

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

**APPLICATIONS OF CIMAREX ENERGY CO.  
FOR A HORIZONTAL SPACING UNIT  
AND COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO**

**CASE NOS. 23448-23455**

**APPLICATIONS OF CIMAREX ENERGY CO.  
FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO**

**CASE NOS. 23594-23601**

**APPLICATIONS OF READ & STEVENS, INC.  
FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.**

**CASE NOS. 23508-23523**

**NOTICE OF SUPPLEMENTAL EXHIBIT C-12a & C-12b**

Read & Stevens, Inc. (“Read and Stevens”), gives notice that it is filing the attached supplemental exhibit for acceptance into the record.

**Supplemental Exhibit C-12a and C-12b** include signed joint operating agreements from Stephen K. Marks, President of Marks Oil, Inc. (“Marks Oil”) and James O. Wilbanks, President of Wilbanks Reserve Corporation (“Wilbanks”), in which both have voluntarily committed their interests to Read & Stevens as a result of having observed the contested hearing.

Based on their support, Read & Stevens now has the majority working interest ownership and support in the Wolfcamp across all of their proposed Bane and Joker units (44.4197%, compared to Cimarex’s 41.7955%) and has increased their working interest ownership and support in the Bone Spring across all of their proposed Bane and Joker units (36.7533%, compared to Cimarex’s 50.2277%).

Respectfully submitted,

HOLLAND & HART LLP



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**ATTORNEYS FOR READ & STEVENS, INC. &  
PERMIAN RESOURCES OPERATING, LLC**

**CERTIFICATE OF SERVICE**

I hereby certify that on November 30, 2023, I served a copy of the foregoing document to the following counsel of record via Electronic Mail to:

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***Attorney for MRC Permian Company and  
Foran Oil Company***

---

Adam G. Rankin

# EXHIBIT C-12A

IN WITNESS WHEREOF, this agreement shall be effective as of the day of March 1, 2023.

Permian Resources Operating, LLC, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below is identical to the AAPL Form 610-1989 Model Form Operating Agreement, as published in computerized form by AAPL. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles I.-XVI. have been made to the form.

ATTEST OR WITNESS:

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

OPERATOR: Permian Resources Operating, LLC

BY: \_\_\_\_\_

Print Name: Patrick Godwin

Title: Vice President of Land

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

Tax ID: \_\_\_\_\_

### NON-OPERATORS

ATTEST OR WITNESS:

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

NON-OPERATOR NAME: Read & Stevens, Inc.

BY: \_\_\_\_\_

Print Name: Patrick Godwin

Title: Vice President of Land

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

Tax ID: \_\_\_\_\_

ATTEST OR WITNESS:

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

NON-OPERATOR NAME:

BY: \_\_\_\_\_

Print Name: \_\_\_\_\_

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

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

Tax ID: \_\_\_\_\_

ATTEST OR WITNESS:

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

NON-OPERATOR NAME:

BY: 

Print Name: Stephen K. Marks

Title: President

Date: 11/21/2023

Tax ID: \_\_\_\_\_



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Acknowledgment in representative capacity:

State of Colorado )

) ss.

County of Denver )

This instrument was acknowledged before me on the 21<sup>st</sup> day of November, 2023, by  
Stephen K Marks as President for Marks Oil, Inc.  
on behalf of said Corporation

(Seal, if any)



Lisa Coffman

Title (and Rank) Notary Public

My commission expires 10/12/2026

Acknowledgment in representative capacity:

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

) ss.

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by  
\_\_\_\_\_ as \_\_\_\_\_ for \_\_\_\_\_  
on behalf of said \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires \_\_\_\_\_

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

**MODEL FORM OPERATING AGREEMENT  
HORIZONTAL MODIFICATIONS**

**OPERATING AGREEMENT  
DATED MARCH 1, 2023**

OPERATOR: PERMIAN RESOURCES OPERATING, LLC  
CONTRACT AREA: ALL OF SECTIONS 5 AND 8, T20S-R34E  
COUNTY OR PARISH OF LEA, STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PROFESSIONAL  
LANDMEN, 4100 FOSSIL CREEK BLVD  
FORT WORTH, TEXAS, 76137, APPROVED FORM  
A.A.P.L. NO. 610 - 1989 (Horz.)

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## OPERATING AGREEMENT

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

### WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

### I. DEFINITIONS

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

- A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder. An AFE is not a contractual commitment. Rather it is only an estimate, made in good faith.
- B. The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation. For Horizontal Wells, the term "Completion" or "Complete" shall include multistage horizontal fracturing operations.
- C. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."
- D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser. When used in connection with a Horizontal Well, the term "Deepen" shall mean include an operation whereby a Lateral is drilled to a Displacement greater than (i) the Displacement contained in the proposal for such operation approved by the Consenting Parties, or (ii) to the Displacement to which the Lateral was drilled pursuant to a previous proposal.
- E. The term "Displacement" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall otherwise mean the length of a Lateral.
- F. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
- G. The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.
- H. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located. When used in connection with a Horizontal Well, the term "Drillsite" shall mean (i) the surface hole location, and (ii) the Oil and Gas Leases or Oil and Gas Interests within the Drilling Unit on or under which the wellbore, including the Lateral, is located.
- I. The term "Horizontal Rig Move-On Period" shall mean the number of days after the date of rig release of a Spudder Rig until the date a rig capable of drilling a Horizontal Well to its Total Measured Depth has moved on to location.
- J. The term "Horizontal Well" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall mean a well containing one or more Laterals which are drilled, Completed or Recompleted in a manner in which the horizontal component of the Completion interval (1) extends at least one hundred feet (100') in the objective formation(s) and (2) exceeds the vertical component of the Completion interval in the objective formation(s).
- K. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.
- L. The term "Lateral" shall mean that portion of a wellbore that deviates from approximate vertical orientation to approximate horizontal orientation and all wellbore beyond such deviation to Total Measured Depth.
- M. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.
- N. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects, or who is deemed to have elected, not to participate in a proposed operation.
- O. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
- P. The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement.
- Q. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
- R. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. When used in connection with a Horizontal Well, the term "Plug Back" shall mean an operation to test or Complete the well at a stratigraphically shallower Zone in which the operation has been or is being Completed and which is not in an existing Lateral.
- S. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.
- T. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation



operations but exclude any routine repair or maintenance work or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well.

U. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties. When used in connection with a Horizontal Well, the term "Sidetrack" shall mean the directional control and deviation of a well outside the existing Lateral(s) so as to change the Zone or the direction of a Lateral from the approved proposal unless done to straighten the hole or drill around junk in the hole or to overcome other mechanical difficulties.

V. The term "Spudder Rig" shall mean a drilling rig utilized only for drilling all or part of the vertical component of a Horizontal Well; a rig used only for setting conductor pipe shall not be considered a Spudder Rig.

W. The term "Terminus" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall mean the furthest point drilled in the Lateral.

X. The term "Total Measured Depth," when used in connection with a Horizontal Well, shall mean the distance from the surface of the ground to the Terminus, as measured along and including the vertical component of the well and Lateral(s). When the proposed operation(s) is the drilling of, or operation on, a Horizontal Well, the terms "depth" or "total depth" wherever used in this agreement shall be deemed to read "Total Measured Depth" insofar as it applies to such well.

Y. The term "Vertical Well" shall mean a well drilled, Completed or Recompleted other than a Horizontal Well.

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

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

## II. EXHIBITS

Exhibit "A"

Exhibit "B," Form of Lease

Exhibit "C," Accounting Procedure

Exhibit "D," Insurance

Exhibit "E," Gas Balancing Agreement

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

Exhibit "G," Tax Partnership

Exhibit "H," Recording Supplement to Operating Agreement and Financing Statement

Other Exhibits

## III. INTERESTS OF PARTIES

### A. Oil and Gas Interests:

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

### B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter. Operator shall have the right, without the necessity of obtaining the signatures of the Non-Operators, to amend Exhibit "A" from time to time during the term of this Agreement to reflect changes in ownership, whether due to a conveyance, title failure, or identified in a title opinion, or in the addresses of the parties. Non-Operators shall have 30 days to submit corrections to any replacement Exhibit "A", circulated by Operator.

Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area up to, but not in excess of 12.5%, and shall indemnify, defend and hold the other parties free from any liability therefor. Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any liability therefor.

No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected Lease shall bear the additional royalty burden attributable to such higher price.

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

**C. Subsequently Created Interests:**

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

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

**IV. TITLES**

**A. Title Examination:**

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

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with Leases or Oil and Gas Interests contributed by such party, provided, however, that if such party fails to secure curative matters, pooling amendments, or required agreements within a reasonable time, as determined in the sole opinion of Operator, Operator may, but is under no obligation to, attempt to secure the same, and the party originally responsible for securing such curative matter, pooling amendment, or required agreement shall be liable for payment of all expenses incurred by Operator therefore. Operator shall be responsible for the preparation and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings. Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

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

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

1. Failure of Title: Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas Leases and Interests; and,

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

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

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

(d) Should any person not a party to this agreement, who is determined to be the owner of any Lease or Interest which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;



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

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

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

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

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

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

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

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

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

## V. OPERATOR

### A. Designation and Responsibilities of Operator:

Permian Resources Operating, LLC shall be the Operator of the Contract Area, if named operator by the New Mexico Oil Conservation Division, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonably prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred except such as may result from gross negligence or willful misconduct.

### B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area (except as set forth in Article XVI.D.), or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of Non-Operators two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator, such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, affiliate, parent or successor corporation entity shall not be the basis for removal of Operator.



2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

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

C. **Employees and Contractors:**

The number of employees or contractors used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees or contractors shall be the employees or contractors of Operator.

D. **Rights and Duties of Operator:**

1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or materials supplied by affiliates or related parties of Operator shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance with customs and standards prevailing in the industry.

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

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

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

5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any and all reports and information obtained by Operator in connection with production and related items, including, without limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures shall be conducted in accordance with the audit protocol specified in Exhibit "C." Notwithstanding anything herein to the contrary, for any operations in which Non-Operator is a Non-Consenting Party, such Non-Operator shall not be permitted access to such operations or to the records, books, reports, or information related to such operation, except such information required to be provided to a Non-Consenting Party pursuant to Article V.I.B.2.(d).

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

7. Drilling and Testing Operations: The following provisions shall apply to each well drilled hereunder, including but not limited to the Initial Well:

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

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

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



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

9. **Insurance:** At all times while operations are conducted hereunder, Operator shall comply with the workers compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C." Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D" attached hereto and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile liability insurance is specified in said Exhibit "D," or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

## VI. DRILLING AND DEVELOPMENT

### A. Initial Well:

On or before June 1, 2024, Operator shall commence the drilling of the Initial Well at the following location: at a First Take Point at a legal location in the NW/4NW/4 of Section 5, T20S-R34E and a Last Take Point at a legal location in SW/4SW/4 of Section 8, T20S-34E, Lea County, New Mexico (if a Horizontal Well, surface and Terminus/Termini of the Lateral(s)); and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to the Bone Spring Formation. Operator at its sole discretion may extend the commencement of drilling of the Initial Well by 180 days by providing written notice to Non-Operators prior to the date in this paragraph.

The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1. as to participation in Completion operations and Article VI.F. as to termination of operations and Article XI as to occurrence of force majeure.

### B. Subsequent Operations:

1. **Proposed Operations:** If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone under this agreement (and to all other parties in the case of a proposal for Sidetracking or Deepening as to a Vertical Well), specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation as outlined in an AFE. A proposal for the drilling of or other operations for a Horizontal Well shall: (1) state that the proposed operation is a Horizontal Well operation; (2) include drilling and Completion plans specifying the proposed: (i) Total Measured Depth(s), (ii) surface hole location(s), (iii) Terminus/Termini, (iv) Displacement(s), (v) utilization and scheduling of rig(s) (Spudder Rig, drilling and Completion), and (vi) stimulation operations, staging and sizing; and (3) include estimated drilling and Completion costs as set forth in an AFE. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

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

### 2. Operations by Less Than All Parties:

(a) **Determination of Participation.** If any party to whom such notice is delivered as provided in Article VI.B.1. or VI.C.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties'



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

(b) **Relinquishment of Interest for Non-Participation.** The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking, Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be effective 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 applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other interests not excepted by Article III.C. 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:

- i. 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
- ii. 300% of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) 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.

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

(c) **Reworking, Recompleting or Plugging Back.** An election not to participate in the drilling, Sidetracking or Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. 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 300% 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 VI.B. shall be applicable as between said Consenting Parties in said well.

(d) **Recoupment Matters.** 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 ad valorem, production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.C.

