



April 26, 2010

**HAND-DELIVERED**

Mark E. Fesmire, P.E.  
Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

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Case 14476 >

**Re: Application of Chesapeake Exploration, LLC doing business through its agent Chesapeake Operating, Inc. for statutory unitization of the Chambers Strawn Unit Area, Lea County, New Mexico.**

**Application of Chesapeake Exploration, LLC doing business through its agent Chesapeake Operating, Inc. for approval of a waterflood project and qualification of the Project Area of the Chambers Strawn Unit for the Recovered Oil Tax Rate pursuant to the Enhanced Oil Recovery Act, Lea County, New Mexico.**

Dear Mr. Fesmire:

Enclosed is the application of Chesapeake Exploration, LLC doing business through its agent Chesapeake Operating, Inc. for statutory unitization of the Chambers Strawn Unit and two copies of Oil Conservation Division Form C-108 which is Chesapeake's application for a waterflood project in this Unit Area. Drafts of legal advertisements for each application are also enclosed. Chesapeake requests that these applications be placed on the Division Examiner Hearing docket set for May 27, 2010.

Very truly yours,

William F. Carr

Enclosures

cc: Mr. Terry Frohnapfel  
Chesapeake Operating, Inc.

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

**IN THE MATTER OF THE APPLICATION OF CHESAPEAKE  
EXPLORATION, LLC DOING BUSINESS THROUGH ITS AGENT  
CHESAPEAKE OPERATING, INC. FOR STATUTORY UNITIZATION OF THE  
CHAMBERS STRAWN UNIT AREA, LEA COUNTY, NEW MEXICO.**

CASE NO. 14478<sup>7</sup>

**APPLICATION**

CHESAPEAKE EXPLORATION, LLC doing business through its agent CHESAPEAKE OPERATING, INC. (OGRID No. 147179) ("Chesapeake"), pursuant to the provisions of the New Mexico Statutory Unitization Act (Sections 70-7-1 through 70-7-21, NMSA, 1978) hereby applies to the Oil Conservation Division for an order unitizing the Chambers Strawn Unit Area, Lea County, New Mexico, and in support of its application states:

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1. Chesapeake is a corporation authorized to transact business in the State of New Mexico and is engaged in the business of, among other things, producing and selling oil and natural gas.

2. Chesapeake seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of a portion of the Strawn formation which consists of 480 acres, more or less, of fee lands located in Lea County, New Mexico, and is more particularly described as follows:

**TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM**

Section 7:	NE/4, NE/4 SE/4
Section 8:	NW/4 NW/4, S/2 NW/4, SW/4

A map of the proposed Unit Area is attached to this application as **Exhibit A**.

3. The vertical limits of the unitized formation to be included within the proposed Unit Area shall mean that stratigraphic interval occurring between a point 100 feet above the Strawn Carbonate formation and 100 feet below the base of the Strawn Carbonate formation, said Strawn Carbonate interval occurring between 11442 feet and 11738 feet (7490 feet to 7786 feet subsea) in the Chesapeake Operating, Inc. Runnels "8" Well No. 1 (API No. 30-025-34264) located 780 feet from the South line and 1510 feet from the West line of Section 8, Township 16 South, Range 36 East N.M.P.M., Lea County, New Mexico as recorded on sonic log of said well dated March 3, 1998.

4. The portions of the Strawn reservoir that are the subject of this application have been reasonably defined by development.

5. The type of operations to be conducted in this Unit initially include secondary recovery by means of waterflooding. At a later date, carbon dioxide flooding or other methods of secondary recovery may be conducted in the proposed unit area.

6. Attached to this application as **Exhibit B** and incorporated herein is a copy of the proposed plan of unitization that Chesapeake considers fair, reasonable and equitable.

7. Attached to this application as **Exhibit C** and incorporated herein is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

8. Chesapeake further states:

A. Unitized management, operating and further development of the portion of the Strawn formation which is the subject of this application, is reasonably necessary in order to effectively carry on secondary recovery operations and, at a later date, tertiary recovery operations, and to substantially increase the ultimate recovery of oil from the unitized portion of the pool.

B. The proposed unitized methods of operations to be applied to this portion of the Strawn formation are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil and/or gas from the pool, or unitized portions thereof, than would otherwise be recovered.

C. The estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil recovered plus reasonable profit.

D. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights within this portion of the pool.

E. Chesapeake Operating, Inc., as operator, has made a good faith effort to secure voluntary unitization within the portion of the Strawn formation affected by this application.

F. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis.

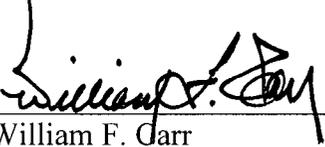
9. Chesapeake requests that any order issued in this case include each matter set forth in NMSA 1978, § 70-7-7 and that it specifically provide for carrying any working interest owner on a limited, carried net profits basis, payable out of production, and include a 200% non-consent penalty for risk to be charged against carried working interests within the unit area upon such terms and conditions to be determined by the Division as just and reasonable.

10. Statutory unitization of the Chambers Strawn Unit Area is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Chesapeake Operating Inc. respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on May 27, 2010 and, that after notice and hearing as required by law and the rules of the Division, the Division enter its order granting this application statutorily unitizing the subject portions of the Strawn formation, Lea County, New Mexico.

Respectfully submitted,

HOLLAND & HART LLP

By: 

