

Before the Oil Conservation Division
Exhibit No. 9
Burlington Resources Oil & Gas Company LP
OCD CASE 14526
Hearing: August 19, 2010

COST ALLOCATION PROCEDURES

The entire costs, risk and expenses involved in drilling, testing, completing, equipping, reworking, deepening, plugging back and operating a well located on the Contract Area, in the event such well is completed in or proposed to be completed in two or more formations in which the working interest ownership differs, or in plugging and abandoning such well in one or more formations, shall be governed by the following provisions:

A. Definitions

- "Objective Formation" - the interval consisting of a zone, formation or horizon to be tested in a proposed operation, as stated in the AFE or notice whereby such operation was proposed.
- "Participating Interest" - the percentage of the costs and risks of conducting an operation under the applicable operating agreement that a Participating Party agrees, or is otherwise obligated, to pay and bear.
- "Participating Party" - with respect to a given formation, a Party that has approved a proposed operation or otherwise agreed, or become liable, to pay and bear a share of the costs and risks of conducting such operation under the applicable operating agreement.

References herein to multiple completion wells shall mean wells which are completed in, or proposed to be completed in, two or more formations, regardless of whether such formations are produced through separate tubing strings or commingled downhole.

B. Formula for Allocation of Drilling, Completing, and Equipping Costs

Whenever in this Agreement it is provided that costs will be borne by the Parties in accordance with this Section B, the following procedures will be used:

At the time a Party proposes the drilling of a well having two or more Objective Formations in which the working interest ownership differs, the proposing Party shall submit to the other Parties who are entitled to participate in the proposed operation, an estimate of the total costs of drilling, testing, completing and equipping said well to, and including, the wellhead in all Objective Formations. In a like manner, a Party which proposes to conduct a reworking, deepening, or plugging back operation on a well involving two or more formations in which the working interest ownership differs, shall submit to the other Parties entitled to participate in the proposed operation, an estimate of the total cost of the operation. The estimated costs shall be divided into the following categories:

- Costs to be incurred from the surface to the base of the shallowest Objective Formation, including pre-drilling costs that benefit all Objective Formations, but excluding those costs set forth in subsection B (5) hereof;
- Costs to be incurred from the base of the shallowest Objective Formation to the base of the next (second) shallowest Objective Formation, excluding those set forth in subsection B (5) hereof;
- Costs to be incurred from the base of the second shallowest Objective Formation to the base of the next (third) shallowest Objective Formation, excluding those set forth in subsection B (5) hereof;
- Costs incurred from the base of the second deepest Objective Formation to total depth;
- Costs attributable to testing and completing each formation, and the cost of equipping the well with respect to equipment that is used solely in connection with one formation; and
- Costs attributable to equipping the well beyond the wellhead, with respect to equipment that serves more than one formation.

The actual costs of drilling, testing, completing, and equipping the well will be apportioned among the Objective Formations, in accordance with the categories set forth above in this Section B, as follows:

- (1) Except as provided in Subsection B (5), pre-drilling costs that benefit all Objective Formations (including, but not limited to site surveys, site preparation, right-of-way and surface damage payments) shall be divided equally between all Objective Formations and charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formations.
- (2) Except as provided in Subsection B (5), costs incurred from the surface to the base of the shallowest Objective Formation shall be divided between all Objective Formations as provided in Subsection B (6) and charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formation.
- (3) Except as provided in Subsection B (5), costs incurred from the base of the shallowest Objective Formation to the base of the next shallowest (second) Objective Formation shall be divided between the second Objective Formation and all other deeper Objective Formations as provided in Subsection B (6) and charged to the Participating Parties therein in accordance with their respective Participating Interest in such formation. In a like manner, costs incurred from the base of the second Objective Formation to the base of the next shallowest (third) Objective Formation, other than those set forth in Subsection B (5), shall be divided between the third Objective Formation and all other deeper Objective Formations as provided in Subsection B (6) and charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formation.
- (4) Costs incurred from the base of the second deepest Objective Formation to total depth shall be charged to the Participating Parties in the deepest formation, in accordance with their respective Participating Interest in such formation.
- (5) Costs attributable to logging, testing, perforating, treating, stimulating and abandoning a given formation shall be charged to the Participating Parties therein, in accordance with their respective Participating Interests in such formation. The cost of equipping the well, with respect to equipment that is used solely in connection with a given formation, shall be charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formation.