In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening 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, Sidetracking, Plugging Back, Recompleting or Deepening, 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 ninety (90) days after the 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, Sidetracking, Deepening, Plugging Back, testing, Completing, Recompleting, 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 month 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 realized from the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas produced during any month, 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.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the day following the day on which such recoupment occurs, 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, Sidetracking, Reworking, Deepening, Recompleting 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 Exhibit "C" attached hereto.

3. **Stand-By Costs:** 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, or when operations on the well have been otherwise terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6. to resolve competing proposals) shall be charged and borne as 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 pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), 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 as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in Article VI.B.1. within which to respond by paying for all stand-by costs and other costs incurred during such extended response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending the response period. If more than one party elects to take such additional time to respond to the notice, standby 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 as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties.

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

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

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

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

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

This Article VI.B.4 shall not apply to Deepening operations within an existing Lateral of a Horizontal Well.

5. **Sidetracking:** Any party having the right to participate in a proposed Sidetracking operation that does not own an interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore 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 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth at which the Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's proportionate share of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking operation is initiated shall be determined in accordance with the provisions of Exhibit "C." This Article VI.B.5, "Sidetracking," shall not apply to operations in an existing Lateral of a Horizontal Well.
6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty four (24) hours if a rig is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within such period shall be deemed an election not to participate in the prevailing proposal.
7. Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be proposed to be drilled to or Completed in or produced from a Zone 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 Zone.
8. Paying Wells. No party shall conduct any Reworking, Deepening, Plugging Back, Completion, Recompletion, or Sidetracking operation under this agreement with respect to any well then capable of producing in paying quantities except with the consent of all parties that have not relinquished interests in the well at the time of such operation.
9. Spudder Rigs.
- (a) Within Approved Horizontal Well proposals (i.e. proposals which include an approved AFE). If an approved Horizontal Well proposal provides that a Spudder Rig shall be utilized, and Operator desires to extend the proposed Horizontal Rig Move-On Period, Operator may obtain one or more extensions, each for a period of time not to exceed 0 days only upon notice and the affirmative vote of not less than 0% in interest of the Consenting Parties to the drilling of the proposed well.
- (b) Not Within Approved Horizontal Well proposals. If an approved Horizontal Well proposal does not provide that a Spudder Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to the Drilling Parties (which notice shall include a Horizontal Rig Move-On Period) and the affirmative vote of not less than 0% in interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On Period may be requested by Operator in the same manner as provided in Article VI.B.9 (a) immediately above.
- (c) Failure to meet Horizontal Rig Move-On Period. If a rig capable of drilling a Horizontal Well to its Total Measured Depth has not commenced operations within the Horizontal Rig Move-On Period, or any approved extension(s) thereof, unless 0% in interest of the Consenting Parties agree to abandon the operation, Operator shall re-propose the well in the manner provided in Article VI.B of this agreement. Any party who was a Non-Consenting Party to the original drilling proposal shall be entitled to a new election. Costs of the operation, incurred both before and after such re-proposal, shall be borne as follows:
- (1) Operator shall promptly reimburse all unused funds previously advanced for the drilling of the well to each party who advanced such unused funds;
  - (2) If the well's drilling operations are subsequently resumed, all costs, whether incurred before or after the re-proposal, shall be borne by the Consenting Parties to the re-proposed well; and, the Consenting Parties shall proportionately reimburse each party who consented to the original proposal but did not consent to the re-proposal such party's share of costs incurred prior to the re-proposal.
  - (3) If the well's drilling operations are not subsequently resumed pursuant to a re-proposal as herein provided, all costs incurred prior to the re-proposal, and all costs of abandonment, shall be borne and paid by the original Consenting Parties.
- (d) Commencement of Operations. For purposes of Article VI.B., and subject to the provisions of this sub-section 9, the date a Spudder Rig commences actual drilling operations shall be considered the commencement of drilling operations of the proposed well.
10. Multi-well Pads. If multiple Horizontal Wells are drilled or proposed to be drilled from a single pad or location, the costs of such pad or location shall be allocated, and/or reallocated as necessary, to the Consenting Parties of each of the wells thereon.

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

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

Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completion and equipping of the Well, including tankage and/or surface facilities.

~~Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of a Vertical Well. When such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to participate in a Completion attempt whether or not Operator recommends attempting to Complete the well, together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice shall have forty eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting~~



with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the procedures specified in Article VI.B.6. Election to participate in a Completion attempt shall include consent to all necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any 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 Completion attempt, provided, that Article VI.B.6. shall control in the case of conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the provisions of Article VI.B.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or Plugging Back" as contained in Article VI.B.2. shall be deemed to include "Completing") shall apply to the operations thereafter conducted by less than all parties; provided, however, that Article VI.B.2. shall apply separately to each separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party in subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier Completions or Recompletions have recouped their costs pursuant to Article VI.B.2.; provided further, that any recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in which the Completion attempt is made. Election by a previous Non-Consenting party to participate in a subsequent Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvable materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt, insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a Completion attempt. Notwithstanding anything to the contrary, including the selection of Option 2 above, or anything else in this agreement, Option 1 shall apply to all Horizontal Wells.

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

#### D. Other Operations:

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \$75,000 except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of \$75,000. Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 51% of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

#### E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.

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

Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the interest of the abandoning party is or includes and Oil and Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio



based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

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

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

**F. Termination of Operations:**

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

**G. Taking Production in Kind:**

**Option No. 1: Gas Balancing Agreement Attached:**

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

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

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise at any time its right to take in kind, or separately dispose of, its share of all Oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

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

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

In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

**Option No. 2: No Gas Balancing Agreement:**

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

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

~~If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil and/or Gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil and/or Gas or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject~~



always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise its right to take in kind, or separately dispose of, its share of all Oil and/or Gas not previously delivered to a purchaser, provided, however, that the effective date of any such revocation may be deferred at Operator's election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase contract having a term extending beyond such ten (10) day period. Any purchase or sale by Operator of any other party's share of Oil and/or Gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

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

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

## VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

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

### B. Liens and Security Interests:

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

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

Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article VII.B. as to all obligations attributable to such interest hereunder whether or not such obligations arise before or after such interest is acquired.

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

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

If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and



security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

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

**C. Advances:**

Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within ~~fifteen (15)~~ thirty (30) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

**D. Defaults and Remedies:**

If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator, and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator. Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified below or otherwise available to a non-defaulting party.