William F. Garr

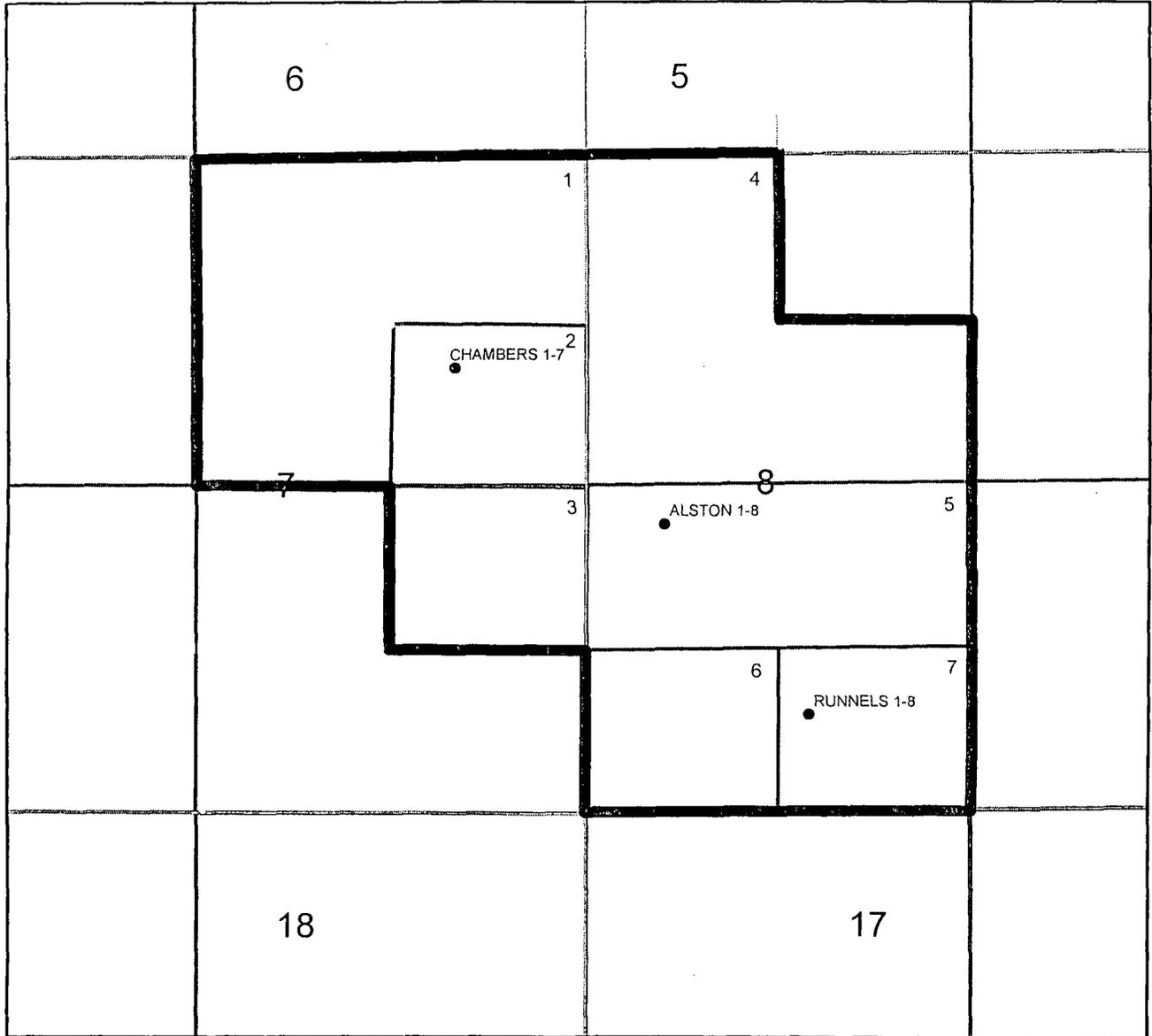
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Post Office Box 2208

Santa Fe, New Mexico 87504-2208

ATTORNEYS FOR CHESAPEAKE  
OPERATING, INC.

# EXHIBIT "A"



TOWNSHIP 16 SOUTH, RANGE 36 EAST  
LEA COUNTY, NEW MEXICO

## CHAMBERS STRAWN UNIT CHESAPEAKE OPERATING, INC.

- Wells
- ▭ Proposed Waterflood Unit Boundary

- ▨ Federal Acreage = 0 acres
- ▧ State Acreage = 0 acres
- Fee Acreage = 480.00 acres
- Total Acreage = 480.00 acres

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE

CHAMBERS STRAWN UNIT AREA  
LEA County,  
NEW MEXICO

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
CHAMBERS STRAWN

UNIT

LEA

County, NEW MEXICO

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EXHIBIT \_\_\_\_\_

EXHIBIT \_\_\_\_\_

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
CHAMBERS STRAWN

LEA \_\_\_\_\_ County(ies), NEW MEXICO

THIS AGREEMENT, entered into as of the 1<sup>st</sup> day of APRIL, 2010, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto";

WITNESSETH THAT:

WHEREAS, the parties hereto are the owners of working, royalty or other oil and gas interests in the Unit Area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Sec. 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap. 19, Art. 10, Sec. 47, N.M. Stats. 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chap. 72, Laws 1935, as amended, being Sec. 70-2-1 et seq. N.M. Statutes 1978 Annotated) to approve this agreement and the conservation provision hereof; and

WHEREAS, the parties hereto hold sufficient interests in the CHAMBERS STRAWN Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary and/or enhanced oil recovery operations, conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth.

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the Unitized Formation underlying the Unit Area, and agree severally among themselves as follows:

**SECTION 1. ENABLING ACT AND REGULATIONS:** The oil and gas operating regulations in the effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this agreement.

**SECTION 2. DEFINITIONS:** For the purpose of this agreement, the following terms and expressions are used herein shall mean:

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto and said land is hereby designated and recognized as constituting the Unit Area.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Division" is defined as the Oil Conservation Division of the State of New Mexico.
- (d) "Unitized Formation" is defined as that stratigraphic interval occurring between a point of 100 feet above the Strawn Carbonate formation and 100 feet below the base of the Strawn Carbonate formation, said Strawn Carbonate interval occurring between 11442 feet and 11738 feet (-7490 feet to -7786 feet subsea) in the Chesapeake Operating, Inc., Runnels "8" well No. 1 (API No. 30-025-34264) located 780 feet from the South line and 1510 feet from the West line of Section 8, Township 16 South, Range 36 East N.M.P.M., Lea County, New Mexico as recorded on the sonic log of said well dated March 3, 1998.
- (e) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

- (f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized substances or proceed thereof other than a Working Interest.
- (h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (j) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I and Phase II, as hereinafter defined. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
- (l) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- (m) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit Operating Agreement, \_\_\_\_\_  
for the CHAMBERS STRAWN UNIT, \_\_\_\_\_ Lea \_\_\_\_\_ County, New Mexico".
- (n) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8, Successor Unit Operator, hereof.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing \_\_\_\_\_ 480 \_\_\_\_\_ acres, more or less.

Exhibit "A" to the extent known to Unit Operator shows the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area during Phase I and II, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this agreement as of the effective date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two copies of such revision shall be filed with the Commissioner and the Division.

SECTION 4. EXPANSION: The Unit Area may, when practicable, be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner.

- (a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into the Unit Area shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the tract or tracts proposed to be included in the Unit and/or affected by the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having a combined Phase II Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Commission:
  - (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto, and the proposed effective date thereof; and

(2) Furnish copies of said notice to the Commissioner and the Division, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and

(3) File, upon the expiration of said thirty-day period as set out in Subsection (2) immediately above, with the Commissioner and Division the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified for Unit Participation, infra; and (d) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner and Division, become effective as of the date prescribed in the notice thereof. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain in the same ratio one to another.

