burdened Party. If the Burdened Party is required  
47 under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the  
48 production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of  
49 said Subsequently Created Interest, and the Burdened Party shall indemnify, defend and hold harmless said other party, or  
50 parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created Interest.

51 ARTICLE IV.

52 TITLES

53 A. Title Examination:

54 Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and,  
55 if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire  
56 Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working  
57 interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing  
58 Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator  
59 all abstracts (including federal lease status reports, if applicable), title opinions, title papers and curative material in its possession free of  
60 charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the  
61 examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or  
62 by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in  
63 procuring abstracts, fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in royalty  
64 opinions and division order title opinions) and other direct charges as provided in Exhibit "C" shall be borne by the Drilling  
65 Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such  
66 interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other personnel  
67 in the performance of the above functions. Notwithstanding the foregoing, title examination on the Drillsite/Drilling Unit of any well  
68 ~~prior to the initial well shall be discretionary with Operator if title thereto is common with the title to the~~  
69 ~~Drillsite/Drilling Unit of the initial well.~~

70 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in  
71 connection with Leases or Oil and Gas Interests contributed by such party. Operator shall be responsible for the preparation  
72 and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings  
73 before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to  
74 the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings.  
Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental

**A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989**

agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C."

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Unit. Except as otherwise noted, No well shall be drilled on the Contract Area until after (1) the title to the Drillsite or Drilling Unit, <sup>appropriate,</sup> has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the Drilling Parties in such well.

**B. Loss or Failure of Title:**

1. Failure of Title: Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition 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 and Gas Leases and Interests; and,

(a) The party credited with contributing the Oil and Gas Lease or Interest affected by the title failure (including, if applicable, a successor in interest to such party) shall bear alone the entire loss and is shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have previously paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the Lease or Interest which has failed, but the interests of the parties contained on Exhibit "A" shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose Lease or Interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the Lease or Interest failed;

(c) If the proportionate interest of the other parties hereto in any producing well previously drilled on the Contract Area is increased by reason of the title failure, the party who bore the costs incurred in connection with such well attributable to the Lease or Interest which has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well attributable to such failed Lease or Interest;

(d) Should any person not a party to this agreement, who is determined to be the owner of any Lease or Interest which has 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 who bore the costs which are so refunded;

(e) Any liability to account to a person not a party to this agreement for prior production of Oil and Gas which arises by reason of title failure shall be borne severally by each party (including a predecessor to a current party) who received production for which such accounting is required based on the amount of such production received, and each such party shall severally indemnify, defend and hold harmless all other parties hereto for any such liability to account;

(f) No charge shall be made to the joint account for legal expenses, fees or salaries in connection with the defense of the Lease or Interest claimed to have failed, but if the party contributing such Lease or Interest hereto elects to defend its title it shall bear all expenses in connection therewith; and

(g) If any party is given credit on Exhibit "A" to a Lease or Interest which is limited solely to ownership of an interest in the wellbore of any well or wells and the production therefrom, such party's absence of interest in the remainder of the Contract Area shall be considered a Failure of Title as to such remaining Contract Area unless that absence of interest is reflected on Exhibit "A."

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, or other payment necessary to maintain all or a portion of an Oil and Gas Lease or Interest is not paid or is erroneously paid, and as a result a Lease or Interest terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new Lease or Interest covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties reflected on Exhibit "A" shall be revised on an acreage basis, effective as of the date of termination of the Lease or Interest involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the Lease or Interest which has terminated. If the party who failed to make the 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 the lost Lease or Interest, calculated on an acreage basis, for the development and operating costs previously paid on account of such Lease or Interest, it shall be reimbursed for unrecovered actual costs previously paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of Oil and Gas produced prior to termination of the Lease or Interest, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, previously accrued to the credit of the lost Lease or Interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination, would be attributable to the lost Lease or Interest on an acreage basis and which as a result of such Lease or Interest termination is credited to other parties, the proceeds of said portion of the Oil and Gas to be contributed by the other parties in proportion to their respective interests reflected on Exhibit "A"; and,

(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 Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because express or implied covenants have not been performed (other than performance which requires only the payment of money), and the loss of any Lease by expiration at the end of its primary term if it is not renewed or extended. There shall be no readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.

4. Curing Title: In the event of a Failure of Title under Article IV.B.1. or a loss of title under Article IV.B.2. above, any Lease or Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period provided by Article IV.B.1. and Article IV.B.2. above covering all or a portion of the interest that has failed or was lost shall be offered at cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B. shall not apply to such acquisition.

ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

CIMAREX ENERGY CO. 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. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonable prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any 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 only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

Subject to Article V.D.1., 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 under any provision of this agreement, 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 or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or 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 or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy Code, and an election to reject this agreement by Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A." In the event there are only two (2) parties to this agreement, during the period of time the operating committee controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest in the Contract Area based on Exhibit "A."

C. Employees and Contractors:

The number of employees or contractors 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 or contractors shall be the employees or contractors of Operator.

D. Rights and Duties of Operator:

1. Competitive Rates and Use of Affiliates: 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. All work performed or materials supplied by Affiliates or related parties of Operator shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance with customs and standards prevailing in the industry.

2. Discharge of Joint Account Obligations: Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C." Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

3. Protection from Liens: Operator shall pay, or cause to be paid, as and when they become due and payable, all accounts of contractors and suppliers and wages and salaries for services rendered or performed, and for materials supplied on, to or in respect of the Contract Area or any operations for the joint account thereof, and shall keep the Contract Area free from

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

liens and encumbrances resulting therefrom except for those resulting from a bona fide dispute as to services rendered or materials supplied.

4. Custody of Funds: Operator shall hold for the account of the Non-Operators any funds of the Non-Operators advanced or paid to the Operator, either for the conduct of operations hereunder or as a result of the sale of production from the Contract Area, and such funds shall remain the funds of the Non-Operators on whose account they are advanced or paid until used for their intended purpose or otherwise delivered to the Non-Operators or applied toward the payment of debts as provided in Article VII.B. Nothing in this paragraph shall be construed to establish a fiduciary relationship between Operator and Non-Operators for any purpose other than to account for Non-Operator funds as herein specifically provided. Nothing in this paragraph shall require the maintenance by Operator of separate accounts for the funds of Non-Operators unless a majority of the parties otherwise specifically agree. In that event, Operator shall establish a separate bank account for receipt and disbursement of funds from and due Non-Operators. ~~Responsible parties shall maintain with said account which shall be non-account to the joint account.~~

5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any and all reports and information obtained by Operator in connection with production and related items, including, without limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures shall be conducted in accordance with the audit protocol specified in Exhibit "C." Notwithstanding anything contained in the Agreement, Non-Consenting parties shall be entitled only to receive financial information which relates to payout of penalties and recovery of relinquishment interests as set forth in Article VII.B.2.b. Non-Consenting parties shall be entitled to receive operational information after reversion of their relinquished interest.

6. Filing and Furnishing Governmental Reports: Operator will file, and upon written request promptly furnish copies to each requesting Non-Operator not in default of its payment obligations, all operational notices, reports or applications required to be filed by local, State, Federal or Indian agencies or authorities having jurisdiction over operations hereunder. Each Non-Operator shall provide to Operator on a timely basis all information necessary to Operator to make such filings.

7. Drilling and Testing Operations: The following provisions shall apply to each well drilled, completed, reworked, deepened, recompleted or plugged back hereunder, including but not limited to the Initial Well:

(a) Operator will promptly advise Non-Operators of the date on which the well is spudded, or the date on which drilling operations are commenced.

(b) Operator will send to Non-Operators such reports, test results and notices regarding the progress of operations on the well as the Non-Operators shall reasonably request, including, but not limited to, daily drilling reports, completion reports, and well logs.

(c) Operator shall adequately test all Zones encountered which may reasonably be expected to be capable of producing Oil and Gas in paying quantities as a result of examination of the electric log or any other logs or cores or tests conducted hereunder.

8. Cost Estimates: Upon request of any Consenting Party, Operator shall furnish estimates of current and cumulative costs incurred for the joint account at reasonable intervals during the conduct of any operation pursuant to this agreement. Operator shall not be held liable for errors in such estimates so long as the estimates are made in good faith.

9. Insurance: At all times while operations are conducted hereunder, Operator shall comply with the workers 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 hereto and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workers 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 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 VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1 day of September, 2014, Operator shall ~~have the right to~~ commence the drilling of the Initial

Well at the following location:

Section 7, Township 20 South, Range 32 East  
BHL: 330 PNL & 900 PVL

and shall thereafter continue the drilling of the well with due diligence to a vertical depth of approximately 10,500 feet or to a depth sufficient to test the Base Horizon formation, whichever is the deeper horizon, and a horizontal distance which ~~Operator shall determine, or move progressively beyond in the direction of the~~

Subject to the provisions herein, and unless otherwise provided for herein, the drilling of the Initial Well and the participation therein by all parties is compulsory, subject to Article VI.C.1. as to participation in Completion operations and Article VI.F. as to termination of operations and Article XI as to occurrence of force majeure.

B. Subsequent Operations:

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1        1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or  
2        If any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of  
3        producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under  
4        this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written  
5        notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74



# A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a notice is delivered and who are entitled to participate in such proposed operation shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VLB.6.

If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be contractually committed to participate therein provided such operations are commenced within the time period hereafter set forth, and Operator shall, no later than ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and thereafter complete it with due diligence at the risk and expense of the parties participating therein; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, 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 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or cumulative matter required for title approval or acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein or in the force majeure provisions of Article XI) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance herewith as if no prior proposal had been made. Those parties that did not participate in the drilling of a well for which a proposal to Deepen or Sidetrack is made hereunder shall, if such parties desire to participate in the proposed Deepening or Sidetracking operation, reimburse the Drilling Parties in accordance with Article VLB.4. In the event of a Deepening operation and in accordance with Article VLB.5. In the event of a Sidetracking operation.

## 2. Operations by Less Than All Parties:

(a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VLB.1. or VLC.1. (Option 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 giving the notice and such other parties as shall elect to participate in the operation shall, no later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VLB.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties' interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is not carried by a Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a drilling rig is on location, notice may be given by telephone, and the time permitted for such a response shall not exceed a total of forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is less than 100% participation and shall notify all parties of such decision within ten (10) days, or within twenty-four (24) hours if a drilling rig is on location, following expiration of the applicable response period. If 100% subscription to the proposed operation is obtained, the proposing party shall promptly notify the Consenting Parties of their proportionate interests in the operation and the party serving as Operator shall commence such operation within the period provided in Article VLB.1., subject to the same extension right as provided therein.

(b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VLB.6. and VLE.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) 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, Sidetracking, Recompleting, 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-

**A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989**

Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking,

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-  
2 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect  
3 to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or  
4 market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes,  
5 royalty, overriding royalty and other interests not excepted by Article III.C. payable out of or measured by the production  
6 from such well accruing with respect to such interest until it reverts), shall equal the total of the following:

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

14 (ii) 300 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening,  
15 Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C.,  
16 and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections),  
17 which would have been chargeable to such Non-Consenting Party if it had participated therein.

18 Notwithstanding anything to the contrary in this Article VLB., if the well does not reach the deepest objective Zone  
19 described in the notice proposing the well for reasons other than the encountering of granite or practically impenetrable  
20 substance or other condition in the hole rendering further operations impracticable, Operator shall give notice thereof to each  
21 Non-Consenting Party who submitted or voted for an alternative proposal under Article VLB.6, to drill the well to a  
22 shallower Zone than the deepest objective Zone proposed in the notice under which the well was drilled, and each such Non-  
23 Consenting Party shall have the option to participate in the initial proposed Completion of the well by paying its share of the  
24 cost of drilling the well to its actual depth, calculated in the manner provided in Article VLB.4. (a). If any such Non-  
25 Consenting Party does not elect to participate in the first Completion proposed for such well, the relinquishment provisions  
26 of this Article VLB.2. (b) shall apply to such party's interest.

27 (c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or  
28 Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in  
29 such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full  
30 recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to  
31 participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking  
32 operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at  
33 any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such  
34 Reworking, Recompleting or Plugging Back operation conducted during the recoupment period shall be deemed part of the  
35 cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties 300 % of  
36 that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to  
37 such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is  
38 proposed during such recoupment period, the provisions of this Article VLB. shall be applicable as between said Consenting  
39 Parties in said well.

40 (d) Recoupment Matters. During the period of time Consenting Parties are entitled to receive Non-Consenting Party's  
41 share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all ad valorem,  
42 production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to  
43 Non-Consenting Party's share of production not excepted by Article III.C.

44 In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening operation, the Consenting  
45 Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all  
46 such equipment shall remain unchanged; and upon abandonment of a well after such Reworking, Sidetracking, Plugging Back,  
47 Recompleting or Deepening, the Consenting Parties shall account for all such equipment to the owners thereof, with each  
48 party receiving its proportionate part in kind or in value, less cost of salvage.

49 Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations  
50 for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to  
51 the well, and an itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing,  
52 Recompleting, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement  
53 of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the  
54 Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties  
55 shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of  
56 the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized from  
57 the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas  
58 produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or  
59 periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with  
60 any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited  
61 against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such  
62 Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-  
63 Consenting Party.

64 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided  
65 for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the day  
66 following the day on which such recoupment occurs, and, from and after such reversion, such Non-Consenting Party shall  
67 own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as  
68 such Non-Consenting Party would have been entitled to had it participated in the drilling, Sidetracking, Reworking,  
69 Deepening, Recompleting or Plugging Back of said well. Thereafter, such Non-Consenting Party shall be charged with and  
70 shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this  
71 agreement and Exhibit "C" attached hereto.

72 3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have  
73 been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise  
74 terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking,

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 Sidetracking, Deepening, Re-completing, Plugging Back or Completing operation in such a well (including the period required  
2 under Article VLB.6. to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening  
3 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted,  
4 whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms  
5 of the second grammatical paragraph of Article VLB.2. (a), shall be charged to and borne as part of the proposed operation,  
6 but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated  
7 between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total  
8 interest as shown on Exhibit "A" of all Consenting Parties.

9 In the event that notice for a Sidetracking or Deepening operation is given while the drilling rig to be utilized is on location, any  
10 party  
11 may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in  
12 Article VLB.1. within which to respond by paying for all stand-by costs and other costs incurred during such extended  
13 response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending  
14 the response period. If more than one party elects to take such additional time to respond to the notice, standby costs shall be  
15 allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's  
16 interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties.

17 4. Deepening: If less than all parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed  
18 pursuant to Article VLB.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article  
19 VLB.2. shall relate only and be limited to the lesser of (i) the total depth actually drilled or (ii) the objective depth or Zone  
20 of which the parties were given notice under Article VLB.1. ("Initial Objective"). Such well shall not be Deepened beyond the  
21 Initial Objective without first complying with this Article to afford the Non-Consenting Parties the opportunity to participate  
22 in the Deepening operation.

23 In the event any Consenting Party desires to drill or Deepen a Non-Consent Well to a depth below the Initial Objective,  
24 such party shall give notice thereof, complying with the requirements of Article VLB.1., to all parties (including Non-  
25 Consenting Parties). Thereupon, Articles VLB.1. and 2. shall apply and all parties receiving such notice shall have the right to  
26 participate or not participate in the Deepening of such well pursuant to said Articles VLB.1. and 2. If a Deepening operation  
27 is approved pursuant to such provisions, and if any Non-Consenting Party elects to participate in the Deepening operation,  
28 such Non-Consenting party shall pay or make reimbursement (as the case may be) of the following costs and expenses.

29 (a) If the proposal to Deepen is made prior to the Completion of such well as a well capable of producing in paying  
30 quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) that share of costs  
31 and expenses incurred in connection with the drilling of said well from the surface to the Initial Objective which Non-  
32 Consenting Party would have paid had such Non-Consenting Party agreed to participate therein, plus the Non-Consenting  
33 Party's share of the cost of Deepening and of participating in any further operations on the well in accordance with the other  
34 provisions of this Agreement; provided, however, all costs for testing and Completion or attempted Completion of the well  
35 incurred by Consenting Parties prior to the point of actual operations to Deepen beyond the Initial Objective shall be for the  
36 sole account of Consenting Parties.

37 (b) If the proposal is made for a Non-Consent Well that has been previously Completed as a well capable of producing  
38 in paying quantities, but is no longer capable of producing in paying quantities, such Non-Consenting Party shall pay (or  
39 reimburse Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, Completing, and  
40 equipping said well from the surface to the Initial Objective, calculated in the manner provided in paragraph (a) above, less  
41 those costs recouped by the Consenting Parties from the sale of production from the well. The Non-Consenting Party shall  
42 also pay its proportionate share of all costs of re-entering said well. The Non-Consenting Parties' proportionate part (based  
43 on the percentage of such well Non-Consenting Party would have owned had it previously participated in such Non-Consent  
44 Well) of the costs of salvageable materials and equipment remaining in the hole and salvageable surface equipment used in  
45 connection with such well shall be determined in accordance with Exhibit "C." If the Consenting Parties have recouped the  
46 cost of drilling, Completing, and equipping the well at the time such Deepening operation is conducted, then a Non-  
47 Consenting Party may participate in the Deepening of the well with no payment for costs incurred prior to re-entering the  
48 well for Deepening.

49 The foregoing shall not imply a right of any Consenting Party to propose any Deepening for a Non-Consent Well prior  
50 to the drilling of such well to its Initial Objective without the consent of the other Consenting Parties as provided in Article  
51 VLB.

52 5. Sidetracking: Any party having the right to participate in a proposed Sidetracking operation that does not own an  
53 interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its  
54 proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore  
55 to be utilized as follows:

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

58 (b) If the proposal is for Sidetracking a well which has previously produced, reimbursement shall be on the basis of  
59 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth  
60 at which the Sidetracking operation is conducted, calculated in the manner described in Article VLB.4(b) above. Such party's  
61 proportionate share of the cost of the well's salvageable materials and equipment down to the depth at which the Sidetracking  
62 operation is initiated shall be determined in accordance with the provisions of Exhibit "C."

63 6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to  
64 propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such  
65 party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform  
66 an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal  
67 holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be  
68 conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such  
69 alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such  
70 proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within  
71 twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the  
72 subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required  
73 shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage  
74 interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation  
2 within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday  
3 and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty-four (24) hours if a rig  
4 is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to  
5 relinquish interest in the affected well pursuant to the provisions of Article VLB.2.; failure by a party to deliver notice within  
6 such period shall be deemed an election not to participate in the prevailing proposal.

7 **7. Conformity in Spacing Pattern.** Notwithstanding the provisions of this Article VLB.2., it is agreed that no wells shall be  
8 proposed to be drilled to or Completed in or produced from a Zone from which a well located elsewhere on the Contract  
9 Area is producing, unless such well conforms to the then-existing well spacing pattern for such Zone or such well has been approved as  
10 an exception to the existing spacing pattern for such zone by the appropriate regulatory authority having jurisdiction.

11 **8. Paying Wells.** No party shall conduct any Reworking, Deepening, Plugging Back, Completion, Recompletion, or  
12 Sidetracking operation under this agreement with respect to any well then capable of producing in paying quantities except  
13 with the consent of all parties that have not relinquished interests in the well at the time of such operation.

14 **C. Completion of Wells; Reworking and Plugging Back:**

15 **1. Completion:** Without the consent of all parties, no well shall be drilled, Deepened or Sidetracked, except any well  
16 drilled, Deepened or Sidetracked pursuant to the provisions of Article VLB.2. of this agreement. Consent to the drilling,  
17 Deepening or Sidetracking shall include:

18 ~~**Option No. 1:** All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and~~  
19 ~~equipping of the well, including necessary tankage and/or surface facilities.~~

20 **Option No. 2:** All necessary expenditures for the drilling, Deepening or Sidetracking and testing of the well. When  
21 such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results  
22 thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to  
23 participate in a Completion attempt whether or not Operator recommends attempting to Complete the well,  
24 together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice  
25 shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of  
26 notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an  
27 accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting  
28 with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the  
29 procedures specified in Article VLB.6. Election to participate in a Completion attempt shall include consent to all  
30 necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface  
31 facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any party  
32 receiving such notice to reply within the period above fixed shall constitute an election by that party not to  
33 participate in the cost of the Completion attempt; provided, that Article VLB.6. shall control in the case of  
34 conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the  
35 provision of Article VLB.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or Plugging  
36 Back" as contained in Article VLB.2. shall be deemed to include "Completing") shall apply to the operations  
37 thereafter conducted by less than all parties; provided, however, that Article VLB.2. shall apply separately to each  
38 separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting  
39 Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party  
40 in subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier  
41 Completions or Recompletion have recouped their costs pursuant to Article VLB.2.; provided further, that any  
42 recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in  
43 which the Completion attempt is made. Election by a previous Non-Consenting party to participate in a subsequent  
44 Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvable  
45 materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt,  
46 insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a  
47 Completion attempt.

48 **2. Rework, Recomplete or Plug Back:** No well shall be Reworked, Recompleted or Plugged Back except a well Reworked,  
49 Recompleted, or Plugged Back pursuant to the provisions of Article VLB.2. of this agreement. Consent to the Reworking,  
50 Recompleting or Plugging Back of a well shall include all necessary expenditures in conducting such operations and  
51 Completing and equipping of said well, including necessary tankage and/or surface facilities.

52 **D. Other Operations:**

53 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \_\_\_\_\_  
54 Seventy-Five Thousand Dollars (\$75,000) except in connection with the  
55 drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously  
56 authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden  
57 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion  
58 are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the  
59 emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so  
60 requesting an information copy thereof for any single project costing in excess of Seventy-Five Thousand Dollars  
61 (\$75,000). Any party who has not relinquished its interest in a well shall have the right to propose that

62 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as  
63 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but  
64 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall  
65 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the  
66 amount first set forth above in this Article VLB. (except in connection with an operation required to be proposed under  
67 Articles VLB.1. or VLB.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such  
68 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent  
69 of any party or parties owning at least 51% % of the interests of the parties entitled to participate in such operation,  
70 each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated  
71 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms  
72 of the proposal.

73 **E. Abandonment of Wells:**

74 **1. Abandonment of Dry Holes:** Except for any well drilled or Deepened pursuant to Article VLB.2., any well which has

**A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989**

been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any  
2 party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after  
3 delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the  
4 proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the  
5 cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to  
6 plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (exclusive of Saturday,  
7 Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such  
8 forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of  
9 Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct  
10 such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and  
11 abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party  
12 taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties, in a firm reasonably  
13 ascertainable to Operator, for its proportionate share of the costs of plugging and abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.

16 2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been  
17 conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has  
18 been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to  
19 such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk  
20 and expense of all the parties hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed  
21 abandonment shall be deemed an election to consent to the proposal. If, within sixty (60) days after delivery of notice of the  
22 proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its  
23 operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the  
24 applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties  
25 against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide  
26 proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well  
27 within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession  
28 of such well and plug and abandon the well.

29 Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of  
30 the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost  
31 of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event  
32 the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the  
33 value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing  
34 operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning  
35 parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all  
36 of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only  
37 insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the  
38 interest of the abandoning party is or includes and Oil and Gas interest, such party shall execute and deliver to the non-  
39 abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of  
40 one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form  
41 attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located.  
42 The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their  
43 respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract  
44 Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

45 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production  
46 from the well in the Zone then open other than the royalties retained in any lease made under the terms of this Article. Upon  
47 its option, or quit, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing Zone assigned or leased, the assignor or lessor  
48 shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in  
49 further operations therein subject to the provisions hereof.

51 3. Abandonment of Non-Consent Operations: The provisions of Article VLE.1. or VLE.2. above shall be applicable as  
52 between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided,  
53 however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further  
54 operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well  
55 in accordance with the provisions of this Article VLE.; and provided further, that Non-Consenting Parties who own an interest  
56 in a portion of the well shall pay their proportionate shares of abandonment and surface restoration cost for such well as  
57 provided in Article VLB.2.(b).

58 F. Termination of Operations:

59 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,  
60 Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without  
61 consent of parties bearing 51 % of the costs of such operation; provided, however, that in the event granite or other  
62 practically impenetrable substance or condition in the hole is encountered which renders further operations impractical,  
63 Operator may discontinue operations and give notice of such condition in the manner provided in Article VLB.1. and the  
64 provisions of Article VLB. or VLE. shall thereafter apply to such operation, as appropriate.

65 G. Taking Production in Kind:

66 ☒ Option No. 1: Gas Balancing Agreement Attached

67 Each party shall take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the  
68 Contract Area, exclusive of production which may be used in development and producing operations and in preparing and  
69 treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking  
70 in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any  
71 party taking its share of production in kind shall be required to pay for only its proportionate share of such part of  
72 Operator's surface facilities which it uses.

73 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in  
74 production from the Contract Area, and, except as provided in Article VLB., shall be entitled to receive payment

directly from the purchaser thereof for its share of all production.

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of 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 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. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise at any time its right to take in kind, or separately dispose of, its share of all Oil not previously 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 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 (1) year.

Any such sale by Operator shall be in a manner commercially reasonable under the circumstances but Operator shall have no duty to share any existing market or to obtain a price equal to that received under any existing market. The sale or delivery by Operator of a non-taking party's share of Oil under the terms of any existing contract of Operator shall not give the non-taking party any interest in or make the non-taking party a party to said contract. No purchase shall be made by Operator without first giving the non-taking party at least ten (10) days written notice of such intended purchase and the price to be paid or the pricing basis to be used.

All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements. Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which records shall be made available to Non-Operators upon reasonable request.

In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines and/or 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 be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

#### ~~B. Division No. 2: No Gas Balancing Agreement~~

~~Each party shall 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 and treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditures 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 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.~~

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

~~If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil and/or Gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil and/or Gas or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise its right to take in kind or separately dispose of, its share of all Oil and/or Gas not previously delivered to a purchaser provided, however, that the effective date of any such revocation may be deferred at Operator's election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase contract having a term extending beyond such ten (10) day period. Any purchase or sale by Operator of any other party's share of Oil and/or Gas 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 (1) year.~~

~~Any such sale by Operator shall be in a manner commercially reasonable under the circumstances, but Operator shall have no duty to share any existing market or transportation arrangement or to obtain a price or transportation fee equal to that received under any existing market or transportation arrangement. The sale or delivery by Operator of a non-taking party's share of production under the terms of any existing contract of Operator shall not give the non-taking party any interest in or make the non-taking party a party to said contract. No purchase of Oil and Gas and no sale of Gas shall be made by Operator without first giving the non-taking party ten days written notice of such intended purchase or sale and the price to be paid or the pricing basis to be used. Operator shall give notice to all parties of the first sale of Gas from any well under this Agreement.~~

~~All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements. Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which records shall be made available to Non-Operators upon reasonable request.~~

#### ARTICLE VII.

##### EXPENDITURES AND LIABILITY OF PARTIES

###### A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally, and no party shall have any liability to third parties hereunder to satisfy the default of any other party in the payment of any expense or obligation hereunder. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership, joint venture, agency relationship or association, or to render the parties liable as partners, co-venturers, or principals. In their relations with each other under this agreement, the parties shall not be considered fiduciaries or to have established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings with each other with respect to activities hereunder.