1. **Suspension of Rights:** Any party may deliver to the party in default a Notice of Default, which shall specify the default, specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one or more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the Non-Operators shall have in addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right to receive information as to any operation conducted hereunder during the period of such default, the right to elect to participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being conducted under this agreement even if the party has previously elected to participate in such operation, and the right to receive proceeds of production from any well subject to this agreement.
2. **Suit for Damages:** Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint account expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default until the date of collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from suing any defaulting party to collect consequential damages accruing to such party as a result of the default.
3. **Deemed Non-Consent:** The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in which event if the billing is for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to have elected not to participate in the operation and to be a Non-Consenting Party with respect thereto under Article VI.B. or VI.C., as the case may be, to the extent of the costs unpaid by such party, notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then the non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

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

4. **Advance Payment:** If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or Non-Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting party of such defaulting party's anticipated share of any item of expense for which Operator, or Non-Operators, as the case may be, would be entitled to reimbursement under any provision of this agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of drilling a well or Completion of a well as to which an election to participate in drilling or Completion has been made. If the defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of the remedies provided in this Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced remaining when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.
5. **Costs and Attorneys' Fees:** In the event any party is required to bring legal proceedings to enforce any financial obligation of a party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.

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

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-



in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

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

**F. Taxes:**

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

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

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

**VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

**A. Surrender of Leases:**

The Leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto. However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such Oil and Gas Interest for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B." Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth, then the interest assigned shall similarly reflect such variances.

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

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

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

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

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



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

**C. Acreage or Cash Contributions:**

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

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

**D. Assignment; Maintenance of Uniform Interest:**

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

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

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

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 Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

**E. Waiver of Rights to Partition:**

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

**F. Preferential Right to Purchase:**

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

**IX. INTERNAL REVENUE CODE ELECTION**

If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election



similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

#### X. CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed seven hundred fifty thousand, USD (\$750,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

#### XI. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The term "force majeure," as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

#### XII. NOTICES

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

#### XIII. TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the Oil and Gas Leases and/or Oil and Gas Interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

~~Option No. 1: So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise~~

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional 120 days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within 120 days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

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

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

This agreement shall be subject to the applicable laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations and orders.

**B. Governing Law:**

This agreement and all matters pertaining hereto, including but not limited to matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state of . If the Contract Area is in two or more states, the law of the state of Texas shall govern.

**C. Regulatory Agencies:**

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

**XV. MISCELLANEOUS**

**A. Execution:**

This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. Operator may, however, by written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the Initial Well but in no event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest. Except as otherwise provided in Article IV.B, in the event operations on a well shall be commenced without execution of this agreement by all persons listed on Exhibit "A" as having a current interest in such well, or in the event that subsequent to the commencement of operations on the well previously unknown or undisclosed persons owning working interests in a well are discovered, or both, the parties executing this agreement agree to one of the following:

~~Option No. 1: Operator shall indemnify executing Non-Operators with respect to all costs incurred for the well which would have been charged to each such person under this agreement as if such person had executed the same and Operator shall receive all revenues which would have been received by each such person under this agreement as if such person had executed the same.~~

Option No. 2: The Operator shall advise all parties of the total interest of the parties that have executed this agreement. Each party executing this agreement, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the Operator of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interest of all parties executing this agreement) of non-executing persons' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of non-executing persons' interests together with all or a portion of its proportionate part of any non-executing persons interests that any executing party did not elect to take. Any interest of non-executing persons that is not carried by an executing party shall be deemed to be carried by the Operator. Failure to advise the Operator within the time required shall be deemed an election under (i).

**B. Successors and Assigns:**

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or Interests included within the Contract Area.

**C. Counterparts:**

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

**D. Severability:**

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

**XVI. OTHER PROVISIONS**

**A. Conflict of Terms:**

Notwithstanding anything in this agreement to the contrary, in the event of any conflict between the provisions of Article I through XV of this agreement and the provisions of this Article XVI, the provisions of this Article XVI shall govern.



Unless drilling operations are terminated pursuant to Article VI.F, Operator shall drill a Horizontal Well to the objective Zone(s) and drill the Lateral in the Zone(s) at least to a Displacement to which a reasonably prudent operator would deem further drilling is neither justified nor required.

**C. Priority of Operations – Horizontal Wells:**

Notwithstanding Article VI.B.6 or anything else in this agreement to the contrary, it is agreed that where a Horizontal Well subject to this agreement has been drilled to the objective Displacement and the Consenting Parties cannot agree upon the sequence and timing of further operations regarding such Horizontal Well, the following elections shall control the order of priority enumerated hereafter:

First: Testing, coring or logging;

Second: Complete drilling operations of all proposed Laterals;

Third: Extend or Deepen a Lateral;

Fourth: Kick out and drill an additional Lateral in the same Zone;

Fifth: Plug Back the well to a Zone above the Zone in which a Lateral was drilled; if there is more than one proposal to Plug Back, the proposal to Plug Back to the next deepest prospective Zone shall have priority over a proposal to Plug Back to a shallower prospective Zone;

Sixth: Sidetrack; and

Seventh: Plug and abandon as provided for in Article VI.E

Provided, however, that if, at the time the Consenting Parties are considering any of the above, the hole is in such a condition that a reasonably prudent operator would not conduct the particular contemplated operation involved for fear of placing the hole in jeopardy or losing the hole prior to Completing the Horizontal Well in the objective Zone, such operation shall be eliminated from the priorities set forth above.

**D. Operator Owns No Interest:**

The parties to this agreement acknowledge that Permian Resources Operating, LLC does not own an interest in the Contract Area. Notwithstanding anything in this agreement to the contrary, the parties agree that Permian Resources Operating, LLC shall serve as Operator even though it owns no interest in the Contract Area.

**E. Separate Measurement Facilities:**

If any party hereto creates the necessity of separate measurement facilities within the Contract Area, such party alone shall bear the entire costs of purchasing, installing, and operating such separate measurement facilities, which facilities may be installed and operated by Operator, at Operator's sole election, for the account of said party.

**F. Bankruptcy:**

If, following the granting of relief under the United States Bankruptcy Code to any party hereto as a debtor, this agreement is held to be an executory contract under such Code, then the other party(ies) hereto shall be entitled to a determination by debtor or any trustee of debtor within thirty (30) days from the date an order for relief is entered as to the rejection or assumption of this agreement. If the debtor or trustee decides to assume this agreement, the party(ies) seeking such determination shall be entitled to adequate assurances as to the future performance of debtor's obligations hereunder and the protection of the interests of the parties hereto. The debtor shall satisfy its obligations to provide adequate assurances by depositing debtor's proportionate share of anticipated expenses in escrow. Adequate assurances shall include timely payment of any outstanding invoices and AFEs promptly upon presentation to debtor.