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

**SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES:** All land committed to this agreement as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil and gas in the Unitized Formation in the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

**SECTION 6. UNIT OPERATOR:** CHESAPEAKE EXPLORATION, L.L.C., by and through its agent CHESAPEAKE OPERATING INC., is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

**SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR:** Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Commissioner and Division unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal only by unanimous vote of all Working Interest Owners other than Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and Division.

In all such instances of resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books and records, materials, appurtenances and other assets used in conducting the Unit operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

**SECTION 8. SUCCESSOR UNIT OPERATOR:** Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners, voting in the manner provided in the Unit Operating Agreement, shall select a successor Unit Operator; provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes only to succeed itself. Such selection of a successor Unit Operator shall not become effective until: (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and Division. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this agreement terminated.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereunder in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this agreement, and in case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement executed Pursuant to this Section shall be filed with the Commissioner.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement has been reasonably proven to be productive of Unitized Substances in paying quantities or is necessary for Unit Operations and that the object and purpose of this agreement is to formulate and to put into effect a secondary enhanced oil recovery project in order to effect a greater recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Division and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, steam and any other substances or a combination of any said substances, whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geological and petroleum engineering practices and conservation methods. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary and or enhanced oil recovery operations, Unit Operator shall furnish the Commissioner and the Division monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and Division.

The initial plan of operation shall be filed with the Division and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence, if not already having done so, secondary recovery operations and/or enhanced oil recovery operations on the Unit Area not later than six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and Division or this Agreement, shall terminate automatically in which latter event the Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 12. TRACT PARTICIPATION: The percentages of Tract Participation set forth in Exhibit "C" for each Tract within the Unit Area have been calculated and determined hereof in accordance with the following formulas:

$$\text{Tract Participation Percentage} = \frac{.06 A/B + .09 C/D + .30 E/F + .45 G/H + 0.1 I/J}{1}$$

A = the average rate of production on the tract for January, February and March, 2010. Gas was converted to an oil equivalency at a ratio of 6 Mcf per barrel.

B = the total average rate of production for all wells within the proposed Unit for January, February and March, 2010. Gas was converted to an oil equivalency at a ratio of 6 Mcf per barrel.

C = the primary reserve for the tract as of April 1, 2010.

D = the primary reserve for the proposed unit as of April 1, 2010.

E = the Estimated Ultimate Primary Recovery (EUR) for the tract.

F = the Estimated Ultimate Primary Recovery (EUR) for the proposed unit.

G = the original oil in place for the tract.

H = the original oil in place for the proposed unit.

I = the number of useable wellbores on the tract.

J = the number of useable wellbores in the proposed unit.

Such percentages of Tract Participation have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this agreement as of the effective date hereof, and such Tract Participation shall govern the allocation of all Unitized Substances produced after the effective date hereof, subject, however, to any revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts are committed hereto as of the effective date hereof Unit Operator shall promptly file with the Commissioner and Division at least two copies of revised Exhibits "B" and "C" setting forth on Exhibit "C" the revised Tract Participations opposite each of the qualified tracts, which shall be calculated by using the tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C" shall, effective as of the effective date of this agreement, supersede the original Exhibits "B" and "C" attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Division within 30 days after filing.

If, subsequent to the effective date of this agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 28, Non-joinder and Subsequent Joinder, or any committed tract is excluded herefrom under the provisions of Section 27, Loss of Title, Unit Operator shall revise said Exhibits "B" and "C" or the latest revision thereof to show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and the Division supersede, as of its effective date, the last previously effective Exhibits "B" and "C". In any such revision of Exhibit "C" the revised percentage participations of the respective tracts listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another.

**SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION:** On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the Unit Area that are qualified as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all tracts qualifying under Section 13 (a) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "C".

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands which may be made by the owners of working interest in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and 13 (b) as such Unit Participation is determined from the Tract Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

**SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES:** All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the Tract Participation effective hereunder during the respective periods, in which such Unitized Substances were produced, as such Tract Participation is shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal force and effect. No Tract committed to this Agreement and qualified for participation as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participations assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 16, Royalty Settlement, hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind.

If any party fails to take in kind or separately dispose of its proportionate share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for making payment of all royalty to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

**SECTION 15. OIL IN LEASE TANKAGE ON EFFECTIVE DATE:** Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date, hereof, any Tract is overproduced with respect to the allowable of the well or wells

on the Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

**SECTION 16. ROYALTY SETTLEMENT:** All Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Division a like amount of gas, less appropriate deductions for loss from any cause may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formula as may be prescribed or approved by the Commissioner; and Division provided further, that such right of withdrawal shall terminate on the termination of this agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner and Division; part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division.

**SECTION 17. RENTAL SETTLEMENT:** Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for payment of any rental or minimum royalty in lieu thereof due under their leases..

**SECTION 18. CONSERVATION:** Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by State laws and regulations. The use of fresh water in waterflood operations is prohibited unless expressly approved by the Commissioner of Public Lands on the basis of excessive technological or financial burden.

**SECTION 19. DRAINAGE:** The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized lands by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

**SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED:** The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect. Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract subject to this agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in the lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing secondary recovery or enhanced oil operations performed hereunder upon any Tract of unitized lands shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Division and Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the terms of this agreement.

(e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(g) Any lease having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bonafide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

**SECTION 21. COVENANTS RUN WITH LAND:** The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the record instrument of transfer; and no assignment or transfer or any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

**SECTION 22. EFFECTIVE DATE AND TERM:** This agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 A.M. of the first day of the month next following:

(a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners having a combined Participation of at least seventy-five percent (75%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy-five percent (75%) of the Royalty Interest in said Unit Area; and

(b) The approval of this agreement by the Commissioner and the Commission; and

(c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of \_\_\_\_\_ Lea County, New Mexico, by the Unit Operator; and

(d) The filing in the office of the County Clerk of \_\_\_\_\_ Lea County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before \_\_\_\_\_ December 31, 2012 \_\_\_\_\_, this agreement shall terminate ipso facto on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Unit Participation of at least sixty-five percent (65%) and the Working Interest Owners having a combined Unit Participation of at least eighty percent (80%) committed to this agreement have decided to extend said termination date for a period not to exceed one (1) year (hereinafter called "extended termination date"). If said termination date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended termination date this agreement shall terminate ipso facto on said extended termination date and thereafter be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and as long thereafter as Unitized Substances are produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least ninety percent (90%) Unit Participation, as determined from Exhibit "C". The Unit Operator shall give notice of such termination to all parties hereto.