A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 B. Liens and Security Interests:

2 Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas  
3 Leases and Oil and Gas interests in the Contract Area, and a security interest and/or purchase money security interest in any  
4 interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection  
5 therewith, to secure performance of all of its obligations under this agreement including but not limited to payment of expense,  
6 interest and fees, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil  
7 and Gas Leases as required hereunder, and the proper performance of operations hereunder. Such lien and security interest  
8 granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and  
9 overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or  
10 otherwise becoming subject to this agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or  
11 used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts  
12 (including, without limitation, accounts arising from gas imbalances or from the sale of Oil and/or Gas at the wellhead),  
13 contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the  
14 foregoing.

15 To perfect the lien and security agreement provided herein, each party hereto shall execute and acknowledge the recording  
16 supplement and/or any financing statement prepared and submitted by any party hereto in conjunction herewith or at any time  
17 following execution hereof, and Operator is authorized to file this agreement or the recording supplement executed herewith as  
18 a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform  
19 Commercial Code in the state in which the Contract Area is situated and such other states as Operator shall deem appropriate  
20 to perfect the security interest granted hereunder. Any party may file this agreement, the recording supplement executed  
21 herewith, or such other documents as it deems necessary as a lien or mortgage in the applicable real estate records and/or a  
22 financing statement with the proper officer under the Uniform Commercial Code.

23 Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to  
24 the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security  
25 interest against all persons acquiring an interest in Oil and Gas Leases and interests covered by this agreement by, through or  
26 under such party. Notwithstanding the foregoing sentence, a party hereto shall not be prohibited from pledging its interests  
27 hereunder, should such party interest it may own in this agreement, in support of a separate or general credit facility. Other than  
28 as indicated above, each party acquiring an interest in Oil and Gas Leases and Oil and Gas interests covered by this agreement,  
29 whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject  
30 to the lien and security interest granted by this Article VII.B. as to all obligations attributable to such interest hereunder  
31 whether or not such obligations arise before or after such interest is acquired.

32 To the extent that parties have a security interest under the Uniform Commercial Code of the state in which the  
33 Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code.  
34 The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an  
35 election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In  
36 addition, upon default by any party in the payment of its share of expenses, interests or fees, or upon the improper use  
37 of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect  
38 from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by  
39 such party, plus interest as provided in "Exhibit C," has been received, and shall have the right to offset the amount  
40 owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production  
41 may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the  
42 default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in  
43 this paragraph.

44 If any party fails to pay its share of cost within one hundred twenty (120) days after rendition of a statement therefor by  
45 Operator, the non-defaulting parties, including Operator, shall upon request by Operator, pay the unpaid amount in the  
46 proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so  
47 paying its share of the unpaid amount shall be secured by the liens and security rights described in Article VII.B., and each  
48 paying party may independently pursue any remedy available hereunder or otherwise.

49 If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure  
50 or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting  
51 party waives any available right of redemption from and after the date of judgment, any required valuation or appraisement  
52 of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets  
53 and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party  
54 hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted  
55 hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable  
56 manner and upon reasonable notice.

57 Each party agrees that the other parties shall be entitled to utilize the provisions of Oil and Gas lien law or other lien  
58 law of any state in which the Contract Area is situated to enforce the obligations of each party hereunder. Without limiting  
59 the generality of the foregoing, to the extent permitted by applicable law, Non-Operators agree that Operator may invoke or  
60 utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the  
61 payment to Operator of any sum due hereunder for services performed or materials supplied by Operator.

62 C. Advances:

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

72 D. Defaults and Remedies:

73 If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to  
74 make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for  
such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the

**A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989**

remedies specified below shall be applicable. For purposes of this Article VILD., all notices and elections shall be delivered

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator, and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator. Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified below or otherwise available to a non-defaulting party.

1. Suspension of Rights: Any party may deliver to the party in default a Notice of Default, which shall specify the default, specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one or more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the Non-Operators shall have in addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right to receive information as to any operation conducted hereunder during the period of such default, the right to elect to participate in an operation proposed under Article VLB. of this agreement, the right to participate in an operation being conducted under this agreement even if the party has previously elected to participate in such operation, and the right to receive proceeds of production from any well subject to this agreement.

2. Suit for Damages: Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint account expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default until the date of collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from suing any defaulting party to collect consequential damages accruing to such party as a result of the default.

3. Deemed Non-Consent: The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in which event if the billing is for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to have elected not to participate in the operation and to be a Non-Consenting Party with respect thereto under Article VLB. or VLB., as the case may be, to the extent of the costs unpaid by such party, notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then the non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VLD.2.

Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall have the right to cure its default by paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided, however, such payment shall not prejudice the rights of the non-defaulting parties to pursue remedies for damages incurred by the non-defaulting parties as a result of the default. Any interest relinquished pursuant to this Article VLD.3, shall be offered to the non-defaulting parties in proportion to their interests, and the non-defaulting parties electing to participate in the ownership of such interest shall be required to contribute their shares of the defaulted amount upon their election to participate therein.

4. Advance Payment: If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or Non-Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting party of such defaulting party's anticipated share of any item of expense for which Operator, or Non-Operators, as the case may be, would be entitled to reimbursement under any provision of this agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of drilling a well or Completion of a well as to which an election to participate in drilling or Completion has been made. If the defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of the remedies provided in the Article VLD. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced remaining when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.

5. Costs and Attorneys' Fees: In the event any party, including but not limited to Operator acting on behalf of non-defaulting parties, is required to bring legal proceedings to enforce any financial obligation of a party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.

E. Rentals, Shut-In Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the 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 contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on 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 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

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

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and Gas interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. 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. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

# A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner  
2 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final  
3 determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes  
4 and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for  
5 the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be  
6 paid by them, as provided in Exhibit "C."

7 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect  
8 to the production or handling of such party's share of Oil and Gas produced under the terms of this agreement.

## ARTICLE VIII.

### ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

#### A. Surrender of Leases:

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

13 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written  
14 notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after  
15 delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a  
16 party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases  
17 described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or  
18 implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be  
19 located thereon and used exclusively in association therewith and any rights in production thereafter secured, to the parties not consenting  
20 to such surrender. If the interest of the parties not consenting to such surrender is less than the interest of the party desiring to surrender, the assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not  
21 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  
22 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."

23 Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore  
24 accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party  
25 shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained  
26 in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the  
27 reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased  
28 acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less  
29 the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less  
30 than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the  
31 assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the  
32 interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made  
33 varies according to depth, then the interest assigned shall similarly reflect such variances.

34 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering  
35 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage  
36 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this  
37 agreement but shall be deemed subject to an Operating Agreement in the form of this agreement.

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

38 If any party secures a renewal or replacement of an Oil and Gas Lease or Interest subject to this agreement, then all other parties  
39 shall be notified promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing Lease,  
40 promptly upon expiration of the existing Lease. The parties notified shall have the right for a period of thirty (30) days following  
41 delivery of such notice in which to elect to participate in the ownership of the renewal or replacement Lease, insofar as such Lease  
42 affects lands within the Contract Area, by paying to the party who acquired it their proportionate shares of the acquisition cost  
43 allocated to that part of such Lease within the Contract Area, which shall be in proportion to the interest held at that time by the  
44 parties in the Contract Area. Each party who participates in the purchase of a renewal or replacement Lease shall be given an  
45 assignment of its proportionate interest therein by the acquiring party.

46 If some, but less than all, of the parties elect to participate in the purchase of a renewal or replacement Lease, it shall be owned  
47 by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in  
48 the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the  
49 purchase of such renewal or replacement Lease. The acquisition of a renewal or replacement Lease by any or all of the parties hereto  
50 shall not cause a readjustment of the interests of the parties stated in Exhibit "A," but any renewal or replacement Lease in which  
51 less than all parties elect to participate shall not be subject to this agreement but shall be deemed subject to a separate Operating  
52 Agreement in the form of this agreement.

53 If the interests of the parties in the Contract Area vary according to depth, then their right to participate proportionately in  
54 renewal or replacement Leases and their right to receive an assignment of interest shall also reflect such depth variances.

55 The provisions of this Article shall apply to renewal or replacement Leases whether they are for the entire interest covered by  
56 the expiring Lease or cover only a portion of its area or an interest therein. Any renewal or replacement Lease taken before the  
57 expiration of its predecessor Lease, or taken or contracted for or becoming effective within six (6) months after the expiration of the  
58 existing Lease, shall be subject to this provision so long as this agreement is in effect at the time of such acquisition or at the time  
59 the renewal or replacement Lease becomes effective; but any Lease taken or contracted for more than six (6) months after the  
60 expiration of an existing Lease shall not be deemed a renewal or replacement Lease and shall not be subject to the provisions of this  
61 agreement.

62 The provisions in this Article shall also be applicable to extensions of Oil and Gas Leases.

#### C. Acreage or Cash Contributions:

63 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other  
64 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall  
65 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  
66 the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the  
67 proportions said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the  
68 extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any  
69 acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above  
70 provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of well drilled  
71 inside Contract Area.

# A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

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

## 3 D. Assignment; Maintenance of Uniform Interest:

4 For the purpose of maintaining uniformity of ownership in the Contract Area in the Oil and Gas Leases, Oil and Gas  
5 interests, wells, equipment and production covered by this agreement no party shall sell, encumber, transfer or make other  
6 disposition of its interest in the Oil and Gas Leases and Oil and Gas interests embraced within the Contract Area or in wells,  
7 equipment and production unless such disposition covers either:

- 8 1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas interests, wells, equipment and production; or
- 9 2. an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas interests, wells,  
10 equipment and production in the Contract Area.

11 Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement  
12 and shall be made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and  
13 Gas Lease or interest shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of  
14 the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale,  
15 encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the  
16 instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other  
17 disposition of interest by a party shall relieve such party of obligations previously incurred by such party hereunder with respect  
18 to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation  
19 conducted hereunder in which such party has agreed to participate prior to making such assignment, and the lien and security  
20 interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations.

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

## 28 E. Waiver of Rights to Partition:

29 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
30 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  
31 undivided interest therein.

## 32 F. Preferential Right to Purchase:

33 ~~ES - (Optional - Check if applicable.)~~

34 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~  
35 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which~~  
36 ~~shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase~~  
37 ~~price, a legal description sufficient to identify the property, and all other terms of the offer. The other parties shall then have an~~  
38 ~~optional prior right, for a period of ten (10) days after the notice is delivered, to purchase for the stated consideration on the~~  
39 ~~same terms and conditions the interest which the other party proposes to sell and, if this optional right is exercised, the~~  
40 ~~purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all~~  
41 ~~purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage~~  
42 ~~its interests, or to transfer title to its interests to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests,~~  
43 ~~or to dispose of its interests by merger, reorganization, consolidation, or by sale of all or substantially all of its Oil and Gas assets~~  
44 ~~to any party, or by transfer of its interests to a subsidiary or parent company or to a subsidiary of a parent company, or to any~~  
45 ~~company in which such party owns a majority of the stock.~~

## 46 ARTICLE IX.

### 47 INTERNAL REVENUE CODE ELECTION

48 If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the  
49 parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each  
50 party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle  
51 "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and  
52 the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected  
53 such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal  
54 Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by  
55 Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this  
56 election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal  
57 Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action  
58 inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
59 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter  
60 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party  
61 hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each  
62 such party states that the income derived by such party from operations hereunder can be adequately determined without the  
63 computation of partnership taxable income.

## 64 ARTICLE X.

### 65 CLAIMS AND LAWSUITS

66 Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure  
67 does not exceed Seventy-Five Thousand Dollars (\$75,000) and if the payment is in complete settlement  
68 of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over  
69 the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling,  
70 or otherwise discharging such claim or suit shall be a joint expense of the parties participating in the operation from which the  
71 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  
72 hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall  
73 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 indemnify or make money payments or furnish security, 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 suspended during, but no longer than, the continuance of the force majeure. 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 or other act of nature, 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.

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.

# ARTICLE XII. NOTICES

All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically provided, shall be in writing and delivered in person or by United States mail, courier service, telegram, telex, telecopier or any other form of facsimile, postage or charges prepaid, and addressed to such parties at the addresses listed on Exhibit "A." All telephone or oral notices permitted by this agreement shall be confirmed immediately thereafter by written notice. The originating notice given under any provision hereof shall be deemed delivered only when received by the party to whom such notice is directed, and the time for such party to deliver any notice in response thereto shall run from the date the originating notice is received. "Receipts" for purposes of this agreement with respect to written notice delivered hereunder shall be actual delivery of the notice to the address of the party to be notified specified in accordance with this agreement, or to the telecopy, facsimile or telex machine of such party. The second or any responsive notice shall be deemed delivered when deposited in the United States mail or at the office of the courier or telegraph service, or upon transmittal by telex, telecopy or facsimile, or when personally delivered to the party to be notified, provided, that when response is required within 24 or 48 hours, such response shall be given orally or by telephone, telex, telecopy or other facsimile within such period. 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. If a party is not available to receive notice orally or by telephone when a party attempts to deliver a notice required to be delivered within 24 or 48 hours, the notice may be delivered in writing by any other method specified herein and shall be deemed delivered in the same manner provided above for any responsive notice.

# 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.

~~Section 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, hereafter, and only insofar as said leases cover and pertain to the Contract Area as defined on Exhibit "A," notwithstanding anything contained herein to the contrary, production from the Oil and Gas Leases subject to this Agreement shall constitute production from the Contract Area, and no production from the Contract Area shall be considered as production from the Contract Area.~~

~~Section 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 the completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of \_\_\_\_\_ days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, sidetracking, plugging-back, testing or attempting to complete or re-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 capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, deepening, sidetracking, completing, re-completing, plugging-back or reworking operations are commenced within \_\_\_\_\_ days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.~~

The termination of this agreement shall not relieve any party hereto from any expense, liability or other obligation or any remedy therefor which has accrued or attached prior to the date of such termination.

Upon termination of this agreement and the satisfaction of all obligations hereunder, in the event a memorandum of this Operating Agreement has been filed of record, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon request of Operator, if Operator has satisfied all its financial obligations.

# ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

## A. Laws, Regulations and Orders:

This agreement shall be subject to the applicable 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 in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of New Mexico shall govern.

## C. Regulatory Agencies:

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

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

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

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 the 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 Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to 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.

ARTICLE XV.  
MISCELLANEOUS

A. Execution:

This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. Operator may, however, by written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the Initial Well but in no event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest. In the event Operator proceeds with drilling operations for the Initial Well without the execution hereof by all persons listed on Exhibit "A" as having a current working interest in such well, Operator shall indemnify Non-Operators with respect to all costs incurred for the Initial Well which would have been charged to such person under this agreement if such person had executed the same and Operator shall receive all revenues which would have been received by such person under this agreement if such person had executed the same.

B. Successors and Assigns:

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or interests included within the Contract Area. Any transferee acquiring an interest in a party hereunder shall expressly assume and agree to perform all obligations attributable to such interest in the Contract Area and shall be deemed to have assumed and agreed to perform all obligations attributable to such interest in the Contract Area and shall be deemed to have assumed and agreed to perform all obligations attributable to such interest in the Contract Area.

C. Counterparts:

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

D. Severability:

For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws, this agreement shall not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to this agreement to comply with all of its financial obligations provided herein shall be a material default.

ARTICLE XVI.  
OTHER PROVISIONS

A. Conflict Between Provisions:

In the event of a conflict between the provision of this Article XVI and other provisions of the agreement, the provision of this Article XVI shall control and prevail.

B. Priority of Operations:

Where a well authorized under the terms of this agreement by all parties (or by less than all parties under a lease via a non-exclusive pooling or unitization agreement) is being drilled or completed, the well shall be drilled or completed in the order of priority set forth below:

- (1) An election to do additional logging, coring, or testing;
- (2) An election to attempt to complete the well at either the objective depth or formation;
- (3) An election to plug back and attempt to complete said well at a shallower formation or zone;
- (4) An election to deepen said well;
- (5) An election to sidetrack the well; and
- (6) An election to plug and abandon the well.

However, if at any time the participating parties are considering the above elections, the hole is in such a condition that it is deemed to be a "dry hole" or "abandonment" and the parties agree to plug and abandon the well, the well shall be plugged and abandoned in the order of priority set forth below:

C. Depth Specific:

If a well is drilled to the agreed objective depth and thereafter a proposal is made to either (1) deepen the well or (2) attempt to complete the well at a shallower formation or zone, the well shall be drilled or completed in the order of priority set forth below:

D. Obligation Operations:



[illegible]

In the event of a transfer, sale, encumbrance or other disposition of interest within the Contract Area that results in the transfer, assignment or disposition of the party creating the security for this instrument, then, any and all of the rights, obligations and obligations of such parties.

[illegible][illegible]

EACH OF THE PARTIES TO THIS AGREEMENT EXPRESSLY WAIVES, RELINQUISHES, AND FOREGOES ANY AND ALL RIGHTS IN WHOLE OR IN PART BY WORD OR DEED AND ALL CLAIMS AND CAUSES OF ACTION ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT AND ANY INSTRUMENTS AND DOCUMENTS EXECUTED PURSUANT HERETO OR IN CONNECTION HEREWITH, INCLUDING BUT NOT LIMITED TO ALL CLAIMS AND CAUSES OF ACTION RELATING TO OR ARISING OUT OF OR IN CONNECTION WITH THE AGREEMENT AND ANY INSTRUMENTS AND DOCUMENTS EXECUTED PURSUANT HERETO OR IN CONNECTION HEREWITH.

Non-Operator hereby irrevocably authorizes Operator (including any successor Operator validly serving as such) to make or cause to be made any and all such assignments, transfers, conveyances, and other dispositions of the above described property, and without liability of the party author or content by Non-Operator.

- The foregoing special powers shall survive any disability on the part of the applicable grantor. Notwithstanding any provision to the contrary, the exercise of non-exercise of the power shall be in the sole discretion of the grantor, while consistent with the intent of the exercise or non-exercise that is not ascertainable until that the final, binding, and conclusory is to all parties.

[illegible][illegible]

**Notwithstanding the provisions of Article VII-B, it is agreed between the parties herein that in the event any party fails to pay its proportionate share of the expenses incurred by the other party in the defense of this lawsuit, such party shall be deemed to have waived its right to assert its position that the other party's failure to pay its proportionate share of the expenses incurred by the other party in the defense of this lawsuit constitutes a breach of the agreement.**

1. **Operator shall not have the right to implement any of the remedies with respect default described in Article VII.D.1** if the Operator has not received the required amount of the security deposit from the counterparty. The security deposit shall be provided in cash and shall be subject to the following conditions:  
a. The security deposit shall be provided to the Operator within the time period specified in the contract.  
b. The security deposit shall be provided to the Operator in the form of a cash deposit with the Operator or in the form of a cash deposit with a third party designated by the Operator.  
c. The security deposit shall be provided to the Operator in the form of a cash deposit with the Operator or in the form of a cash deposit with a third party designated by the Operator.  
d. The security deposit shall be provided to the Operator in the form of a cash deposit with the Operator or in the form of a cash deposit with a third party designated by the Operator.
2. **Operator shall not have the right to implement any of the remedies with respect default described in Article VII.D.1** if the Operator has not received the required amount of the security deposit from the counterparty. The security deposit shall be provided in cash and shall be subject to the following conditions:  
a. The security deposit shall be provided to the Operator within the time period specified in the contract.  
b. The security deposit shall be provided to the Operator in the form of a cash deposit with the Operator or in the form of a cash deposit with a third party designated by the Operator.  
c. The security deposit shall be provided to the Operator in the form of a cash deposit with the Operator or in the form of a cash deposit with a third party designated by the Operator.  
d. The security deposit shall be provided to the Operator in the form of a cash deposit with the Operator or in the form of a cash deposit with a third party designated by the Operator.

**A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989**

[illegible][illegible]

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 | IN WITNESS WHEREOF, this agreement shall be effective as of the 24 day of June,  
 2 | 2014.  
 3 | CIMAREX ENERGY CO., who has prepared and circulated this form for execution, represents and warrants  
 4 | that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form  
 5 | Operating Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or  
 6 | modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in  
 7 | Articles I, II, III, IV, V, VI, VII, VIII, XIII, XV, XVI, have been made to the form.

ATTEST OR WITNESS:

OPERATOR

Cimarex Energy Co.

By

Roger Alexander

Type or print name

Title Attorney-in-Fact

Date

Tax ID or S.S. No.

NON-OPERATORS

Hanley Petroleum, Inc.

By

Type or print name

Title

Date

Tax ID or S.S. No.

LHAH Properties, LLC

By

W. L. Hanley, Jr.

Type or print name

Title Manager

Date 12/19/14

Tax ID or S.S. No. 11-3663100

Jarvis J. Slade

By

Type or print name

Title

Date

Tax ID or S.S. No.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 | IN WITNESS WHEREOF, this agreement shall be effective as of the 24 day of June.

2 | 2014.

3 | CIMAREX ENERGY CO., who has prepared and circulated this form for execution, represents and warrants  
4 | that the form was printed from and, with the exception(s) listed below, is identical to the A/APL Form 610-1989 Model Form  
5 | Operating Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or  
6 | modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in  
7 | Articles I, II, III, IV, V, VI, VII, VIII, XIII, XV, XVI, have been made to the form.

8 | ATTEST OR WITNESS:

OPERATOR

Cimarex Energy Co.

By \_\_\_\_\_

Roger Alexander

Type or print name

Title Attorney-in-Fact

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

NON-OPERATORS

Marshall & Winston, Inc.

By Tom M. Brandt

Tom M. Brandt

Type or print name

Title President

Date 6-25-14

Tax ID or S.S. No. 95-0976450

By \_\_\_\_\_

Type or print name

Title \_\_\_\_\_

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

By \_\_\_\_\_

Type or print name

Title \_\_\_\_\_

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 | IN WITNESS WHEREOF, this agreement shall be effective as of the 24 day of June,  
2 | 2014.

3 | CIMAREX ENERGY CO., who has prepared and circulated this form for execution, represents and warrants  
4 | that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form  
5 | Operating Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or  
6 | modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in  
7 | Articles I, II, III, IV, V, VI, VII, VIII, XIII, XV, XVI, have been made to the form.

8 | **ATTEST OR WITNESS:**

**OPERATOR**

Cimarex Energy Co.

By \_\_\_\_\_

Roger Alexander  
Type or print name

Title Attorney-in-Fact

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

**NON-OPERATORS**

15 | **ATTEST:**

16 | Barbara A. Reid  
17 | Barbara A. Reid  
18 | Assistant Secretary

Hanley Petroleum, Inc.

By \_\_\_\_\_

Brett K. Bracken  
Type or print name

Title Vice President/General Manager

Date 12-15-2014

Tax ID or S.S. No. 75-1671484

LHAH Properties, LLC

By \_\_\_\_\_

Type or print name

Title \_\_\_\_\_

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

Jnrvis J. Slade

By \_\_\_\_\_

Type or print name

Title \_\_\_\_\_

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1		<u>Jarvis J. Stude</u>
2	_____	By _____
3	_____	_____
4		Type or print name
5		Title _____
6		Date _____
7		Tax ID or S.S. No. _____
8		<u>PLM-1, Inc.</u>
9	_____	By _____
10	_____	_____
11		Type or print name
12		Title _____
13		Date _____
14		Tax ID or S.S. No. _____
15		<u>84 Exploration Partners, LLC</u>
16		By _____
17	_____	_____
18		Type or print name
19		Title _____
20		Date _____
21		Tax ID or S.S. No. _____
22		<u>Dennis Sledge</u>
23	_____	By _____
24	_____	_____
25		Type or print name
26		Title _____
27		Date _____
28		Tax ID or S.S. No. _____
29		<u>Mt. Si Oil &amp; Gas, LLC</u>
30	_____	By _____
31	_____	_____
32		Type or print name
33		Title _____
34		Date _____
35		Tax ID or S.S. No. _____
36		
37		

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37

PLM-I, Inc.

By

Paul L. Morris

Paul L. Morris

Type or print name

Title

President

Date

Dec. 15, 2014

Tax ID or S.S. No.

75-2342980

TBO Cattle Company, LLC

By

Type or print name

Title

Date

Tax ID or S.S. No.

Dennis Sledge

By

Type or print name

Title

Date

Tax ID or S.S. No.

