

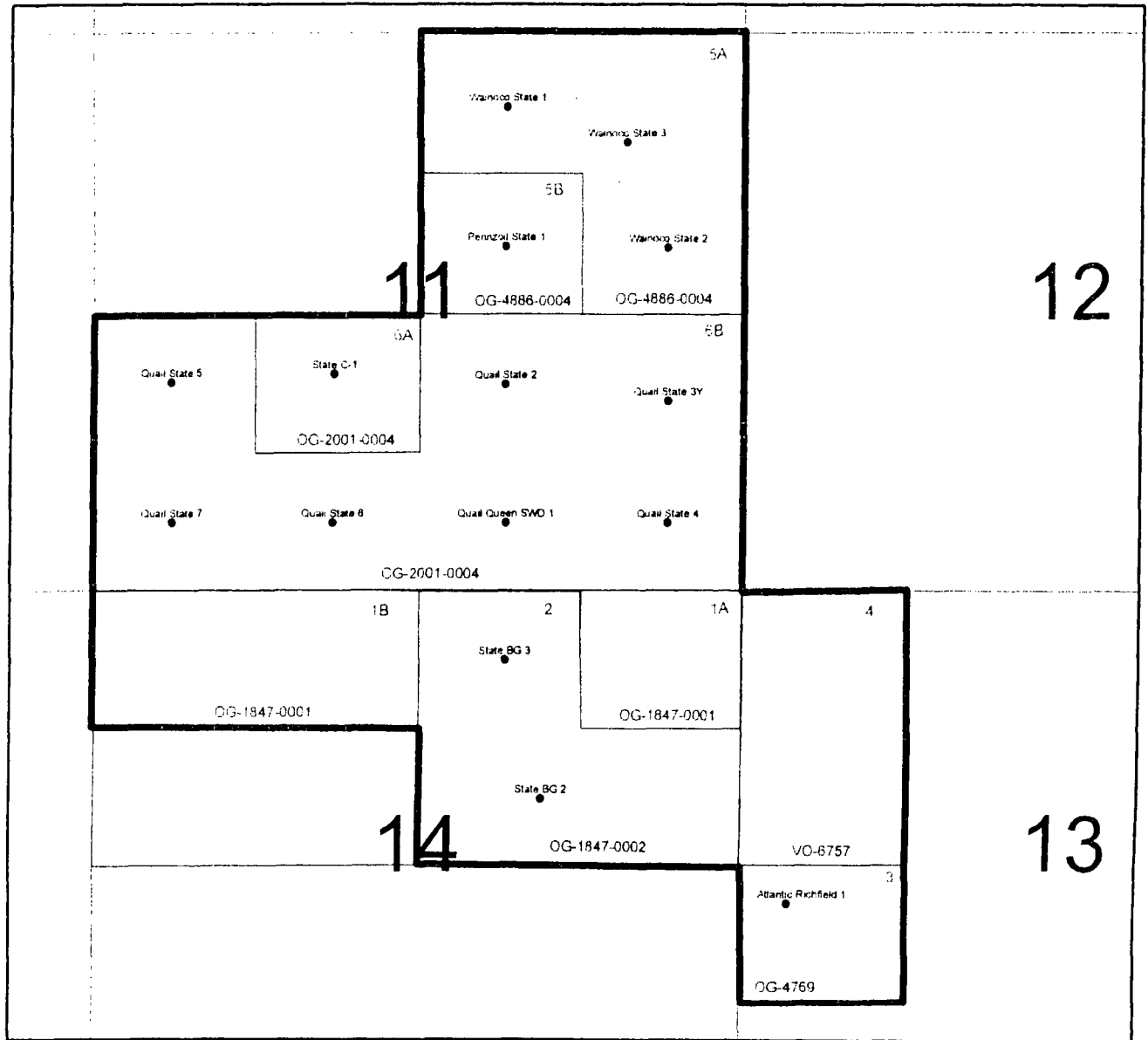
# **THE OIL CONSERVATION COMMISSION**

**CASE NO. 14001 & 14002**

# **EXHIBIT**

# **1**

# EXHIBIT "A"



TOWNSHIP 19 SOUTH, RANGE 34 EAST  
LEA COUNTY, NEW MEXICO

## PROPOSED QUAIL QUEEN UNIT CHESAPEAKE EXPLORATION, L.L.C.,



Proposed Waterflood Unit Boundary



Queen Wells

☐ Federal Acreage = 0 acres

☐ State Acreage = 840 acres

☐ Fee Acreage = 0 acres

Page = 840 acres

BEFORE THE OIL CONSERVATION COMMISSION

Santa Fe, New Mexico

Case No. 14001 & 14002 De Novo

(Consolidated) Exhibit No. 1

Submitted by:

CHESAPEAKE EXPLORATION, L.L.C.

Hearing Date: August 14, 2008

4.3.2 Vote Required - Generally: Unless otherwise provided herein, all matters shall be decided by an affirmative vote of seventy percent (70%) or more voting interest; provided that, should any one Working Interest Owner have more than seventy percent (70%) voting interest, its vote must be supported by the vote of at least one remaining Working Interest Owner.

4.3.3 Vote at Meeting by Non-Attending Working Interest Owner: Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter, telegram, fax or email addressed to the representative of the Unit Operator, if its vote is received prior to the vote on the item. Such vote will not be counted with respect to any item on the agenda which is amended at the meeting.

4.3.4 Poll Votes: Working Interest Owners may vote by letter, telegram, fax or email on any matter submitted in writing to all Working Interest Owners. If a meeting is not requested as provided in Article 4.2, within fourteen (14) days after a written proposal is sent to Working Interest Owners, the vote taken by letter, telegram, fax or email shall control. Failure to vote within the time prescribed by the Unit Operator, which shall be no less than thirty (30) days after receipt of such matter, shall be deemed to be a no vote with respect to the proposal. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

## ARTICLE 5 INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 Reservation of Rights: Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this Agreement and the Unit Agreement.