The cost of acquiring and installing surface equipment beyond the wellhead that serves more than one formation shall be allocated equally to the formations served, except as otherwise provided in the "Taking Production in Kind" provision in the Operating Agreement. Equipping costs so allocated shall be charged to the Participating Parties in each such formation in accordance with their respective Participating Interest in such formation.

- (6) Except for those specific types of well completions identified in Subsection B (7), the cost of drilling, production casing, and tubing that serves more than one Objective Formation shall be allocated to the Participating Parties of each respective Objective Formation, pursuant to Subsections (2), (3), and (4) of this Section B, on a footage basis as follows:

n = number of Objective Formations
 I_1 = First, or shallowest Interval
 I_2 = Second shallowest Interval
 I_3 = Third shallowest Interval
 $Base_x$ = Footage at the base of the x Interval

Cost allocated to I_1 :
 $(1/n * Base_1) / \text{Total Depth}$

Cost allocated to I_2 :
 $[(1/n * Base_1) + ((1/(n-1)) * (Base_2 - Base_1))] / \text{Total Depth}$

Cost allocated to I_3 :
 $[(1/n * Base_1) + ((1/(n-1)) * (Base_2 - Base_1)) + ((1/(n-2)) * (Base_3 - Base_2))] / \text{Total Depth}$

If there are more than three (3) Objective Formations, costs shall be allocated to such other formations in a like manner.

- (7) If the Objective Formations are a combination of Fruitland Coal and Pictured Cliffs or a combination of the Mesaverde and Dakota, the Parties agree that, rather than calculating a unique set of factors for each well, the cost of drilling, production casing, and tubing that serves more than one Objective Formation shall be allocated based on the average relative footage for the following formations in the San Juan Basin, as set forth in the following table:

Formation	Base of Formation	FC/PC	MV/ DAK
Fruitland Coal	2700'	47%	
Pictured Cliffs	2900'	53%	
Mesa Verde	5600'		40%
Dakota	7000'		60%

C. Drilling and Completing Wells in All Objective Formations

Costs of drilling, testing, completing, and equipping wells to, and including, the wellhead which are begun with the objective of multiple completions and which are completed in all Objective Formations shall be borne by the Participating Parties in each Objective Formation in accordance with the provisions of Section B. The material and equipment in the well and on the surface shall be owned by the Parties paying the cost thereof pursuant to Section B. As to any well which was begun with the objective of multiple completions, drilling overhead shall be charged as though the well were a single well to be drilled to test the deepest formation, and borne in accordance with Section B. The working interest owners shall own all oil and gas produced from their respective formations in accordance with the applicable operating agreement for such formation.

Upon abandonment of the well, if dry in all formations, the costs of plugging and abandoning shall be borne in accordance with the provisions of Section B.

D. Completion of Well in Fewer than All Objective Formations

In the event that a well begun with the objective of multiple completions is drilled to the deepest formation and results in discovery of oil and/or gas in paying quantities in one or more Objective Formations, but is dry in one or more Objective Formations, all costs of drilling, testing, and completing the well shall be borne by the Participating Parties in each Objective Formation in accordance with Section B. Likewise, all costs of equipping the well prior to the decision to abandon the dry formation(s) shall be borne by the Participating Parties in each Objective Formation in accordance with Section B. All costs of equipping the well subsequent to the decision to abandon the dry formation(s) shall be borne by the Participating Parties in the formation(s) being completed and if there are two or more formations being completed, the equipping costs shall be apportioned between such formations in accordance with Section B. Further, the Participating Parties as to the formation(s) being completed shall pay to the Participating Parties of the formation being abandoned the value of any salvage material and equipment paid for or furnished by such abandoning Parties which is used in connection with the formation being completed. Thereafter, the Participating Parties in the completed formation(s) shall own all materials and equipment acquired and installed in the drilling and completion of said well. The working interest owners in the completed formation(s) shall own all oil and gas produced from their respective formation in accordance with the applicable operating agreement, and shall bear all costs of operating, reworking, and plugging and abandoning the well which accrue thereafter. Notwithstanding anything to the contrary herein, the cost of abandoning the dry formation shall be borne by the working interest owners of the formation(s) being abandoned, in accordance with the applicable operating agreement. If the formation being abandoned is the deepest formation, the working interest owners in the deepest formation shall bear the cost of abandoning the entire portion of the well below the base of the second deepest formation, in accordance with the applicable operating agreement.