Mt. Si Oil & Gas, LLC

By

Type or print name

Title

Date

Tax ID or S.S. No.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1		<u>PLM-1, Inc.</u>
2		By _____
3		
4		Type or print name _____
5		Title _____
6		Date _____
7		Tax ID or S.S. No. _____
8		
9		<u>TBO Cattle Company, LLC</u>
10		By _____
11		Type or print name _____
12		Title _____
13		Date _____
14		Tax ID or S.S. No. _____
15		
16		<u>Dennis Sledge</u>
17	<u>Barbara A. Reid</u>	By <u>Dennis Sledge</u>
18		<u>Dennis Sledge</u>
19		Type or print name _____
20		Title <u>owner</u>
21		Date <u>12-16-14</u>
22		Tax ID or S.S. No. _____
23		
24		<u>Mt. Si Oil &amp; Gas, LLC</u>
25		By _____
26		Type or print name _____
27		Title _____
28		Date _____
29		Tax ID or S.S. No. _____
30		
31		
32		
33		
34		
35		
36		
37		



A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1		<u>PLM-1, Inc.</u>
2	_____	By _____
3	_____	_____
4		Type or print name
5		Title _____
6		Date _____
7		Tax ID or S.S. No. _____
8		
9		<u>TBO Cattle Company, LLC</u>
10	_____	By _____
11	_____	_____
12		Type or print name
13		Title _____
14		Date _____
15		Tax ID or S.S. No. _____
16		<u>Dennis Sledge</u>
17	_____	By _____
18	_____	_____
19		Type or print name
20		Title _____
21		Date _____
22		Tax ID or S.S. No. _____
23		<u>Mt. Si Oil &amp; Gas, LLC</u>
24	<u>Barbara J. Reid</u>	By <u>Radney O. Thompson, President</u>
25	<u>Judy D. Reid</u>	<u>Radney O. Thompson</u>
26		Type or print name
27		Title <u>President</u>
28		Date <u>12/11/2014</u>
29		Tax ID or S.S. No. <u>27-2786977</u>
30		
31		
32		
33		
34		
35		
36		
37		

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1		<u>Rhodes Oil Company, LLC</u>
2	_____	By _____
3	_____	_____
4		Type or print name
5		Title _____
6		Date _____
7		Tax ID or S.S. No. _____
8		<u>Realiza Del Spear, LP</u>
9	_____	By _____
10	_____	_____
11		Type or print name
12		Title _____
13		Date _____
14		Tax ID or S.S. No. _____
15		<u>Roy G. Barton, Jr.</u>
16	_____	By _____
17	_____	_____
18		Type or print name
19		Title _____
20		Date _____
21		Tax ID or S.S. No. _____
22		<u>M. Dion Lowe</u>
23	_____	By _____
24	_____	_____
25		Type or print name
26		Title _____
27		Date _____
28		Tax ID or S.S. No. _____
29	_____	<u>AOG Mineral Partners, LTD, et al</u>
30	_____	By _____
31		_____
32		Type or print name
33		Title _____
34		Date _____
35		Tax ID or S.S. No. _____
36		
37		

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1		<u>Charles Kenneth Moore</u>
2	_____	By _____
3	_____	_____
4		Type or print name
5		Title _____
6		Date _____
7		Tax ID or S.S. No. _____
8		<u>William H. Kennan, Trustee of the John E. &amp; Helen</u>
9		<u>M. Kennan Family Trust created January 13, 1994</u>
10	_____	By _____
11	_____	_____
12		Type or print name
13		Title _____
14		Date _____
15		Tax ID or S.S. No. _____
16		<u>Larry P. Long, Managing Trustee of the Long Trusts</u>
17	_____	By _____
18	_____	_____
19		Type or print name
20		Title _____
21		Date _____
22		Tax ID or S.S. No. _____
23		<u>Kenneth G. Cone</u>
24	_____	By _____
25	_____	_____
26		Type or print name
27		Title _____
28		Date _____
29		Tax ID or S.S. No. _____
30		<u>Rita D. Schenck, Western Commerce Bank, and</u>
31	_____	<u>William Carl Schenck, Co-Trustees of Trust B of the</u>
32	_____	<u>Kirby D. Schenck &amp; Rita D. Schenck Revocable Trust</u>
33		<u>Agreement executed on 10/2/1991</u>
34		By _____
35		_____
36		Type or print name
37		Title _____
		Date _____
		Tax ID or S.S. No. _____

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1		Rita D. Schenck, Western Commerce Bank, and
2		William Carl Schenck, Co-Trustees of Trust A-2 of the
3		Kirby D. Schenck & Rita D. Schenck Revocable Trust
		<u>Agreement executed on 10/2/1991</u>
4	_____	By _____
5	_____	_____
		Type or print name
6		Title _____
7		Date _____
8		Date _____
9		Tax ID or S.S. No. _____
10		Bank of America, N.A. Agent, Elizabeth Lea
		<u>Daugherty Revocable Trust U/A March 22, 2012</u>
11	_____	By _____
12	_____	_____
		Type or print name
13		Title _____
14		Date _____
15		Date _____
16		Tax ID or S.S. No. _____
17		Bank of America, N.A., Agent, of the J E Simmons
		<u>Testamentary Trust fbo Mary Jane Hand</u>
18	_____	By _____
19	_____	_____
		Type or print name
20		Title _____
21		Date _____
22		Date _____
23		Tax ID or S.S. No. _____
24		Bank of America, N.A., Agent, of the B H Simmons
		<u>Testamentary Trust fbo Mary Jane Hand</u>
25	_____	By _____
26	_____	_____
		Type or print name
27		Title _____
28		Date _____
29		Date _____
30		Tax ID or S.S. No. _____
31		Teddy L. Hartley & Robert Thomas Hartley, as
		<u>Trustees of the Vera Lowe Hartley Mineral Trust</u>
32	_____	By _____
33	_____	_____
		Type or print name
34		Title _____
35		Date _____
36		Date _____
37		Tax ID or S.S. No. _____

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1		<u>Lowe Family, Ltd.</u>
2	<u></u>	By <u></u>
3	<u></u>	<u></u>
4		Type or print name
5		Title <u></u>
6		Date <u></u>
7		Tax ID or S.S. No. <u></u>
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

ACKNOWLEDGMENTS

Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts.

The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual acknowledgment

State of \_\_\_\_\_ )

\_\_\_\_\_ ) ss.

County of \_\_\_\_\_ )

\_\_\_\_\_ This instrument was acknowledged before me on

\_\_\_\_\_ by \_\_\_\_\_

(Sent, if any) \_\_\_\_\_

\_\_\_\_\_ Title (and Rank) \_\_\_\_\_

\_\_\_\_\_ My commission expires \_\_\_\_\_

Acknowledgment in representative capacity

State of \_\_\_\_\_ )

\_\_\_\_\_ ) ss.

County of \_\_\_\_\_ )

\_\_\_\_\_ This instrument was acknowledged before me on

\_\_\_\_\_ by \_\_\_\_\_ ss.

\_\_\_\_\_ of \_\_\_\_\_

(Sent, if any) \_\_\_\_\_

\_\_\_\_\_ Title (and Rank) \_\_\_\_\_

\_\_\_\_\_ My commission expires \_\_\_\_\_

**EXHIBIT "A"**

Attached to and made part of that certain Operating Agreement dated June 24, 2014, by and between Cimarex Energy Co., as Operator and Marshall and Winston, et al as Non-Operator(s).

**CONTRACT AREA:**

All of Section 7, Township 20 South, Range 35 East, N.M.P.M., Lea County, New Mexico

Sub-Contract Area A: 159.4 acres, more or less, being Lots 1 through 4 (W/2W/2) of Section 7, shall be operated by Cimarex Energy Co.

Sub-Contract Area B: 160 acres, more or less, being the E/2W/2 of Section 7, shall be operated by Cimarex Energy Co.

Sub-Contract Area C: 160 acres, more or less, being the W/2E/2 of Section 7, shall be operated by Marshall & Winston, Inc.

Sub Contract Area D: 160 acres, more or less, being the E/2E/2 of Section 7, shall be operated by Marshall & Winston, Inc.

**DEPTH RESTRICTIONS:**

This Agreement to cover and include depths from the top of the Bone Spring formation down to 100' feet below the base of the Bone Spring formation.

**PARTIES TO THIS AGREEMENT AND CONTACT INFORMATION FOR NOTICE PURPOSES:**

Cimarex Energy Co.  
600 N. Marienfeld, Ste. 600  
Midland, Texas 79701  
ATTN: Land Department

Marshall & Winston, Inc.  
P.O. Box 50880  
Midland, Texas 79710  
ATTN: Kevin Hammit

Hanley Petroleum, Inc.  
415 W. Wall, Ste. 1500  
Midland, Texas 79701

LHAH Properties, LLC  
415 W. Wall, Ste 1500  
Midland, Texas 79701

84 Exploration Partners, LLC  
P.O. Box 3429  
Midland, Texas 79702

AOG Mineral Partners, LTD, et al  
P.O. Box 1015  
Midland, Texas 79702

Roy G. Barton  
1919 N. Turner St.  
Hobbs, New Mexico 88240

Charles G. Rice and Donna C. Rice  
5725 Ridgemoor Place  
Midland, Texas 79707

Tom M. Brandt & Linda L. Brandt  
P.O. Box 50880  
Midland, Texas 79710

Greenville Partners  
P.O. Box 50612  
Midland, Texas 79710

Susan K Humphreys & Ronald K. Humphreys  
1311 Brighton Place  
Midland, Texas 79705

Barstow Energy, LLC  
4803 E. County Rd. 60  
Midland, TX 79705

Rhoades Oil Company, LLC  
P.O. Box 2673  
Midland, Texas 79702

M. Dion Lowe  
7801 Espanola Trail  
Austin, Texas 78737

Realeza Del Spear, LP  
P.O. Box 1684  
Midland, TX 79702

Lowe Family, Ltd  
P.O. Box 53775  
Lubbock, TX 79453

Charles Kenneth Moore  
18326 E. San Ignacio Ct.  
Gold Canyon, AZ 85118

William H. Kennan, Trustee of the John E.  
& Helen M. Kennann Family Trust created  
January 13, 1994  
1430 Soquel Ave  
Santa Cruz, CA 95062

Larry P. Long, Managing Trustee of the Long Trusts  
118 S. Kilgore St.  
Kilgore, TX 75662

Kenneth G. Cone  
P.O. Box 658  
Dripping Springs, Texas 78620

Rita D. Schenck, Western Commerce Bank,  
and William Carl Schenck, Co-Trustees of  
Trust B of the Kirby D. Schenck & Rita D.  
Schenck Revocable Trust Agreement  
executed on 10/2/1991  
P.O. Box 1627  
Lovington, NM 88260  
Attn: Twilla Thomason

Rita D. Schenck, Western Commerce Bank,  
and William Carl Schenck, Co-Trustees of  
Trust A-2 of the Kirby D. Schenck & Rita D.  
Schenck Revocable Trust Agreement  
executed on 10/2/1991  
P.O. Box 1627  
Lovington, NM 88260  
Attn: Twilla Thomason

Bank of America, N.A. Agent,  
Elizabeth Lea Daugherty Revocable Trust  
U/A March 22, 2012  
Bank of America  
P.O. Box 2546  
Fort Worth, TX 76113-2546  
Attn: Janet M. Cunningham-Allen

Bank of America, N.A., Agent, of the  
J E Simmons Testamentary Trust fbo Mary  
Jane Hand  
Bank of America  
P.O. Box 2546  
Fort Worth, TX 76113-2546  
Attn: Janet M. Cunningham-Allen

Bank of America, N.A., Agent, of the  
B H Simmons Testamentary Trust fbo  
Mary Jane Hand  
Bank of America  
P.O. Box 2546  
Fort Worth, TX 76113-2546  
Attn: Janet M. Cunningham-Allen

Teddy L. Hartley & Robert Thomas Hartley,  
as Trustees of the Vora Lowe Hartley  
Mineral Trust  
P.O. Box 1024  
Clovis, NM 88102

#### **PERCENTAGES OF THE PARTIES TO THIS AGREEMENT**

Interests of the parties may change and will be sent after receipt of final elections from all parties.

<u>Interest Owners</u>	<u>Sub-Contract Areas</u>			
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Cimarex Energy Co.	.35851420	.35837928	.31233761	.31233761
Marshall & Winston Inc.	.37860744	.37875000	.37875000	.37875000
Hanley Petroleum, Inc.	.08746706	.08750000	.08750000	.08750000
LHAH Properties, LLC	.01249528	.01250000	.01250000	.01250000
84 Exploration Partners LLC	.00624765	.00625000	.00625000	.00625000
Charles G. Rice and wife, Donna C. Rice	.00499812	.00500000	.00500000	.00500000
Tom M. Brandt and wife, Linda L. Brandt	.00499812	.00500000	.00500000	.00500000
Greenville Partners	.00249906	.00250000	.00250000	.00250000
Susan K. Humphreys and husband, Ronald K. Humphreys	.00124953	.00125000	.00125000	.00125000
Bartow Energy, LLC	.00124953	.00125000	.00125000	.00125000
AOG Mineral Partners, Ltd.	.02051553	.02050781	.02050781	.02050781
Midland AOG Partners, Ltd.	.00000000	.00000000	.05625000	.05625000
Rhoades Oil Company, LLC	.00293079	.00292969	.00292969	.00292969
Rhoades Oil Company, LLC	.00000000	.00000000	.00625000	.00625000
Roy G. Barton, Jr.	.01172316	.01171875	.01171875	.01171875
M. Dion Lowe	.00039546	.00039531	.00039531	.00039531
Realeza Del Spear, LP	.06009206	.06006946	.04444446	.04444446
Larry P. Long, Managing Trustee of the Long Trusts	.00224792	.00224707	.00224707	.00224707
William H. Kennann, Trustee of the John E. & Helen Kennann Family Trust	.00062523	.00062500	.00000000	.00000000
Lowe Family, Ltd.	.00018011	.00018004	.00018004	.00018004
Teddy L. Hartley & Robert Thomas Hartley, as Trustees of the Vora Lowe Hartley Mineral Trust	.00011776	.00011772	.00011772	.00011772
Bank of America, N.A. Agent, Elizabeth Lea Daugherty Revocable Trust U/A March 22, 2012	.02778824	.02777778	.02777778	.02777778



Bank of America, N.A., Agent, of the J E Simmons Testamentary Trust fbo Mary Jane Hand	.00390772	.00390625	.00390625	.00390625
Bank of America, N.A., Agent, of the B H Simmons Testamentary Trust fbo Mary Jane Hand	.00390772	.00390625	.00390625	.00390625
Rita D. Schenck, Western Commerce Bank, and William Carl Schenck, Co-Trustees of Trust B of the Kirby D. Schenck & Rita D. Schenck Revocable Trust Agreement executed on 10/2/1991	.00293079	.00292969	.00292969	.00292969
Rita D. Schenck, Western Commerce Bank, and William Carl Schenck, Co-Trustees of Trust A-2 of the Kirby D. Schenck & Rita D. Schenck Revocable Trust Agreement executed on 10/2/1991	.00293079	.00292969	.00292969	.00292969
Kenneth G. Cone	.00117232	.00117188	.00117188	.00117188
Charles Kenneth Moore	.00020841	.00020833	.00000000	.00000000
<b>Totals:</b>	<b>1.00000000</b>	<b>1.00000000</b>	<b>1.00000000</b>	<b>1.00000000</b>

**OIL & GAS LEASES AND INTERESTS SUBJECT TO THIS AGREEMENT:**

Oil & Gas Leases and Interests subject to this agreement may change and will be sent upon receipt of proposal elections from all parties.

**OIL AND GAS LEASES CONTRIBUTED BY CIMAREX ENERGY CO.**

1.      Date:            August 8, 2014  
          Lessor:        William Charles Kennam a/k/a Bill Kennam  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1928, Page 599  
          Lands Covered: Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:        ¼
  
2.      Date:            August 18, 2014  
          Lessor:        Shana Lowe Conine  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1931, Page 88  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:        ¼
  
3.      Date:            October 16, 2014  
          Lessor:        Tom R Cone  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1932, Page 874  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:        ¼
  
4.      Date:            October 29, 2014  
          Lessor:        Cathie Cone McCown  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1931, Page 77  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:        ¼
  
5.      Date:            October 29, 2014  
          Lessor:        Lawanda Jean Crumpton Rhoten  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1931, Page 82  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:        ¼

6.      Date:            October 30, 2014  
Lessor:           Arthur Leroy Burch  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1931, Page 85  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
7.      Date:            October 30, 2014  
Lessor:           Roberta L. Wilson  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1932, Page 871  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
8.      Date:            December 5, 2014  
Lessor:           Debra D Dye, as sole and separate property  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1936, Page 293  
Lands Covered:   Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
East, NMPM, Lea County, New Mexico  
Royalty:           ¼
9.      Date:            November 21, 2012  
Lessor:           Barbara Garcia  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1810, Page 514  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
10.     Date:            November 21, 2012  
Lessor:           Donna Blystone, singed by Donna M. Blystone  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1824, Page 568  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
11.     Date:            January 26, 2012  
Lessor:           LKM Lowe Family Partnership  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1766, Page 360  
Lands Covered:   Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
East, NMPM, Lea County, New Mexico  
Royalty:           ¼
12.     Date:            June 26, 2014  
Lessor:           El Pam Co., Inc.  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1911, Page 421  
Lands Covered:   Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
East, NMPM, Lea County, New Mexico  
Royalty:           ¼

13.      **Date:**            July 10, 2014  
          **Lessor:**       Robert T. Hartley  
          **Lessee:**       Cimarex Energy Co.  
          **Recorded:**    Book 1978, Page 409  
          **Lands Covered:** Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                                 East, NMPM, Lea County, New Mexico  
          **Royalty:**       ¼
14.      **Date:**            July 10, 2014  
          **Lessor:**       Tana Hartley Yarano  
          **Lessee:**       Cimarex Energy Co.  
          **Recorded:**    Book 1985, Page 499  
          **Lands Covered:** Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                                 East, NMPM, Lea County, New Mexico  
          **Royalty:**       ¼
15.      **Date:**            July 10, 2014  
          **Lessor:**       Taylor Hartley  
          **Lessee:**       Cimarex Energy Co.  
          **Recorded:**    Book 1986, Page 887  
          **Lands Covered:** Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                                 East, NMPM, Lea County, New Mexico  
          **Royalty:**       ¼
16.      **Date:**            July 10, 2014  
          **Lessor:**       Tim Hartley  
          **Lessee:**       Cimarex Energy Co.  
          **Recorded:**    Book 1997, Page 135  
          **Lands Covered:** Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                                 East, NMPM, Lea County, New Mexico  
          **Royalty:**       ¼
17.      **Date:**            October 29, 2014  
          **Lessor:**       Cathie Cone McCown  
          **Lessee:**       Cimarex Energy Co.  
          **Recorded:**    Book 1931, Page 77  
          **Lands Covered:** Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                                 East, NMPM, Lea County, New Mexico  
          **Royalty:**       ¼
18.      **Date:**            January 6, 2012  
          **Lessor:**       Leo V Sims, II  
          **Lessee:**       Cimarex Energy Co.  
          **Recorded:**    Book 1765, Page 351  
          **Lands Covered:** Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                                 East, NMPM, Lea County, New Mexico  
          **Royalty:**       ¼
19.      **Date:**            January 6, 2012  
          **Lessor:**       A & P Family Partnership, by Aline L Sims, Partner, and George Patrick Sims,  
                                 Jr., Partner  
          **Lessee:**       Cimarex Energy Co.  
          **Recorded:**    Book 1766, Page 354  
          **Lands Covered:** Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                                 East, NMPM, Lea County, New Mexico  
          **Royalty:**       ¼
20.      **Date:**            January 6, 2012  
          **Lessor:**       Larry K. Lowe  
          **Lessee:**       Cimarex Energy Co.  
          **Recorded:**    Book 1766, Page 357  
          **Lands Covered:** Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                                 East, NMPM, Lea County, New Mexico  
          **Royalty:**       ¼

21.      Date:            November 21, 2012  
Lessor:           Carolyn Thompson  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1810, Page 517  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
22.      Date:            November 21, 2012  
Lessor:           Charles Crane  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1810, Page 519  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
23.      Date:            November 21, 2012  
Lessor:           Harold Crane  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1810, Page 521  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
24.      Date:            November 21, 2012  
Lessor:           Mitchell Zinck  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1810, Page 523  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
25.      Date:            November 21, 2012  
Lessor:           Stanley Rogers  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1810, Page 525  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
26.      Date:            November 21, 2012  
Lessor:           Billie Dixon  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1810, Page 527  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
27.      Date:            November 21, 2012  
Lessor:           Marietta Perkins  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1810, Page 529  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼
28.      Date:            November 21, 2012  
Lessor:           Linda Skates  
Lessee:           Cimarex Energy Co.  
Recorded:        Book 1812, Page 949  
Lands Covered:   Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
NMPM, Lea County, New Mexico  
Royalty:           ¼

29.      Date:            November 21, 2012  
          Lessor:        James Wesley Burch  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1812, Page 951  
          Lands Covered: Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
                                 NMPM, Lea County, New Mexico  
          Royalty:      ¼
30.      Date:            November 21, 2012  
          Lessor:        Colleen Peterman  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1814, Page 495  
          Lands Covered: Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
                                 NMPM, Lea County, New Mexico  
          Royalty:      ¼
31.      Date:            November 21, 2012  
          Lessor:        Cheryl Landon  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1821, Page 730  
          Lands Covered: Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
                                 NMPM, Lea County, New Mexico  
          Royalty:      ¼
32.      Date:            November 21, 2012  
          Lessor:        Robert Crane  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1823, Page 878  
          Lands Covered: Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
                                 NMPM, Lea County, New Mexico  
          Royalty:      ¼
33.      Date:            November 21, 2012  
          Lessor:        George Crane  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1823, Page 880  
          Lands Covered: Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
                                 NMPM, Lea County, New Mexico  
          Royalty:      ¼
34.      Date:            November 21, 2012  
          Lessor:        Cliff Gregory  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1824, Page 562  
          Lands Covered: Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
                                 NMPM, Lea County, New Mexico  
          Royalty:      ¼
35.      Date:            November 21, 2012  
          Lessor:        Shirley Terry  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1824, Page 564  
          Lands Covered: Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
                                 NMPM, Lea County, New Mexico  
          Royalty:      ¼
36.      Date:            November 21, 2012  
          Lessor:        Sharan Phillips  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1824, Page 566  
          Lands Covered: Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East,  
                                 NMPM, Lea County, New Mexico  
          Royalty:      ¼

37.      Date:            November 21, 2012  
          Lessor:        James Gregory  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1833, Page 745  
          Lands Covered: Lots 3 & 4 and E/2 of SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
38.      Date:            June 19, 2014  
          Lessor:        William C. Walker, Trustee of the William C. and Elaine M. Walker Trust  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1904, Page 75  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
39.      Date:            July 3, 2014  
          Lessor:        William E. Walker II, Trustee of the William E. Walker Living Trust  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 424  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
40.      Date:            July 15, 2014  
          Lessor:        Ronnie P Lowe  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 432  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
41.      Date:            July 15, 2014  
          Lessor:        Teddy L Hartley  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 435  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
42.      Date:            July 15, 2014  
          Lessor:        Vivian Lowe Anselmi, by Kay Lowe Atcheson, POA  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 438  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
43.      Date:            July 15, 2014  
          Lessor:        Kay Lowe Atcheson aka Kay Lowe Hughes  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 440  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
44.      Date:            July 15, 2014  
          Lessor:        Farley Ranch Lowe Family Partnership, Ltd., by Larry Lowe, Partner  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 443  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼

45.      Date:            July 15, 2014  
          Lessor:        Loretta D Lowe  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1916, Page 866  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                          East, NMPM, Lea County, New Mexico  
          Royalty:      ¼
46.      Date:            July 15, 2014  
          Lessor:        LDL Lowe Family Partnership, Ltd.  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1916, Page 868  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                          East, NMPM, Lea County, New Mexico  
          Royalty:      ¼
47.      Date:            July 17, 2014  
          Lessor:        Billy Glenn Spradlin  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 429  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                          East, NMPM, Lea County, New Mexico  
          Royalty:      ¼
48.      Date:            July 22, 2014  
          Lessor:        Denise Lowe  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 427  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                          East, NMPM, Lea County, New Mexico  
          Royalty:      ¼
49.      Date:            July 22, 2014  
          Lessor:        Haley Lowe Erdlen  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 446  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                          East, NMPM, Lea County, New Mexico  
          Royalty:      ¼
50.      Date:            July 22, 2014  
          Lessor:        Lauren Lowe Matthews  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 449  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                          East, NMPM, Lea County, New Mexico  
          Royalty:      ¼
51.      Date:            July 22, 2014  
          Lessor:        Kelly Lowe Read  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1911, Page 451  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                          East, NMPM, Lea County, New Mexico  
          Royalty:      ¼
52.      Date:            August 8, 2014  
          Lessor:        Helen Campsey  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1928, Page 567  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35  
                          East, NMPM, Lea County, New Mexico  
          Royalty:      ¼

53.      Date:            August 13, 2014  
          Lessor:        LM Robinson, LLC  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1916, Page 870  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
54.      Date:            August 13, 2014  
          Lessor:        David Fred Carr, by Deborah L Goluska, Agent  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1915, Page 880  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
55.      Date:            August 13, 2014  
          Lessor:        CRJ Resources, LLC, by Deborah L Goluska, Agent  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1915, Page 883  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
56.      Date:            August 13, 2014  
          Lessor:        Herring's Carter Minerals, LLC  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1916, Page 874  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
57.      Date:            October 29, 2014  
          Lessor:        Kay Calloway Newton  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1928, Page 562  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
58.      Date:            October 29, 2014  
          Lessor:        Marilyn Haight  
          Lessee:        Cimarex Energy Co.  
          Recorded:    Book 1928, Page 564  
          Lands Covered: Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
59.      Date:            December 1, 2014  
          Lessor:        Deborah H. Wachsmuth  
          Lessee:        Cimarex Energy Co.  
          Recorded:    TBD  
          Lands Covered: SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼
60.      Date:            December 1, 2014  
          Lessor:        Robert G. Hooper  
          Lessee:        Cimarex Energy Co.  
          Recorded:    TBD  
          Lands Covered: SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
          Royalty:       ¼



- OIL AND GAS LEASE CONTRIBUTED BY AOG MINERAL PARTNERS, LTD.**

- 11**

2.      Date:            July 2, 2014  
Lessor:           Rodney Carter, dealing in his sole and separate property  
Lessee:            AOG Mineral Partners, Ltd.  
Recorded:        Book 1903, Page 303  
Lands Covered:   Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
Royalty:           ¼
3.      Date:            July 9, 2014  
Lessor:           Beverly Anne Carter Overton and Charles W. Overton, Trustees of the Beverly Anne Carter Overton and Charles W. Overton Revocable Trust, u/t/a dated 12/15/93  
Lessee:            AOG Mineral Partners, Ltd.  
Recorded:        Book 1904, Page 501  
Lands Covered:   Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
Royalty:           ¼
4.      Date:            July 16, 2014  
Lessor:           Cassius Carter, dealing in his sole and separate property  
Lessee:            AOG Mineral Partners, Ltd.  
Recorded:        Book 1909, Page 393  
Lands Covered:   Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
Royalty:           ¼
5.      Date:            July 30, 2014  
Lessor:           South Fifth Energy, LLC, by Stuart Carter, manager  
Lessee:            AOG Mineral Partners, Ltd.  
Recorded:        Book 1908, Page 920  
Lands Covered:   Lots 3 & 4, E/2 of SW/4 and SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
Royalty:           ¼

**OIL AND GAS LEASE CONTRIBUTED BY MARSHALL & WINSTON INC.**

1.      Date:            October 11, 2012 (effective as of November 1, 2012)  
Lessor:           The United States of America  
Lessee:            Marshall & Winston Inc.  
Recorded:        Unrecorded  
Lands Covered:   Lots 1 & 2, NE/4 and E/2NW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico  
Royalty:           ¼

**OIL AND GAS INTERESTS CONTRIBUTED BY ROY G. BARTON, JR.**

1.      Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2.      SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY M. DION LOWE**

1.      Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2.      SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY RHOADES OIL COMPANY, LLC**

1.      SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY MIDLAND AOG PARTNERS, LTD.**

1. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY REALEZA DEL SPEAR, LP**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico
2. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY LARRY P. LONG, MANAGING TRUSTEE OF THE LONG TRUSTS**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY WILLIAM H. KENNANN, TRUSTEE OF THE JOHN E. AND HELEN KENNANN FAMILY TRUST**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and

**OIL AND GAS INTERESTS CONTRIBUTED BY LOWE FAMILY, LTD.**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY TEDDY L. HARTLEY & ROBERT THOMAS HARTLEY, AS TRUSTEES OF THE VORA LOWE HARTLEY MINERAL TRUST**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY BANK OF AMERICA, N.A., AGENT, ELIZABETH LEA DAUGHERTY REVOCABLE TRUST U/A MARCH 22, 2012**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY BANK OF AMERICA, N.A., AGENT, OF THE J E SIMMONS TESTAMENTARY TRUST FBO MARY JANE HAND**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY BANK OF AMERICA, N.A., AGENT, OF THE B H SIMMONS TESTAMENTARY TRUST FBO MARY JANE HAND**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY RITA D. SCHENCK, WESTERN COMMERCE BANK,  
AND WILLIAM CARL SCHENCK, CO-TRUSTEES OF TRUST B OF THE KIRBY D. SCHENCK & RITA  
D. SCHENCK REVOCABLE TRUST AGREEMENT EXECUTED ON 10/2/1991**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY RITA D. SCHENCK, WESTERN COMMERCE BANK,  
AND WILLIAM CARL SCHENCK, CO-TRUSTEES OF TRUST A-2 OF THE KIRBY D. SCHENCK &  
RITA D. SCHENCK REVOCABLE TRUST AGREEMENT EXECUTED ON 10/2/1991**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY KENNETH G. CONE**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and
2. SE/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico

**OIL AND GAS INTERESTS CONTRIBUTED BY CHARLES KENNETH MOORE**

1. Lots 3 & 4, and the E/2 of the SW/4 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and

**BURDENS ON PRODUCTION:**

Burdens of Record.