5.2 Specific Rights: Each Working Interest Owner shall have, among others, the following specific rights:

5.2.1 Access to Unit Area: Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports: The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner that requests the information.

## ARTICLE 6 UNIT OPERATOR

6.1 Initial Unit Operator: Chesapeake Exploration, L.L.C., by and through its agent Chesapeake Operating, Inc., is hereby designated as Unit Operator.

6.2 Resignation or Removal: Unit Operator has the right to resign at any time. The Unit Operator shall, upon default or gross negligence in the performance of its duties hereunder, be subject to removal by the Working Interest Owners by the affirmative vote of at least eighty percent (80%) of all remaining Working Interest Owners. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of six (6) months after the resignation or discharge unless a successor Unit Operator has taken over the Unit Operations prior to the expiration of such period (as provided in the Unit Agreement).

6.3 Selection of Successor: Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by the Working Interest Owners. If the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of two (2)

or more Working Interest Owners having at least ninety percent (75%) of the voting interest remaining, after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 7  
AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit: Subject to the provisions of this Agreement and to instructions from Working Interest Owners, the Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct: The Unit Operator shall conduct Unit Operations in a good and workmanlike manner and in accordance with accepted industry standards as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances: The Unit Operator shall endeavor to keep the lands and leases in the Unit Area and the Unit Equipment free from all liens, and encumbrances occasioned by Unit Operations, except the lien and security interest of Unit Operator granted hereunder.

7.4 Employees: The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by the Unit Operator. Such employees shall be the employees of the Unit Operator.

7.5 Records: The Unit Operator shall keep correct books, accounts and records of Unit Operations.

7.6 Reports to Working Interest Owners: The Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations.

7.7 Reports to Governmental Authorities: The Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

7.8 Engineering and Geological Information: The Unit Operator shall furnish to Working Interest Owner, upon written request, any engineering and geological data pertaining to Unit Operations.

7.9 Expenditures: Unit Operator is authorized to make all expenditures for normal or recurring operating expenses and other single expenditures not in excess of One Hundred Thousand Dollars (\$100,000.00) without prior approval of Working Interest Owners. If an emergency occurs, the Unit Operator may immediately make or incur expenditures that, in its opinion, are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator: All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the prevailing rate in the area and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

7.11 Restoration of Surface Conditions Existing Prior to Unitization: Working Interest Owner, upon request of Unit Operator, shall fill all pits, remove concrete foundations, or perform any other restorative work necessary to restore surface damage which existed prior to the Effective Date. If Working Interest Owner

has not completed said work within ninety (90) days after notification by the Unit Operator, then the Unit Operator shall be authorized to perform the necessary restoration. The cost of any such work to restore surface to a condition that is acceptable to the proper regulatory body shall be borne entirely by the Working Interest Owner or Working Interest Owners who contributed such lands to the Unit.

7.12 Mathematical Errors: It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the exhibits to this agreement.

7.13 Border Agreements: Unit Operator may, after approval by Working Interest Owners, enter into border agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

7.14 Indemnities: As to all contracts executed by the Unit Operator with an independent contractor governing operation or services to be performed in connection with unit operations, Unit Operator shall require that any indemnification provision in favor of Unit Operator contained therein shall extend to and inure to the benefit of Working Interest Owners in the same manner as Unit Operator.

## ARTICLE 8

### TAXES

8.1 Ad Valorem Taxes: Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem shall be paid by Unit Operator and charged to the joint account of all Working Interest Owners; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom.

8.2 Other Taxes: Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or with respect to the production or handling of its share of Unitized Substances.

## ARTICLE 9

### INSURANCE

9.1 Insurance: Unit Operator, with respect to Unit Operations, shall do the following:

9.1.1 Workmen's Compensation Law: Comply with the Workmen's Compensation Law of the State of New Mexico.

9.1.2 Employer's Liability Insurance: Carry Employer's Liability and other insurance required by the laws of the State of New Mexico.

9.1.3 Other Insurance: Provide other insurance as set forth in Exhibit "F".

ARTICLE 10  
ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over: Upon the Effective Date hereof, Working Interest Owners shall deliver to the Unit Operator the following:

10.1.1 Wells: All wells completed in the Unitized Formation together with the casing therein.

10.1.2 Well and Lease Equipment: The tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which the Working Interest Owners determine is necessary or desirable for conducting Unit Operations. (If any such wells are multiple-completed wells, the provisions of the subsection shall apply only to that equipment used in connection with the Unitized Formation.)

10.1.3 Records: A copy of all production and well records that pertain to such wells.

10.2 Inventory and Evaluation of Personal Property: The Unit Operator shall, at Unit Expense, inventory and evaluate as determined by Working Interest Owners, the personal property taken over. Such inventory shall include, and be limited to, those items of equipment considered controllable under Exhibit "E" unless determined otherwise by Working Interest Owners in order to insure a more equitable adjustment of investment. Casing shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

10.3 Inventory Adjustment: Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property taken over under paragraphs 10.1.1 and 10.1.2 and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under paragraph 10.1.2 by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above. Each Working Interest Owner, instead of owning an interest in all its personal property delivered to the Unit Operator under paragraph 10.1, will be considered as having exchanged such interest for an undivided interest in all personal property so delivered to the Unit Operator, subject to the investment adjustment herein provided.

10.4 General Facilities: The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be, by negotiations by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustment for lease roads or appurtenances thereto.

10.5 Ownership of Personal Property and Facilities: Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation in all personal property and facilities taken over by the Unit Operator pursuant to this Agreement.