**G. Foreclosure of Operator's Lien:**

G. Foreclosure of Operator's Lien:  
In the event that the Contract Area is located in the State of Texas and Operator elects to foreclose its lien and security interest against the interest of Non-Operator as provided for in this agreement, such may be foreclosed non-judicially in the manner provided for by the then current form of Deed of Trust promulgated by the State Bar of Texas, in accordance with the terms and provisions thereof, and in accordance with the terms and provisions of the laws of the State of Texas pertaining to non-judicial foreclosure sales, including, but not limited to, laws pertaining to giving of notice of such sale. For such purposes, Non-Operator hereby appoints Operator, and each of its officer, as a trustee to carry out the trust imposed by such current Deed of Trust form, and agrees that a substitute trustee may be appointed in the manner provided for in such current Deed of Trust form. Operator shall be deemed to be the secured party and beneficiary under the terms and provisions of such then current Deed of Trust form, and the defaulting Non-Operator shall be deemed to be the grantor thereof, with the lien granted thereby covering and pertaining to all of the interest if the Non-Operator in the Contract Area. As used herein, the words, "current form of Deed of Trust" shall mean the Deed of Trust form then in effect as of the date the Operator elects to foreclose its lien and security interest against the interest of Non-Operator.

**H. Operations:**

For the purposes of Articles VI.B.1 and VI.B.2, Operator may commence operations including, without limitation, building location, roads and pits, delivering materials and equipment to the well site, rigging up a drilling rig, and/or actual drilling operations, at any time either before or after giving the notice of proposed operations required by said Articles. Notwithstanding the foregoing, the parties receiving notice of proposed operations pursuant to Articles VI.B.1 and VI.B.2 shall have the full time allowed in which to make their election(s) and shall be subject to the non-consent provisions thereof to the same extent and in the same manner as provided in Article VI.B regardless of whether any activities were commenced prior to receiving notice thereof.

**I. Superseded Agreements:**

For so long as this Agreement remains in force it shall supersede in its entirety any and all previous joint operating agreements pertaining to or covering any portion the Contract Area is subject to this Agreement insofar, and only insofar, as to the land and depths within the Contract Area hereof. Notwithstanding the foregoing, to the extent any previous joint operating agreement covers any wells on the Contract Area which were in existence prior to the Effective Date of this Agreement, said previous joint operating agreement shall continue to govern the rights and obligations of the parties, thereto in regards to the wellbore only of such existing well(s), production from and expenses incurred on such wells, and any equipment directly associated with such wells.

**J. Advances:**

See Art. VII.

**K. Excluded Wellbores:**

This Operating Agreement specifically excludes existing wellbores, associated equipment, associated production including the operations of such wells existing as of the date of this Operating Agreement whether or not such wellbores are producing, shut-in, or otherwise temporarily abandoned.

**L. Sub-Contract Areas:**

Notwithstanding anything herein to the contrary, each Sub-Contract Area identified in paragraph 4 of Exhibit A shall be considered a separate Contract Area for all purposes of this Agreement, provided, however, that so long as the Initial Well is drilled in accordance with Article VI.A., this Agreement shall remain in force as to all property within the Contract Area defined in paragraph 1 of Exhibit A for so long as there is compliance with Article XIII, Option No. 2 with regards to any well or wells located on any property covered by this Agreement.

**M. Regulatory Costs:**

Should it be necessary to conduct the hearings before governmental agencies for the securing of spacing or pooling orders, or for certifying new gas, the costs attributable to such hearings as well as fees paid attorneys and witnesses, shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A".

IN WITNESS WHEREOF, this agreement shall be effective as of the day of March 1, 2023.

Permian Resources Operating, LLC, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below is identical to the AAPL Form 610-1989 Model Form Operating Agreement, as published in computerized form by AAPL. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles I-XVI, have been made to the form.

ATTEST OR WITNESS:

OPERATOR: Permian Resources Operating, LLC

\_\_\_\_\_

BY: \_\_\_\_\_

\_\_\_\_\_

Print Name: Patrick Godwin

Title: Vice President of Land

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

Tax ID: \_\_\_\_\_

NON-OPERATORS

ATTEST OR WITNESS:

NON-OPERATOR NAME: Read & Stevens, Inc

\_\_\_\_\_

BY: \_\_\_\_\_

\_\_\_\_\_

Print Name: Patrick Godwin

Title: Vice President of Land

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

Tax ID: \_\_\_\_\_

ATTEST OR WITNESS:

NON-OPERATOR NAME:

\_\_\_\_\_

BY: \_\_\_\_\_

\_\_\_\_\_

Print Name: \_\_\_\_\_

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

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

Tax ID: \_\_\_\_\_

ATTEST OR WITNESS:

NON-OPERATOR NAME:

\_\_\_\_\_

BY: 

\_\_\_\_\_

Print Name: Stephen K. Marks

Title: President

Date: 11/21/2023

Tax ID: \_\_\_\_\_



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Acknowledgment in representative capacity:

State of Colorado )

) ss.

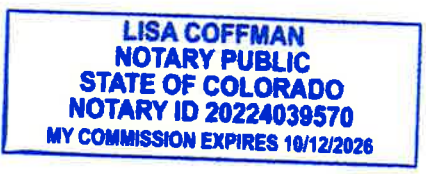
County of Denver )

This instrument was acknowledged before me on the 21<sup>st</sup> day of November, 2023, by

Stephen K Marks as President for Marks Oil, Inc.

on behalf of said Corporation

(Seal, if any)



Lisa Coffman

Title (and Rank) Notary Public

My commission expires 10/12/2026

Acknowledgment in representative capacity:

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

) ss.

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by

\_\_\_\_\_ as \_\_\_\_\_ for \_\_\_\_\_

on behalf of said \_\_\_\_\_

(Seal, if any)

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

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**ACKNOWLEDGMENTS**

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

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

*Acknowledgment in representative capacity:*

State of   Texas  )

) ss.

County of   Midland  )

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by Patrick Godwin as Vice President of Permian Resources Operating, LLC, on behalf of said limited liability company.

(Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires \_\_\_\_\_

*Acknowledgment in representative capacity:*

State of   Texas  )

) ss.

County of   Midland  )

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by Patrick Godwin as Vice President of Read & Stevens, Inc., on behalf of said company.