## OIL &amp; GAS LEASE

THIS AGREEMENT made this \_\_\_\_\_ day of \_\_\_\_\_, between \_\_\_\_\_, whose address is \_\_\_\_\_, hereinafter called Lessor (whether one or more), and Cimarex Energy Co., hereinafter called Lessee, whose address is 600 N. Marienfeld Street, Suite 600, Midland, Texas 79701.

1. Lessor, in consideration of TEN AND OTHER DOLLARS (\$10.00) in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and operating for and producing oil and gas, injecting gas, waters, other fluids and air into subsurface strata, laying pipelines, storing oil, building tanks, roadways, telephone lines and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Ward County, Texas, to-wit:

Said land is estimated to comprise \_\_\_\_\_, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this Lease shall remain in force for a term of one (1) year from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.
3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, one-fourth (1/4th) of that produced and saved from said land, same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of one-fourth (1/4th) of the gas used, provided that on gas sold on or off the premises, the royalties shall be one-fourth (1/4th) of the amount realized from such sale; (c) at any time when this Lease is not validated by other provisions hereof and there is a well capable of producing gas and/or condensate on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, this Lease shall nevertheless not terminate, and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities so long as such well remains capable of so producing. If such well remains shut in for more than 90 consecutive days, and if this Lease is then or at any time thereafter not being maintained in force and effect by some other provision hereof, Lessee shall pay or tender to Lessor thereupon, and annually thereafter on or before the anniversary of the date Lessee became obligated for the first such payment until actual production of oil, gas or condensate has commenced from such well or some other well on the leased premises or lands pooled therewith, a shut-in royalty equal to \$1.00 per net acre of Lessor's oil and gas acreage then held under this Lease by the party making such payment or tender. So long as said shut-in royalty is paid or tendered, this Lease shall not terminate, and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this Lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this Lease in the same manner as though a proper payment had been made if Lessee shall correct such error within 30 days after Lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable Lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event Lessee compresses, treats, purifies or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, Lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.
4. This is a paid-up lease, and Lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this Lease in force during the primary term; however, this provision is not intended to relieve Lessee of the obligation to pay royalties on actual production pursuant to paragraph 3 hereof.
5. Lessee is hereby granted the right and power, from time to time, to pool or combine this Lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the governmental regulatory authority having jurisdiction of well spacing and density for the pool or area in which said land is situated, plus a tolerance of 10%; provided that if no such standard proration unit is so fixed or prescribed, such pooled units shall not exceed 40 acres for oil wells, plus a tolerance of 10%, or 640 acres for gas wells, plus a tolerance of 10%, or such larger area as may be prescribed or permitted by such governmental authority to be assigned to each well for purposes of a well spacing or density pattern or in the allocation of producing allowable. Lessee shall file written unit designations for record in the office of the county clerk of the county in which the premises are located, and such units may be designated from time to time and either before or after the completion of wells. Drilling Operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this Lease. There shall be all allocated to the land covered by this Lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this Lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this Lease. Any pooled unit designated by Lessee, as provided herein, may be amended or dissolved by Lessee by filing an appropriate instrument for record in the office of the county clerk of the county where the land is situated at any time after the original designation of such unit.
6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking thereon, this Lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this Lease shall not terminate if Lessee commences operations for additional drilling or for reworking within 60 days thereafter, and shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells. If any drilling, additional drilling, or reworking operations hereunder result in production, then this Lease shall remain in full force so long thereafter as oil or gas is produced hereunder.
7. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this Lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no such change or division shall be binding upon Lessee for any purpose until 30 days after Lessee has been furnished by certified mail at Lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original Lessor. If any such change in ownership occurs through the death of the owner, Lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as Lessee has been furnished with evidence satisfactory to Lessee as to the persons entitled to such sums. An assignment of this Lease in whole or in part shall, to the extent of such assignment, relieve and discharge Lessee of any obligations hereunder, and if Lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such Lessee or assignee or fail to comply with any of the provisions of this Lease, such default shall not affect this Lease insofar as it covers a part of said lands upon which Lessee or any assignee thereof shall properly comply or make such payments.
9. Should Lessee be prevented from complying with any express or implied covenant of this Lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's duty shall be suspended, and Lessee shall not be liable for failure to comply therewith; and this Lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this Lease to the contrary notwithstanding.
10. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event Lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty, if this Lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not) then the royalties, shut-in royalty and other payments, if any, accruing from any part as to which this Lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this Lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as Lessors fail to execute this Lease, it shall nevertheless be binding upon the party or parties executing the same.
11. Lessee, its or his successors, heirs and assigns shall have the right at any time to surrender this Lease, in whole or in part, to Lessor or his heirs, successors and assigns by delivering or mailing a release thereof to the Lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon Lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

_____	_____
_____	_____
_____	_____

Exhibit "B"

ACKNOWLEDGMENTS

INDIVIDUAL ACKNOWLEDGMENT - TEXAS

STATE OF \_\_\_\_\_ §

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ by \_\_\_\_\_

My commission expires: \_\_\_\_\_

Notary Public, State of \_\_\_\_\_

CORPORATE ACKNOWLEDGMENT - TEXAS

STATE OF \_\_\_\_\_ §

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ by \_\_\_\_\_, as \_\_\_\_\_ of \_\_\_\_\_ corporation, on behalf of said corporation.

My commission expires: \_\_\_\_\_

Notary Public, State of \_\_\_\_\_

## Exhibit " C "

### ACCOUNTING PROCEDURE JOINT OPERATIONS

Attached to and made part of that certain Operating Agreement dated June 24, 2014, by and between Cimarex Energy Co., as Operator  
and Marshall & Winston, Inc., as Non-Operator.

#### I. GENERAL PROVISIONS

IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING "ALTERNATIVE" PROVISIONS, OR SELECT ALL THE COMPETING "ALTERNATIVE" PROVISIONS, ALTERNATIVE I IN EACH SUCH INSTANCE SHALL BE DEEMED TO HAVE BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR DUPLICATE NOTATION.

IN THE EVENT THAT ANY "OPTIONAL" PROVISION OF THIS ACCOUNTING PROCEDURE IS NOT ADOPTED BY THE PARTIES TO THE AGREEMENT BY A TYPED, PRINTED OR HANDWRITTEN INDICATION, SUCH PROVISION SHALL NOT FORM A PART OF THIS ACCOUNTING PROCEDURE, AND NO INFERENCE SHALL BE MADE CONCERNING THE INTENT OF THE PARTIES IN SUCH EVENT.

#### 1. DEFINITIONS

All terms used in this Accounting Procedure shall have the following meaning, unless otherwise expressly defined in the Agreement:

"Affiliate" means for a person, another person that controls, is controlled by, or is under common control with that person. In this definition, (a) control means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting securities of a corporation or, for other persons, the equivalent ownership interest (such as partnership interests), and (b) "person" means an individual, corporation, partnership, trust, estate, unincorporated organization, association, or other legal entity.

"Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting Procedure is attached.

"Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

"Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest Railway Receiving Point to the property.

"Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.

"Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable field personnel.

"First Level Supervision" means those employees whose primary function in Joint Operations is the direct oversight of the Operator's field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may include, but are not limited to:

- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations
- Responsibility for day-to-day direct oversight of construction operations
- Coordination of job priorities and approval of work procedures
- Responsibility for optimal resource utilization (equipment, Materials, personnel)
- Responsibility for meeting production and field operating expense targets
- Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental part of the supervisor's operating responsibilities
- Responsibility for all emergency responses with field staff
- Responsibility for implementing safety and environmental practices
- Responsibility for field adherence to company policy
- Responsibility for employment decisions and performance appraisals for field personnel
- Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group or team leaders.

"Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the Agreement.

"Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection, maintenance, repair, abandonment, and restoration of the Joint Property.



1 "Joint Property" means the real and personal property subject to the Agreement.

2  
3 "Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other  
4 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions  
5 contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted,  
6 promulgated or issued.

7  
8 "Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.

9  
10 "Non-Operators" means the Parties to the Agreement other than the Operator.

11  
12 "Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and  
13 gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping,  
14 heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of  
15 offshore operations, all of which are located offshore.

16  
17 "Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.

18  
19 "On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of  
20 Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other  
21 facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.

22  
23 "Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.

24  
25 "Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as  
26 "Party."

27  
28 "Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees,  
29 or is otherwise obligated, to pay and bear.

30  
31 "Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of  
32 the costs and risks of conducting an operation under the Agreement.

33  
34 "Personal Expenses" means reimbursed costs for travel and temporary living expenses.

35  
36 "Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual  
37 railhead may not exist.

38  
39 "Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a  
40 receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication,  
41 scheduling and dispatching center; and other associated functions serving the Joint Property.

42  
43 "Supply Store" means a recognized source or common stock point for a given Material item.

44  
45 "Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by  
46 engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint  
47 Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second  
48 paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-  
49 Operator, Non-Operator Affiliates, and/or third parties.

## 50 51 2. STATEMENTS AND BILLINGS

52  
53 The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the  
54 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all  
55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified  
56 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.  
57 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.

58  
59 The Operator may make available to Non-Operators any statements and bills required under Section 1.2 and/or Section 1.3 A (*Advances*  
60 *and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper  
61 copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and  
62 bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of  
63 weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via  
64 email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings  
65 electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written  
66 notice to the Operator.

### 3. ADVANCES AND PAYMENTS BY THE PARTIES

- A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of the estimated cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.
- B. Except as provided below, each Party shall pay its proportionate share of all bills in full within fifteen (15) days of receipt date. If payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the Operator at the time payment is made, to the extent such reduction is caused by:
- (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working interest or Participating Interest, as applicable; or
  - (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved or is not otherwise obligated to pay under the Agreement; or
  - (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty (30) day period following the Operator's receipt of such written notice; or
  - (4) charges outside the adjustment period, as provided in Section 1.4 (*Adjustments*).

### 4. ADJUSTMENTS

- A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section 1.5 (*Expenditure Audits*).
- B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section 1.4.B, are limited to the twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month period are limited to adjustments resulting from the following:
- (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*), or
  - (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception granted by the Operator relating to another property, or
  - (3) a government/regulatory audit, or
  - (4) a working interest ownership or Participating Interest adjustment.

### 5. EXPENDITURE AUDITS

- A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Section 1.4 (*Adjustments*). Any Party that is subject to payout accounting under the Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner that will result in a minimum of inconvenience to the Operator. The 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 the Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of

those Non-Operators approving such audit

The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month requirement for taking specific detailed written exception as required in Section 1.4.A (*Adjustments*) above. All claims shall be supported with sufficient documentation.

A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section 1.5.B or 1.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations, provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section 1.5.B or 1.5.C.

B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (*Advances and Payments by the Parties*).

C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in Section 1.5.E, if the Operator fails to provide substantive response to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (*Advances and Payments by the Parties*).

D. If any Party fails to meet the deadlines in Sections 1.5.B or 1.5.C or if any audit issues are outstanding fifteen (15) months after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution meeting, as set forth in this Section 1.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable. The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may be discussed at subsequent meetings until each such issue is resolved.

If the Agreement contains no dispute resolution procedures and the audit issues cannot be resolved by negotiation, the dispute shall be submitted to mediation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties shall each have present at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any Party may file a lawsuit or complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60) days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.

~~E. (Optional Provision—Forfeiture Penalties)~~

~~If the Non-Operators fail to meet the deadline in Section 1.5.C, any unresolved exceptions that were not addressed by the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section 1.5.B or 1.5.C, any unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made without interest to the Joint Account.~~

6. APPROVAL BY PARTIES

A. GENERAL MATTERS

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, the

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.

This Section 1.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for charges from that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure, which are covered by Section 1.6.B.

#### B. AMENDMENTS

If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting Procedure can be amended by an affirmative vote of Two (2) or more Parties, one of which is the Operator, having a combined working interest of at least Fifty percent (50 %), which approval shall be binding on all Parties, provided, however, approval of at least one (1) Non-Operator shall be required.

#### C. AFFILIATES

For the purpose of administering the voting procedures of Sections 1.6.A and 1.6.B, if Parties to this Agreement are Affiliates of each other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating Interest of such Affiliates.

For the purposes of administering the voting procedures in Section 1.6.A, if a Non-Operator is an Affiliate of the Operator, votes under Section 1.6.A shall require the majority in interest of the Non-Operator(s) after excluding the interest of the Operator's Affiliate.

### II. DIRECT CHARGES

The Operator shall charge the Joint Account with the following items:

#### 1. RENTALS AND ROYALTIES

Lease rentals and royalties paid by the Operator, on behalf of all Parties, for the Joint Operations.

#### 2. LABOR

A. Salaries and wages, including incentive compensation programs as set forth in COPAS MFI-37 ("Chargeability of Incentive Compensation Programs"), for:

- (1) Operator's field employees directly employed On-site in the conduct of Joint Operations,
- (2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving the Joint Property if such costs are not charged under Section 11.6 (*Equipment and Facilities Furnished by Operator*) or are not a function covered under Section III (*Overhead*),
- (3) Operator's employees providing First Level Supervision,
- (4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded from the overhead rates in Section III (*Overhead*),
- (5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded from the overhead rates in Section III (*Overhead*).

Charges for the Operator's employees identified in Section 11.2.A may be made based on the employee's actual salaries and wages, or in lieu thereof, a day rate representing the Operator's average salaries and wages of the employee's specific job category.

Charges for personnel chargeable under this Section 11.2.A who are foreign nationals shall not exceed comparable compensation paid to an equivalent U.S. employee pursuant to this Section 11.2, unless otherwise approved by the Parties pursuant to Section 1.6.A (*General Matters*).

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 Section 11.2.A, excluding severance payments or other termination allowances. Such costs under this Section 11.2.B 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 Section 11.2.A. 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 that are applicable to costs chargeable to the Joint Account under Sections 11.2.A and B.

D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the expenses are incurred in connection with directly chargeable activities.

E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the Joint Account unless approved by the Parties pursuant to Section 16.A (*General Matters*).

F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are available.

G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most recently recommended by COPAS.

H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose salaries and wages are chargeable under Section II.2.A.

### 3. MATERIAL

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

### 4. TRANSPORTATION

A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.

B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material from the Joint Property to the Operator's warehouse or other storage point shall be paid for by the Joint Property using one of the methods listed below:

(1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall consistently apply the selected alternative.

(2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged directly to the Joint Property and shall not be included when calculating the Equalized Freight.

### 5. SERVICES

The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").

The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).

### 6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:

A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation not to exceed Twelve percent (12%) per annum; provided, however, depreciation shall not be charged when the

equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.

- B. In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this Section II.6.B, the Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation. For automotive equipment, the Operator may elect to use rates published by the Petroleum Motor Transport Association (PMTA) or such other organization recognized by COPAS as the official source of rates.

## 7. AFFILIATES

- A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed to such individual project do not exceed \$ 25,000.00. If the total costs for an Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).
- B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*), if the charges exceed \$ 50,000.00 in a given calendar year.
- C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property, unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation; provided, however, documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing, direct charges for Affiliate-owned communication facilities or systems shall be made pursuant to Section II.12 (*Communications*).

If the Parties fail to designate an amount in Sections II.7.A or II.7.B, in each instance the amount deemed adopted by the Parties as a result of such omission shall be the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be zero dollars (\$ 0.00).

## 8. DAMAGES AND LOSSES TO JOINT PROPERTY

All costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred, except to the extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties shall be solely liable.

The Operator shall furnish the Non-Operator written notice of damages or losses incurred as soon as practicable after a report has been received by the Operator.

## 9. LEGAL EXPENSE

Recording fees and costs of handling, settling, or otherwise discharging litigation, claims, and liens incurred in or resulting from operations under the Agreement, or necessary to protect or recover the Joint Property, to the extent permitted under the Agreement. Costs of the Operator's or Affiliate's legal staff or outside attorneys, including fees and expenses, are not chargeable unless approved by the Parties pursuant to Section I.6.A (*General Matters*) or otherwise provided for in the Agreement.

Notwithstanding the foregoing paragraph, costs for procuring abstracts, fees paid to outside attorneys for title examinations (including preliminary, supplemental, shut-in royalty opinions, division order title opinions), and curative work shall be chargeable to the extent permitted as a direct charge in the Agreement.

## 10. TAXES AND PERMITS

All taxes and permitting fees of every kind and nature, assessed or levied upon or in connection with the Joint Property, or the production therefrom, and which have been paid by the Operator for the benefit of the Parties, including penalties and interest, except to the extent the penalties and interest result from the Operator's gross negligence or willful misconduct.

If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of each Party's working interest, then notwithstanding any contrary provisions, the charges to the Parties will be made in accordance with the tax value generated by each Party's working interest.

Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section 1.6.A (*General Matters*).

Charges to the Joint Account resulting from sales/use tax audits, including extrapolated amounts and penalties and interest, are permitted, provided the Non-Operator shall be allowed to review the invoices and other underlying source documents which served as the basis for tax charges and to determine that the correct amount of taxes were charged to the Joint Account. If the Non-Operator is not permitted to review such documentation, the sales/use tax amount shall not be directly charged unless the Operator can conclusively document the amount owed by the Joint Account.

#### 11. INSURANCE

Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are conducted at locations where the Operator acts as self-insurer in regard to its worker's compensation and employer's liability insurance obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the jurisdiction governing the Joint Property. In the case of offshore operations in federal waters, the manual rates of the adjacent state shall be used for personnel performing work On-site, and such rates shall be adjusted for offshore operations by the U.S. Longshoreman and Harbor Workers (USL&H) or Jones Act surcharge, as appropriate.

#### 12. COMMUNICATIONS

Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems, including satellite, radio and microwave facilities, between the Joint Property and the Operator's office(s) directly responsible for field operations in accordance with the provisions of COPAS MFI-44 ("Field Computer and Communication Systems"). If the communications facilities or systems serving the Joint Property are Operator-owned, charges to the Joint Account shall be made as provided in Section II.6 (*Equipment and Facilities Furnished by Operator*). If the communication facilities or systems serving the Joint Property are owned by the Operator's Affiliate, charges to the Joint Account shall not exceed average commercial rates prevailing in the area of the Joint Property. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation.

#### 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or standards recommended by Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All other labor and functions incurred for ecological, environmental and safety matters, including management, administration, and permitting, shall be covered by Sections II.2 (*Labor*), II.5 (*Services*), or Section III (*Overhead*), as applicable.

Costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting responsibilities of oil and other spills as well as discharges from permitted outfalls as required by applicable Laws, or other pollution containment and removal equipment deemed appropriate by the Operator for prudent operations, are directly chargeable.

#### 14. ABANDONMENT AND RECLAMATION

Costs incurred for abandonment and reclamation of the Joint Property, including costs required by lease agreements or by Laws.

#### 15. OTHER EXPENDITURES

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III (*Overhead*) 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. Charges made under this Section II.15 shall require approval of the Parties, pursuant to Section 1.6.A (*General Matters*).

### III. OVERHEAD

As compensation for costs not specifically identified as chargeable to the Joint Account pursuant to Section II (*Direct Charges*), the Operator shall charge the Joint Account in accordance with this Section III.

Functions included in the overhead rates regardless of whether performed by the Operator, Operator's Affiliates or third parties and regardless of location, shall include, but not be limited to, costs and expenses of:

- warehousing, other than for warehouses that are jointly owned under this Agreement
- design and drafting (except when allowed as a direct charge under Sections II.13, III.1.A(ii), and III.2, Option B)
- inventory costs not chargeable under Section V (*Inventories of Controllable Material*)
- procurement
- administration
- accounting and auditing
- gas dispatching and gas chart integration

- human resources
- management
- supervision not directly charged under Section II.2 (*Labor*)
- legal services not directly chargeable under Section II.9 (*Legal Expense*)
- taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
- preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings with governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site inspections; reviewing, interpreting, or submitting comments on or lobbying with respect to Laws or proposed Laws.

Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses of personnel performing overhead functions, as well as office and other related expenses of overhead functions.

#### 1. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other provisions of this Section III, the Operator shall charge on either:

- ☒ (Alternative 1) Fixed Rate Basis, Section III.1.B.
- ☐ (Alternative 2) Percentage Basis, Section III.1.C.

##### A. TECHNICAL SERVICES

- (i) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for On-site Technical Services, including third party Technical Services:

☒ (Alternative 1 – Direct) shall be charged direct to the Joint Account.

☐ (Alternative 2 – Overhead) shall be covered by the overhead rates.

- (ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for Off-site Technical Services, including third party Technical Services:

☐ (Alternative 1 – All Overhead) shall be covered by the overhead rates.

☒ (Alternative 2 – All Direct) shall be charged direct to the Joint Account.

☐ (Alternative 3 – Drilling Direct) shall be charged direct to the Joint Account, only to the extent such Technical Services are directly attributable to drilling, redrilling, deepening, or sidetracking operations, through completion, temporary abandonment, or abandonment if a dry hole. Off-site Technical Services for all other operations, including workover, recompletion, abandonment of producing wells, and the construction or expansion of fixed assets not covered by Section III.2 (*Overhead – Major Construction and Catastrophe*) shall be covered by the overhead rates.

Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are subject to limitations set forth in Section II.7 (*Affiliates*). Charges for Technical personnel performing non-technical work shall not be governed by this Section III.1.A, but instead governed by other provisions of this Accounting Procedure relating to the type of work being performed.

##### B. OVERHEAD—FIXED RATE BASIS

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

Drilling Well Rate per month \$ 7,000.00 (prorated for less than a full month)

Producing Well Rate per month \$ 700.00

- (2) Application of Overhead—Drilling Well Rate shall be as follows:

- (a) Charges for onshore drilling wells shall begin on the spud date and terminate on the date the drilling and/or completion equipment used on the well is released, whichever occurs later. Charges for offshore and inland waters drilling wells shall begin on the date the drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location, or is released, whichever occurs first. No charge shall be made during suspension of drilling and/or completion operations for fifteen (15) or more consecutive calendar days.



(b) Charges for any well undergoing any type of workover, recompletion, and/or abandonment for a period of five (5) or more consecutive work-days shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date operations, with rig or other units used in operations, commence through date of rig or other unit release, except that no charges shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(3) Application of Overhead—Producing Well Rate shall be as follows:

(a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to support operations for any portion of the month shall be considered as a one-well charge for the entire month.

(b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is considered a separate well by the governing regulatory authority.

(c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one-well charge shall be made whether or not the well has produced.

(d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.

(e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a producing overhead charge.

(4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement; provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the effective date of such rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").

**C.—OVERHEAD—PERCENTAGE BASIS**

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

(a) Development Rate \_\_\_\_\_ percent (\_\_\_\_%) of the cost of development of the Joint Property, exclusive of costs provided under Section II.9 (Legal Expense) and all Material salvage credits.

(b) Operating Rate \_\_\_\_\_ percent (\_\_\_\_%) of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1 (Rentals and Royalties) and II.9 (Legal Expense); all Material salvage credits; the value of substances purchased for enhanced recovery; all property and ad valorem taxes; and any other taxes and assessments that 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:

(a) The Development Rate shall be applied to all costs in connection with:

- (i) drilling, redrilling, sidetracking, or deepening of a well
- (ii) a well undergoing plugback or workover operations for a period of five (5) or more consecutive work-days
- (iii) preliminary expenditures necessary in preparation for drilling
- (iv) expenditures incurred in abandoning when the well is not completed as a producer
- (v) construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, other than Major Construction or Catastrophe as defined in Section III.2 (Overhead—Major Construction and Catastrophe).

(b) The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those subject to Section III.2 (Overhead—Major Construction and Catastrophe).

**2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE**

To compensate the Operator for overhead costs incurred in connection with a Major Construction project or Catastrophe, the Operator shall either negotiate a rate prior to the beginning of the project, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of the Operator's expenditure limit under the Agreement, or for any Catastrophe regardless of the amount. If the Agreement to which this Accounting Procedure is attached does not contain an expenditure limit, Major Construction Overhead shall be assessed for any single Major Construction project costing in excess of \$100,000 gross.

Major Construction shall mean 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, or in the dismantlement, abandonment, removal, and restoration of platforms, production equipment, and other operating facilities.