E. Partial Abandonment After Completion of Well in Multiple Formations

In the event that, after completion of a well in two or more formations, the working interest owners of a given formation should decide to abandon the well as to their formation, the Participating Parties in the formation open to production ("Producible Formation") shall pay to the working interest owners of the formation to be abandoned ("Abandoning Parties"), the salvage value of any materials or equipment belonging to the Abandoning Parties that are used in connection with the Producible Formation. If there is more than one Producible Formation, such payment shall be apportioned between the Producible Formations so as to be consistent with the ownership of material and equipment as set forth in Section B. Upon making such payment, the Participating Parties as to the Producible Formation(s) shall own all of such materials and equipment. The working interest owners in the Producible Formation(s) shall own all oil and gas produced

from their respective formation in accordance with the applicable operating agreement, and shall bear all cost of operating, reworking, and plugging and abandoning the well which accrue thereafter. Notwithstanding anything to the contrary herein, the cost of abandoning the formation to be abandoned shall be borne by the Abandoning Parties, in accordance with the applicable operating agreement. If the formation being abandoned is the deepest formation, the Abandoning Parties in the deepest formation shall bear the cost of abandoning the entire portion of the well below the base of the second deepest formation, in accordance with the applicable operating agreement.

F. Adding Completions and Commingling

Operations to deepen the well or recomplete the well at a shallower depth for the purpose of completing additional formations shall be proposed and approved by the Parties entitled to participate in the proposed completion attempt in accordance with the applicable operating agreement. Before any well which is completed in one or more formations may be deepened or recompleted at a shallower depth for the purpose of completing the well in an additional formation, such operation must have non-objection by all Participating Parties in each formation which is then capable of producing in paying quantities in such well. Failure of a Party owning an interest in a formation capable of producing in paying quantities to respond to a request for non-objection to a proposed deepening or recompletion within thirty (30) days after receipt of such request shall be deemed non-objection to such deepening or recompletion. Any Party owning a Participating Interest in a formation which is entitled to participate in the proposed deepening or recompletion shall have an election whether or not to participate in such deepening or recompletion operation that is separate from its non-objection to use of the wellbore. If the operation should result in an impairment of production from, or a loss of, the existing well, the provisions of Subsections H (4), (5) and (6) shall govern unless otherwise agreed.

As compensation for use of the wellbore the Participating Parties in the additional completion shall pay to said Participating Parties in each such formation then capable of producing in paying quantities ("Producing Parties") an amount calculated as set forth herein below ("Wellbore Compensation"). Such Wellbore Compensation shall be equal to that portion of the Deemed Drilling Costs, depreciated as provided below, which the Participating Parties would have borne if they had originally participated in the drilling of the well under the terms of this Agreement. The Deemed Drilling Costs shall mean the applicable stated cost which corresponds to the deepest depth of the wellbore which will be used by the Participating Parties as follows: Fruitland Coal - \$220,000; Pictured Cliffs - \$200,000; and Mesa Verde - \$320,000. In the event that the additional completion is proposed in a formation other than those listed above, the Deemed Drilling Costs for such other formation shall be adjusted in the proportion that the depth and associated costs for such other formation reasonably bears to the depth and associated costs for the formations listed above. The applicable Deemed Drilling Costs shall be depreciated on a straight-line depreciation basis over a twenty (20) year period commencing as of the original completion date of the subject wellbore until the commencement date of operations for the additional completion.