10.6 Adjustment for Non-Usable Wells: All wells delivered to the Unit Operator as usable wells shall be (a) in usable physical condition, (b) completed in some portion of the Unitized Formation, and (c) physically separated from formations not a part of the Unitized Formation as of the Effective Date. The Working Interest Owners will within six (6) months after the Effective Date, determine which wells are in non-usable physical condition. The cost of placing any such well in usable physical condition, or physically separating non-Unitized Formations, shall be charged to the Lessee or Lessees owning the well immediately

prior to the Effective Date, such work is to be performed by the Unit Operator.

10.7 Surface Leases: Upon the effective date hereof Working Interest Owners shall deliver to Unit Operator assignment(s) of all surface lease agreements pertaining to the Unit Area, and Unit Operator shall become responsible for all future rentals on behalf of Working Interest Owners. All said surface unit rental costs shall be apportioned to each Working Interest as set forth in Exhibit "D".

## ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owner: The Unit Operator initially shall pay all pre-Unitization Expenses and such expenses shall be considered Unit Expense. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibits "E" and "H". Each Working Interest Owner shall reimburse the Unit Operator for its share of Unit Expense. Each Working Interest Owner's share of all operating expenses shall be the same as its Unit Participation in effect at the time the expense was incurred.

11.2 Budgets: The "Feasibility Study" which has been provided to all Working Interest Owners and is included with the Unit Agreement and Unit Operating Agreement will serve as the budget. This study provides a detailed listing of capital expenditures during the Phase I and Phase II development stages of the project. Should significant adjustments be made an adjusted budget shall promptly be furnished to each Working Interest Owner.

11.3 Advance Billings: The Unit Operator shall have the right, without prejudice to other rights or remedies to require Working Interest Owners to advance their respective share of Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days after the receipt thereof, each Working Interest Owner shall pay to the Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by the Unit Operator at the close of each calendar month, and the accounts of the Lessees shall be adjusted accordingly.

11.4 Commingling of Funds: Funds received by the Unit Operator under this Plan of Unitization need not be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 Unpaid Unit Expense: If any Working Interest Owner fails or is unable to pay its share of Unit Expense within thirty (30) days after rendition of a statement therefor by Unit Operator, the unpaid balance of its share of Unit Expense shall be carried and paid by all non-defaulting Working Interest Owners subject to the provisions of paragraph 11.8 herein who are signatory of this Agreement in the proportion that the Unit Participation of each bears to the total such Unit Participation of all such Working Interest Owners. Such amount shall bear interest at the rate of prime plus two percent (2%) per annum (as determined by current prime interest rate charged by Bank One Oklahoma, NA, Oklahoma City, Oklahoma), or such maximum rate as permitted by law, whichever is lesser, until paid. Working Interest Owners so paying shall be reimbursed therefor, together with interest thereon, when the amount so carried and the interest thereon are collected from the Working Interest Owners primarily chargeable therewith. The amount carried shall be due and payable out of the proceeds from the defaulting Working Interest Owner's share of Unitized Substances, including, to the extent provided for in the State of New Mexico Statutory Unitization Statutes, overriding royalty interests, oil and gas payments, or other interests in excess of one eighth (1/8) royalty interest to which such Working Interest Owner's interest is subject. During the time that any Working Interest Owner fails to pay its share of the Unit Expense, the Unit Operator without prejudice to other existing remedies shall be entitled to collect and receive from the purchaser the proceeds from such Working Interest Owner's share of the Unitized Substances. All credits to any such defaulting Working Interest Owner on account of the sale or other disposal of Unit Equipment, or otherwise, shall also be applied against the unpaid share of Unit Expense charged against such Lessee.

11.6 Lien, Security Interest and Right of Foreclosures: The Unit and the Working Interest Owner's who pay a portion of Unit Expense on behalf of a carried Working Interest Owner shall have a first and prior lien and security interest upon the carried Working Interest Owner's leasehold interest and the other Oil and Gas Rights (exclusive of a 1/8 royalty interest) within the Unit Area, as well as the carried Working Interest Owner's share of the Unit Production, and all Unit Equipment in possession of the Unit, to secure payment of all Unit Expense properly charged to the carried Working Interest Owner. If the owner of any excess royalty interest, overriding royalty, oil and gas payment, or other interest, which under this Plan of Unitization is not primarily responsible for costs and expenses, pays any part of Unit Expense for the purpose of protecting such interest, or if the amount of such Unit Expense in whole or in part is deducted from the Unitized Substances credited to such interest, the owner shall, to the extent of such payment or deduction, be subrogated to all the rights of the Unit, the Unit Operator and other Working Interest Owners with respect to the interest primarily chargeable with such expense. The lien and security interest herein provided shall be for the use, benefit, and protection of the Unit, Unit Operator, and other Working Interest Owners or Persons entitled to receive or share in the monies, the payment of which is secured thereby; and the Unit, the Unit Operator, or any of the Working Interest Owners who have made payment of the Unit Expense, or part thereof for the carried Working Interest Owner, shall be entitled to exercise all lien rights, including the right of foreclosure. The lien may be foreclosed at any time after a Working Interest Owner has been carried for a maximum period of sixty (60) days from the date of billing and all or a portion of the account remains unpaid by the carried Lessee.

11.7 Carved-Out Interest: In the event any Working Interest Owner shall, after executing this Plan, create an overriding royalty, production payment, net profits, or carved-out interest, or any other interest out of its interest then subject to this Plan, such carved-out interest shall be subject to the terms and provisions of this Plan. In the event the Working Interest Owner owning the interest out of which the carved-out interest was created fails to pay any costs or expense chargeable to such Working Interest Owner under this Plan and the production to the credit of such Working Interest Owner is insufficient for that purpose, the owner of the carved-out interest will be liable for its pro rata portion of all costs and expenses for which the working Interest Owner that created such carved-out interest would have been liable hereunder by virtue of such Working Interest Owner's entire original interest, just as though such carved-out interest had not been created. In this event, the lien provided in paragraph 11.6 hereof may be enforced against such carved-out interest in the same manner as if the lien was enforceable against the original interest out of which the carved-out interest was created. If, at any time, the interest of any party is divided among and owned by four(4) or more co-owners, the Unit Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this Plan; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof. If such co-owners fail to appoint said trustee or agent upon request of the Unit Operator, then the Unit Operator, at its discretion, may designate one of said co-owners as said trustee or agent.

