

**From:** Jan Spradlin  
**To:** ["craig.barnard@chk.com"](mailto:craig.barnard@chk.com)  
**Cc:** [Traci Conner](#)  
**Subject:** OA-AAPL 610-1989 Individual Loss-COG Model Form 4-29-09.doc  
**Date:** Sunday, September 20, 2009 10:03:00 AM  
**Attachments:** [OA-AAPL 610-1989 Individual Loss-COG Model Form 4-29-09.doc](#)

---

Craig,

Sorry it has taken me so long to get back to you but I have been mostly out of the office with family medical issues. Attached is our form of Operating Agreement which has been approved by our legal counsel and is our starting point for all OA's. Please review and let me know your comments and changes. To prepare the exhibit "A" I will need the working interest breakdown based on the OA that you have with McDonald and Devon if that OA covers all depths. Inasmuch as we have two well locations, I would like for us to include both wells under this OA. You mentioned that you may want to farmout your interest in the #2 well so we would need to add an additional provision to address that in order that CHK would not place under the N/C penalty. We can discuss the NRI that CHK would want to be delivered if they decide to FO.

Please give me a call after you have a chance to review. I have been called for jury duty tomorrow, but if you email me, I will call you during a break. Thank you for your patience in this matter.

Regards,

Jan

*Jan Preston Spradlin, CPL*

*Senior Landman*

 **CONCHO**  
**COG Operating LLC**

Fasken Center, Tower II

550 West Texas Avenue, Suite 100

Midland, Texas 79701

Main: 432.683.7443

Fax: 432.683.7441

Direct: 432-685-4352

Cell: 432-770-1326

[jspradlin@conchoresources.com](mailto:jspradlin@conchoresources.com)

A.A.P.L. FORM 610 - 1989

**MODEL FORM OPERATING AGREEMENT**

OPERATING AGREEMENT

DATED

\_\_\_\_\_ ? \_\_\_\_\_ ?  
Year

OPERATOR \_\_\_\_\_

CONTRACT AREA \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

COUNTY OR PARISH OF \_\_\_\_\_, STATE OF \_\_\_\_\_

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

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

TABLE OF CONTENTS

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

Formatted: Strikethrough

**TABLE OF CONTENTS**

D. ASSIGNMENT; MAINTENANCE OF UNIFORM INTEREST:	15
E. WAIVER OF RIGHTS TO PARTITION:	15
<del>F. PREFERENTIAL RIGHT TO PURCHASE:</del>	<del>15</del>
IX. <u>INTERNAL REVENUE CODE ELECTION</u>	15
X. <u>CLAIMS AND LAWSUITS</u>	15
XI. <u>FORCE MAJEURE</u>	16
XII. <u>NOTICES</u>	16
XIII. <u>TERM OF AGREEMENT</u>	16
XIV. <u>COMPLIANCE WITH LAWS AND REGULATIONS</u>	16
A. LAWS, REGULATIONS AND ORDERS:	16
B. GOVERNING LAW:	16
C. REGULATORY AGENCIES:	16
XV. <u>MISCELLANEOUS</u>	17
A. EXECUTION:	17
B. SUCCESSORS AND ASSIGNS:	17
C. COUNTERPARTS:	17
D. SEVERABILITY:	17
XVI. <u>OTHER PROVISIONS</u>	17
A. <u>CONFLICTS</u>	17A
B. <u>PRIORITY OF PROPOSALS AND OPERATIONS</u>	17A
C. <u>COMMENCEMENT OF OPERATIONS</u>	17A
D. <u>OPERATOR'S AUTHORITY TO PERFORM CERTAIN MINISTERIAL ACTS</u>	17A
E. <u>AMENDMENT OF OPERATING AGREEMENT</u>	17A
F. <u>ADVANCE PAYMENTS</u>	17A
G. <u>SEPARATE MEASUREMENT FACILITIES</u>	17B
H. <u>BANKRUPTCY</u>	17B
I. <u>SECURITY</u>	17B
J. <u>E-MAIL AS FORM OF NOTICE</u>	17B
K. <u>INTERPRETATION</u>	17B
L. <u>COVENANTS RUNNING WITH LAND/EFFECT OF TRANSFER</u>	17B
M. <u>INDEMNITY</u>	17B
N. <u>WELL ACCESS</u>	17C
O. <u>RELATIONSHIP OF PARTIES</u>	17C
P. <u>FORECLOSURE OF OPERATOR'S LIEN</u>	17C

Formatted: Strikethrough

Formatted: Tab stops: 6.13", Left, Leader: ...  
+ Not at 6.5"

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

OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.

DEFINITIONS

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

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of  
estimating the costs to be incurred in conducting an operation hereunder.

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

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

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest  
Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the  
lesser.

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

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

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

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

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

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

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

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

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

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

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

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

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

R. The term "Zone" shall mean a stratum of earth containing or thought to contain a common accumulation of Oil and  
Gas separately producible from any other common accumulation of Oil and Gas.

~~S. The term "Horizontal Well" shall mean a well in which the horizontal component of the gross Completion interval in the  
Completed Zone or Zones exceeds the vertical component of the gross Completion interval in the Completed Zone or Zones.~~

~~T. The term "Vertical Well" shall mean any well other than a Horizontal Well.~~

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

ARTICLE II.

EXHIBITS

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

- ☒ A. Exhibit "A," shall include the following information:
- (1) Description of lands subject to this agreement,
  - (2) Restrictions, if any, as to depths, formations, or substances,
  - (3) Parties to agreement with addresses and telephone numbers for notice purposes,
  - (4) Percentages or fractional interests of parties to this agreement,
  - (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
  - (6) Burdens on production.

☐ B. Exhibit "B," Form of Lease.

☒ C. Exhibit "C," Accounting Procedure.

☒ D. Exhibit "D," Insurance.

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

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

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