Unit Operator shall within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

**SECTION 23. APPEARANCES:** Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Commission, and to appeal from any order issued under the rules and regulations of the

Commissioner or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

**SECTION 24. NOTICES:** All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

**SECTION 25. NO WAIVER OF CERTAIN RIGHTS:** Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

**SECTION 26. LOSS OF TITLE:** In the event that any Tract ceases to have sufficient Working Interest Owners committed to this agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled.

Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

**SECTION 27. NONJOINER AND SUBSEQUENT JOINER:** As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under Section 13 hereof, Tracts Qualified for Unit Participation. Joinder in the Unit Agreement by a Working Interest Owner, at any time must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest at any time must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this agreement by the Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and set forth in Exhibit "C", by the owner or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from the effective date hereof, the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Unit Participation of not less than ninety percent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner, of duly executed documents necessary to establish effective commitment unless reasonable objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing



**Acknowledgment in an Individual Capacity**

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

By \_\_\_\_\_  
NAME(S) OF PERSON(S)

\_\_\_\_\_  
(SEAL) SIGNATURE OF NOTARIAL OFFICER

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

**Acknowledgment in a Representative Capacity**

This instrument was acknowledged before me on April 21, 2010 Date

By Henry J. Hood  
NAME(S) OF PERSON(S)

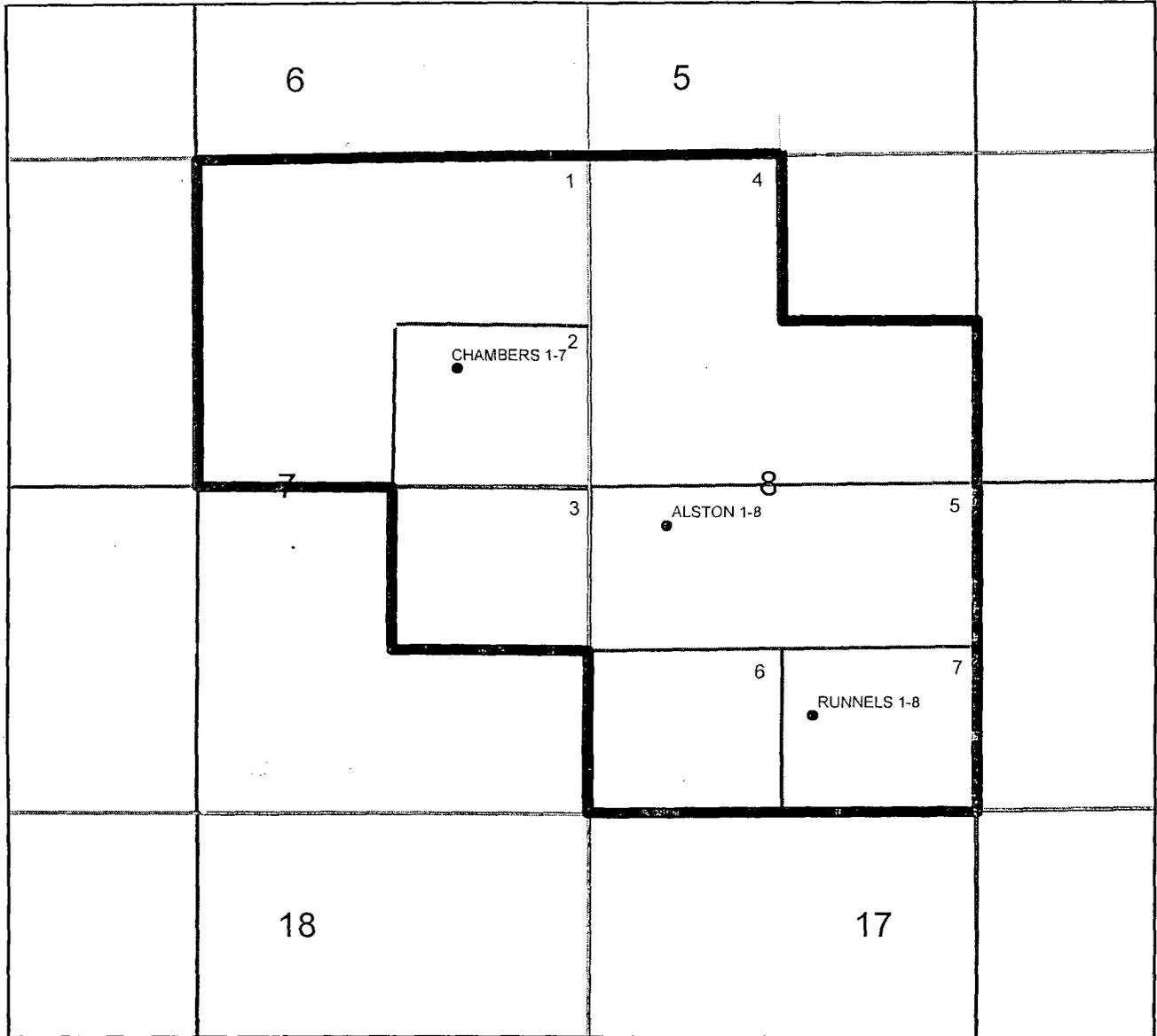
Henry J. Hood, Senior Vice President  
as Land and Legal & General Counsel of CHESAPEAKE EXPLORATION, L.L.C.  
TYPE OF AUTHORITY; E.G. OFFICER, TRUSTEE, ETC. NAME OF PARTY ON BEHALF OF WHOM INSTRUMENT WAS EXECUTED

Anna M. Sneaker  
(SEAL) SIGNATURE OF NOTARIAL OFFICER

My commission expires: 11/27/11



# EXHIBIT "A"



TOWNSHIP 16 SOUTH, RANGE 36 EAST  
LEA COUNTY, NEW MEXICO

**CHAMBERS STRAWN UNIT  
CHESAPEAKE OPERATING, INC.**

 <b>Wells</b>   <b>Proposed Waterflood Unit Boundary</b>	 Federal Acreage = 0 acres  State Acreage = 0 acres  Fee Acreage = 480.00 acres <p style="text-align: right;">Total Acreage = 480.00 acres</p>
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**EXHIBIT B**  
Schedule of Land Ownership for All Lands and Leases within the proposed Chambers Strawn Unit, Lea County, New Mexico