(Seal, if any)

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Title (and Rank) \_\_\_\_\_  
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*Acknowledgment in representative capacity:*

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by  
\_\_\_\_\_ as \_\_\_\_\_ for \_\_\_\_\_  
on behalf of said \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires \_\_\_\_\_

*Acknowledgment in representative capacity:*

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by  
\_\_\_\_\_ as \_\_\_\_\_ for \_\_\_\_\_  
on behalf of said \_\_\_\_\_

(Seal, if any)

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*Individual Acknowledgment:*

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

) ss.

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by

\_\_\_\_\_

(Seal, if any)

\_\_\_\_\_

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

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

*Individual Acknowledgment:*

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

) ss.

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by

\_\_\_\_\_

(Seal, if any)

\_\_\_\_\_

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

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

## Exhibit "A"

Attached to and made a part of that certain Operating Agreement, dated March 1, 2023, by and between Permian Resources Operating, LLC, as Operator, and Read & Stevens, Inc., et al as Non-Operators, covering lands in Lea County, New Mexico

1. Contract Area:

All of Sections 5 and 8, T20S-R34E, Lea County, New Mexico, containing 1280.20 acres, more or less

2. Restrictions as to depths and formations:

Only as to the depths of the Bone Spring and Wolfcamp Formations.

3. Parties to this agreement with addresses and telephone numbers for notice purposes:

*Other Parties To Be Determined*

Permian Resources Operating, LLC  
300 N. Marienfeld St., Ste. 1000  
Midland, Texas 79701  
Attn: Travis Macha  
Phone: (432) 400-1037

Read & Stevens, Inc.  
300 N. Marienfeld St., Ste. 1000  
Midland, Texas 79701  
Attn: Travis Macha  
Phone: (432) 400-1037

4. Percentages or fractional interests of the parties to this agreement:

*To Be Determined. Please note that the JOA will be subject to separate Contract Areas dependent on lateral length and depth severances.*

5. Oil and Gas Leases subject to this Operating Agreement:

1. Lease No.: NMNM 101115  
Lessor: United States of America  
Lessee: Read & Stevens Inc  
Lease Date: September 1, 1998  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: Lot 4 & SW/4NW/4
  
2. Lease No.: NMLC 0065607  
Lessor: United States of America  
Lessee: Edward R. Hudson, et al  
Lease Date: September 1, 1948  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: Lots 1-3, S/2NE/4, & SE/4NW/4
  
3. Lease No.: NMLC 0064194  
Lessor: United States of America  
Lessee: Edward R. Hudson, et al  
Lease Date: October 1, 1947  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: S/2  
Section 8: All

EXHIBIT "B"

ATTACHED TO AND BY REFERENCE MADE A PART OF THAT CERTAIN JOINT OPERATING AGREEMENT, DATED MARCH 1, 2023, BY AND BETWEEN PERMIAN RESOURCES OPERATING, LLC, AS OPERATOR, AND READ & STEVENS, INC., ET AL, AS NON-OPERATORS

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

PRODUCERS 88 REV.-TEX. PAID-UP (3-73)

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this \_\_\_ day of \_\_\_\_\_, 20\_\_\_, between \_\_\_\_\_, Lessor (whether one or more), whose address is \_\_\_\_\_ and \_\_\_\_\_, Lessee, with address of \_\_\_\_\_, WITNESSETH:

1. Lessor, in consideration of Ten and No/100\*\*\*\*\* Dollars (\$10.00) in hand paid, receipt of which is hereby acknowledged, and of the royalties herein provided and of the agreements of the Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of Investigating, exploring, prospecting, drilling, mining and operating for and producing oil, gas and all other minerals, conducting seismic operations, injecting gas, water, other fluids, and air into subsurface strata, establishing and utilizing facilities for surface and subsurface disposal of salt water, constructing roads, laying pipe lines, storing oil, building tanks, power stations and lines, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals and other products manufactured therefrom, and housing and otherwise caring for its employees, the following described land in \_\_\_\_\_ County, New Mexico, to-wit:

LAND DESCRIPTION

This lease covers all of the land described above, and in addition thereto, it covers and there is hereby leased, let and demised to the same extent as if they were described herein specifically, all lands owned or claimed by Lessor adjacent, contiguous to, or a part of the tract or tracts specifically described above, whether such additional lands be owned or claimed by deed, limitation or otherwise, and whether the same be inside or outside the metes and bounds description and whether the same be held under fence by Lessor or not and whether such additional lands be in the named survey or other survey or surveys. This is a lease in gross and not by the acre and the bonus money paid shall be effective to cover all such lands irrespective of the number of acres contained therein, and the lands included within the terms of this lease are estimated to comprise \_\_\_\_\_ gross acres, whether they actually comprise more or less.

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations, or to the discovery, development or cessation at any time of production of oil, gas or other minerals, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of three (3) years from this date (called "primary term") and as long thereafter as oil, gas or other minerals are produced from said land, or land with which said land is pooled hereunder, or as long as this lease is continued in effect as otherwise herein provided.

3. The royalties to be paid by Lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, 1/4 of that produced and saved from said land, same to be delivered at the wells or to the credit of Lessor in the pipelines to which the wells may be connected; Lessor's interest in either case shall bear its proportion of any expenses for treating oil to make it marketable as crude; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the mouth of the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 of the amount realized from such a sale; (c) on all other minerals mined and marketed 1/4, either in kind or value at the well or mine, at Lessee's election, except that on sulphur the royalty shall be One Dollar (\$1.00) per long ton; and (d) at any time and from time to time either at or after the expiration of the primary term of this lease, if there is a gas well or wells on said land or lands pooled therewith (and for the purposes of this clause (d) the term "gas well" shall include wells capable of producing natural gas, condensate, distillate, or any gaseous substance and wells classified as gas wells by any governmental authority) and such well or wells are or have been shut-in before or after production therefrom, it shall be deemed that said well or wells are producing gas within the meaning of paragraph numbered 2 of this lease and this lease shall not terminate. In such event, Lessee covenants and agrees to pay as royalty shut-in gas royalty in the amount of One and 00/100 Dollars per net acre (\$1.00/net acre) per annum as long as such well or wells are shut-in and this lease is not maintained in force or effect by other provisions hereof. Such shut-in royalty shall be paid or tendered to Lessor or to his credit in the \_\_\_\_\_ PAY DIRECTLY TO LESSOR Bank of \_\_\_\_\_ which Bank or any successor Bank thereof shall continue to be the agent for Lessor and Lessor's successors and assigns. Should Lessee elect, such Bank may also be used to pay any other sums, including royalties, due hereunder. If such Bank (or any successor Bank) should fail, liquidate or be succeeded by another Bank or for any reason fail or refuse to accept shut-in royalty or any other payment, Lessee shall not be held in default until thirty (30) days after Lessor shall deliver to Lessee a recordable instrument making provision for another method of payment or tender. Any depository charge is a liability of the Lessor. Any payment or tender of shut-in royalty made under the terms of this lease may be made by check or draft of Lessee mailed or delivered to said Bank or to Lessor. In the event Lessee is obligated to pay the shut-in royalty above indicated, the first payment of such shut-in royalty shall be due and payable on or before ninety (90) days following the date on which the well is shut-in, or if shut-in during the primary term then on or before ninety (90) days following the expiration of the primary term, and subsequent payments, if required under the terms of this paragraph, shall be due and payable annually on or before the anniversary of the date of the original payment. It is specifically provided that this is a paid-up lease during the term set out above as "primary term" and there shall be no obligation or liability on the Lessee to make any shut-in royalty payment or other payment during said primary term, and without any such payment this lease shall remain in full force and effect during said primary term. The obligation to pay the shut-in royalty provided for above, shall be a covenant running with the land and, under no conditions, shall the failure to comply with such obligation serve or be used to terminate this lease or to work any forfeiture.