Catastrophe is defined as a sudden calamitous event bringing damage, loss, or destruction to property or the environment, such as an oil spill, blowout, explosion, fire, storm, hurricane, or other disaster. The overhead rate shall be applied to those costs necessary to restore the Joint Property to the equivalent condition that existed prior to the event.

A. If the Operator absorbs the engineering, design and drafting costs related to the project:

- (1) 5 % of total costs if such costs are less than \$100,000; plus
- (2) 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- (3) 2 % of total costs in excess of \$1,000,000.

B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:

- (1) 5 % of total costs if such costs are less than \$100,000; plus
- (2) 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- (3) 2 % of total 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 Major Construction project shall not be treated separately, and the cost of drilling and workover wells and purchasing and installing pumping units and downhole artificial lift equipment shall be excluded. For Catastrophes, the rates shall be applied to all costs associated with each single occurrence or event.

On each project, the Operator shall advise the Non-Operator(s) in advance which of the above options shall apply.

For the purposes of calculating Catastrophe Overhead, the cost of drilling relief wells, substitute wells, or conducting other well operations directly resulting from the catastrophic event shall be included. Expenditures to which these rates apply shall not be reduced by salvage or insurance recoveries. Expenditures that qualify for Major Construction or Catastrophe Overhead shall not qualify for overhead under any other overhead provisions.

In the event of any conflict between the provisions of this Section III.2 and the provisions of Sections II.2 (*Labor*), II.5 (*Services*), or II.7 (*Affiliates*), the provisions of this Section III.2 shall govern.

### 3. AMENDMENT OF OVERHEAD RATES

The overhead rates provided for in this Section III may be amended from time to time if, in practice, the rates are found to be insufficient or excessive, in accordance with the provisions of Section I.6.B (*Amendments*).

## IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and dispositions. The Operator shall provide all Material for use in the conduct of Joint Operations; however, Material may be supplied by the Non-Operators, at the Operator's option. Material furnished by any Party shall be furnished without any express or implied warranties as to quality, fitness for use, or any other matter.

### 1. DIRECT PURCHASES

Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. The Operator shall make good faith efforts to take discounts offered by suppliers, but shall not be liable for failure to take discounts except to the extent such failure was the result of the Operator's gross negligence or willful misconduct. A direct purchase shall be deemed to occur when an agreement is made between an Operator and a third party for the acquisition of Material for a specific well site or location. Material provided by the Operator under "vendor stocking programs," where the initial use is for a Joint Property and title of the Material does not pass from the manufacturer, distributor, or agent until usage, is considered a direct purchase. If Material is found to be defective or is returned to the manufacturer, distributor, or agent for any other reason, credit shall be passed to the Joint Account within sixty (60) days after the Operator has received adjustment from the manufacturer, distributor, or agent.

## 2. TRANSFERS

A transfer is determined to occur when the Operator (i) furnishes Material from a storage facility or from another operated property, (ii) has assumed liability for the storage costs and changes in value, and (iii) has previously secured and held title to the transferred Material. Similarly, the removal of Material from the Joint Property to a storage facility or to another operated property is also considered a transfer; provided, however, Material that is moved from the Joint Property to a storage location for safe-keeping pending disposition may remain charged to the Joint Account and is not considered a transfer. Material shall be disposed of in accordance with Section IV.3 (*Disposition of Surplus*) and the Agreement to which this Accounting Procedure is attached.

### A. PRICING

The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties pursuant to Section 1.6.A (*General Matters*). Transfers of new Material will be priced using one of the following pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

- (1) Using published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS).
  - (a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill carload base prices (Houston, Texas, for special end) adjusted as of date of movement, plus transportation cost as defined in Section IV.2.B (*Freight*).
  - (b) For other Material, the published price shall be the published list price in effect at date of movement, as listed by a Supply Store nearest the Joint Property where like Material is normally available, or point of manufacture plus transportation costs as defined in Section IV.2.B (*Freight*).
- (2) Based on a price quotation from a vendor that reflects a current realistic acquisition cost.
- (3) Based on the amount paid by the Operator for like Material in the vicinity of the Joint Property within the previous twelve (12) months from the date of physical transfer.
- (4) As agreed to by the Participating Parties for Material being transferred to the Joint Property, and by the Parties owning the Material for Material being transferred from the Joint Property.

### B. FREIGHT

Transportation costs shall be added to the Material transfer price using the method prescribed by the COPAS Computerized Equipment Pricing System (CEPS). If not using CEPS, transportation costs shall be calculated as follows:

- (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFI-38 ("Material Pricing Manual") and other COPAS MFIs in effect at the time of the transfer.
- (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per weight of tubing transferred to the Railway Receiving Point.
- (3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston, Texas, to the Railway Receiving Point.
- (4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point.

Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the Railway Receiving Point to the Joint Property are in addition to the foregoing, and may be charged to the Joint Account based on actual costs incurred. All transportation costs are subject to Equalized Freight as provided in Section II.4 (*Transportation*) of this Accounting Procedure.

### C. TAXES

Sales and use taxes shall be added to the Material transfer price using either the method contained in the COPAS Computerized Equipment Pricing System (CEPS) or the applicable tax rate in effect for the Joint Property at the time and place of transfer. In either case, the Joint Account shall be charged or credited at the rate that would have governed had the Material been a direct purchase.

#### D. CONDITION

(1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties owning such Material, pursuant to Section 1.6.A (*General Matters*). All refurbishing costs required or necessary to return the Material to original condition or to correct handling, transportation, or other damages will be borne by the divesting property. The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material for the receiving property.

(2) Condition "B" – Used Material in sound and serviceable condition and suitable for reuse without reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by seventy-five percent (75%).

Except as provided in Section IV.2.D(3), all reconditioning costs required to return the Material to Condition "B" or to correct handling, transportation or other damages will be borne by the divesting property.

If the Material was originally charged to the Joint Account as used Material and placed in service for the Joint Property, the Material will be credited at the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) multiplied by sixty-five percent (65%).

Unless otherwise agreed to by the Parties that paid for such Material, used Material transferred from the Joint Property that was not placed in service on the property shall be credited as charged without gain or loss.

(3) Condition "C" – Material that is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by fifty percent (50%).

The cost of reconditioning may be charged to the receiving property to the extent Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for items with different specifications, is considered Condition "D" Material. 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. 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. For other items, the price used should result in the Joint Account being charged or credited with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A (*General Matters*).

(5) Condition "E" – Junk shall be priced at prevailing scrap value prices.

#### E. OTHER PRICING PROVISIONS

##### (1) Preparation Costs

Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be provided to the Non-Operators upon request to support the cost of service. New coating and/or wrapping shall be considered a component of the Materials and priced in accordance with Sections IV.1 (*Direct Purchases*) or IV.2.A (*Pricing*), as applicable. No charges or credits shall be made for used coating or wrapping. Charges and credits for inspections shall be made in accordance with COPAS MFI-38 ("Material Pricing Manual").

##### (2) Loading and Unloading Costs

Loading and unloading costs related to the movement of the Material to the Joint Property shall be charged in accordance with the methods specified in COPAS MFI-38 ("Material Pricing Manual").

### 3. DISPOSITION OF SURPLUS

Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator may purchase, but shall be under no obligation to purchase, the interest of the Non-Operators in surplus Material.

Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the Joint Property to either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus Material, the Operator should make good faith efforts to dispose of surplus within twelve (12) months through buy/sale agreements, trade, sale to a third party, division in kind, or other dispositions as agreed to by the Parties.

Disposal of surplus Materials shall be made in accordance with the terms of the Agreement to which this Accounting Procedure is attached. If the Agreement contains no provisions governing disposal of surplus Material, the following terms shall apply:

- The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is attached without the prior approval of the Parties owning such Material.
- If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such Material.
- Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material, based on the pricing methods set forth in Section IV.2 (*Transfers*).
- Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value of the Materials, based on the pricing methods set forth in Section IV.2 (*Transfers*), is less than or equal to the Operator's expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting the classification of the Material as Condition C.
- Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior approval of the Parties owning such Material.

### 4. SPECIAL PRICING PROVISIONS

#### A. PREMIUM PRICING

Whenever Material is available only at inflated prices due to national emergencies, strikes, government imposed foreign trade restrictions, or other unusual causes over which the Operator has no control, for direct purchase the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, making it suitable for use, and moving it to the Joint Property. Material transferred or disposed of during premium pricing situations shall be valued in accordance with Section IV.2 (*Transfers*) or Section IV.3 (*Disposition of Surplus*), as applicable.

#### B. SHOP-MADE ITEMS

Items fabricated by the Operator's employees, or by contract laborers under the direction of the Operator, shall be priced using the value of the Material used to construct the item plus the cost of labor to fabricate the item. If the Material is from the Operator's scrap or junk account, the Material shall be priced at either twenty-five percent (25%) of the current price as determined in Section IV.2.A (*Pricing*) or scrap value, whichever is higher. In no event shall the amount charged exceed the value of the item commensurate with its use.

#### C. MILL REJECTS

Mill rejects purchased as "limited service" casing or tubing shall be priced at eighty percent (80%) of K-55/J-55 price as determined in Section IV.2 (*Transfers*). Line pipe converted to casing or tubing with casing or tubing couplings attached shall be priced as K-55/J-55 casing or tubing at the nearest size and weight.

### V. INVENTORIES OF CONTROLLABLE MATERIAL

The Operator shall maintain records of Controllable Material charged to the Joint Account, with sufficient detail to perform physical inventories.

Adjustments to the Joint Account by the Operator resulting from a physical inventory of Controllable Material shall be made within twelve (12) months following the taking of the inventory or receipt of Non-Operator inventory report. Charges and credits for overages or shortages will be valued for the Joint Account in accordance with Section IV.2 (*Transfers*) and shall be based on the Condition "B" prices in effect on the date of physical inventory unless the inventorying Parties can provide sufficient evidence another Material condition applies.

## 1. DIRECTED INVENTORIES

Physical inventories shall be performed by the Operator upon written request of a majority in working interests of the Non-Operators (hereinafter, "directed inventory"); provided, however, the Operator shall not be required to perform directed inventories more frequently than once every five (5) years. Directed inventories shall be commenced within one hundred eighty (180) days after the Operator receives written notice that a majority in interest of the Non-Operators has requested the inventory. All Parties shall be governed by the results of any directed inventory.

Expenses of directed inventories will be borne by the Joint Account; provided, however, costs associated with any post-report follow-up work in settling the inventory will be absorbed by the Party incurring such costs. The Operator is expected to exercise judgment in keeping expenses within reasonable limits. Any anticipated disproportionate or extraordinary costs should be discussed and agreed upon prior to commencement of the inventory. Expenses of directed inventories may include the following:

- A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel performing the inventory or a rate agreed to by the Parties pursuant to Section I.6.A (*General Matters*). The per diem rate shall also be applied to a reasonable number of days for pre-inventory work and report preparation.
- B. Actual transportation costs and Personal Expenses for the inventory team.
- C. Reasonable charges for report preparation and distribution to the Non-Operators.

## 2. NON-DIRECTED INVENTORIES

## A. OPERATOR INVENTORIES

Physical inventories that are not requested by the Non-Operators may be performed by the Operator, at the Operator's discretion. The expenses of conducting such Operator-initiated inventories shall not be charged to the Joint Account.

## B. NON-OPERATOR INVENTORIES

Subject to the terms of the Agreement to which this Accounting Procedure is attached, the Non-Operators may conduct a physical inventory at reasonable times at their sole cost and risk after giving the Operator at least ninety (90) days prior written notice. The Non-Operator inventory report shall be furnished to the Operator in writing within ninety (90) days of completing the inventory fieldwork.

## C. SPECIAL INVENTORIES

The expense of conducting inventories other than those described in Sections V.1 (*Directed Inventories*), V.2.A (*Operator Inventories*), or V.2.B (*Non-Operator Inventories*), shall be charged to the Party requesting such inventory; provided, however, inventories required due to a change of Operator shall be charged to the Joint Account in the same manner as described in Section V.1 (*Directed Inventories*).

#### EXHIBIT "D"

Attached to and made a part of Operating Agreement dated June 24, 2014 by and between Cimarex Energy Co., as Operator, and Marshall & Winston, Inc., as Non-operator(s).

#### INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with all federal and state Workers' Compensation Laws where the Operations are being conducted and include Employer's Liability with limit of \$1,000,000; provided, however, that Operator may qualify as a self-insurer for liability under appropriate state workers' compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall, within reason, require all Contractors engaged in work on or for the contract area to comply with all state and federal workers' compensation laws where the operations are being conducted and to maintain such other insurance as Operator may require.

No other insurance shall be purchased, or carried, by the Operator for the benefit of the Parties hereto except as directed by the operating committee or as required by third party contract to the joint account. Any liability, loss, damage, claim or expense resulting from occurrences not covered by or in excess of insurance required under this provision shall be borne by parties hereto in the same proportion as their interests may appear at the time of the loss.

Each party may procure and maintain, at its own cost and expense such public liability, third party property damage, fire and extended coverage and/or other insurance as it shall determine, and any such insurance so procured and/or maintained shall inure solely to the benefit of the party procuring such insurance and such party shall indemnify and hold harmless Operator and other parties to this agreement harmless against any claim of such insurance carrier arising against such other party by subrogation, or otherwise, in connection with operations hereunder.

It shall be the sole responsibility of each party hereto to provide its own well control insurance, including underground blow out, seepage, and pollution, that Operator shall not provide same for the benefit of the joint account unless prior arrangements to do so have been made, in writing, by the parties hereto.

In the event any party hereto declines any of the applicable coverage(s) herein above provided, then, in such event, nothing concerning the above declined coverage(s) will be charged toward the Joint Account.

Each party hereto to be insured hereunder shall provide copies of certificates evidencing the above insurance coverage(s) upon request of any other party. In the event any party hereto elects to self-insure, then in such event, it must obtain a Certificate of Financial Responsibility from the applicable Federal and/or State Agencies, provide an acceptable letter of self-insurance or otherwise furnish appropriate acceptable evidence of same relating to said guidelines to the other parties hereto.

## EXHIBIT "E"

### **GAS BALANCING AGREEMENT**

Attached to and made a part of that certain Operating Agreement dated June 24, 2014, by and between Cimarex Energy Co., as Operator, and Marshall & Winston, Inc., as Non-Operator(s).

1. The parties to the Operating Agreement referred to above own working interests in the gas rights underlying the lands and leases covered by such agreement ("Contract Area") in accordance with the percentages of participation ("Working Interest") set forth therein.

2. Each party has the right to take, market, or otherwise dispose of its Working Interest share of gas produced from the Contract Area. Each party's Working Interest share shall be calculated on the volumes taken in MCF's by each party or its purchaser(s). In the event any party at any time does not take in kind or market its Working Interest share of gas from a well, or has contracted to sell its Working Interest share of gas to a purchaser which fails to take all of such gas, the other parties shall be entitled, in proportion to their Working Interest, to produce, take and deliver each month up to one hundred percent (100%) of the anticipated allowable gas production to be assigned to such well by the governmental entity having jurisdiction (if applicable). The purpose of this provision is to permit any party not taking or marketing all of its Working Interest share of current gas production to defer its production and permit the other parties to pass clear title to quantities of gas in excess of their Working Interest.

3. Each party which fails to take or market its full Working Interest share of gas from any well at any time shall be credited with gas in an imbalance account for such well equal to that volume of gas taken or marketed by the other parties hereto in excess of their Working Interest share.

4. Each party shall endeavor to take or market its full Working Interest share of gas production from such well. Further, each party shall give Operator reasonable notice and sufficient data either to nominate such party's Working Interest share of gas to the transporting pipeline(s) or, if Operator is not nominating such party's gas, to inform Operator of the manner in which to dispatch such party's gas. Except as and to the extent caused by Operator's gross negligence or willful misconduct, Operator shall not be responsible for any fees and/or penalties associated with imbalances charged by any pipeline to any Non-Operator.

5. To allow for the recovery of gas from an imbalance account and to balance the gas account of the parties, a party which has taken less than its full Working Interest share of gas at any time ("negative balance"), shall be entitled to produce, take and deliver each month upon reasonable notice to the Operator and to the other affected parties, its Working Interest share of the anticipated allowable gas production to be assigned to such well by the governmental entity having jurisdiction (if applicable) plus an amount up to an additional fifty percent (50%) ("Make-up Gas") of the Working Interest share of each party which has taken more than its full share of gas at such time ("positive balance"). However, a party with a negative balance shall never be allowed to take more than its Working Interest share of such allowable gas (if applicable) during the months of November, December, January and February ("the Winter Period"), unless the underproduced party has taken at least ninety percent (90%) of the make-up gas to which it was entitled during the six (6) consecutive months immediately prior to the Winter Period. If more than one party has a negative balance and elects to take Make-up Gas, they shall divide the Make-up Gas to be taken from any party with a positive balance in proportion to the respective working interest participation of each such party with a negative balance in such well.

6. This Agreement shall apply separately to each well, proration unit, conservation unit, and to each producing formation within such well, proration unit or conservation unit (unless such formations are accounted for all purposes as commingled production), and as to instances where any price controls apply to Make-up Gas, to each regulated price category; all uncontrolled gas is in a single price category for this purpose. The term "well" is used throughout the other paragraphs of this Agreement for convenience only and shall be deemed to include the other delineations herein set forth to the extent relevant. Imbalances in one well, proration unit, conservation unit, producing formation or category shall not be used for balancing any other well, proration unit, conservation unit, producing formation or category, as the case may be.

7. If, at the permanent termination of production of gas from a well, an imbalance exists between the parties, statements or invoices for a monetary settlement of the imbalance between any of the parties relative to such well shall be issued within ninety (90) days. Operator shall promptly provide all parties with a final cumulative balance for each party upon receipt of all relevant data from all other parties after permanent termination of production from each well. For the purposes hereof, the value per unit in calculating a monetary settlement shall be defined as the weighted average of the actual values received by a party with a positive balance on all of its gas sales under an arms-length contract in excess of its Working Interest share ("Extra Gas"), beginning when such party was last in balance. If such party did not sell all or part of such Extra Gas under an arms-length contract, such Extra Gas not sold will be valued in the same manner used for production and severance taxes when produced. The amount of the monetary settlement due each party with a negative balance for any well shall be determined by: (a) multiplying the value per unit (as defined above) received by each party with a positive balance for each well by the volume of gas (same unit basis) such party has produced; (b) subtracting production and severance taxes (and royalties if paid on a gas taken rather than on a working interest basis) paid on such Extra Gas; (c) totaling the figures computed in (a) and (b) for all parties with a positive balance; and (d) allocating to each party with a negative balance its pro rata share of the total reached in (c) above on the basis of the ratio of each party's negative balance volume to the total negative balance volumes for all parties. Each party with a positive balance shall provide a settlement schedule to each party with a negative balance detailing how its settlement amount was calculated. That portion of the proceeds by each party with a positive balance which is or may be subject to refund or other dispute by order(s) of the FERC, the Minerals Management Service, the courts or other authorities may be withheld by such party until such prices or disputes are fully resolved, unless the relevant parties with a negative balance furnish satisfactory undertakings agreeing to hold the relevant parties with a positive balance harmless from any financial loss due to the orders or disputes. Settlement as provided herein shall also be made by any party with a positive balance prior to any sale, assignment or other disposition of all or any part of its interest in any well in which such party has a positive balance. If the provisions of this Agreement are breached by the transferring party, any party receiving any part of



the transferred interest shall be jointly and severally liable for its pro rata share of such positive balance upon the demand of any party with a negative balance.

8. Balancing payments from parties with a positive balance to parties with a negative balance under this Agreement shall be paid not later than sixty (60) days (1) after the amount of the monetary settlement due such party has been determined and a statement or invoice issued, or (2) after the date when the period for calculation of amounts due has passed, whichever is the earlier, pursuant to the provisions of Paragraph 7 above. No interest shall accrue or be due among the parties as to the period prior to this payment date. Interest on late payments (including payments rightfully made on a late basis because amounts are subject to potential refund or other dispute as stated in Paragraph 7 above or which are delayed because computations are not timely completed) shall accrue at the prime rate in effect at Chemical Banking Corp., New York, New York, at noon on the first day of the month in which the payment due date occurs plus two percent (2%) or the maximum contract rate permitted by applicable law, whichever is less. Attorneys' fees, court costs and other reasonable costs of collection of amounts owing due to breach of this Agreement shall also be payable to the affected party(ies).

9. Each party taking gas from a well shall promptly furnish or cause to be furnished to Operator a monthly statement of gas taken. Operator shall regularly furnish to each party a statement of the gas balance among the parties, including the total quantity of gas produced from each well, the portion thereof used in operations, vented or lost, and the total quantity delivered for each party's account. Each party shall retain records of volumes of gas taken or marketed from each well and revenues or values accruing thereto for the full term of the Operating Agreement and two (2) years thereafter. Any party with either a positive or negative balance shall have the right during the two (2) years following each statement/invoice due date under Paragraph 7 above to audit the records of the other parties with positive or negative balances as to volumes, revenues, values and other relevant information concerning such well. No party will use any of the information obtained pursuant to the provisions of this paragraph for any other purpose than implementing the terms of this Agreement and enforcing rights thereunder.

10. In addition to any rights granted in the Operating Agreement, if any well produces casinghead gas and any party is not selling all of its Working Interest share, Operator shall have the right but not the obligation to sell the non-selling party's share of casinghead gas for the account of such party.

11. Each party hereto shall share in and own the condensate recovered from each well by primary separation at the lease in accordance with its Working Interest in such well as provided in the Operating Agreement.

12. Gas used in lease operations, vented or lost shall not be considered taken by any party for purposes of the balancing hereunder. Nothing herein shall change or affect each party's obligation to pay its Working Interest share of all costs and liabilities incurred in accordance with such party's Working Interest.

13. At all times while gas is produced from the Contract Area, unless otherwise required by any laws, rules or regulations, each party shall make appropriate settlement of all royalties, overriding royalties and other payments out of or in lieu of production for which it is responsible ("royalty payments") as if each party were taking or delivering to a purchaser its Working Interest share and its Working Interest share only, of such gas production. Each party hereto agrees to defend, indemnify and hold each other party hereto harmless from all claims for royalty payments asserted by third parties to whom any party hereto is accountable.

14. Each party taking or marketing gas hereunder shall pay, or cause to be paid, all production and severance taxes due on all volumes of gas actually taken or marketed by such party, unless otherwise required by any laws, rules or regulations.

15. Nothing contained herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser the entire well stream, if necessary, to meet such deliverability tests as may be reasonably required by its gas sales contract.

16. The parties shall communicate, as necessary, the contents of this Agreement to any of their respective gas purchasers or transporters and monitor their respective deliveries so as to ensure to the extent reasonably practicable that such third parties do not take gas in excess of the quantities provided herein.

17. This Agreement shall remain in force and effect as long as the Operating Agreement is in effect and thereafter until the gas balance accounts of the parties are settled in full or the audit period provided in Paragraph 9 has expired, whichever shall be longer. The obligations of the parties shall survive the termination of this Agreement.

## EXHIBIT "F"

Attached to and made a part of that certain Joint Operating Agreement dated June 24, 2014, by and between Cimarex Energy Co., as Operator, and Marshall & Winston, Inc., as Non-Operator(s).

The word "Contractor" as used herein refers to Second Party/Operator in the Agreement to which this Exhibit is attached.

### SECTION I EQUAL EMPLOYMENT OPPORTUNITY CLAUSE

The following clause shall be included in all contracts exceeding \$10,000.

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

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

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

(d) The Contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of labor.

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

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

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

### SECTION 2 EMPLOYMENT OF THE HANDICAPPED

(a) The Contractor will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. The Contractor agrees to make affirmative action to employ, advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following: employment, upgrading, demotion or transfer, recruitment, advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The Contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(c) In the event of the Contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(d) The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such

notices shall state the Contractor's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment, and the rights of applicants and employees.

(e) The Contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the Contractor is bound by the terms of Section 503 of the Rehabilitation Act of 1973, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

(f) The Contractor will include the provisions of this clause in every subcontract or purchase order of \$2,500 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to Section 503 of the Act, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

### SECTION 3 CERTIFICATION OF NONSEGREGATED FACILITIES

The following clause shall be included in all contracts and related subcontracts exceeding \$10,000 which are not exempt from the Equal Opportunity Clause.

The Contractor certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. The Contractor certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. The Contractor agrees that a breach of this certification is a violation of the Equal Opportunity Clause in this contract. As used in this certification, the term "Segregated Facilities" means any waiting room, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms or other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom, or otherwise. The Contractor agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity Clause, and that it will retain such certifications in its files.

NOTE: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.

The failure of a prime Contractor or subcontractor to comply with the terms of its certification of nonsegregated facilities or with the terms of Equal Opportunity Clause shall be a ground for termination or cancellation of contracts or subcontracts as provided in '1-12.805-9.

### SECTION 4 WRITTEN AFFIRMATIVE ACTION COMPLIANCE PROGRAM

The Contractor certifies that if it has 50 or more employees and if it anticipates sales to us in connection with government contracts of \$50,000 or more, it will develop a written Affirmative Action Compliance Program for each of its establishments consistent with the rules and regulations published by the Department of Labor in 41 CFR Chapter 60.

### SECTION 5 AFFIRMATIVE ACTION PROGRAMS FOR DISABLED VETERANS AND VETERANS OF VIETNAM ERA

The following clauses shall be included in all contracts exceeding \$10,000.

(a) The Contractor will not discriminate against any employee or applicant for employment because he or she is a disabled veteran or veteran of the Vietnam Era in regard to any position for which the employee or applicant for employment is qualified. The Contractor agrees to take affirmative action to employ, advance in employment and otherwise treat qualified disabled veterans and veterans of the Vietnam Era without discrimination based on their disability or veterans status in all employment practices such as the following; employment upgrading, demotion or transfer, recruitment, advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The Contractor agrees that all suitable employment openings of the Contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the Contractor other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall be listed at an

appropriate local office of the State employment service system wherein the opening occurs. The Contractor further agrees to provide such reports to such local office regarding employment openings and hires as may be required.

State and local government agencies holding Federal contracts of \$10,000 or more shall also list all their suitable openings with the appropriate office of the State employment service, but are not required to provide those reports set forth in paragraphs (d) and (3).

(c) Listing of employment openings with the employment service system pursuant to this clause shall be made at least concurrently with the use of any other recruitment source or effort and shall involve the normal obligations which attach to the placing of a bona fide job order, including the acceptance of referrals of veterans and non-veterans. The listing of employment openings does not require the hiring of any particular job applicant or from any particular group of job applicants, and nothing herein is intended to relieve the Contractor from any requirements in Executive Orders or regulations regarding nondiscrimination in employment.