11.7.1 Other Remedies: In addition to the foregoing remedies, with respect to any Working Interest Owner carried in the payment of its share of the Unit Expense when due, the Unit Operator shall, for itself, the paying Working Interest Owners and the Unit, during the period of such carry, be entitled to the following rights:

a) To itself purchase the share of Unit Production of any such carried Working Interest Owner, including all overriding royalties, oil and gas payments and other interests in excess of the normal one eighth (1/8) royalty interest to which such carried Working Interest Owner's share of Unit Production is subject, at the prevailing market price in the field which shall, in no event, be less than the price received by the Unit Operator for its portion of the Unit Production; and,

b) To collect and receive from the purchaser thereof, the proceeds from the sale of such carried Working Interest Owner's share of Unit Production, including all overriding royalties, oil and gas payments, and other interests in excess of the normal one eighth (1/8) royalty interest to which such carried Lessee's share of Unit Production is subject.

11.8 Credits: The Unit Operator shall apply all proceeds collected by it, pursuant to the provisions of paragraph 11.7, against the unpaid Unit Expense due from such carried Lessee, the balance of such proceeds, if any, to be paid to such carried Lessee.

## ARTICLE 12 NON-CONSENT PROVISION

12.1 Election: It is understood and agreed that any Working Interest Owner may elect to be carried hereunder, subject to the following terms and conditions: When Unit Operator circulates the Unit Operating Agreement for execution, Unit Operator shall also circulate a ballot under which a party may elect: (a) whether it wishes to be carried; and (b) if it elects not to be carried, the amount of Working Interest as to which it is willing to assume additional participation pursuant to the terms hereof. Failure to return said ballot shall be deemed an election to be carried. In the event that, following the receipt of the Working Interest Owners' ratifications by Unit Operator, the Working Interest Owners, collectively, have not agreed to assume participation as to one hundred percent (100%) of the Working Interest, Unit Operator shall give all Working Interest Owners that have elected to Participate the option to increase the amount of additional participation they are willing to assume within ten (10) days of receiving notice of such option. Thereafter, Unit Operator may elect to assume additional participation. If, following such contact, the Working Interest Owners, collectively, have still not agreed to assume participation as to one hundred percent (100%) of the Working Interest, Unit Operator shall not proceed with the Unitization which is the subject of this agreement. It is understood and agreed that, if the Unit Operating Agreement and the Unit Agreement do become effective under the respective terms thereof, and any parties that did not previously ratify the Unit Operating Agreement and the Unit Agreement, nevertheless become Working Interest Owners as a result of the Oil Conservation Division of the State of New Mexico (the "Division") approving this Unit pursuant to the New Mexico Statutory Unitization Act, such Working Interest Owners shall have the right to elect to participate in the Unit and to elect an amount of additional participation that they are willing to assume within thirty (30) days after said approval by the Division. Once all parties have made the elections allowed under the provisions hereof, the interest of those Working Interest Owners that have elected to be carried shall be allocated among those Working Interest Owners that have elected to participate in proportion to their Working Interest in the Unit, provided that no Working Interest Owner shall be allocated any additional participation in excess of the amount of participation which said Working Interest Owner has elected to assume.

12.2 Non-Consent Penalty: The entire cost and risk of conducting operations shall be borne by the Working Interest Owners in the proportion that they have elected to participate pursuant to the terms hereof (hereinafter, such Working Interest Owners shall be referred to as "Consenting Parties"). Each Working Interest Owner that has elected to be carried (hereinafter, such Working Interest Owners shall be referred to as "Non-Consenting Parties") shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Parties' share of Unit Production (including its share of any Outside Substances produced and sold) until the proceeds of the sale of such share, calculated at the well, or the market value thereof if such share is not sold (after deducting production taxes, excise taxes, royalty or/and overriding royalty payable out of or measured by the production from such well accruing with respect to such interest) shall equal the Unit Expense accruing for such interest plus an amount equal to 200% of all such Unit Expense allocated to such Non-Consenting Parties' Working Interest, it being further understood and agreed that the unpaid balance of any amount payable out of a Non-Consenting Party's interest hereunder (including the

additional 200% of such expenses provided for above) shall bear interest at the rate of 2% above prime rate as established by Bank One of Oklahoma, N.A. to be determined monthly, or at the maximum contract rate permitted by the applicable usury laws, whichever is the lesser.

12.3 Handling of Inventory Adjustment for Non-Consent Parties: It is understood and agreed that Unit Operator shall promptly provide Working Interest Owners with notification of the approval of the inventory and valuation pursuant to Article 10, and that, with regard to any Working Interest Owner that has elected to be carried under Section 12.1, and has not had its Working Interest revert to it pursuant to the terms hereof, the following shall apply: (i) if such Working Interest Owner has a net charge against its interest following the inventory adjustment, such charge shall be considered an expense in the month in which the inventory adjustment is applied and shall be treated as any other expense under Sections 12.1 and 12.2 (ii) if such Working Interest Owner has a net credit against its interest following the inventory adjustment, the amount of such credit shall be applied to the outstanding balance of such Working Interest Owner in the same manner as revenue in the month in which the inventory adjustment is applied, and if the amount of such credit is sufficient for the Working Interest of such Working Interest Owner to revert to it pursuant to the terms hereof, such Working Interest shall revert, and the amount of any net credit remaining shall be paid to Working Interest Owner.