4. If production of oil, gas or other minerals on said land or land pooled therewith should cease from any cause after the primary term, this lease nevertheless shall continue in force and effect as long as additional drilling operations or reworking operations are conducted on this lease, or on acreage pooled therewith, in a similar manner as described in paragraph 13, which additional operations shall be deemed to be had when not more than one hundred eighty (180) days elapse between the



completion or abandonment of one well and the commencement of operations on another well thereon, and if production is obtained this lease shall continue as long thereafter as oil, gas or other mineral is produced from said land or land pooled therewith, and as long thereafter as additional operations, either drilling or reworking, are had thereon. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land, not owned by Lessors, within 467 feet or shown to be economically draining the leased premises, or land pooled therewith, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

5. Lessee, its successors and assigns, at its option, at any time and from time to time, and without Lessor's joinder or further consent, is hereby given the right and power to pool the land or any interests covered by this lease, or any portion thereof, as to oil, gas, condensate or distillate, or any of them, or either of them, with any other land, interests, lease or leases, or any of them, adjacent, adjoining or located in the immediate vicinity of these lands, when in Lessee's judgment it is necessary or advisable to do so in order efficiently to develop or operate said premises in compliance with the spacing rules of the Railroad Commission of Texas or other lawful authority or when to do so, would, in the judgment of the Lessee, promote the conservation of oil and gas on said premises, such pooling to be into a well unit or units not exceeding eighty (80) acres plus an acreage tolerance of ten percent (10%) of eighty (80) acres for oil, and not exceeding six-hundred-forty (640) acres plus an acreage tolerance of ten percent (10%) of six-hundred-forty (640) acres for gas, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units may be created or enlarged to conform substantially in size with those prescribed by governmental regulations. Lessee may pool the acreage or interests above described, or any portion thereof, as above provided, as to oil or gas in any one or more strata, and units so formed need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool the land above described, or any portion thereof, into other units. Lessee shall execute in writing and file for record in the county or counties where the land is situated an instrument designating and describing the pooled acreage, which pooling and designation may be accomplished either before or after a well or wells are drilled or completed on the unit. The entire acreage so pooled into a unit shall be treated for all purposes, except the payment of royalties, overriding royalties or payments out of production, as if it were included in this lease; and drilling or reworking operations thereon, production of oil or gas, condensate or distillate therefrom, cessation of production thereon, or the existence thereon of a shut-in gas well, shall be considered for all purposes, except the payment of royalties, as if such operations were conducted, or such production or cessation of production, or existence of a shut-in gas well were on the land above described, whether or not the well or wells be located on the said lands. In lieu of the royalties, overriding royalties or payments out of production, if any, elsewhere herein specified, Lessor shall receive from a unit so formed only such portion of the royalty, overriding royalty or payment out of production, if any, stipulated herein as the amount of the acreage (surface acres) above described which is placed in the unit bears to the total acreage (surface acres) so pooled in the particular unit involved. Shut-in gas royalties with respect to unit shut-in gas wells shall be payable in accordance with the provisions and in the amount set forth in this Lease. Should any unit as created hereunder contain less than the maximum number of acres hereinabove specified or allowed, then Lessee may at any time thereafter, whether before or after production is obtained on the unit, enlarge such unit by adding additional acreage thereto, but the enlarged unit shall in no event exceed the acreage content hereinabove specified or allowed. In the event an existing unit is so enlarged, Lessee shall execute and file for record in the county or counties in which the land is situated a supplemental designation and description of the land added to the existing unit; provided, that if such supplemental designation and description is not filed until production is obtained on the unit as originally created, then and in such event the supplemental designation and description shall not become effective until the first day of the calendar month next following the filing thereof. In the event the well or wells drilled on any unit shall fail to produce oil or gas, or in the event the production from any such well or wells shall cease, Lessee may terminate any unitized area created hereunder by filing for record in the county or counties where the land is situated proper instruments evidencing such termination.

6. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells and tanks, for all operations hereunder, including, but not limited to, repressuring, pressure maintenance, cycling, and secondary recovery operations, and the royalty on oil and gas shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. No well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns of the parties hereto, but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee or impair the effectiveness of any payment theretofore made by Lessee. No such change or division in the ownership of the land or royalties shall impair the effectiveness of any payment theretofore made by Lessee or be binding upon Lessee for any purpose (and irrespective of whether Lessee has either actual or constructive knowledge thereof) until 60 days after such person acquiring any interest has furnished Lessee with the instrument or instruments, or certified copies thereof, constituting his chain of title from the original Lessor.