TRACT NO.	DESCRIPTION OF LANDS	ACRES	BASIC ROYALTY OWNER	ROYALTY OWNER PERCENT. AGE	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER	ORRI OWNER PERCENT. AGE	WORKING INTEREST OWNER	WI PERCENT. AGE INTEREST	NRI PERCENT. AGE INTEREST		
1	N/2 NE/4 & SW/4 NE/4 7-16S-36E	120.00	Freida S. Batten	0.0375000	ConocoPhillips			ConocoPhillips Co.	1.0000000	0.8125000		
			Richard C. Campbell	0.0187500	ConocoPhillips			Total	1.0000000	0.8125000		
			Shelley Marsh Rice	0.0187500	ConocoPhillips							
			Christine Chambers Pruitt	0.0187500	ConocoPhillips							
			Colleen Chambers Schultz	0.0187500	ConocoPhillips							
			K. E. Chambers a/k/a Kenneth E. Chambers	0.0125000	ConocoPhillips							
			Charlene E. Dye	0.0125000	ConocoPhillips							
			Dudley P. Murph, Trustee	0.0125000	ConocoPhillips							
			Dudley P. Murph Revocable Living Trust									
						Betty Kay Dawson	0.0093750	ConocoPhillips				
2	SE/4 NE/4 7-16S-36E Chambers #1-7 well	40.00	Jasper N. Chambers	0.0093750	ConocoPhillips			Chesapeake et al.	0.0625000	0.6654955		
			Dennis Edward Chambers	0.0093750	ConocoPhillips			Chesapeake et al.	0.0087500	0.0435264		
			Terr Jonas	0.0046875	ConocoPhillips			MML Ventures, Ltd.				
			Melodee Nelson	0.0046875	ConocoPhillips			Hal W. Hawthorne	0.0050000	0.0100000		
			Total	0.1875000				Amy M. Hawthorne	0.0050000	0.0091875		
								Chesapeake Exploration, L.L.C.	0.0001781	0.0100000		
						Freida S. Batten	0.0375000	Chesapeake et al.	ConocoPhillips Co.	0.0625000	0.9075000	0.6654955
						Richard C. Campbell	0.0187500	Chesapeake et al.		0.0087500	0.0675000	0.0435264
						Shelley Marsh Rice	0.0187500	Chesapeake et al.				
						Christine Chambers Pruitt	0.0187500	Chesapeake et al.		0.0050000	0.0100000	0.0091875
3	NE/4 SE/4 7-16S-36E	40.00	Colleen Chambers Schultz	0.0187500	Chesapeake et al.			Chesapeake Investments, L.P.	0.0100000	0.0091875		
			K. E. Chambers a/k/a Kenneth E. Chambers	0.0125000	Chesapeake et al.			Chesapeake Exploration, L.L.C.	0.0050000	0.0091875		
			Charlene E. Dye	0.0125000	Chesapeake et al.			Trajan Development Co.	0.0050000	0.0036750		
			Dudley P. Murph, Trustee	0.0125000	Chesapeake et al.			Total	0.0814281	0.7310719		
			Dudley P. Murph Revocable Living Trust									
			Betty Kay Dawson	0.0093750	Chesapeake et al.							
			Jasper N. Chambers	0.0093750	Chesapeake et al.							
			Dennis Edward Chambers	0.0093750	Chesapeake et al.							
			Terr Jonas	0.0046875	Chesapeake et al.							
			Melodee Nelson	0.0046875	Chesapeake et al.							
Total	0.1875000											
			Freida S. Batten	0.0375000	Chesapeake et al.			Chesapeake Exploration, L.L.C.	0.7223828	0.5669361		
			Richard C. Campbell	0.0187500	Chesapeake et al.			David Petroleum Corp.	0.0319922	0.0239937		
			Shelley Marsh Rice	0.0187500	Chesapeake et al.							

**EXHIBIT B**  
Schedule of Land Ownership for All Lands and Leases within the proposed Chambers Strawn Unit, Lea County, New Mexico

TRACT NO.	DESCRIPTION OF LANDS	ACRES	BASIC ROYALTY OWNER	ROYALTY OWNER PERCENT. AGE	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER	ORRI OWNER PERCENT. AGE	WORKING INTEREST OWNER	WI PERCENT. AGE INTEREST	RI PERCENT. AGE INTEREST
			Christine Chambers Pruitt	0.0187500	Chesapeake et al.			ICA Energy, Inc.	0.1000000	0.0812500
			Colleen Chambers Schultz	0.0187500	Chesapeake et al.			Piyush V. Patel and Meena Patel Family Trust	0.0500000	0.0406250
			K. E. Chambers aka Kenneth E. Chambers	0.0125000	Chesapeake et al.			Playtime, Inc.	0.0500000	0.0406250
			Charlene E. Dye	0.0125000	Chesapeake et al.			Quimex International, Inc.	0.0156250	0.0126952
			Dudley P. Murph, Trustee Dudley P. Murph Revocable Living Trust	0.0125000	Chesapeake et al.			Rudd Family Trust	0.0300000	0.0243750
			Betty Kay Dawson	0.0093750	Chesapeake et al.			<b>Total</b>	<b>1.0000000</b>	<b>0.8125000</b>
			Jasper N. Chambers	0.0093750	Chesapeake et al.					
			Dennis Edward Chambers	0.0093750	Chesapeake et al.					
			Terri Jonas	0.0046875	Chesapeake et al.					
			Melodee Nelson	0.0046875	Chesapeake et al.					
			<b>Total</b>	<b>0.1875000</b>						
4	W/2 NW/4 & SE/4 NW/4 8-16S-36E	120.00	Freida S. Batten	0.0375000	ConocoPhillips Co.			ConocoPhillips Co.	1.0000000	0.8125000
			Richard C. Campbell	0.0187500	ConocoPhillips Co.			<b>Total</b>	<b>1.0000000</b>	<b>0.8125000</b>
			Shelley Marsh Rice	0.0187500	ConocoPhillips Co.					
			Christine Chambers Pruitt	0.0187500	ConocoPhillips Co.					
			Colleen Chambers Schultz	0.0187500	ConocoPhillips Co.					
			K. E. Chambers aka Kenneth E. Chambers	0.0125000	ConocoPhillips Co.					
			Charlene E. Dye	0.0125000	ConocoPhillips Co.					
			Dudley P. Murph, Trustee Dudley P. Murph Revocable Living Trust	0.0125000	ConocoPhillips Co.					
			Betty Kay Dawson	0.0093750	ConocoPhillips Co.					
			Jasper N. Chambers	0.0093750	ConocoPhillips Co.					
			Dennis Edward Chambers	0.0093750	ConocoPhillips Co.					
			Terri Jonas	0.0046875	ConocoPhillips Co.					
			Melodee Nelson	0.0046875	ConocoPhillips Co.					
			<b>Total</b>	<b>0.1875000</b>						
5	N/2 SW/4 8-16S-36E	80.00	Aelna Bess Eaves Berry	0.0705000	Chesapeake et al.			Chesapeake Operating, Inc.	0.8883318	0.7217695
			Harold Alston Eikan	0.0585000	Chesapeake et al.			Northport Production Co.	0.0766683	0.0622930