12.4 Payoff of Non-Consent Party's Unpaid Balance: Any Non-Consenting Party shall have the right, at any time, to pay off the amount of its net unpaid balance and, in the event that any Non-Consenting Party exercises this right, the Working Interest of such Non-Consenting Party shall revert to it on the month following the month of such payment.

### ARTICLE 13 NON-UNITIZED FORMATIONS

13.1 Right to Operate: Any Working Interest Owner that now has, or hereafter acquires, the right to drill for and produce oil, gas or other minerals other than from the Unitized Formation shall have the right to do so notwithstanding this Plan of Unitization. In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well(s) into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

13.2 Multiple Completions: No well now or hereafter completed in the Unitized Formation shall ever be completed as a multiple completion with the Unitized Formation and any other formation unless such multiple completion and the subsequent handling of the multiple completion is approved by Working Interest Owners in accordance with the voting procedure set out in Section 4.3.2 of this Agreement.

### ARTICLE 14 TITLES

14.1 Title Information: The Working Interest Owners of a Tract shall furnish and make available to the Unit Operator the most recent title opinion and supporting documents, which may or may not include updated abstracts to title, together with all other title information in the possession of such Lessees, affecting their title and that of their Royalty Owners to the Oil and Gas Rights in and to such Tract.

14.2 Warranty and Indemnity: Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibit "D" and agrees to indemnify and hold harmless all other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; however, such

indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of 7:00 a.m. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom as a result of title failure.

14.3 Failure Because of Unit Operations: The failure of title to any Working Interest in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit Participation of the Working Interest owner whose title failed in relation to the Unit Participation of the other Working Interest Owners at the time of the title failure.

## ARTICLE 15 LIABILITY, CLAIMS, AND SUITS

15.1 Individual Liability: The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners. Each party here to shall be individually responsible for its own obligations as herein provided.

15.2 Settlements: Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed fifty thousand dollars (\$50,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

15.3 Indemnification of Unit Operator: The Working Interest Owners agree to indemnify and hold harmless the Unit Operator from each of the following losses:

(a) Bankruptcy or misappropriation of funds by a drilling contractor to whom a prepayment of intangible drilling costs has been paid for a well to be drilled in a subsequent year. The loss of such prepayment shall constitute an individual loss to the parties making such prepayment.

(b) Any adverse loss or tax consequence incurred as a result of a tax court or any other governmental agency not allowing the deduction of any intangible investment, for any reason.

15.4 Governmental Rulings: Non-Operators agree to release Unit Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Unit Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor agencies to the extent Unit Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Non-Operators further agree to reimburse Unit Operator for their proportionate share of any amounts Unit Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with the Non-Operators' proportionate part of interest and penalties owing by Unit Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

ARTICLE 16  
INTERNAL REVENUE PROVISION

16.1 Internal Revenue Provision: Each Lessee hereby elects that it and the operations covered by this Agreement be excluded from the application of Subchapter K of Chapter I of Subtitle A of the Internal Revenue Code of 1986, as amended, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. The Unit Operator is hereby authorized and directed to execute on behalf of each Lessee such additional or further evidence of said election as may be required by regulations issued under said Subchapter K, or should said regulations require each Person to execute such further evidence; each Lessee shall execute or join in the execution thereof. The election hereby made and the other provisions of this Article shall apply in like manner to applicable state laws, regulations, and rulings now in effect. In making this election each of the Lessees hereto hereby states that the income derived by it from the operations under this Plan of Unitization can adequately be determined without the computation of partnership taxable income.

16.2 Governmental Fines, Penalties: All fines, interest, penalties, etc., leveled by the Department of Energy or other governing authority shall be paid for out of the Joint Account. Furthermore, if the DOE determines an overcharge has occurred, each party agrees to pay to Unit Operator his share of the overcharge. Unit Operator shall forward this payment to the Agency. If any Overriding Royalty Interest or Royalty Interest Owner refuses to pay his share of the overcharge; then (1) his share of the overcharge shall be charged to the Joint Account; and, (2) if he later pays his share, either with cash or production, the Joint Account will be reimbursed.

ARTICLE 17  
NOTICES

17.1 Notices: All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail, telegram, fax, email, or electronic means to the address of each Working Interest Owner as furnished to the Unit Operator in accordance with Article 4.1 of this agreement.

17.2 Notice of Transfer of Title: No change of title shall be binding on the Unit or the Unit Operator until the first day of the calendar month next succeeding the date of receipt by the Unit Operator of evidence satisfactory to it of change of such ownership. Each such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon the Person or Persons acquiring such interest the obligation of the predecessor in interest with respect to the interest so transferred and shall likewise operate to give and grant to the Person or Persons acquiring such interest all benefit attributable hereunder to such interest.

ARTICLE 18  
WITHDRAWAL OF WORKING INTEREST OWNER

18.1 Withdrawal: A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest

Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value as determined by Working Interest owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

18.2 Restriction of Disposition and Withdrawal: A Working Interest Owner shall not make any disposition of a Working Interest which does not include a corresponding interest in the Unit Equipment. No Working Interest shall be owned apart from a corresponding interest in the Unit Equipment and vice versa. Notwithstanding anything set forth herein, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of 18.75% unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens. No Working Interest Owner shall be relieved of its obligations hereunder during a blowout, a fire, or other emergency, but may withdraw from this agreement after termination of such emergency, provided such Working Interest Owner shall remain liable for its share of all costs arising from said emergency.

## ARTICLE 19 ABANDONMENT OF WELLS

19.1 Rights of Former Owners: If Working Interest Owners elect to permanently abandon any Unit well prior to termination of the Unit, the Unit Operator shall give notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of sixty (60) days after the sending of such notice to notify the Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified the Unit Operator of their election to take over the well, they shall pay the Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to promptly and effectively seal off and protect the Unitized Formation in a manner satisfactory to the Working Interest Owners, and upon abandonment to plug the well in compliance with applicable laws and regulations.