(d) The reports required by paragraph (b) of this clause shall include, but not be limited to, periodic reports which shall be filed at least quarterly with the appropriate local office or, where the Contractor has more than one hiring location in a State, with the central office of that State employment service. Such reports shall indicate for each hiring location (1) the number of individuals hired during the reporting period, (2) the number of nondisabled veterans of the Vietnam Era hired, (3) the number of disabled veterans of the Vietnam Era hired, and (4) the total number of disabled veterans hired. The reports should include covered veterans hired for on-the-job training under 38 USC 1787. The Contractor shall submit a report within 30 days after the end of each reporting period wherein any performance is made on the contract identifying data for each hiring location. The Contractor shall maintain at each hiring location copies of the reports submitted until the expiration of one year after final payment under the contract, during which time these reports and related documentation shall be made available, upon request, for examination by any authorized representatives of the contracting officer or of the Secretary of Labor. Documentation would include personnel records respecting job openings, recruitment and placements.

(e) Whenever the Contractor becomes contractually bound to the listing provisions of this clause, it shall advise the employment service system in each State where it has establishments of the name and location of each hiring location in the State. As long as the Contractor is contractually bound to these provisions and has so advised the State system, there is not need to advise the State system of subsequent contracts. The Contractor may advise the State system when it is no longer bound by this contract clause.

(f) This clause does not apply to the listing of employment openings which occur and are filled outside of the 50 states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands.

(g) The provisions of paragraphs (b), (c), (d) and (e) of this clause do not apply to openings which the Contractor proposes to fill from within its own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement. This exclusion does not apply to a particular opening once an employer decides to consider applicants outside of its own organization or employer-union arrangement for that opening.

(h) As used in this clause:

(1) "All suitable employment openings" includes, but is not limited to, openings which occur in the following job categories: production and nonproduction; plant and office; laborers and mechanics; supervisory and nonsupervisory; technical; and executive, administrative; and professional openings as are compensated on a salary basis of less than \$25,000 per year. This term includes full time employment of more than three (3) days' duration, and part-time employment. It does not include openings which the Contractor proposes to fill from within its own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement nor openings in an education institution which are restricted to students of that institution. Under the most compelling circumstances an employment opening may not be suitable for listing, including such situations where the needs of the Government cannot reasonably be otherwise supplied, where listing would be contrary to national security, or where the requirement of listing would otherwise not be for the best interest of the Government.

(2) "Appropriate office of the State employment service system" means the local office of the Federal-State national system of public employment offices with assigned responsibility for serving the area where the employment opening is to be filled, including the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

(3) "Openings which the Contractor proposes to fill from within its own organization" means employment openings for which no consideration will be given to persons outside the Contractor's organization (including any affiliates, subsidiaries, and the parent companies) and includes any openings which the Contractor proposes to fill from regularly established "recall" lists.

(4) "Openings which the Contractor proposes to fill pursuant to a customary and traditional employer-union hiring arrangement" means employment openings which the Contractor proposes to fill from union halls, which is part of the customary and traditional hiring relationship which exists between the Contractor and representatives of its employees.

(i) The Contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(j) In the event of the Contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations and relevant orders of the Secretary of Labor issued pursuant to the Act.

(k) The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such notice shall state the Contractor's obligation under the law to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Vietnam Era for employment, and the rights of applicants and employees.

(l) The Contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the Contractor is bound by the terms of the Vietnam Era Veterans Readjustment Assistant Act, and is committed to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Vietnam Era.

(m) The Contractor will include the provisions of this clause in every subcontract or purchase order of \$10,000 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to the Act, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

**SECTION 6**  
**UTILIZATION OF SMALL BUSINESS CONCERNS**  
**AND SMALL BUSINESS CONCERNS OWNED AND**  
**CONTROLLED BY SOCIALLY AND ECONOMICALLY**  
**DISADVANTAGED INDIVIDUALS**

The following clause shall be included in all contracts over \$10,000 except contracts for services which are personal in nature and contracts which will be performed entirely (including all subcontracts) outside any State, territory, or possession of the United States, the District of Columbia, or the Commonwealth of Puerto Rico.

(a) It is the policy of the United States that small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in the performance of contracts let by any Federal agency.

(b) The Contractor hereby agrees to carry out this policy in the awarding of subcontracts to the fullest extent consistent with the efficient performance of this contract. The Contractor further agrees to cooperate in any studies or surveys as may be conducted by the Small Business Administration or the contracting agency which may be necessary to determine the extent of the Contractor's compliance with this clause.

(c) As used in this contract:

(1) The term "small business concern" shall mean a small business as defined pursuant to Section 3 of the Small Business Act and relevant regulations promulgated pursuant thereto.

(2) The term "small business concern owned and controlled by socially and economically disadvantaged individuals" shall mean a small business concern—

(i) which is at least 51 per centum owned by one or more socially and economically disadvantaged individuals; or in the case of any publicly owned business, at least 51 per centum of the stock of which is owned by one or more socially and economically disadvantaged individuals; and

(ii) whose management and daily business operations are controlled by one or more of such individuals.

The Contractor shall presume that socially and economically disadvantaged individuals include Black Americans, Hispanic Americans, Native Americans, Asian-Pacific Americans, and other minorities, or any other individual found to be disadvantaged by the Small Business Administration pursuant to Section 8(a) of the Small Business Act.

(d) Contractors acting in good faith may rely on written representations by their subcontractors regarding their status as a small business concern or a small business concern owned and controlled by socially and economically disadvantaged individuals.

**SECTION 7**  
**UTILIZATION OF WOMEN-OWNED BUSINESS CONCERNS**

The following clause shall be included in all contracts expected to exceed \$10,000 except contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, Puerto Rico and the Trust Territory of the Pacific Islands, and contracts for services which are personal in nature.

(a) It is the policy of the United States Government that women-owned businesses shall have the maximum practicable opportunity to participate in the performance of contracts awarded by any Federal agency.

(b) The Contractor agrees to use its best efforts to carry out this policy in the award of subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, a "woman-owned business" concern means a business that is at least 51 per centum owned by a woman or women who also control and operate it. "Control" in this context means exercising the power to make policy decisions. "Operate" in this context means being actively involved in the day-to-day management. "Women" means all women business owners.

Attached to and made a part of that certain Operating Agreement dated June 24, 2014, by and between Cimarex Energy Co., as Operator, and Marshall & Winston, Inc., as Non-Operator(s).

STATE OF NEW MEXICO )  
 ) KNOW ALL MEN BY THESE PRESENTS:  
COUNTY OF EDDY )

Among other provisions, the Operating Agreement appoints Cimarex Energy Co., as Operator and designates the other parties thereto as Non-Operator(s). The Operating Agreement grants said Operator the authority, with certain limitations, to incur expenses on behalf of the Non-Operator(s) and, at the Operator's election, the right to bill the Non-Operator(s) in advance for the estimated expenditures.

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 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 at the rate provided in the Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the 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 obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from 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 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

Further, the Operating Agreement has attached to it various Exhibits, including but not limited to, a Gas Balancing Agreement, which among other provisions, allows one or more parties to take more than their working interest

share of gas production if another party or parties cannot or does not take their respective working interest share. It also provides for volumetric balancing on an Mcf basis and for cash balancing on permanent cessation of gas production from a well, cessation of a gas category if different pricing categories are imposed by governmental regulation and if a party sells its interest.

Copies of the Operating Agreement and/or the Gas Balancing Agreement Exhibit can be obtained from any of the undersigned or their successors in interest.

The said Operating Agreement and the Exhibits attached thereto are binding upon the undersigned and their respective heirs, devisees, legal representatives, successors and assigns. This Memorandum of Operating Agreement shall not be deemed an amendment of said Operating Agreement or of said Gas Balancing Agreement Exhibit and shall in no way increase the obligations or decrease the rights of the undersigned thereunder, but is entered into for the sole purpose of providing notice of the existence of said Operating Agreement, the security interest granted thereunder, and the Gas Balancing Agreement attached as an Exhibit thereto.

This Memorandum of Operating Agreement may be executed in any number of duplicate or counterpart copies, including counterpart signature pages, each of which shall be considered an original for all purposes. Photocopies of this Memorandum of Operating Agreement may be filed in the appropriate records as proof of the security interest created hereunder.

Executed as of the date and year indicated in the acknowledgment of each signature, to be effective the date of the Operating Agreement recited above.

**OPERATOR:**

Cimarex Energy Co.

By: 

Type or Print Name: Roger Alexander

Title: Attorney-In-Fact

Date: \_\_\_\_\_

Tax ID or S.S. NO. \_\_\_\_\_

**NON-OPERATOR(S):**

Marshall & Winston, Inc.

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

Type or Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Tax ID or S.S. NO. \_\_\_\_\_



share of gas production if another party or parties cannot or does not take their respective working interest share. It also provides for volumetric balancing on an Mcf basis and for cash balancing on permanent cessation of gas production from a well, cessation of a gas category if different pricing categories are imposed by governmental regulation and if a party sells its interest.

Copies of the Operating Agreement and/or the Gas Balancing Agreement Exhibit can be obtained from any of the undersigned or their successors in interest.

The said Operating Agreement and the Exhibits attached thereto are binding upon the undersigned and their respective heirs, devisees, legal representatives, successors and assigns. This Memorandum of Operating Agreement shall not be deemed an amendment of said Operating Agreement or of said Gas Balancing Agreement Exhibit and shall in no way increase the obligations or decrease the rights of the undersigned thereunder, but is entered into for the sole purpose of providing notice of the existence of said Operating Agreement, the security interest granted thereunder, and the Gas Balancing Agreement attached as an Exhibit thereto.

This Memorandum of Operating Agreement may be executed in any number of duplicate or counterpart copies, including counterpart signature pages, each of which shall be considered an original for all purposes. Photocopies of this Memorandum of Operating Agreement may be filed in the appropriate records as proof of the security interest created hereunder.

Executed as of the date and year indicated in the acknowledgement of each signature, to be effective the date of the Operating Agreement recited above.

**OPERATOR:**

**Climarex Energy Co.**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**NON-OPERATOR(S):**

**Marshall & Winston, Inc.**

By: Tom M. Brandt  
Type or Print Name: Tom M. Brandt  
Title: President  
Date: June 25, 2014  
Tax ID or S.S. NO. \_\_\_\_\_

share of gas production if another party or parties cannot or does not take their respective working interest share. It also provides for volumetric balancing on an Mcf basis and for cash balancing on permanent cessation of gas production from a well, cessation of a gas category if different pricing categories are imposed by governmental regulation and if a party sells its interest.

Copies of the Operating Agreement and/or the Gas Balancing Agreement Exhibit can be obtained from any of the undersigned or their successors in interest.

The said Operating Agreement and the Exhibits attached thereto are binding upon the undersigned and their respective heirs, devisees, legal representatives, successors and assigns. This Memorandum of Operating Agreement shall not be deemed an amendment of said Operating Agreement or of said Gas Balancing Agreement Exhibit and shall in no way increase the obligations or decrease the rights of the undersigned thereunder, but is entered into for the sole purpose of providing notice of the existence of said Operating Agreement, the security interest granted thereunder, and the Gas Balancing Agreement attached as an Exhibit thereto.

This Memorandum of Operating Agreement may be executed in any number of duplicate or counterpart copies, including counterpart signature pages, each of which shall be considered an original for all purposes. Photocopies of this Memorandum of Operating Agreement may be filed in the appropriate records as proof of the security interest created hereunder.

Executed as of the date and year indicated in the acknowledgement of each signature, to be effective the date of the Operating Agreement recited above.

**OPERATOR:**

**Cimarex Energy Co.**

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

Type or Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Tax ID or S.S. NO. \_\_\_\_\_

**NON-OPERATOR(S):**

**Hanley Petroleum, Inc.**

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

Type or Print Name: **Brett K. Bracken**

Title: **Vice President/General Manager**

Date: **12-15-2014**

Tax ID or S.S. NO. **75-1671484**

**LHAN Properties, LLC**

By: [Signature]  
Type or Print Name: W. L. Hanley, Jr.  
Title: Manager  
Date: 12/18/14  
Tax ID or S.S. NO. 11-3663100

**Jarvis J. Slade**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**PLM-1, Inc.**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**TBO Cattle Company, LLC**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Dennis Sledge**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**LHAH Properties, LLC**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Jarvis J. Slade**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**PLM-1, Inc.**

By: Paul L. Morris  
Type or Print Name: Paul L. Morris  
Title: President  
Date: Dec. 15, 2014  
Tax ID or S.S. NO. 75-2342980

**TBO Cattle Company, LLC**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Dennis Sledge**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Hanley Petroleum, Inc.**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**LHAH Properties, LLC**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Jarvis J. Slade**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**PLM-1, Inc.**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**84 Exploration Partners, LLC**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Dennis Sledge**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

Mt. Si Oil & Gas, LLC

By: Rodney O Thompson

Type or Print Name: Rodney O Thompson

Title: President

Date: 12/11/2014

Tax ID or S.S. NO. 27-2786977

#### ACKNOWLEDGEMENTS

STATE OF TEXAS     )

COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2014, by  
Roger Alexander as Attorney-in-Fact of Cimarex Energy Co. on behalf of said corporations.

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of Hanley Petroleum, Inc.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

**Mt. St Oil & Gas, LLC**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Rhodes Oil Company, LLC**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Realco Del Spear, LP**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Roy G. Barton, Jr.**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**M. Dion Lowe**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**AOG Mineral Partners, LTD, et al**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Charles Kenneth Moore**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**William H. Kennan, Trustee of the John E. & Helen M. Kennan  
Family Trust created January 13, 1994**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Larry P. Long, Managing Trustee of the Long Trusts**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Kenneth G. Cone**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Western Commerce Bank, Agent, for Trust B of the Kirby D.  
Schenck & Rita D. Schenck Revocable Trust Agreement executed  
on 10/2/1991**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_



**Western Commerce Bank, Agent, for Trust A-2 of the Kirby D. Schenk & Rita D. Schenk Revocable Trust Agreement executed on 10/2/1991**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Bank of America, N.A., Agent, Elizabeth Lea Daugherty Revocable Trust U/A March 22, 2012**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Bank of America, N.A., Agent, of the J E Simmons Testamentary Trust fbo Mary Jane Hand**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Bank of America, N.A., Agent, of the B H Simmons Testamentary Trust fbo Mary Jane Hand**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_

**Teddy L. Hartley, Trustee of the Vora Lowe Hartley Mineral Trust**

By: \_\_\_\_\_  
Type or Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID or S.S. NO. \_\_\_\_\_



ACKNOWLEDGEMENTS

STATE OF TEXAS        )

COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2014, by  
Roger Alexander as Attorney-in-Fact of Cimarex Energy Co. on behalf of said corporations.

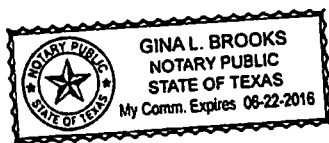
\_\_\_\_\_  
Notary Public in and for the State of Texas

\_\_\_\_\_  
My commission expires:

State of TEXAS )  
County of MIDLAND ) ss.

This instrument was acknowledged before me on 25th day of June, 2014 by:

Tom M. Brandt as: President of Marshall & Winston, Inc.,  
a Nevada corporation, on behalf of said corporation.  
(Seal, if any)



Gina L. Brooks  
Notary Public in and for the State of Texas

\_\_\_\_\_  
My commission expires:

Mt. Si Oil & Gas, LLC

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

Type or Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Tax ID or S.S. NO. \_\_\_\_\_

ACKNOWLEDGEMENTS

STATE OF TEXAS )

COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2014, by  
Roger Alexander as Attorney-in-Fact of Cimarex Energy Co. on behalf of said corporations.

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

\_\_\_\_\_  
My commission expires:

State of Texas )  
County of Midland ) ss.

This instrument was acknowledged before me on 15th day of December, 2014 by:

Brett K. Bracken, Vice President/General Mgr of Hanley Petroleum, Inc.

(Seal, if any)



Barbara A Reid  
Notary Public in and for the State of

09/26/2018  
My commission expires:

State of Texas )  
County of Midland ) ss.

This instrument was acknowledged before me on 18<sup>th</sup> day of December, 2014 by:

W. L. Hanley, Jr. as: Manager of LHAH Properties, LLC.

(Seal, if any)



Barbara A Reid  
Notary Public in and for the State of Texas

09/26/2018  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of Jarvis J. Slade.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of PLM-1, Inc.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of Hanley Petroleum, Inc.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires: \_\_\_\_\_

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of LHAH Properties, LLC

(Seal, if any)

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

\_\_\_\_\_  
My commission expires: \_\_\_\_\_

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

Jarvis J. Slade

(Seal, if any)

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

\_\_\_\_\_  
My commission expires: \_\_\_\_\_

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of LHAH Properties, LLC.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of Jarvis J. Slade,

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of Texas )  
County of Midland ) ss.



This instrument was acknowledged before me on 15<sup>th</sup> day of December, 2014 by:

Paul Morris as: President of PLM-1, Inc.

(Seal, if any)

Dawn Marie Howard  
Notary Public in and for the State of

February 17 2018  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of PLM-1, Inc.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of 84 Exploration Partners, LLC

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

Dennis Stedee

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:



State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of TBO Cattle Company, LLC.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of Texas )  
County of Midland ) ss.

Before me, on this 16<sup>th</sup> day of December 2014, personally appeared Dennis Sledge, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for purposes and consideration therein expressed.



Barbara A. Reid  
Notary Public in and for the State of Texas

09-26-2018  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of Mt. Si Oil & Gas, LLC.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of TBO Cattle Company, LLC.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of Dennis Sledge.

(Seal, if any)

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

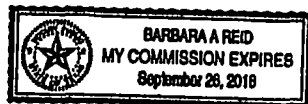
\_\_\_\_\_  
My commission expires:

State of Texas )  
County of Midland ) ss.

This instrument was acknowledged before me on 11<sup>th</sup> day of December 2014 by:

Rodney G. Thompson as: President of Mt. Si Oil & Gas, LLC.

(Seal, if any)



Barbara A. Reid  
Notary Public in and for the State of Texas

09-26-2018  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2014 by:

\_\_\_\_\_ as: \_\_\_\_\_ of Mt. Si Oil & Gas, LLC.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:

Joel Bozinger as: \_\_\_\_\_ of Rhodes Oil Company, LLC.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:

\_\_\_\_\_ as: \_\_\_\_\_ of Realeza Del Spear, LP.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:  
Roy G. Barton, Jr.

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:  
M. Dion Lowe

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:  
\_\_\_\_\_  
ss: \_\_\_\_\_ of AOG Mineral Partners, LTD. et al

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:  
Charles Kennan Moore

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:  
\_\_\_\_\_  
as: \_\_\_\_\_ of the John E. & Helen M. Kennan Family  
Trust created January 13, 1994

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:  
\_\_\_\_\_  
as: \_\_\_\_\_ of the Long Trusts

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:  
Kenneth G. Cone

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:  
\_\_\_\_\_  
as: \_\_\_\_\_ of Trust B of the Kirby D. Schenck & Rita  
D. Schenck Revocable Trust Agreement executed on 10/2/1991

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:  
\_\_\_\_\_  
as: \_\_\_\_\_ of Trust A-2 of the Kirby D. Schenck & Rita  
D. Schenck Revocable Trust Agreement executed on 10/2/1991

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:

\_\_\_\_\_ as: \_\_\_\_\_ of Elizabeth Lea Daugherty Revocable Trust  
U/A March 22, 2012

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:

\_\_\_\_\_ as: \_\_\_\_\_ of the J E Simmons Testamentary Trust for  
Mary Jane Hand

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:

\_\_\_\_\_ as: \_\_\_\_\_ of the B H Simmons Testamentary Trust for  
Mary Jane Hand

(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:

Teddy L. Hartley as: \_\_\_\_\_ of the Vern Lowe Hartley Mineral Trust  
(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:

Robert Thomas Hartley as: \_\_\_\_\_ of the Vern Lowe Hartley Mineral Trust  
(Seal, if any)

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

\_\_\_\_\_  
My commission expires:

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2017 by:

\_\_\_\_\_ as: \_\_\_\_\_ of Lowe Family, Ltd.  
(Seal, if any)

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

\_\_\_\_\_  
My commission expires:



Cimarex Energy Co.  
600 N. Mainfield St  
Suite 600  
Midland, TX 79701  
VAN 432 571 7805  
May 12, 2017



Realeza Del Spear, LP  
P.O. Box 1684  
Midland, Texas 79702

**Re:      Proposal to Drill  
         Lea 7 Federal Com 2H  
         Section 7, Township 20 South, Range 35 East  
         Lea County, New Mexico**

Dear Working Interest Owner,

Cimarex Energy Co. hereby proposes to drill the Lea 7 Federal Com 2H well at a legal location in Section 7, Township 20 South, Range 35 East, NMPM, Lea Co., NM.

The intended surface hole location for the well is 379' FSL and 1,730' FWL of Section 7, Township 20 South, Range 35 East, and the intended bottom hole location is 330' FNL and 1,980' FWL of Section 7, Township 20 South, Range 35 East. The well is proposed to be drilled vertically to a depth of approximately 11,030' to the Third Bone Spring formation and laterally in a northerly direction within the formation to the referenced bottom hole location. Total measured depth of the well is proposed to be approximately 15,530' feet from surface to terminus.

It should be understood that compliance with topography or cultural or environmental concerns, among others, might require modification of Cimarex's intended procedure. Cimarex will advise you of any such modifications.

Enclosed, in duplicate, is (i) our detailed AFE reflecting estimated costs associated with this proposal, and; (ii) our proposed form of Operating Agreement to govern operations of the Lea 7 Federal Com 2H well, and; (iii) Communization Agreement. If you intend to participate, please approve and return one (1) original of the enclosed AFE, one (1) original of the signature page to the Operating Agreement, and four (4) originals of the signature pages to the Communization Agreement, along with the contact information to receive your well data, to the undersigned within thirty (30) days of receipt of this proposal. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance to Cimarex prior to commencement of drilling operations; otherwise, you will be covered by insurance procured by Cimarex and will be responsible for your share of the cost.

Please call the undersigned with any questions or comments.

Respectfully,

A handwritten signature in cursive script that reads "Kelly Reese".

Kelly Reese, CPl.  
432.620.1966

**EXHIBIT**

**5**

**ELECTION TO PARTICIPATE**  
**Lea 7 Federal Com 2H**

\_\_\_\_\_ Realeza Del Spear, LP elect **TO** participate in the proposed Lea 7 Federal Com 2H well.

\_\_\_\_\_ Realeza Del Spear, LP elect **NOT** to participate in the proposed Lea 7 Federal Com 2H well.

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 2017.

Signature: \_\_\_\_\_

Title: \_\_\_\_\_

If your election above is **TO** participate in the proposed Lea 7 Federal Com 2H well, then:

\_\_\_\_\_ Realeza Del Spear, LP elects **TO** be covered by well control insurance procured by Cimarex Energy Co.

\_\_\_\_\_ Realeza Del Spear, LP elects **NOT** to be covered by well control insurance procured by Cimarex Energy Co. and agrees to provide Cimarex Energy Co. with a certificate of insurance prior to commencement of drilling operations or be deemed to have elected to be covered by well control insurance procured by Cimarex Energy Co.



## Authorization For Expenditure

Company/Entity	Prepared/Reviewed
CIMAREX ENERGY CO	05/08/2017

Region	Well Name	Prospect or Field Name	Property Number	Drilling AFE No.
Permian Basin	LEA 7 FEDERAL COM 2H	NEW MEXICO BONE SPRING PROS (LEA)	301471-300.01	2617047

Location	County	State	Type Well
Section 7, Township 20 South, Range 35 East, Eddy County, New Mexico	Lea	NM	Oil Gas
			Expl Prod
			X

Estimate Type	Estimate Date	Estimate Date	Formation	TH Measured Depth
Original Estimate	X			15,507'
Revised Estimate		10/18/2017	3rd Bone Spring	TH Vertical Depth
Supplemental Estimate		01/17/2018		11,030'

**Project Description**  
Drill and complete a horizontal test. Drill to 1780 set surface casing. Drill to 5720' set intermediate casing. Drill to 10553' (KOP). Drill curve at 12"/100' initial build rate to +/- 90 degrees and 11030' TVD and drill a +/- 4140' long lateral in the bone spring formation. Run and cement production liner. Stage frac in stages. Drill out plugs. Run production packer, tubing and GLVs.

Intangibles	Dry Hole Cost	After Casing Point	Completed Well Cost
Drilling Costs	\$1,898,000		\$1,898,000
Completion Costs		\$3,707,799	\$3,707,799
<b>Total Intangible Costs</b>	<b>\$1,898,000</b>	<b>\$3,707,799</b>	<b>\$5,605,799</b>

Tangibles			
Well Equipment	\$257,000	\$373,000	\$630,000
Lease Equipment		\$1,618,377	\$1,618,377
<b>Total Tangible Well Cost</b>	<b>\$257,000</b>	<b>\$1,991,377</b>	<b>\$2,248,377</b>

Plug and Abandon Cost	\$0	\$0	\$0
-----------------------	-----	-----	-----

<b>Total Well Cost</b>	<b>\$2,155,000</b>	<b>\$5,699,176</b>	<b>\$7,854,176</b>
------------------------	--------------------	--------------------	--------------------

**Comments on Well Costs**  
1. All tubulars, well or lease equipment is priced by COPAS and CEPS guidelines using the Historic Price Multiplier.

**Well control insurance**  
Unless otherwise indicated below, you, as a non-operating working interest owner, agree to be covered by Operator's well control insurance procured by Operator so long as Operator conducts operations hereunder and to pay your prorated share of the premiums therefore. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance acceptable to Operator, as to form and limits, at the time this AFE is returned, if available, but in no event later than commencement of drilling operations. You agree that failure to provide the certificate of insurance, as provided herein, will result in your being covered by insurance procured by Operator.

☐ I elect to purchase my own well control insurance policy.

Well control insurance procured by Operator, provides, among other terms, for \$20,000,000 (100% W.I.) of Combined Single Limit coverage for well control and related redrilling and clean-up/pollution expense covering drilling (through completion) with a \$1,000,000 (100% W.I.) deductible.

**Gas Marketing Election**  
Cimarex sells its gas under arm's-length contracts with third party purchasers. Such contracts may include fees. In addition, penalties may be incurred for insufficient volumes delivered over time. Should you choose to market your share of gas with Cimarex, you will be subject to all of the terms of such contracts. Upon written request to Cimarex's Marketing Department, we will share with you the terms and conditions pursuant to which gas will be sold. Failure to make an election below shall be deemed an election to market your gas with Cimarex under the terms and conditions set forth above.