EXHIBIT "C"

SCHEDULE OF TRACT PARTICIPATION

<u>Tract No.</u>	<u>Unitized Participation Percentage</u>	<u>Parameter</u>	<u>Percent Weight</u>
1	11.54786	Primary Rate	6%
2	40.57276	Primary Reserve	9%
3	3.67266	Estimated Ultimate Recovery	30%
4	6.59617	Oil in Place	45%
5	20.31227	Useable Well Bores	10%
6	.53222	Total	100%
7	16.76606		
	<u>100.00000</u>		

**UNIT OPERATING AGREEMENT  
CHAMBERS STRAWN UNIT  
LEA COUNTY, NEW MEXICO**

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UNIT OPERATING AGREEMENT  
CHAMBERS STRAWN UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1<sup>st</sup> day of April 1, 2010, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled "UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE CHAMBERS STRAWN UNIT AREA, LEA COUNTY, NEW MEXICO", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined.

NOW THEREFORE, in consideration of the mutual agreements here set forth, it is agreed as follows:

ARTICLE 1  
CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement: The Unit Agreement is hereby confirmed and by reference made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

ARTICLE 2  
EXHIBITS

2.1 Exhibits: The following exhibits are incorporated herein by reference:

2.1.1 Exhibit "A", "B" and "C" of the Unit Agreement.

2.1.2 Exhibit "D", attached hereto, is a schedule showing the Working Interest of each Working Interest Owner in each Tract, each Working Interest Owner's Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner. Exhibit "D", or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of Working Interest Owners for purposes of this agreement until shown to be in error or revised as herein authorized.

2.1.3 Exhibit "E", attached hereto is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit "E", this agreement shall govern.

2.1.4 Exhibit "F", attached hereto, contains insurance provisions applicable to Unit Operations.

2.1.5 Exhibit "G", attached hereto, is an outline of categories of Pre-Unitization Expenses for the formation of the subject Unit.

2.2 Correcting Errors: The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date hereof, should be divided into more than

one Tract, or that any mechanical or clerical error has been made in the preparation of Exhibits or information shown thereon, the Unit Operator, with the approval of the Working Interest Owners, may correct the mistake by revising the Exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an Exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each such revision of an Exhibit thereafter made shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised Exhibit, or such date as may be determined by the Working Interest Owners and set forth in the revised Exhibit.

2.3 Reference to Exhibits: When reference is made herein to an exhibit, it is to the exhibit as originally attached, or, if revised, to the last revision.

### ARTICLE 3 SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision: The Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this Unit Operating Agreement.

3.2 Specific Authorities and Duties: The matters with respect to which the Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation: The method of operation, including any type of pressure maintenance, secondary recovery, or other recovery program to be employed.

3.2.2 Drilling of Wells: The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status: The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Expenditures: Authorization of any single expenditure, in excess of One Hundred Thousand Dollars (\$100,000.00); provided that, approval by the Working Interest Owners of the drilling, workover, drilling deeper, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment: The selling or otherwise disposing of any surplus Unit Equipment, if the current list price of new equipment similar thereto is Fifty Thousand Dollars (\$50,000.00) or more.

3.2.6 Appearance Before a Court or Regulatory Agency: The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided that, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf at such Working Interest Owner's own expense.

3.2.7 Audits: The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; provided that the audits shall:

a) Not be conducted more than once each year except upon resignation or removal of Unit Operator;

b) Be made upon the affirmative vote of at least fifty-one percent (51%) of the voting interest remaining after excluding the voting interest of Unit Operator; such costs incurred shall be at the expense of

all Working Interest Owners other than Unit Operator;

c) Be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator except that if the affirmative vote is less than the fifty-one percent (51%) required in subparagraph (b) of this section, then the audit shall be made at the expense of those Working Interest Owners requesting such audit; and,

d) Be made upon not less than thirty (30) days' written notice to Unit Operator.

3.2.8 Inventories: The taking of periodic inventories under the terms of Exhibit "E".

3.2.9 Technical Services: The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit "E".

3.2.11 Replacement of Operator: The removal of Unit Operator and the selection of a successor.

3.2.12 Investment Adjustment: The adjustment and readjustment of investments.

3.2.13 Termination of Operations: The termination of Unit Operations and the Plan of Unitization.

3.2.14 Release of Information: The release of information, photographs, or television pictures concerning operations conducted hereunder and incidents occurring in connection with operations conducted hereunder; provided, however, that drilling depths, names of formations encountered, and other information normally furnished to industry scouting or news services may be released by the Unit Operator without approval of the Working Interest Owners.

#### ARTICLE 4 MANNER OF SUPERVISION

4.1 Designation of Representatives: Each Working Interest Owner shall in writing inform Unit Operator of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings: All meetings of working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than two percent (2.00%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items or other items presented in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure: Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest: Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

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 "G". 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 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 of 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.



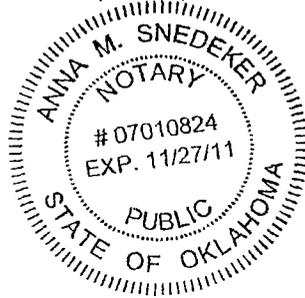
STATE OF Oklahoma )  
 ) SS  
COUNTY OF Oklahoma )

**Acknowledgement in a Representative Capacity**

This instrument was acknowledged before me on April 21, 2010 Date

By Henry J. Hood  
Name(s) of Person(s)

Senior Vice President and  
AS and legal & General Counsel of Chesapeake Exploration, L.L.C.  
Type of Authority; E.G. Officer, Trustee, etc Name of Party on behalf of whom instrument was executed