If the estimated cost of commingling formations exceeds the Operator's expenditure limit under the Operating Agreement, the proposing Party shall submit an authority for expenditure to the Participating Parties in the formations proposed to be commingled. Notwithstanding anything to the contrary in the Operating Agreement, failure to respond to a proposal to commingle that does not include other operations in the well, within thirty (30) days after receipt of the proposal, shall be deemed approval of such commingling. The cost of the commingling operation shall be borne equally by all formations being commingled.

G. Allocation of Operating and Maintenance Costs

After completion of a well in two or more formations, the costs of producing operations shall be borne by the Participating Parties as to such formations as follows:

- (1) Notwithstanding anything to the contrary in the Accounting Procedure, each active completion, which is not commingled downhole shall be treated as a separate well for producing well overhead. Such expense shall be borne by the Participating Parties of the respective formations as a separate cost allocable to their interest. Active completions that are commingled shall be treated as one well for the purpose of charging producing well overhead and such charge shall be allocated to the Participating Parties in each commingled formation pursuant to the Allocation Formula most recently approved by the New Mexico Oil Conservation Division.
- (2) The Participating Parties as to each formation shall bear all costs of routine producing operations including costs of labor, repairs, maintenance and replacement of equipment attributable solely to such formation. For active completions which are not commingled downhole, all costs of operations performed for the joint benefit of two or more formations shall be borne equally by the formations benefiting from such operations and charged to the Participating Parties in each such formation in accordance with their respective Participating Interest in such formation. For active completions which are commingled downhole, all costs of operations performed for the joint benefit of such commingled formations shall be allocated to the Participating Parties in each commingled

formation pursuant to the Allocation Formula most recently approved by the New Mexico Oil Conservation Division.

H. Allocation of Cost of Workover Operations

After completion of a well in two or more formations, a proposed workover, repair or other operation, excluding routine repair or maintenance work, shall be approved by the Parties owning a Participating Interest in all formations which are capable of producing in paying quantities, whether or not such formations are to undergo the proposed workover, repair or other operation. The costs and risk of any workover, repair or other operations on such well shall be borne by the Participating Parties in such workover, repair or other operation as follows:

- (1) The costs and risk of any workover, repair or other operation which is directly related to one formation, including but not limited to operations such as re-perforating the casing or stimulating the formation, shall be borne by the Participating Parties in the formation for which the workover, repair or other operation is performed.
- (2) All costs and risk of any workover, repair, or other operation not directly related to one formation, including but not limited to repair and correction of leaks which may result in communication between formations within the well bore shall be borne equally by the formations benefiting from such work, and charged to the owners of each such formation in accordance with their respective Participating Interests.
- (3) Any material and equipment acquired by any such expenditures provided for in Subsection H(1) and H(2) above shall be owned by the Participating Parties of the respective formations so as to be consistent with the ownership of the material and equipment as set forth in Section B.
- (4) The working interest owners of the formation undergoing the workover, repair or other operation shall not be liable to the working interest owners of the formation(s) not being worked upon for cessation of production during such operations for a period of time not exceeding a cumulative total of sixty (60) days. In the event cessation of production during such operations is for a longer period of time, the Parties participating in such workover, repair, or other operation, hereinafter referred to as Remedial Owners, shall pay to the Participating Parties as to the formation not being worked upon, hereinafter referred to as Damaged Owners, damages in such amount as shall be determined by Remedial Owners and Damaged Owners jointly for loss of production occurring for each day in excess of such sixty (60) cumulative day period until such production is restored. If the Parties are unable to reach agreement on damages within one hundred eighty (180) days after written request for damage payments, the matter shall be referred to mediation, pursuant to Section K.
- (5) If the producing capacity of the formation not undergoing the workover, repair or other operation is reduced in excess of twenty percent (20%) as a result of such workover, repair or other operation, damages will be deemed to have occurred. If damages have occurred, the Remedial Owners shall pay to the Damaged Owners, damages in such amount as shall be determined by Remedial Owners and Damaged Owners jointly for loss of producing capacity. If the Parties are unable to reach agreement on damages within one hundred eighty (180) days after written request for damage payments, the matter shall be referred to mediation, pursuant to Section K.
- (6) It is understood, however, that liability for loss or damages under Subsections H (4) and H (5) shall not accrue hereunder if: (1) such loss or damage existed prior to actual commencement of the operations or prior to penetration by workover equipment of the damaged formation, and (2) the evidence is conclusive that the loss or damage resulted solely from the previously existing poor mechanical condition of the well. In no event shall Remedial Owners be required to pay Damaged Owners an amount greater than the cost of drilling and completing a replacement well.