☐ I elect to take my gas in kind.

☐ I elect to market my gas with Cimarex pursuant to the terms and conditions of its contract.

**Comments on AFE**  
The above costs are estimates only and anticipate trouble free operations without any foreseeable change in plans. The actual costs may exceed the estimated costs without affecting the authorization for expenditure herein granted. By approval of this AFE, the working interest owner agrees to pay its proportionate share of actual legal, curative, regulatory and well costs under term of the joint operating agreement, regulatory order or other applicable agreement covering this well.

## Cimarex Energy Co. Approval

Prepared by	Drilling and Completion Manager	Regional Manager

## Joint Interest Approval

Company	By	Date





## Project Cost Estimate

Lease Name:

Intangibles	BCP - Drilling		ACP - Drilling		Completion /	
	Codes	(Dry Hole Cost)	Codes		Stimulation	
Roads & Location Preparation / Restoration	DIDC.100	\$130,000			STIM.100	\$5,000
Damages	DIDC.105	\$10,000				
Mud / Fluids Disposal Charges	DIDC.255	\$100,000			STIM.255	\$14,000
Day Rate	20.25	DH Days	3.50	ACP Days @	\$18,000.00	Per Day
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)	DIDC.120	\$25,000	DICC.120	\$63,000		
Bits	DIDC.125	\$55,000	DICC.125	\$0	STIM.125	\$0
Fuel	\$2.25	Per Gallon	#####	Gallons Per Day	DIDC.135	\$62,000
Water for Drilling Rig / Completion Fluids (Not Frac Water)	DIDC.140	\$3,000	DICC.135	\$0	STIM.135	\$3,000
Mud & Additives	DIDC.145	\$80,000				
Surface Rentals	DIDC.150	\$54,000	DICC.140	\$0	STIM.140	\$57,000
Downhole Rentals	DIDC.155	\$124,000			STIM.145	\$0
Formation Evaluation (DST, Corinn including evaluation, G&G Services)	DIDC.160	\$0			STIM.150	\$0
Mud Logging	15.50	Days @	\$1,200.00	Per Day	DIDC.170	\$24,000
Open Hole Logging	DIDC.180	\$0				
Cementing & Float Equipment	DIDC.185	\$100,000	DICC.155	\$85,000		
Tubular Inspections	DIDC.190	\$20,000	DICC.160	\$5,000	STIM.160	\$2,000
Casing Crews	DIDC.195	\$10,000	DICC.165	\$20,000	STIM.165	\$0
Extra Labor, Welding, Etc.	DIDC.200	\$15,000	DICC.170	\$5,000	STIM.170	\$0
Land Transportation (Trucking for tangibles)	DIDC.205	\$15,000	DICC.175	\$10,000	STIM.175	\$2,000
Supervision	\$0.00	Per Day	DIDC.210	\$105,000	DICC.180	\$14,000
Trailer House / Camp / Catering	DIDC.280	\$18,000	DICC.255	\$2,000	STIM.280	\$5,000
Other Misc Expenses	DIDC.220	\$5,000	DICC.180	\$0	STIM.180	\$0
Overhead	DIDC.225	\$10,000	DICC.185	\$5,000		
Remedial Cementing	DIDC.231	\$0			STIM.215	\$0
MOB/DEMOCB	DIDC.240	\$200,000				
Directional Drilling Services	DIDC.245	\$115,000				
Crane for Construction						
Solids Control	DIDC.260	\$59,000				
Well Control Equip (Snubbing Svcs.)	DIDC.265	\$71,000	DICC.240	\$0	STIM.240	\$16,000
Fishing & Sidetrack Operations	DIDC.270	\$0	DICC.245	\$0	STIM.245	\$0
Completion Rig					STIM.215	\$9,000
Coil Tubing					STIM.260	\$83,000
Completion Logging, Perforating, WL Units, WL Surveys					STIM.200	\$54,000
Composite Plugs					STIM.300	\$26,000
Stimulation Pumping Charges, Chemicals, Additives, Sand					STIM.310	\$1,567,000
Stimulation Water / Water Transfer / Water Storage					STIM.395	\$285,000
Cimarex Owned Frac / Rental Equipment					STIM.305	\$20,000
Legal / Regulatory / Curative	DIDC.300	\$10,000				
Well Control Insurance	\$0.35	Per Foot	DIDC.385	\$5,000		
Contingency	5.0	% of Drilling Intangibles	DIDC.435	\$90,000	DICC.220	\$10,000
Construction For Flow Lines					STIM.220	\$110,000
Construction For Sales P/L						
Total Intangible Cost			\$1,698,000	\$219,000		\$2,301,000

Tangible Well Equipment							
Casing	Size	Feet	\$ / Foot				
Drive Pipe	0	0.00	\$0.00	DWEB.150	\$0		
Conductor Pipe	0	0.00	\$0.00	DWEB.130	\$0		
Water String	0	0.00	\$0.00	DWEB.135	\$0		
Surface Casing	13.375	1780.00	\$31.00	DWEB.140	\$55,000		
Intermediate Casing 1	9.625	\$720.00	\$30.00	DWEB.145	\$172,000		
Intermediate Casing 2	0	0.00	\$0.00	DWEB.155	\$0		
Drilling Liner	0	0.00	\$0.00	DWEB.160	\$0		
Production Casing or Liner	5.5	15507.00	\$16.00		DWEA.100	\$248,000	
Production Tie-Back	0	0.00	\$0.00		DWEA.165	\$0	
Tubing	2.375	10650.00	\$4.00			STIMT.101	\$0
Wellhead, Tree, Chokes				DWEB.115	\$30,000	DWEA.120	\$30,000
Liner Hanger, Isolation Packer				DWEB.100	\$0	DWEA.125	\$0
Packer, Nipples						STIMT.400	\$15,000
Pumping Unit, Engine						STIMT.405	\$0
Downhole Lift Equipment (BHP, Rods, Anchors, ESP, GVLs, PC Pump)						STIMT.410	\$12,000
Tangible Lease Equipment							
N/C Lease Equipment							
Tanks, Tanks Steps, Stairs							
Battery (Heater Treater, Separator, Gas Treating Equipment)							
Secondary Containments							
Overhead Power Distribution (electric line to facility)							
Facility Electrical & Automation							
SWD Connection							
Flow Lines (Line Pipe from wellhead to central facility)							
Pipeline to Sales							
Meters and Metering Equipment							
Total Tangibles				\$257,000	\$278,000		\$95,000

P&A Costs	DIDC.295	\$0	DIDC.275	\$0		
Total Cost		\$2,155,000		\$497,000		\$2,396,000





# Project Cost Estimate

Lease Name:

						Production		Post	Total Well	
						Equipment /		Completion	Cost	
Intangibles						Codes	Construction	Codes		
Roads & Location Preparation / Restoration						CON.100	\$77,500	PCOM.100	\$15,000	\$227,500
Damages						CON.105	\$14,819			\$24,819
Mud / Fluids Disposal Charges								PCOM.255	\$26,000	\$140,000
Day Rate	20.25	DH Days	3.50	ACP Days @	\$18,000.00	Per Day				\$446,000
Misc Preparation Cost (mouse hole, rat hole, pads, pile clusters, misc.)										\$25,000
Bits								PCOM.125	\$0	\$55,000
Fuel	\$2.25	Per Gallon		#####	Gallons Per Day			PCOM.130	\$0	\$62,000
Water for Drilling Rig / Completion Fluids (Not Frac Water)								PCOM.135	\$0	\$6,000
Mud & Additives										\$80,000
Surface Rentals						CON.140	\$16,300	PCOM.140	\$36,000	\$169,300
Downhole Rentals								PCOM.145	\$0	\$124,000
Formation Evaluation (DST, Coring including evaluation, G&G Services)										\$0
Mud Logging		15.50	Days @	\$1,200.00	Per Day					\$24,000
Open Hole Logging										\$0
Cementing & Float Equipment										\$185,000
Tubular Inspections								PCOM.160	\$0	\$27,000
Casing Crews										\$30,000
Extra Labor, Welding, Etc.						CON.170	\$430,000	PCOM.170	\$60,000	\$510,000
Land Transportation (Trucking for tangibles)						CON.175	\$20,000	PCOM.175	\$0	\$47,000
Supervision				\$0.00	Per Day	CON.180	\$55,650	PCOM.180	\$0	\$217,650
Trailer House / Camp / Catering										\$25,000
Other Misc Expenses						CON.190	\$0	PCOM.190	\$0	\$5,000
Overhead										\$15,000
Remedial Cementing								PCOM.215	\$0	\$0
MOB/DEMOB										\$200,000
Directional Drilling Services										\$115,000
Crane for Construction						CON.230	\$0			\$0
Solids Control										\$50,000
Well Control Equip (Snubbing Svcs.)								PCOM.240	\$0	\$87,000
Fishing & Sidetrack Operations								PCOM.245	\$0	\$0
Completion Rig								PCOM.115	\$0	\$9,000
Coil Tubing								PCOM.260	\$0	\$83,000
Completion Logging, Perforating, WL Units, WL Surveys								PCOM.200	\$0	\$54,000
Composite Plugs								PCOM.390	\$0	\$26,000
Stimulation Pumping Charges, Chemicals, Additives, Sand								PCOM.210	\$0	\$1,567,000
Stimulation Water / Water Transfer / Water Storage										\$285,000
Cimarex Owned Frac / Rental Equipment										\$20,000
Legal / Regulatory / Curative						CON.300	\$0			\$10,000
Well Control Insurance										\$5,000
Contingency		5.0	% of Drilling Intangibles			CON.320	\$242,030	PCOM.320	\$6,850	\$458,880
Construction For Flow Lines						CON.310	\$187,650			\$187,650
Construction For Sales P/L						CON.265	\$0			\$0
Total Intangible Cost							\$1,043,949		\$143,850	\$5,605,799
Tangible - Well Equipment										
Casing	Size	Feet	\$ / Foot							
Drive Pipe	0	0.00	\$0.00							\$0
Conductor Pipe	0	0.00	\$0.00							\$0
Water String	0	0.00	\$0.00							\$0
Surface Casing	13.375	1780.00	\$31.00							\$55,000
Intermediate Casing 1	9.625	5720.00	\$30.00							\$172,000
Intermediate Casing 2	0	0.00	\$0.00							\$0
Drilling Liner	0	0.00	\$0.00							\$0
Production Casing or Liner	5.5	15507.00	\$16.00							\$248,000
Production Tie-Back	0	0.00	\$0.00							\$0
Tubing	2.375	10650.00	\$4.00					PCOMT.105	\$0	\$43,000
Wellhead, Tree, Chokes										\$85,000
Liner Hanger, Isolation Packer										\$0
Packer, Nipples								PCOMT.400	\$0	\$15,000
Pumpjack Unit, Engine								PCOMT.405	\$0	\$0
Downhole Lift Equipment (BHP, Rods, Anchors, ESP, GVLs, PC Pump)								PCOMT.410	\$0	\$12,000
Tangible - Lease Equipment										
N/C Lease Equipment						CON.400	\$226,500			\$226,500
Tanks, Tanks Steps, Stairs						CON.405	\$79,500			\$79,500
Battery (Heater Treater, Separator, Gas Treating Equipment)						CON.410	\$338,000			\$338,000
Secondary Containments						CON.415	\$125,000			\$125,000
Overhead Power Distribution (electric line to facility)						CON.420	\$86,800			\$86,800
Facility Electrical & Automation						CON.425	\$143,900			\$143,900
SWD Connection						CON.430	\$409,732			\$409,732
Flow Lines (Line Pipe from wellhead to central facility)						CON.435	\$82,775			\$82,775
Pipeline to Sales						CON.440	\$0			\$0
Meters and Metering Equipment						CON.445	\$126,170			\$126,170
Total Tangibles							\$1,618,377		\$0	\$2,248,377
P&A Costs										\$0
Total Cost							\$2,662,326		\$143,850	\$7,854,176

**STATE OF NEW MEXICO  
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION**

**APPLICATION OF CIMAREX  
ENERGY CO. FOR A NON-STANDARD  
OIL SPACING AND PRORATION UNIT  
AND COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.**

**CASE NO. 15756**


**AFFIDAVIT**

STATE OF NEW MEXICO            )  
  ) ss.  
COUNTY OF BERNALILLO        )

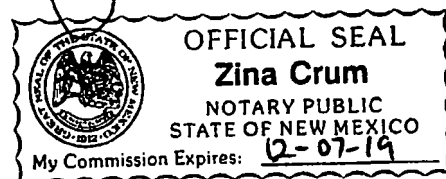
Jennifer L. Bradfute, attorney in fact and authorized representative of Cimarex Energy Co., the Applicant herein, being first duly sworn, upon oath, states that the above-referenced Application was provided under the notice letter and proof of receipt attached hereto.

  
\_\_\_\_\_  
Jennifer L. Bradfute

SUBSCRIBED AND SWORN to before me this 1st day of August 2017 by Jennifer L. Bradfute.

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

My commission expires: 12-07-19



**Cimarex Application Notice**  
**Lea 7 Federal Com 2H**  
**Mailed June 29, 2017**

<b>Parties to be Pooled</b>	<b>CERTIFIED NO.</b>
AOG Mineral Partners, Ltd. P.O. Box 1015 Midland, Texas 79702	7012-2210-000-0348-2646 07/13/17
Rhoades Oil Company P.O. Box 2673 Midland, Texas 79702	7012-2210-000-0348-2653
M. Dion Lowe 7801 Espanola Trail Austin, Texas 78737	7012-2210-000-0348-2660 07/10/17
John E. & Helen M. Kennann Family Trust, created January 13, 1994 Attn: William H. Kennan, Trustee 1430 Soquel Ave. Santa Cruz 95062	7012-2210-000-0348-2677 07/10/17
Realeza Del Spear, LP P.O. Box 1684 Midland, Texas 79702	7012-2120-0004-6168-2035 07/14/17
Charles Kenneth Moore 18326 E. San Ignacio Ct. Gold Canyon, AZ 85118	7014-2120-0004-6168-2042 07/06/17
The Long Family Trusts Larry P. Long, Managing Trustee 118 S. Kilgore St. Kilgore, Texas 75662	7014-2120-0004-6168-2059 07/10/17
Lowe Family, Ltd. P.O. Box 53775 Lubbock, Texas 79453	7014-2120-0004-6168-2066 07/07/17
Vora Lowe Hartley Mineral Trust Attn: Teddy L. Hartley & Robert Thomas Hartley, Trustees P.O. Box 1024 Clovis, NM 88102	7014-2120-0004-6168-2073 07/05/17
<b>Offsets:</b>	
Marshall & Winston, Inc. P.O. Box 50880 Midland, Texas 79710	7014-2120-0004-6168-2080 07/07/17
Legacy Reserves LP P.O. Box 10848 Midland, TX 79702	7014-2120-0004-6168-2097 07/13/17
COG Operating, LLC One Concho Center 600 W. Illinois Avenue Midland, TX 79701	7014-2120-0004-6168-2103 07/05/17

## SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

## 1. Article Addressed to:

Legacy Reserves LP  
P.O. Box 10848  
Midland, TX 79702  
Cimarex 82762-0154

2. Article Number  
(Transfer from service label)

7014 2120 0004 6166 2097

PS Form 3811, July 2013

Domestic Return Receipt

## COMPLETE THIS SECTION ON DELIVERY

## A. Signature

*J. Bradfute*  
B. Received by (Printed Name)  
J. Bradfute

- ☐ Agent  
☐ Addressee

## C. Date of Delivery

7-11-13

- D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☐ No

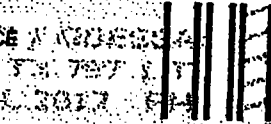
## 3. Service Type

- ☒ Certified Mail® ☐ Priority Mail Express™  
☐ Registered ☒ Return Receipt for Merchandise  
☐ Insured Mail ☐ Collect on Delivery

## 4. Restricted Delivery? (Extra Fee)

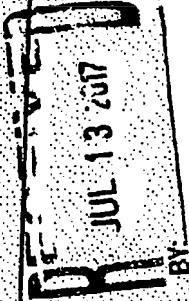
- ☐ Yes

UNITED STATES POSTAL SERVICE



First-Class Mail®  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Sender: Please print your name, address, and ZIP+4® in this box•



Jennifer L. Bradfute  
Modrall Law Firm  
P.O. Box 2168  
Albuquerque, NM 87103

U.S. Postal Service™  
CERTIFIED MAIL® RECEIPT  
Domestic Mail Only

For delivery information, visit our website at [www.usps.com](http://www.usps.com)™.

## OFFICIAL USE

Postage

6.77

Certified Fee

Return Receipt Fee  
(Endorsement Required)Restricted Delivery Fee  
(Endorsement Required)

To:

Legacy Reserves LP  
P.O. Box 10848  
Midland, TX 79702  
Cimarex 82762-0154

Sent

Street

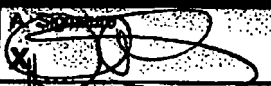
or PO

City, I



7014 2120 0004 6166 2097



SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<p>■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p>■ Print your name and address on the reverse so that we can return the card to you.</p> <p>■ Attach this card to the back of the mailpiece, or on the front if space permits.</p>		<p>A. Signature </p> <p><input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p>	
<p>1. Article Addressed to:</p> <p style="text-align: center;">AOG Mineral Partners, Ltd. P.O. Box 1015 Midland, Texas 79702 Cimarex 82762-0154</p>		<p>B. Received by (Printed Name) <u>DA. B.</u></p> <p>C. Date of Delivery <u>7/11/17</u></p>	
<p>2. Article Number (Transfer from service label) <u>7012 2210 0000 0348 2646</u></p>		<p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If YES, enter delivery address below:</p>	
<p>PS Form 3811, July 2013</p>		<p>3. Service Type</p> <p><input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express™</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p> <p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	

UNITED STATES POSTAL SERVICE

First-Class Mail  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Sender: Please print your name, address, and ZIP+4® in this box•

**RECEIVED**  
JUL 13 2017

**Jennifer L. Bradfute**  
**Modrall Law Firm**  
**P.O. Box 2168**  
**Albuquerque, NM 87103**

U.S. Postal Service<sup>TM</sup>  
**CERTIFIED MAIL<sup>®</sup> RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at [www.usps.com](http://www.usps.com).

**OFFICIAL USE**

Postage	\$ 6.77
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Tot	

Postmark Here

7012 2210 0000 0348 2646

Send to:  
AOG Mineral Partners, Ltd.  
P.O. Box 1015  
Midland, Texas 79702  
Cimarex 82762-0154

PS Form 3800, August 2009

Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Realeza Del Spear, LP  
P.O. Box 1684  
Midland, Texas 79702  
Cimarex 82762-0154

2. Article Number  
(Transfer from service label)

7014 2120 0004 6168 2035

PS Form 3811, July 2013

Domestic Return Receipt

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

x *Nelson Spear*

☐ Agent

☐ Addressee

B. Received by (Printed Name)

*Nelson Spear*

C. Date of Delivery

*7/2/17*

D. Is delivery address different from item 1? ☐ Yes

If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail®

☐ Priority Mail Express™

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ Collect on Delivery

4. Restricted Delivery? (Extra Fee)

☐ Yes

UNITED STATES POSTAL SERVICE / DOMESTIC MAIL ONLY

TV 2017

First-Class Mail®  
Postage & Fees Paid

Permit No. G-40

• Sender: Please print your name, address, and ZIP+4® in this box.

Jennifer L. Bradfute  
Modrall Law Firm  
P.O. Box 2168  
Albuquerque, NM 87103

RECEIVED  
JUL 14 2017

**U.S. Postal Service™  
CERTIFIED MAIL® RECEIPT**  
Domestic Mail Only

For delivery information, visit our website at [www.usps.com](http://www.usps.com)®.

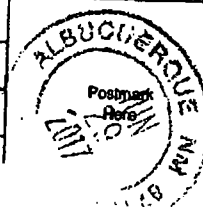
**OFFICIAL USE**

Postage \$ *6.77*

Certified Fee

Return Receipt Fee  
(Endorsement Required)

Restricted Delivery Fee  
(Endorsement Required)



Realeza Del Spear, LP  
P.O. Box 1684  
Midland, Texas 79702  
Cimarex 82762-0154

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<p>1. Article Addressed to:</p> <p>Vora Lowe Hartley Mineral Trust Attn: Teddy L. Hartley &amp; Robert Thomas Hartley, Trustees P.O. Box 1024 / Clovis, NM 88102 Cimarron 87762-0154</p>		<p>2. Article Number (Transfer from service label): <b>7014 2120 0004 6168 2073</b></p>	
<p>3. Service Type</p> <p><input type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express®</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p>		<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
<p>PS Form 3811, July 2013</p>		<p>Domestic Return Receipt</p>	

UNITED STATES POSTAL SERVICE

03 JUL 2017 PM 12

First-Class Mail  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Sender: Please print your name, address, and ZIP+4® in this box•

Jennifer L. Bradfute  
Modrall Law Firm  
P.O. Box 2168  
Albuquerque, NM 87103

68

U.S. Postal Service™  
**CERTIFIED MAIL® RECEIPT**  
Domestic Mail Only

For delivery information, visit our website at [www.usps.com](http://www.usps.com)®.

**OFFICIAL USE**

Postage	\$ 6.77
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	

Postmark Here

ALBUQUERQUE NM 87103 JUL 5 2017

Se Vora Lowe Hartley Mineral Trust  
Attn: Teddy L. Hartley & Robert Thomas  
Hartley, Trustees  
P.O. Box 1024 / Clovis, NM 88102  
Cimarron 87762-0154

PS Form 3800, July 2014 See Reverse for Instructions

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<p>■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p>■ Print your name and address on the reverse so that we can return the card to you.</p> <p>■ Attach this card to the back of the mailpiece, or on the front if space permits.</p>		<p>A. Signature <input type="checkbox"/> Agent <input type="checkbox"/> Address</p> <p>B. Received by (Printed Name) <input type="checkbox"/> Date of Delivery</p> <p>C. Is delivery address different from item 1? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If YES, enter delivery address below: <input type="checkbox"/> No</p>	
<p>1. Article Addressed to:</p> <p>COG Operating, LLC One Concho Center 600 W. Illinois Avenue Midland, TX 79701 Cimarex 82762-0154</p>		<p>2. Service Type</p> <p><input type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express™</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p>	
<p>2. Article Number (Transfer from service label)</p> <p>7014 2120 0004 6168 2103</p>		<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	
PS Form 3811, July 2013		Domestic Return Receipt	

UNITED STATES POSTAL SERVICE / USPS®

First-Class Mail  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Sender: Please print your name, address, and ZIP+4® in the box

Jennifer L. Bradfute  
Modrall Law Firm  
P.O. Box 2168  
Albuquerque, NM 87103

RECEIVED  
JUL - 5 2017

U.S. Postal Service™  
CERTIFIED MAIL® RECEIPT  
Domestic Mail Only

For delivery information, visit our website at [www.usps.com](http://www.usps.com)¹.

OFFICIAL USE

Postage: \$ 6.77

Certified Fee: \_\_\_\_\_

Return Receipt Fee (Endorsement Required): \_\_\_\_\_

Restricted Delivery Fee (Endorsement Required): \_\_\_\_\_

COG Operating, LLC  
One Concho Center  
600 W. Illinois Avenue  
Midland, TX 79701  
Cimarex 82762-0154

ALBUQUERQUE, NM 87103

PS Form 3800, July 2014 See Reverse for Instructions

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<p>■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p>■ Print your name and address on the reverse so that we can return the card to you.</p> <p>■ Attach this card to the back of the mailpiece or on the front if space permits.</p>		<p>A. Signature <input checked="" type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) <input checked="" type="checkbox"/> Date of Del. 7/3/17</p> <p>C. Is delivery address different from item 1? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If YES, enter delivery address below:</p>	
<p>1. Article Addressed to:</p> <p>Charles Kenneth Moore 18326 E. San Ignacio Ct. Gold Canyon, AZ 85118 Cimarex 82762-0154</p>		<p>3. Service Type: <input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express™  <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise  <input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p>	
<p>2. Article Number</p> <p>7014 2120 0004 6168 2042</p>		<p>4. Restricted Delivery (Extra Fee) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>	
PS Form 3811, July 2013		Domestic Return Receipt	

UNITED STATES POSTAL SERVICE  
AZ 852  
03 JUL '17  
PM 4 L

First-Class Mail  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Sender: Please print your name, address, and ZIP+4® in this box•

Jennifer L. Bradfute  
Modrall Law Firm  
P.O. Box 2168  
Albuquerque, NM 87103

RECEIVED  
JUL - 6 2017

U.S. Postal Service™  
CERTIFIED MAIL® RECEIPT  
Domestic Mail Only

For delivery information, visit our website at [www.usps.com](http://www.usps.com)®.