19.2 Plugging: If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico with the expense of plugging be charge to the joint account.

## ARTICLE 20 MAINTENANCE OF UNIFORM INTEREST

20.1 Maintenance of Uniform Interest: For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no party shall sell, encumber, transfer or make other disposition of its interest in the lease embraced within the Unit Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties.

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

## ARTICLE 21 EFFECTIVE DATE AND TERM

21.1 Effective Date: This Agreement shall become effective when the Unit Agreement becomes effective. Upon its effective date, this Unit Operating Agreement shall supercede and supplant any and all previously existing operating agreements covering the Unitized Formation, or any portion thereof.

21.2 Term: This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or turned over to Working Interest owners in accordance with Article 19 and Article 21; and (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and, (c) there has been a final accounting.

## ARTICLE 22 ABANDONMENT OF OPERATIONS

22.1 Termination: Upon termination of the Unit Agreement, the following will occur:

22.1.1 Oil and Gas Rights: Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

22.1.2 Right to Operate: Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, as determined by Working Interest Owners, of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico.

22.1.3 Salvaging Wells: Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.

22.1.4 Plugging and Abandoning Wells: The responsibility and expense of plugging and abandoning all wells not taken over by individual Working Interest Owners pursuant to Paragraph 22.1.2 hereof, shall be borne by the Working Interest Owners. It is expressly understood that upon termination of this Unit Agreement, the responsibility and expense of plugging wells in compliance with all applicable laws and regulations shall rest with all of the Working Interest Owners of the Unit.

22.1.5 Distribution of Assets: Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participation.

22.1.6 Obligations Payable After Termination: If any liability or obligation incurred prior to termination of the Unit shall accrue and become payable thereafter, the account shall be borne and paid as Unit Expense in the same manner as if it had accrued prior to termination of the Unit.

## ARTICLE 23 RIGHTS OF WAY AND EASEMENTS

23.1 Assignment to Unit Operator: Each Working Interest Owner having rights of way, easements or leasehold interest in surface sites necessary for Unit Operations hereby agrees to assign, to the extent of its right and interest, to Unit Operator for the benefit of the Working Interest Owners, a non-exclusive right and interest in and to such interest.

23.2 Rental Payments: The owners of such interest agree to make any rental payments which may become due to avoid termination of any such interest for failure to make such payment prior to thirty (30) days beyond the date formal assignment of such interest to Unit Operator is accomplished as described in Section 22.1 above. Any payments made under this paragraph shall be considered a direct charge under Unit Expense.

23.3 Rights of Unit Operator: Such interest described in Section 21.1 above, shall continue with Unit Operator for so long as such are used for Unit Operations.

## ARTICLE 24 EXECUTION

24.1 Original, Counterpart, or Other Instrument: An owner of a Working Interest may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any instrument shall have the same effect as if all the parties had signed the same instrument.

## ARTICLE 25 SIGNING, RATIFICATION OR APPROVAL

25.1 Original, Counterparts or Ratification: This Unit Agreement and Unit Operating Agreement may be signed, ratified or approved by signing the original of this instrument, a counterpart, or other instrument adopting the provisions hereof, all with the same effect as if a Person had signed the same instrument. Persons signing, ratifying or otherwise approving this Agreement thereby agree to all the provisions thereof.

25.2 Joinder in Dual Capacity: The signing, ratification or approval of this Unit Agreement and Unit Operating Agreement as herein provided by any Person as either a Lessee or as a Royalty Owner shall commit all interests that may be owned or controlled by such Person.

25.3 Heirs, Successors and Assigns: The signing, ratification or approval of this Unit Agreement and Unit Operating Agreement shall be binding upon the heirs, personal representatives, successors and assigns of the Persons so signing, ratifying or approving the same.

Executed as of the day and year first above written.

UNIT OPERATOR

Chesapeake Exploration, L.L.C.,

By \_\_\_\_\_  
Henry J. Hood, Senior Vice President - Land and Legal & General Counsel

Date of execution \_\_\_\_\_

STATE OF OKLAHOMA )  
 ) SS: INDIVIDUAL  
COUNTY OF OKLAHOMA )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State,  
on this day personally appeared \_\_\_\_\_ to me known to be the identical  
person who executed the within and foregoing instrument and acknowledged to me that \_\_\_\_\_ executed the  
same as \_\_\_\_\_ free and voluntary act and deed for the uses and purposes therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
NOTARY PUBLIC

My Commission Expires:

\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

**Acknowledgement in a Representative Capacity**

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

By \_\_\_\_\_  
Name(s) of Person(s)

As \_\_\_\_\_ of \_\_\_\_\_  
Type of Authority; E.G. Officer, Trustee, etc      Name of Party on behalf of whom instrument was executed

\_\_\_\_\_  
Signature of Notarial Officer

My Commission Expires: \_\_\_\_\_

# Exhibit "D"

## QUAIL QUEEN UNIT WIO Unit Participation BASED ON TPF'S

Tracts Unit Participation Fraction Working Interest Owner	Tract 1A 0.0403629669				Tract 1B 0.0106102051				Tract 2 0.1980850294			
	WI	NRI	UNIT WI	UNIT NRI	WI	NRI	UNIT WI	UNIT NRI	WI	NRI	UNIT WI	UNIT NRI
Chesapeake Exploration L.L.C.	1.0000000000	0.8750000000	0.0403629669	0.0353175960	1.0000000000	0.8750000000	0.0106102052	0.0092839295	1.0000000000	0.8750000000	0.1980850295	0.1733244008
CLM Production Company												
First Century Oil Inc.												
Fisco Inc.												
Gene A. Snow Operating												
Joe M. & Nancy Wigley												
Laura K. Read												
New Mexico Western Mineral, Inc.												
Patricia L. Pruitt												
Pintail Production Company, Inc.												
Pride Energy Company												
Randall R. Fort												
Read & Stevens, Inc.												
Roy G. & Opal Barton Revocable Trust, Roy												
G. Barton Jr., aka George Barton Trust												
Tommy R. Fort												
William D. Bradshaw												
	1.0000000000	0.8750000000	0.0403629669	0.0353175960	1.0000000000	0.8750000000	0.0106102052	0.0092839295	1.0000000000	0.8750000000	0.1980850295	0.1733244008