I. Payments

If the amount of any payment due by working interest owners of one formation to the working interest owners of another formation(s), pursuant to Sections D, E, F, or H above, is agreed to by Parties having at least seventy-five percent (75%) Participating Interest in each of the respective formations, such agreement shall be binding on all Parties. Within thirty (30) days after agreement as to the amount of payment due, Operator shall invoice the working interest owners owing such payment. Within thirty (30) days after receipt of the invoice, each Party owing such payment shall send its payment to the Operator. The Operator will distribute the payments so received, along with any payment owed by the Operator, to the owners of the formation to whom payment is due within sixty (60) days after the invoice is issued. The Operator shall make a good faith effort to collect any such payments owed by the non-operators. If, any non-operator fails to make a payment due hereunder, the Operator may, after making a good faith effort to collect, turn over the responsibility for

collecting the payment to the Party to whom it is owed, and the Operator will have no further liability with regard to such payment.

J. Non-Consent Wells

Any payments made by owners of one formation to the owners of another formation(s) pursuant to Sections D, E, F, or H above, that would have been received by a Non-Consenting Party had it not relinquished its interest in the well, shall be credited against the total unreturned costs of the non-consent operation in determining when the interest of such Non-Consenting Party shall revert to it as provided in the applicable Operating Agreement; and if there is a credit balance, it shall be paid to such Non-Consenting Party. Likewise, any payments made by owners of a formation to owners of another formation(s) pursuant to Sections D, E, F or H above, that would have been made by a Non-Consenting Party had it not relinquished its interest in the well shall be deemed to be part of the cost of the non-consent operation and shall be added to the sums to be recouped by the Consenting Parties as provided in the applicable Operating Agreement.

K. Dispute Resolution

If a dispute arises between the Parties under this Agreement and is not resolved by negotiation, the dispute shall be submitted to mediation before any Party resorts to litigation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties to the dispute shall each have present at the mediation at least one individual who has authority to settle the dispute. The Parties shall make reasonable efforts to ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any Party may file a complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60) days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or to preserve the status quo. Despite such actions, the Parties shall continue to try to resolve the dispute by negotiation or mediation as necessary.

DEFAULT OF PAYMENTS

1. If any party (including the Operator) fails to pay, as provided in the Accounting Procedure (attached hereto as Exhibit "C"), its share of any cost which it is obligated to pay under any provision of this Agreement, and if such default continues for a period of fifteen (15) days following delivery by Operator (or by any Non-Operator in case of a default by Operator) of notice of such default to such party, then at any time after the expiration of such notice period the Operator (or any Non-Operator if the Operator is the party in default), shall be entitled to the remedies in (a) and (b) or (a) and (c) below:

- (a) Operator (or any Non-Operator if Operator is the party in default) may suspend by written notice any or all of the rights of the defaulting party granted by this Agreement, without prejudice to the right of the non-defaulting party to continue to enforce the obligations of the defaulting party under this Agreement. The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right to elect to participate in any subsequent operation regarding the well to which the default relates, or any subsequent operation proposed under this Agreement; and
- (b) Operator (or any Non-Operator if Operator is the party in default) may take any action to which it may be entitled or pursue any remedy to collect the amounts in default, together with all damages suffered by the non-defaulting parties as a result of the default, plus interest accruing on the amounts recorded from the date of default until the date of collection at the rate specified in the Accounting Procedure (attached hereto as Exhibit "C") together with reasonable attorney's fees and court costs related thereto; or
- (c) Operator (or any Non-Operator if the Operator is the party in default) may deliver a written Notice of Nonparticipation Election to the defaulting party at any time after the default occurs with the following effects.
 - (i) If the billing is for the drilling of a new well or the plugging back, reworking, or deepening (including side-tracking) of a dry hole or a well not then producing in paying quantities, or the completion or re-completion of any well, the non-paying party will be deemed conclusively to have elected not to participate in the subject operation from the time of the billing which led to the default and to be a Nonparticipating party with respect thereto, notwithstanding any election to participate theretofore made.
 - (ii) Until the delivery of such Notice of nonparticipation Election to the non-paying party, such party shall have the right to cure its default by paying the unpaid billing plus interest at the rate set forth in the Accounting Procedure (attached hereto as Exhibit "C"). Any interest relinquished pursuant to this Article shall be owned by those non-defaulting parties which elect to acquire their share of the acquired interest in proportion to their interest, and the non-defaulting parties which so elect shall be liable to contribute their share of the defaulted amount.

2. Notwithstanding the other provisions of this paragraph, if a party fails to pay part or all of its share of costs hereunder because of a legitimate disagreement as to the appropriateness of part or all of the billing in question, and if such party makes such disagreement and the grounds therefore known to the Operator in writing prior to the due date of such billing and timely tenders payment of all undisputed amounts, then such party shall not be subject to paragraph 1.(a), 1.(b) or 1.(c) of this article.

SECURITY PROVISIONS

Notwithstanding anything to the contrary contained in this Operating Agreement, it is understood and agreed that:

- 1. Each Non-Operator, to secure payment of its share of expenses incurred under this Operating Agreement together with interest thereon at the rate provided in the Accounting Procedure (attached hereto as Exhibit "C"), grants to Operator a security interest in all of its rights, titles, and interests now owned or hereafter acquired in and to all properties associated with or attributable to the Contract Area, including, but not limited to: (i) all equipment; (ii) all hydrocarbons or other minerals severed and extracted from or attributable to the properties described in the Contract Area; (iii) all accounts (including but not limited to, accounts resulting from the sale of such hydrocarbons or other minerals), contract rights, and general intangibles arising in connection with the sale or other disposition of such hydrocarbons or other minerals; (iv) fixtures; and (v) all proceeds and products of all such properties, together with any and all accessions, additions and attachments thereto and the proceeds and products thereof.
- 2. Operator grants a like security interest to the Non-Operators to secure payment of Operator's proportionate share of expenses. Each party paying its share of unpaid expenses pursuant to Article XV E.1 C (ii). hereof shall, to obtain reimbursement thereof, be subrogated to the security rights described in this Agreement.

BANKRUPTCY

If, following the granting of relief under the Bankruptcy Code to any party hereto as debtor thereunder, this Agreement shall be held to be an executory contract within the meaning of 11 U.S.C. Section 365, or successor legislation, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party, shall be entitled to a determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code as to rejection or assumption of this Operating Agreement. In the event of an assumption, Operator or said other party shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.

SUBSEQUENT OPERATIONS:

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

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

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

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, recompleted, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, recompleting, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share or production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, windfall profit taxes, royalty, overriding royalty and other interests not

otherwise, excepted, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and
- (b) 300% of that portion of the costs and expenses of drilling, reworking, recompleting, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, windfall profit gathering and other taxes and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not otherwise excepted.

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

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

Notwithstanding any provisions to the contrary in this or any other agreement, a Non-Consenting Party, upon notice in writing to Operator and/or any party carrying all or part of the Non-Consenting interest, shall have the right at all times and from time to time for each non-consent operation with the twenty-four (24) month period following the end of the calendar year in which the payout statement for such non-consent operation is issued to audit Operator's and/or carrying party's accounts and records relating to or connected with such non-consent operation in the Contract Area or on land pooled therewith, regardless of when such non-consent operations were conducted.

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

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

The provision of this Article shall have no application whatsoever to the drilling of the initial well described in the Order as to the reworking, recompleting, deepening and plugging back of such initial well after it has been drilled to the depth specified in this Order if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

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

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

- (a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.
- (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

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