**OFFICIAL USE**

Postage	\$ 6.77
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	


1

Ser. \_\_\_\_\_  
Street or P.O. \_\_\_\_\_  
City \_\_\_\_\_

Charles Kenneth Moore  
18326 E. San Ignacio Ct.  
Gold Canyon, AZ 85118  
Cimarex 82762-0154

PS Form 3800, July 2014

See Reverse for Instructions

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<p>■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p>■ Print your name and address on the reverse so that we can return the card to you.</p> <p>■ Attach this card to the back of the mailpiece, or on the front if space permits.</p>		<p>A. Signature </p> <p><input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p>	
<p>1. Article Addressed to:</p> <p>Marshall &amp; Winston, Inc. P.O. Box 50880 Midland, Texas 79710 Cimarex 82762-0154</p>		<p>B. Received by (Printed Name) <u>Tiana Fox</u> C. Date of Delivery <u>7/5/17</u></p>	
<p>2. Article Number (Transfer from Service Label) <u>7014 2120 0004 6168 2080</u></p>		<p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If YES, enter delivery address below: <input type="checkbox"/> No</p>	
<p>3. Service Type</p> <p><input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express™</p> <p><input type="checkbox"/> Registered® <input checked="" type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p>		<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>	
<p>PS Form 3811, July 2013</p>		<p>Domestic Return Receipt</p>	

UNITED STATES POSTAL SERVICE / FIRST CLASS MAIL PERMIT NO. 11 ALBUQUERQUE, NM 87103

First-Class Mail  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Sender: Please print your name, address, and ZIP+4® in this box•

**RECEIVED**  
JUL - 7 2017

**Jennifer L. Bradfute  
Modrall Law Firm  
P.O. Box 2168  
Albuquerque, NM 87103**

U.S. Postal Service™  
**CERTIFIED MAIL® RECEIPT**  
Domestic Mail Only

For delivery information, visit our website at [www.usps.com](http://www.usps.com)®

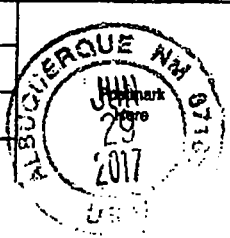
**OFFICIAL USE**

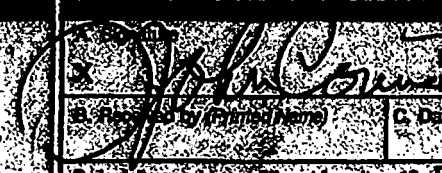
Postage	\$ <u>6.77</u>
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (E)	

**Marshall & Winston, Inc.  
P.O. Box 50880  
Midland, Texas 79710  
Cimarex 82762-0154**

City, State, ZIP+4®

PS Form 3800, July 2014 See Reverse for Instructions



SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<p>■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p>■ Print your name and address on the reverse so that we can return the card to you.</p> <p>■ Attach this card to the back of the mail piece, or on the front if space permits.</p>		<p><b>A. Signature</b>  </p> <p><b>B. Received by (Printed Name)</b></p> <p><b>C. Date of Delivery</b></p> <p><b>D. Is delivery address different from item 1?</b> <input type="checkbox"/> Yes          If YES, enter delivery address below: <input type="checkbox"/> No</p>	
<p><b>1. Article Addressed to:</b></p> <p><b>Lowe Family, Ltd.</b>  <b>P.O. Box 53775</b>  <b>Lubbock, Texas 79453</b>  <b>Cimarex 82762-0154</b></p>		<p><b>3. Service Type</b></p> <p><input type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express™</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p> <p><b>4. Restricted Delivery? (Extra Fee)</b> <input type="checkbox"/> Yes</p>	
<p><b>2. Article Number</b>          (Transfer from service label)</p>		<p><b>7014 2120 0004 6168 2066</b></p>	
PS Form 3811, July 2013		Domestic Return Receipt	

UNITED STATES POSTAL SERVICE  
 7014 2120 0004 6168 2066  
 05 JUL '17  
 PM 9 L

First-Class Mail  
 Postage & Fees Paid  
 USPS  
 Permit No. G-10

• Sender: Please print your name, address, and ZIP+4® in this box•

**RECEIVED**  
 JUL - 7 2017

**Jennifer L. Bradfute**  
**Modrall Law Firm**  
**P.O. Box 2168**  
**Albuquerque, NM 87103**

3-216858

U.S. Postal Service™  
**CERTIFIED MAIL® RECEIPT**  
 Domestic Mail Only


For delivery information, visit our website at [www.usps.com](http://www.usps.com)™.

**OFFICIAL USE**

Postage	\$ 6.77
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	

**Lowe Family, Ltd.**  
**P.O. Box 53775**  
**Lubbock, Texas 79453**  
**Cimarex 82762-0154**

PS Form 3800, July 2014 See Reverse for Instructions

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"> <li>Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</li> <li>Print your name and address on the reverse so that we can return the card to you.</li> <li>Attach this card to the back of the mailpiece, or on the front if space permits.</li> </ul>		<p>A. Signature  </p> <p>B. Received by (Printed Name)            C. Date of Delivery</p>	
<p>1. Article Addressed to:</p> <p>John E. &amp; Helen M. Kennan Family Trust,            created January 13, 1994            Attn: William H. Kennan, Trustee            1430 Soquel Ave. / Santa Cruz 95062            Cimarex 82762-0154</p>		<p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes            If YES, enter delivery address below: <input type="checkbox"/> No</p>	
<p>2. Article Number            (Transfer from service label)</p>		<p>3. Service Type  <input type="checkbox"/> Certified Mail <input type="checkbox"/> Priority Mail Express  <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise  <input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p>	
<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>		<p>7012 2210 0000 0348 2677</p>	
<p>PS Form 3811, July 2013 Domestic Return Receipt</p>			

UNITED STATES POSTAL SERVICE  
 CA 950  
 07 JUL '17  
 PM 4:11

First-Class Mail  
 Postage & Fees Paid  
 USPS  
 Permit No. G-10

• Sender: Please print your name, address, and ZIP+4® in this box

**Jennifer L. Bradfute**  
**Modrall Law Firm**  
**P.O. Box 2168**  
**Albuquerque, NM 87103**

RECEIVED  
 JUL 10 2017

U.S. Postal Service  
**CERTIFIED MAIL™ RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at [www.usps.com](http://www.usps.com).

**OFFICIAL USE**

Postage \$ 6.77

Certified Fee \_\_\_\_\_

Return Receipt Fee (Endorsement Required) \_\_\_\_\_

Restricted Delivery Fee (Endorsement Required) \_\_\_\_\_

To \_\_\_\_\_

John E. & Helen M. Kennan Family Trust,  
 created January 13, 1994  
 Attn: William H. Kennan, Trustee  
 1430 Soquel Ave. / Santa Cruz 95062  
 Cimarex 82762-0154

PS Form 3800, August 2005 See Reverse for Instructions

2677 0348 0000 0122 2102

ALBUQUERQUE NM 87103 JUL 10 2017



SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<p>■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p>■ Print your name and address on the reverse so that we can return the card to you.</p> <p>■ Attach this card to the back of the mailpiece, or on the front if space permits.</p>		<p>A. Signature <i>[Signature]</i> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p>	
<p>1. Article Addressed to:</p> <p>M. Dion Lowe 7801 Espanola Trail Austin, Texas 78737 Cimarex 82762-0154</p>		<p>B. Received by (Printed Name) <i>Sheryl K Lowe</i> C. Date of Delivery <i>7/9/17</i></p>	
<p>2. Article Number (Transfer from service label)</p>		<p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes <input type="checkbox"/> No If YES, enter delivery address below:</p>	
<p>3. Service Type</p> <p><input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express®  <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise  <input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p>		<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	
<p>PS Form 3811, July 2013</p>		<p>Domestic Return Receipt</p>	

UNITED STATES POSTAL SERVICE  
JUL 17  
PM 21

First-Class Mail  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Sender: Please print your name, address, and ZIP+4® in this box•

**Jennifer L. Bradfute**  
**Modrall Law Firm**  
**P.O. Box 2168**  
**Albuquerque, NM 87103**

RECEIVED  
JUL 10 2017

16868

U.S. Postal Service  
**CERTIFIED MAIL® RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at [www.usps.com](http://www.usps.com)

**OFFICIAL USE**

Postage	\$6.77
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total	

Sent To: **M. Dion Lowe**  
**7801 Espanola Trail**  
**Austin, Texas 78737**  
**Cimarex 82762-0154**

PS Form 3800, August 2005 See Reverse for Instructions

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

The Long Family Trusts  
Larry P. Long, Managing Trustee  
118 S. Kilgore St. / Kilgore, Texas 75662  
Cimarex 82762-0154

2. Article Number  
(Transfer from service label)

7014 2120 0004 6168 2058

PS Form 3811, July 2013

Domestic Return Receipt

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

X

☐ Agent

☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

7-5

D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☐ No

Service Type

☒ Certified Mail

☐ Priority Mail Express

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

☐ Collect on Delivery

4. Restricted Delivery? (Extra Fee)

☐ Yes

UNITED STATES POSTAL SERVICE

LA 710

05 JUL '17

PM 1 L



First-Class Mail  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Sender: Please print your name, address, and ZIP+4® in this box.

Jennifer L. Bradfute  
Modrall Law Firm  
P.O. Box 2168  
Albuquerque, NM 87103

RECEIVED  
JUL 10 2017

**U.S. Postal Service™  
CERTIFIED MAIL® RECEIPT**

Domestic Mail Only

For delivery information, visit our website at [www.usps.com](http://www.usps.com)

**OFFICIAL USE**

Postage \$ 6.27

Certified Fee

Return Receipt Fee  
(Endorsement Required)

Restricted Delivery Fee  
(Endorsement Required)

Total

Sent To

Street

or PO #

City, St.

The Long Family Trusts  
Larry P. Long, Managing Trustee  
118 S. Kilgore St. / Kilgore, Texas 75662  
Cimarex 82762-0154

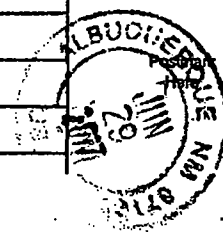


PS Form 3800, July 2014

See Reverse for Instructions

7012 2210 0000 0348 2653

U.S. Postal Service <sup>TM</sup>	
CERTIFIED MAIL <sup>TM</sup> RECEIPT	
(Domestic Mail Only; No Insurance Coverage Provided)	
For delivery information visit our website at <a href="http://www.usps.com">www.usps.com</a>	
OFFICIAL USE	
Postage	\$6.77
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total	
Sent	
Street or P.O.	
City	
Rhodes Oil Company P.O. Box 2673 Midland, Texas 79702 Cimarex 82762-0154	
PS Form 3800, August 2005 See Reverse for Instructions	





MODRALL SPERLING

L A W Y E R S

June 29, 2017

**VIA CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Jennifer L. Bradfute  
505.848.1845  
Fax: 505.848.1882  
jlb@modrall.com

**Re: APPLICATION OF CIMAREX ENERGY CO. FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.**

**Case No. 15756**

**TO: POOLED PARTIES AND OFFSETS**

This letter is to advise you that Cimarex Energy Co. ("Cimarex") has filed the enclosed application with the New Mexico Oil Conservation Division seeking the creation of a non-standard 160-acre, more or less, spacing and proration unit in the Bone Spring formation, comprised of the E/2 W/2 of Section 7, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico; and, pooling all mineral interests in the Bone Spring formation underlying this proposed non-standard spacing and proration unit for the development of the **Lea 7 Federal Com 2H**.

This application has been set for hearing before a Division Examiner at 8:15 a.m. on July 20, 2017. The hearing will be held in Porter Hall in the Oil Conservation Division's Santa Fe Office located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505. As a party who may be affected by this application, we are notifying you of your right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application. Failure to appear at the hearing may preclude you from any involvement in this case at a later date.

Pursuant to Division Rule 1208.B, you are further notified that if you desire to appear in this case, then you are requested to file a Pre-Hearing Statement with the Division not later than 5:00 PM on July 13, 2017, with a copy delivered to the undersigned.

Sincerely,

Jennifer L. Bradfute  
*Attorney for Cimarex Energy Co.*

Modrall Sperling  
Roehl Harris & Sisk P.A.

Bank of America Centre  
500 Fourth Street NW  
Suite 1000  
Albuquerque,  
New Mexico 87102

PO Box 2168  
Albuquerque,  
New Mexico 87103-2168

Tel: 505.848.1800  
www.modrall.com

# Affidavit of Publication

STATE OF NEW MEXICO  
COUNTY OF LEA

I, Daniel Russell, Publisher of the Hobbs News-Sun, a newspaper published at Hobbs, New Mexico, solemnly swear that the clipping attached hereto was published in the regular and entire issue of said newspaper, and not a supplement thereof for a period of 1 issue(s).

Beginning with the issue dated  
July 05, 2017  
and ending with the issue dated  
July 05, 2017.

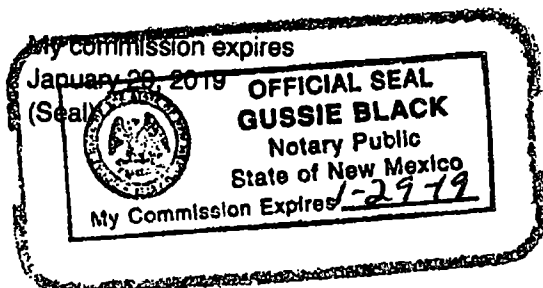


Publisher

Sworn and subscribed to before me this  
5th day of July 2017.



Business Manager



This newspaper is duly qualified to publish legal notices or advertisements within the meaning of Section 3, Chapter 167, Laws of 1937 and payment of fees for said

## LEGAL NOTICE July 5, 2017

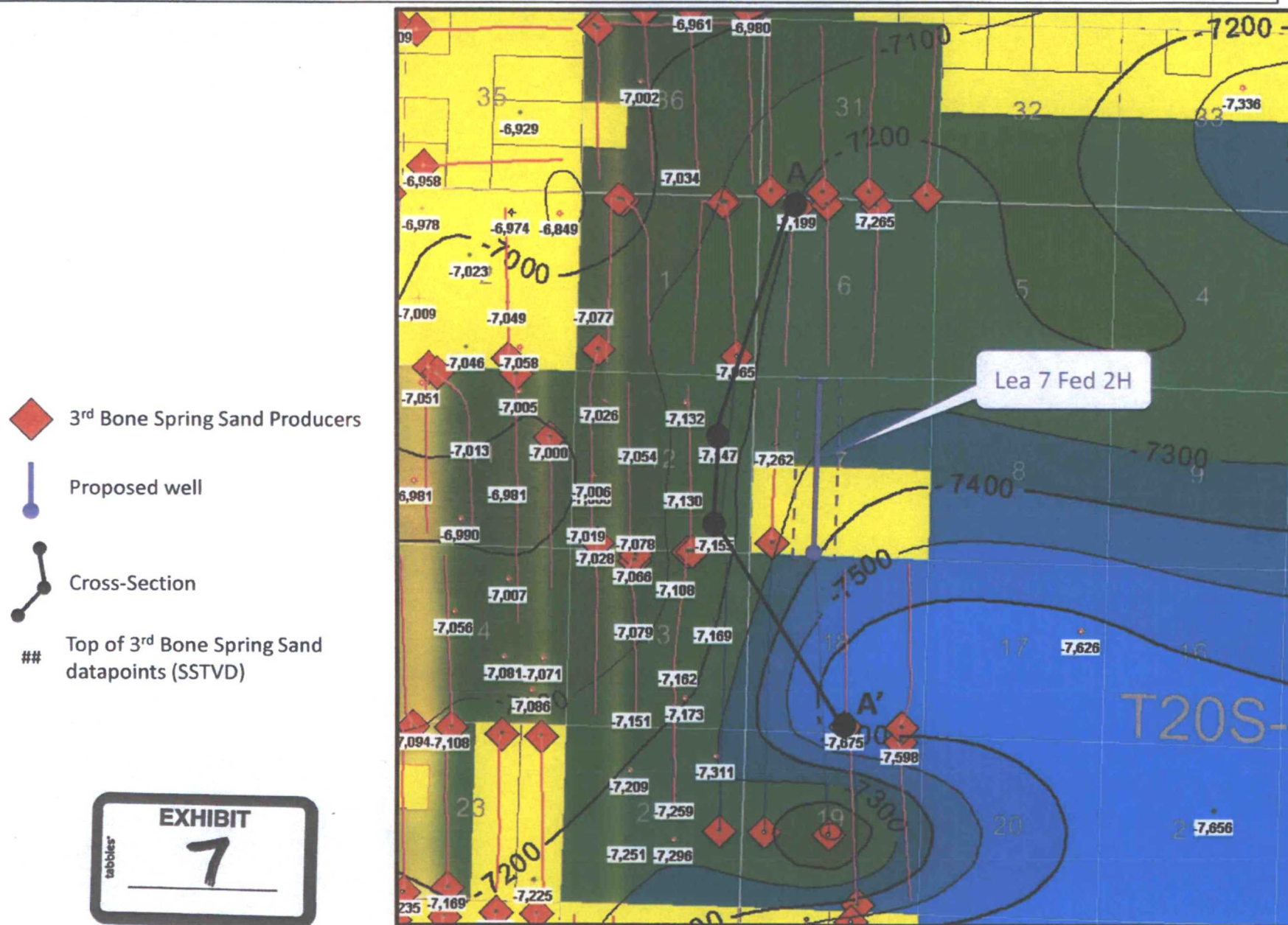
CASE No. 15755: Notice to all affected parties, as well as the heirs and devisees of AOG Mineral Partners, Ltd.; Rhodes Oil Company; M. Dion Lowe; John E. & Helen M. Kennen Family Trust, created January 15, 1994; Rauliza Del Soper, L.P.; Charles Kenneth Moore; The Long Family Trust; Lowe Family, Ltd.; Vora Lowe Hartley Mineral Trust; Marshall & Winston, Inc.; Legacy Reserves L.P.; and, COG Operating, LLC for a Non-Standard Oil Spacing and Proration Unit and Compulsory Pooling, Lea County, New Mexico. The State of New Mexico, through its Oil Conservation Division, hereby gives notice that the Division will conduct a public hearing at 8:15 a.m. on July 20, 2017, to consider this application. Applicant seeks an order from the Division: (1) creating a non-standard 160-acre, more or less, oil spacing and proration unit in the Bone Spring formation, comprised of the E/2 W/2 of Section 7, Township 20 South, Range 35 East, N44°W, Lea County, New Mexico; and, (2) pooling all mineral interests in the Bone Spring formation underlying this proposed non-standard spacing and proration unit. This proposed spacing and proration unit will be the project area for the Lea 7 Federal Com 3H well, to be horizontally drilled. The producing area for this well will be orthodox. Also to be considered will be the cost of drilling and completing said well, the allocation of these costs as well as the actual operating costs and charges for supervision, designation of Cimarex Energy Co. as operator of the well and a 200% charge for risk involved in drilling said well. Said area is located approximately 11.6 miles southeast of the intersection of Hobbs Highway 180 and County Road 27 A/Marathon Road, located in Lea County, New Mexico. 201504

01104570

00196032

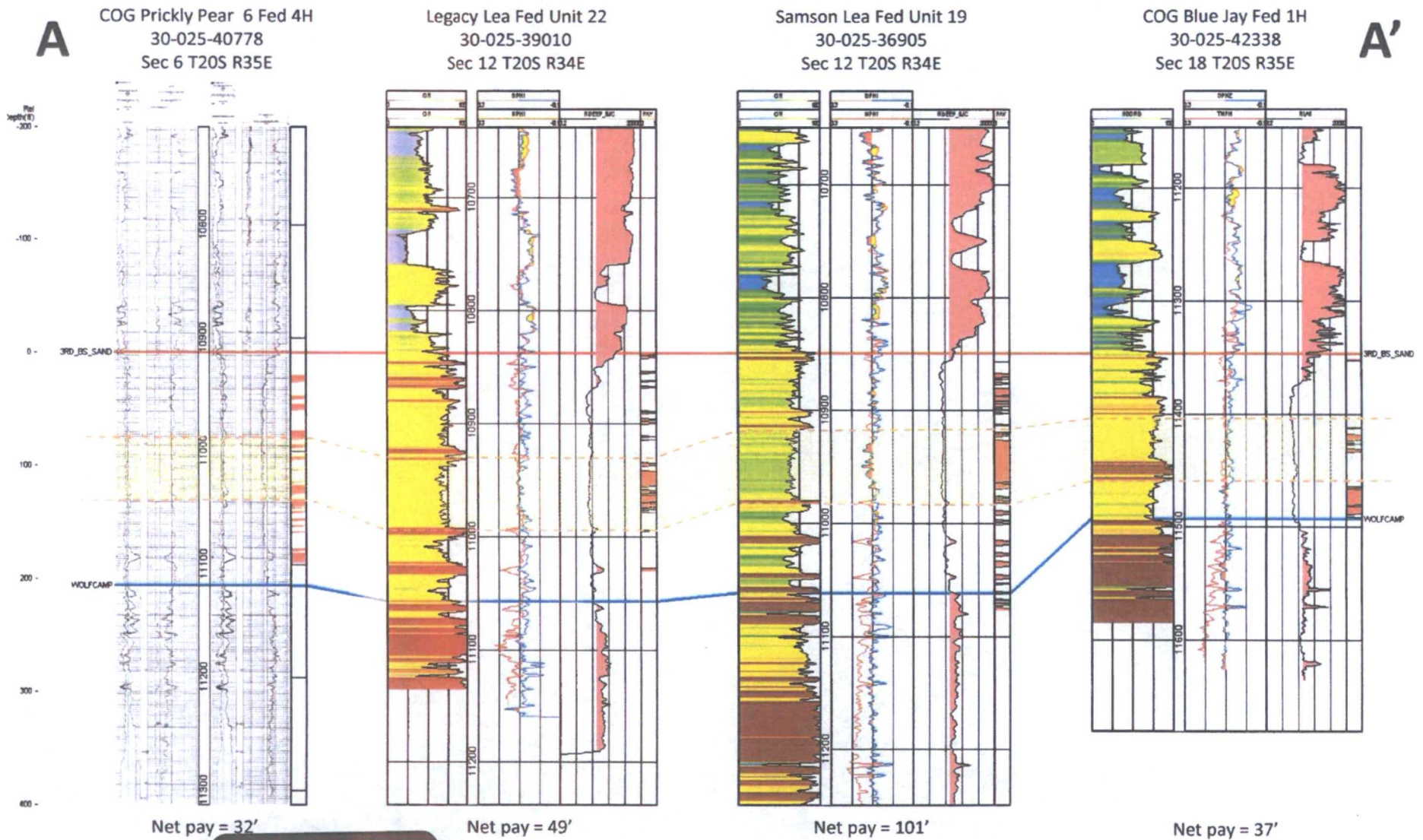
DOLORES SERNA  
MODRALL, SPERLING, ROEHL, HARRIS &  
P. O. BOX 2168  
ALBUQUERQUE, NM 87103-2168

# Top of 3<sup>rd</sup> Bone Spring Sand Structure Map (SSTVD)







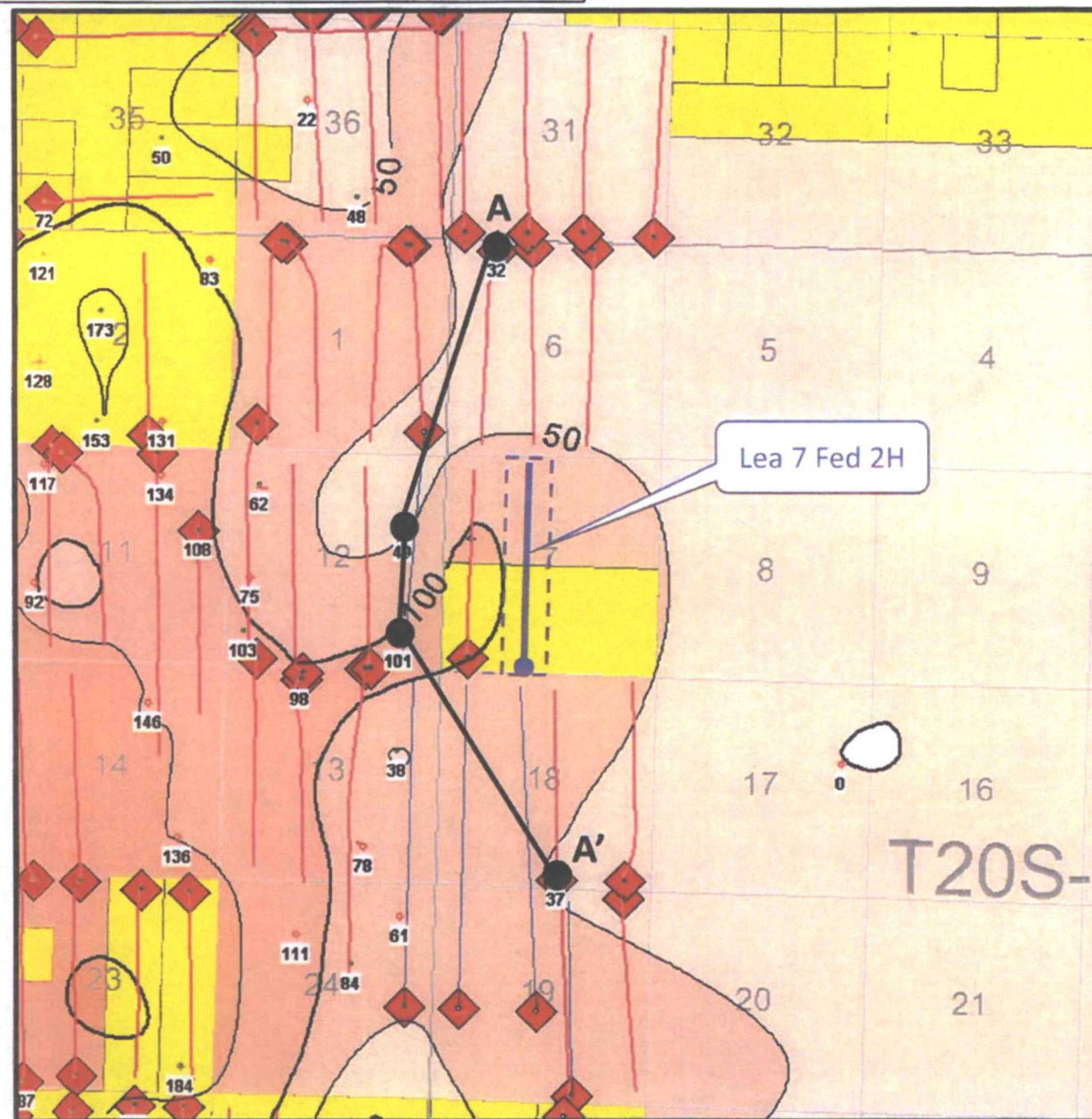


# 3<sup>rd</sup> Bone Spring Sand Cross-Section



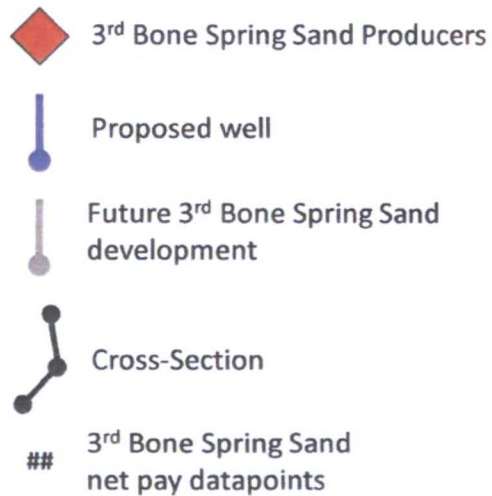
# 3<sup>rd</sup> Bone Spring Sand Net Pay Map

-  3<sup>rd</sup> Bone Spring Sand Producers
-  Proposed well
-  Cross-Section
-  3<sup>rd</sup> Bone Spring Sand net pay datapoints





### 3<sup>rd</sup> Bone Spring Sand Development



## Lea 7 Fed 2H Wellbore Diagram