**QUAIL QUEEN UNIT**  
**WIO Unit Participation BASED ON TPF'S**

C:\Documents and Settings\frinapiel\Local Settings\Temporary Internet Files\OLK7400\1\_TPF\_6\_26\_08\_Terry\_Revised for AllTexts.TPF by VVI

**QUAIL QUEEN UNIT**  
**WIO Unit Participation BASED ON TPF'S**

C:\Documents and Settings\fronapfe\Local Settings\Temporary Internet Files\OLK741QQU\_TPF\_6\_26\_08\_Terry\_Revised for AllTex.xls  
TPF by WJ

**QUAIL QUEEN UNIT**  
**WIO Unit Participation Based on TPF'S**

C:\Documents and Settings\jfronapfe\Local Settings\Temporary Internet Files\OLK41DQU\_TPF\_6\_26\_08\_Larry\_Revised for AITex.xls  
TPF 67 WJ

EXHIBIT "E"

Attached to and made a part of that certain Unit Operating Agreement dated August 1, 2007 by and between Chesapeake Exploration, L.L.C. as Operator and \_\_\_\_\_ as Non-Operator

## ACCOUNTING PROCEDURE JOINT OPERATIONS

### I. GENERAL PROVISIONS

#### 1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council or Petroleum Accountants Societies.

#### 2. Statement and Billings

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

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

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

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank One of Oklahoma, N.A. +2% on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

Operator may, at its option, choose to substitute other penalties described elsewhere in this Agreement for failure to pay bills within the fifteen (15) day time frame described above.

#### 4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. **Audits**

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. **Approval By Non-Operators**

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

**II. DIRECT CHARGES**

Operator shall charge the Joint Account with the following items:

1. **Ecological and Environmental**

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

2. **Rentals and Royalties**

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

3. **Labor**

A. (1) Salaries and wages of Operator's field employees <sup>and/or consultants</sup> directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First level Supervisors in the field.

<sup>and/or consultants</sup>

(3) Salaries and wages of Technical Employees <sup>/</sup> directly employed on the Joint Property if such charges are excluded from the overhead rates.

<sup>and/or consultants</sup>

(4) Salaries and wages of Technical Employees <sup>/</sup> either temporarily or permanently assigned to and directly employed in the operation or the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

4. **Employee Benefits**

Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. Material

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

6. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

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

8. Equipment and Facilities Furnished By Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed ten percent (10%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

title and regulatory work,

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

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

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12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

The cost of Operator's Field Offices not covered in Section III, or any  
Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. ~~The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.~~

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 8,500.00  
(Prorated for less than a full month)

Producing Well Rate \$ 850.00

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

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date <sup>location work begins</sup> ~~the well is spudded~~ and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

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

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached ~~by the percent increase or decrease published by COPAS~~. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Grade Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Grade Petroleum and Gas Production Workers as ~~approved and recorded by COPAS~~, published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$50,000.00:

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A. 5.0 % of first \$100,000 or total cost if less, plus

B. 3.0 % of costs in excess of \$100,000 but less than \$1,000,000, plus

C. 2.0 % of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

### 3. Catastrophe Overhead

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

A. 5.0 % of total costs through \$100,000; plus

B. 3.0 % of total costs in excess of \$100,000 but less than \$1,000,000; plus

C. 2.0 % of total costs in excess of \$1,000,000.

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

### 4. Amendment of Rates

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

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

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

### 1. Purchases

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

### 2. Transfers and Dispositions

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

#### A. New Material (Condition A)

##### (1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line Pipe movements (except size 24 inch OD) and larger with walls 3/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, / plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material used on and moved from the Joint Property

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

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

(3) Material not used on and moved from the Joint Property

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

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. ~~Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.~~

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

1 overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

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3 **3. Special Inventories**

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5 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint  
6 Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of  
7 interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases  
8 involving a change of Operator, all Parties shall be governed by such inventory.

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10 **4. Expense of Conducting Inventories**

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12 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the  
13 Parties.

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15 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except  
16 inventories required due to change of Operator shall be charged to the Joint Account.

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## EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN UNIT OPERATING AGREEMENT DATED AUGUST 1, 2007 BY AND BETWEEN CHESAPEAKE EXPLORATION, L.L.C., AS OPERATOR AND \_\_\_\_\_, AS NON-OPERATOR

1. Operator shall procure and maintain, at all times while conducting operations under this Agreement, the following insurance coverages with limits not less than those specified below:

A. Workers' Compensation Employer's Liability	Statutory \$1,000,000 Each Accident
B. General Liability including bodily injury and property damage liability	\$1,000,000 Combined Single Limit
C. Auto Liability	\$1,000,000 Combined Single Limit
D. Excess or Umbrella Liability	\$20,000,000 Combined Single Limit
E. Cost of Well Control and Care, Custody and Control	\$5,000,000 Each Occurrence and \$250,000 CCC
F. Pollution Liability	\$20,000,000 Combined Single Limit

2. The insurance described in 1. above shall include Non-Operator as additional insured (except Workers' Compensation) and shall include a waiver by the insurer of all rights of subrogation in favor of Non-Operator. Such insurance shall be carried at the joint expense of the parties hereto and all premiums and other costs and expenses related thereto shall be charged to the Joint Account in accordance with the Accounting Procedure attached as Exhibit "E" to this Agreement, unless prior to spud a party hereto who desires to provide its own insurance or self-insurance provides Operator with a certificate of insurance evidencing such individual coverage.