Anna M. Sneider  
Signature of Notarial Officer

My Commission Expires: 11/27/11

# Exhibit "D"

## Chambers Strawn Unit

### Working Interest Owners Unit Participation Based on TPF's

WORKING INTEREST OWNER	Ownership		Tract 1		Tract 2		Tract 3		Tract 4		Tract 5		Tract 6		Tract 7	
	WI	NRI	Unit TPF =	TPF WI	Unit TPF =	TPF WI	Unit TPF =	TPF WI	Unit TPF =	TPF WI	Unit TPF =	TPF WI	Unit TPF =	TPF WI	Unit TPF =	TPF WI
Chesapeake Energy - Tract 2	0.907500	0.665496	0.1154786	0.368198	0.4057277	0.2700110	0.0367266	0.0215556	0.065962	0.053594	0.2031227	0.180440	0.003047	0.000053	0.0053222	0.000043
Chesapeake Energy - Tract 3	0.722383	0.586936														
Chesapeake Energy - Tract 5	0.888332	0.721770														
Chesapeake Energy - Tract 6 and 7	0.907500	0.737344														
Chesapeake Investments Tract 2	0.010000	0.009188		0.004057		0.003728										
Chesapeake Investments Tract 5	0.015000	0.012188														
Chesapeake Investments Tract 6 & 7	0.010000	0.008125														
Conoco-Phillips - Tract 1 & 4	1.000000	0.812500	0.115479	0.093826												
David Petroleum Corp. - Tract 3	0.031892	0.029994														
ICA Energy, Inc. - Tract 3	0.100000	0.081250														
Northport - Tract 2	0.067500	0.043526		0.027387		0.017660										
Northport - Tract 5	0.078668	0.062293														
Northport - Tract 6 & 7	0.072500	0.058906														
P. V. Patel & M. Patel Trust - Tract 3	0.050000	0.040625														
Playtime, Inc. - Tract 3	0.050000	0.040625														
Quimex International, Inc. - Tract 3	0.015625	0.012695														
Rudd Family Trust - Tract 3	0.030000	0.024375														
TLW - Tract 2	0.010000	0.009188		0.004057		0.003728										
TLW - Tract 5	0.015000	0.012000														
TLW - Tract 6 & 7	0.010000	0.008125														
Trajan - Tract 2 & 5	0.005000	0.004063	0.115479	0.093826	0.405728	0.296773	0.036727	0.029840	0.065962	0.053594	0.203123	0.164999	0.005322	0.004324	0.167681	0.136224

Working Interest Owner	WI	NRI
Chesapeake Energy	0.7321508	0.5657217
Chesapeake Investments	0.0088339	0.0076087
Conoco-Phillips	0.1814402	0.1474202
David Petroleum Corp.	0.0011750	0.0009347
ICA Energy, Inc.	0.0036727	0.0029840
Northport	0.0555009	0.0405028
P.V. Patel & M. Patel Trust	0.0018363	0.0014920
Playtime, Inc.	0.0018363	0.0014920
Quimex International, Inc.	0.0005739	0.0004563
Rudd Family Trust	0.0011018	0.0008952
TLW	0.0088339	0.0075706
Trajan	0.0030443	0.0024735
Total	1.0000000	0.7795815

EXHIBIT "E"

1 Attached to and made a part of that certain Operating Agreement dated April 1, 2010 by and between Chesapeake  
2 Exploration, L.L.C. by and through its agent Chesapeake Operating, Inc., as Operator and  
3 \_\_\_\_\_, as Non-Operator  
4 \_\_\_\_\_

5  
6  
7  
8 **ACCOUNTING PROCEDURE**  
9 **JOINT OPERATIONS**

10  
11  
12 **I. GENERAL PROVISIONS**

13  
14 **1. Definitions**

15  
16 "Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure  
17 is attached.

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

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

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

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

24 "Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

35  
36 **2. Statement and Billings**

37  
38 Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint  
39 Account for the preceding month. Such bills will be accompanied by statements which identify the authority for  
40 expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and  
41 expense except that items of Controllable Material and unusual charges and credits shall be separately identified and  
42 fully described in detail.

43  
44 **3. Advances and Payments by Non-Operators**

45  
46 A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their  
47 share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the  
48 billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust  
49 each monthly billing to reflect advances received from the Non-Operators.

50  
51 B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made  
52 within such time, the unpaid balance shall bear interest monthly at the greater rate of prime plus 2% or at the rate of 12% per  
53 annum, compounded monthly, on the first day of the month in which delinquency occurs or the  
54 maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located,  
55 whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid  
56 amounts.

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

59 **4. Adjustments**

60  
61 Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof;  
62 provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall  
63 conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar  
64 year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes  
65 claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same  
66 prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of  
67 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>and/or consultants</sup> directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees <sup>and/or consultants</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.

1 5. Material

2  
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such  
4 Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is  
5 reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be  
6 avoided.

7  
8 6. Transportation

9  
10 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

11  
12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be  
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like  
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

15  
16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint  
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally  
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be  
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the  
20 Parties.

21  
22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is  
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the  
24 amount most recently recommended by the Council of Petroleum Accountants Societies.

25  
26 7. Services

27  
28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph  
29 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract  
30 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead  
31 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the  
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

33  
34 8. Equipment and Facilities Furnished By Operator

35  
36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate  
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating  
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to  
39 exceed ten percent (10 %) per annum. Such rates shall not exceed average commercial  
40 rates currently prevailing in the immediate area of the Joint Property.

41  
42 B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the  
43 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates  
44 published by the Petroleum Motor Transport Association.

45  
46 9. Damages and Losses to Joint Property

47  
48 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or  
49 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross  
50 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as  
51 soon as practicable after a report thereof has been received by Operator.

52  
53 10. Legal Expense

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

61  
62 11. Taxes

63  
64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,  
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad  
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then  
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties  
68 hereto in accordance with the tax value generated by each party's working interest.

69  
70

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1 12. Insurance

2

3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the  
4 event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation  
5 and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-  
6 insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.  
7

8 13. Abandonment and Reclamation

9

10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory  
11 authority.  
12

13 14. Communications

14

15 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and  
16 microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint  
17 Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.  
18

19 15. Other Expenditures

20

21 The cost of Operator's Field Offices not covered in Section III, or any

22

23 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which  
24 is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint  
25 Operations.  
26

27 III. OVERHEAD

28 1. Overhead - Drilling and Producing Operations

29

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

32

33 ( X ) Fixed Rate Basis, Paragraph IA, or

34

35 ( ) Percentage Basis, Paragraph IB

36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and  
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under  
38 Paragraph 3A, Section II. ~~The cost and expense of services from outside sources in connection with matters of~~  
39 ~~taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in~~  
40 ~~the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are~~  
41 ~~agreed to by the Parties as a direct charge to the Joint Account.~~  
42

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

45

46 ( ) shall be covered by the overhead rates, or

47

48 ( X ) shall not be covered by the overhead rates.

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

52

53 ( ) shall be covered by the overhead rates, or

54

55 ( X ) shall not be covered by the overhead rates.