3. Operator shall endeavor to have its contractors and subcontractors comply with applicable Workers' Compensation laws, rules and regulations and carry such insurance as Operator may deem necessary.

4. Operator shall not be liable to Non-Operator for loss suffered because of insufficiency of the insurance procured and maintained for the Joint Account nor shall Operator be liable to Non-Operator for any loss occurring by reason of Operator's inability to procure or maintain the insurance provided for herein. If, in Operator's opinion, at any time during the term of this Agreement, Operator is unable to procure or maintain said insurance on commercially reasonable terms, or Operator reduces the limits of insurance, Operator shall promptly so notify Non-Operator in writing.

5. In the event of loss not covered by the insurance provided for herein, such loss shall be charged to the Joint Account and borne by the parties in accordance with their respective percentage of participation as determined by this Agreement.

6. Any party hereto may individually and at its own expense procure such additional insurance as it desires; provided, however, such party shall provide Operator with a certificate of insurance evidencing such coverage before spud of the well and such coverage shall include a waiver by the insurer of all rights of subrogation in favor of the all parties hereto.

## EXHIBIT "G"

### Inclusion of Pre-Existing Non-Consent Well(s) Included in the Unit

It is anticipated that some wells shall be included in the proposed Quail Queen Unit that are subject to outstanding fees and costs incurred by the respective owners thereof following elections to go non-consent as to the initial drilling and completions prior to inclusion into the Unit. Revenues and costs charged to these wells for recovery of such outstanding account balance after inclusion in the Unit shall be as follows:

- 1) The Unit Operator shall render a statement to the operator/owner of the respective well(s) as to the *outstanding net balance detailing all non-consent costs, associated penalties and revenues* as of the date of the Unitization Order.
- 2) A copy of this statement shall be forwarded to non-consent participants in the Unit.
- 3) After the date of Unitization, unit production and costs shall be allocated to each tract which contains a well with a non-consent balance based on such tract's tract participation factor. Unit costs attributable to any interest which is not a non-consenting interest with respect to unit operations shall be subject to the non-consent penalties in accordance with the terms of the applicable original agreements. Unit costs attributable to any interest which is a non-consenting interest with respect to unit operations pursuant to an election made after the date of the Unitization Order shall be capped at the maximum 200% penalty allowed under New Mexico law for penalties pertaining to unit costs.

## EXHIBIT "H"

### PRE-UNITIZATION EXPENSES

Pre-Unitization Expenses shall include, but not necessarily be limited to, the following categories:

- 1) Pre-production and printing expenses related to unit agreements, engineering reports, legal opinions, operation agreements, and all other documents and instruments necessary for the formation of the unit.
- 2) Postage for all mailings to involved working interest and mineral interest owners.
- 3) Recording fees, where applicable, for unitization agreements, ratifications, certificates, and other instruments that are required to be recorded in various places.
- 4) Actual expenses incurred by personnel directly involved in the formation of the Unit.
- 5) Telephone expenses that are directly concerning approval of mineral estate and working interest owners.
- 6) Cost of rental of meeting rooms for Unit Committees when conducted outside the office of the working interest owners.
- 7) Salaries of operators, employees, outside legal counsel necessary to present the Application for Unitization to various governmental agencies having jurisdiction over these matters.
- 8) Cost of engineering, contract land work, which may include curative work and any other items necessary to determine the feasibility of the Unit. In addition, expenses incurred for original title opinions, supplemental title opinions, and updates of title work as deemed necessary.
- 9) All costs involved in well testing expense for existing wells to establish the value of these wells, consulting fees attributed directly to such testing, and other expenditures necessary as a prelude to the formation of the Unit prior to the Effective Date of the Unit. The working interest owners may limit this amount of money by mutual agreement.
- 10) Attorney's fees and other legal expenses incurred in connection with formation of the Unit.
- 11) Any extraordinary costs not included in any of the above categories when authorized by the working interest owners by mutual agreement.
- 12) Acquisition of any leasehold or equipment for the specific account of any working interest owner prior to the formation of the Unit shall not be charged as a Pre-Unitization Expense, and any costs directly attributed to such acquisition for the benefit of the specific working interest owner shall also be excluded from the category of Pre-Unitization Expense.

## Redesignation of Well Names

Quail Queen Unit  
Lea County, New Mexico

API#	Section 11-19S-34E	New Name	Location	Unit
3002525536	Quail Queen SWD 1(Inj)	QQU 11-1	SW SE	O
3002525868	Quail State 2	QQU 11-2	NW SE	J
3002526221	Quail State 3Y (Inj)	QQU 11-3	NE SE	I
3002526473	Quail State 4	QQU 11-4	SE SE	P
3002526783	Quail State 5 (T/A)	QQU 11-5	NW SW	L
3002526853	Quail State 6	QQU 11-6	SE SW	N
3002527096	Quail State 7 (T/A)	QQU 11-7	SW SW	M
3002523031	State C-1 (Inj)	QQU 11-8	NE SW	K
3002525887	Wainoco State 1	QQU 11-9	NW NE	B
3002526348	Wainoco State 2	QQU 11-10	SE NE	H
3002526707	Wainoco State 3 (Inj)	QQU 11-11	NE NE	A
3002522841	Pennzoil State 1 (Inj)	QQU 11-12	SW NE	G

### Section 13-19S-34E

3002522519	Atlantic Richfield 1	QQU 13-1	NW SW	L
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### Section 14-19S-34E

3002525493	State BG 2 (Inj)	QQU 14-1	SW NE	G
3002525506	State BG 3	QQU 14-2	NW NE	B