56 A. Overhead - Fixed Rate Basis

57

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

59

60 Drilling Well Rate \$ 10,750.00

61

62 (Prorated for less than a full month)

63 Producing Well Rate \$ 1,075.00

64

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

66

67 (a) Drilling Well Rate

68

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

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

- 3  
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5)  
5 consecutive work days or more shall be made at the drilling well rate. Such charges shall be  
6 applied for the period from date workover operations, with rig or other units used in workover,  
7 commence through date of rig or other unit release, except that no charge shall be made during  
8 suspension of operations for fifteen (15) or more consecutive calendar days.

9  
10 (b) Producing Well Rates

11  
12 (1) An active well either produced or injected into for any portion of the month shall be considered as  
13 a one-well charge for the entire month.

14  
15 (2) Each active completion in a multi-completed well in which production is not commingled down  
16 hole shall be considered as a one-well charge providing each completion is considered a separate  
17 well by the governing regulatory authority.

18  
19 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the  
20 production shall be considered as a one-well charge providing the gas well is directly connected to  
21 a permanent sales outlet.

22  
23 (4) A one-well charge shall be made for the month in which plugging and abandonment operations  
24 are completed on any well. This one-well charge shall be made whether or not the well has  
25 produced except when drilling well rate applies.

26  
27 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease  
28 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- 29  
30 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the  
31 agreement to which this Accounting Procedure is attached ~~/~~. ~~The adjustment shall be computed by multiplying~~  
32 ~~the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude~~  
33 ~~Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as~~  
34 ~~shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as approved and recorded by COPAS,~~  
35 ~~published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as~~  
36 ~~published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or~~  
37 ~~minus the computed adjustment.~~

38  
39 B. Overhead - Percentage Basis

- 40  
41 (1) Operator shall charge the Joint Account at the following rates:

42  
43 (a) Development

44  
45 \_\_\_\_\_ Percent (\_\_\_\_%) of the cost of development of the Joint Property exclusive of costs  
46 provided under Paragraph 10 of Section II and all salvage credits.

47  
48 (b) Operating

49  
50 \_\_\_\_\_ Percent (\_\_\_\_%) of the cost of operating the Joint Property exclusive of costs provided  
51 under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased  
52 for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the  
53 mineral interest in and to the Joint Property.

- 54  
55 (2) Application of Overhead - Percentage Basis shall be as follows:

56  
57 For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III,  
58 development shall include all costs in connection with drilling, redrilling, deepening, or any remedial  
59 operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing  
60 interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and  
61 expenditures incurred in abandoning when the well is not completed as a producer, and original cost of  
62 construction or installation of fixed assets, the expansion of fixed assets and any other project clearly  
63 discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other  
64 costs shall be considered as operating.

65  
66 2. Overhead - Major Construction

67  
68 To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of  
69 fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the  
70 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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33
- 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. Catastrophic 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

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

2  
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,  
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,  
5 to the railway receiving point nearest the Joint Property.

6  
7 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices  
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate  
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10  
11 (2) Line Pipe

12  
13 (a) Line pipe movements (except size 24 inch OD and larger with walls 1/4 inch and over) 30,000 pounds or  
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.  
15 Freight charges shall be calculated from Lorain, Ohio.

16  
17 (b) Line Pipe movements (except size 24 inch OD) and larger with walls 1/4 inch and over) less than 30,000  
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,  
19 / plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular  
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,  
21 Ohio.

22  
23 (c) Line pipe 24 inch OD and over and 1/4 inch wall and larger shall be priced f.o.b. the point of  
24 manufacture at current new published prices plus transportation cost to the railway receiving point  
25 nearest the Joint Property.

26  
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall  
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at  
29 prices agreed to by the Parties.

30  
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable  
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the  
33 railway receiving point nearest the Joint Property.

34  
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current  
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or  
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint  
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39  
40 B. Good Used Material (Condition B)

41  
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43  
44 (1) Material moved to the Joint Property

45  
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47  
48 (2) Material used on and moved from the Joint Property

49  
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was  
51 originally charged to the Joint Account as new Material or

52  
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was  
54 originally charged to the Joint Account as used Material

55  
56 (3) Material not used on and moved from the Joint Property

57  
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59  
60 The cost of reconditioning, if any, shall be absorbed by the transferring property.

61  
62 C. Other Used Material

63  
64 (1) Condition C

65  
66 Material which is not in sound and serviceable condition and not suitable for its original function until  
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by  
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition  
69 C value plus cost of reconditioning does not exceed Condition B value.

70

1 (2) Condition D

2  
3 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose  
4 shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material  
5 under procedures normally used by Operator without prior approval of Non-Operators.

6  
7 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe  
8 of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be  
9 priced at used line pipe prices.

10  
11 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g.  
12 power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe.  
13 Upset tubular goods shall be priced on a non upset basis.

14  
15 (3) Condition E

16  
17 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under  
18 procedures normally utilized by Operator without prior approval of Non-Operators.

19  
20 D. Obsolete Material

21  
22 Material which is serviceable and usable for its original function but condition and/or value of such Material  
23 is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by  
24 the Parties. Such price should result in the Joint Account being charged with the value of the service  
25 rendered by such Material.

26  
27 E. Pricing Conditions

28  
29 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢)  
30 per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs  
31 sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year  
32 following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in  
33 Section III, Paragraph I.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and  
34 shall be the rate in effect until the first day of April next year. Such rate shall be published each year  
35 by the Council of Petroleum Accountants Societies.

36  
37 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down  
38 price of new Material.

39  
40 3. Premium Prices

41  
42 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other  
43 unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required  
44 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it  
45 to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing  
46 Non-Operators for such Material. ~~Each Non-Operator shall have the right, by so electing and notifying Operator within~~  
47 ~~ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use~~  
48 ~~and acceptable to Operator.~~

49  
50 4. Warranty of Material Furnished By Operator

51  
52 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint  
53 Account until adjustment has been received by Operator from the manufacturers or their agents.

54  
55 V. INVENTORIES

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57 The Operator shall maintain detailed records of Controllable Material.

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59 1. Periodic Inventories, Notice and Representation

60  
61 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice  
62 of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that  
63 Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an  
64 inventory shall bind Non-Operators to accept the inventory taken by Operator.

65  
66 2. Reconciliation and Adjustment of Inventories

67  
68 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six  
69 months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for  
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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 April 1, 2010 BY AND BETWEEN CHESAPEAKE EXPLORATION, L.L.C., AND THROUGH ITS AGENT CHESAPEAKE OPERATING, INC., 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"

### 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.