8. Lessee shall not be liable for delays or defaults in its performance of any agreement or covenant hereunder due to force majeure. The term "force majeure" as employed herein shall mean: any act of God including, but not limited to storms, floods, washouts, landslides and lightning; acts of the public enemy: wars, blockades, insurrection or riots; strikes or lockouts; epidemics or quarantine regulations; laws, acts, orders or requests of federal, state, municipal or other governments or other governmental officers, or agents under color of authority; freight embargoes or failures; exhaustion or unavailability or delays in delivery of any product, labor, service or material. If Lessee is required, ordered or directed by any federal, state or municipal law, executive order, rule, regulation or request enacted or promulgated under color of authority to cease drilling operations, reworking operations or producing operations on the land covered by this lease or if Lessee by force majeure is prevented from conducting drilling operations, reworking operations, or producing operations, then until such time as such law, order, rule, regulation, request or force majeure is terminated and for a period of ninety (90) days after such termination each and every provision of this lease that might operate to terminate it or the estate conveyed by it shall be suspended and inoperative and this lease shall continue in full force. If any period of suspension occurs during the primary term, the time thereof shall be added to such term.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee, at its option, may discharge any tax, mortgage, other lien upon said land, and in the event Lessee does so, it shall be subrogated to such lien with the right to enforce the same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in the event of failure of title in whole or in part, it is agreed that if Lessor does not own, or have the right to lease, the entire mineral estate herein purported to be leased in the land above described, then the royalties and any other sums payable hereunder shall be reduced proportionately. Should any party named above as Lessor fail to execute this lease, or should any party execute the lease who is not named as a Lessor, it shall nevertheless be binding upon the party or parties executing the same. In the event the leased lands are encumbered by a mortgage, then prior to the payment of any royalties due hereunder, Lessor agrees to obtain a subordination of mortgage, at Lessor's expense, in a form acceptable to Lessee.

10. Lessee, its successors and assigns, shall have the right at any time to surrender this lease, in whole or in part, to Lessor or his heirs and assigns by delivering or mailing a release thereof to the Lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon Lessee shall be relieved from all obligations, expressed or implied, of this agreement as to the acreage so surrendered.

IN WITNESS WHEREOF, this instrument is executed the day and year first above written.

LESSOR

\_\_\_\_\_

**ACKNOWLEDGMENT**

STATE OF            }  
COUNTY OF        }

This instrument was acknowledged before me on \_\_\_\_\_, 20\_\_\_\_, by \_\_\_\_\_, as  
\_\_\_\_\_ of \_\_\_\_\_ on behalf of said

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

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





1  
2 **COPAS 2005 ACCOUNTING PROCEDURE**

3 **EXHIBIT C**

4 **ACCOUNTING PROCEDURE JOINT OPERATIONS**

5 Attached to and made part of that certain Operating Agreement, dated March 1, 2023, by and between Permian Resources  
6 Operating, LLC, as Operator, and Read & Stevens, Inc., et al, as Non-Operators, covering lands in Lea County, New Mexico.

7  
8 **I. GENERAL PROVISIONS – ACCOUNTING PROCEDURE**

9 **IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING “ALTERNATIVE” PROVISIONS, OR SELECT**  
10 **ALL THE COMPETING “ALTERNATIVE” PROVISIONS, ALTERNATIVE 1 IN EACH SUCH INSTANCE SHALL**  
11 **BE DEEMED TO HAVE BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR**  
12 **DUPLICATE NOTATION.**

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

17 **1. DEFINITIONS**

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

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

24 **“Agreement”** means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting  
25 Procedure is attached.

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

29 **“Equalized Freight”** means the procedure of charging transportation cost to the Joint Account based upon the distance from the  
30 nearest Railway Receiving Point to the property.

31 **“Excluded Amount”** means a specified excluded trucking amount most recently recommended by COPAS.

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

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

- 38
- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- 39
- Responsibility for day-to-day direct oversight of rig operations
- 40

- 41 • Responsibility for day-to-day direct oversight of construction operations
- 42 • Coordination of job priorities and approval of work procedures
- 43 • Responsibility for optimal resource utilization (equipment, Materials, personnel)
- 44 • Responsibility for meeting production and field operating expense targets
- 45 • Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an
- 46 incidental part of the supervisor's operating responsibilities
- 47 • Responsibility for all emergency responses with field staff
- 48 • Responsibility for implementing safety and environmental practices
- 49 • Responsibility for field adherence to company policy
- 50 • Responsibility for employment decisions and performance appraisals for field personnel
- 51 • Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may
- 52 have group or team leaders.

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

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

58 **“Joint Property”** means the real and personal property subject to the Agreement.

59 **“Laws”** means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other  
 60 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the  
 61 transactions contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter  
 62 amended, enacted, promulgated or issued.

63 **“Material”** means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.

64 **“Non-Operators”** means the Parties to the Agreement other than the Operator.

65 **“Offshore Facilities”** means platforms, surface and subsea development and production systems, and other support systems such  
 66 as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water  
 67 storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities  
 68 necessary in the conduct of offshore operations, all of which are located offshore.

69 **“Off-site”** means any location that is not considered On-site as defined in this Accounting Procedure.

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

74 **“Operator”** means the Party designated pursuant to the Agreement to conduct the Joint Operations.

75 **“Parties”** means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually  
 76 as “Party.”

77 **“Participating Interest”** means the percentage of the costs and risks of conducting an operation under the Agreement that a Party  
 78 agrees, or is otherwise obligated, to pay and bear.

79 **“Participating Party”** means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a  
 80 share of the costs and risks of conducting an operation under the Agreement.

81 **“Personal Expenses”** means reimbursed costs for travel and temporary living expenses.

82 **“Railway Receiving Point”** means the railhead nearest the Joint Property for which freight rates are published, even though an  
 83 actual railhead may not exist.



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

87 “Supply Store” means a recognized source or common stock point for a given Material item.

88 “Technical Services” means services providing specific engineering, geoscience, or other professional skills, such as those  
89 performed by engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems  
90 for the benefit of Joint Operations; provided, however, Technical Services shall not include those functions specifically identified  
91 as overhead under the second paragraph of the introduction of Section III (Overhead). Technical Services may be provided by the  
92 Operator, Operator’s Affiliate, Non-Operator, Non-Operator Affiliates, and/or third parties.

## 93 2. STATEMENTS AND BILLINGS

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

100 The Operator may make available to Non-Operators any statements and bills required under Section I.2 and/or Section  
101 I.3.A (*Advances and Payments by the Parties*) via email, electronic data interchange, internet websites or other  
102 equivalent electronic media in lieu of paper copies. The Operator shall provide the Non-Operators instructions and any  
103 necessary information to access and receive the statements and bills within the timeframes specified herein. A statement  
104 or billing shall be deemed as delivered twenty-four (24) hours (exclusive of weekends and holidays) after the Operator  
105 notifies the Non-Operator that the statement or billing is available on the website and/or sent via email or electronic data  
106 interchange transmission. Each Non-Operator individually shall elect to receive statements and billings electronically,  
107 if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written  
108 notice to the Operator.

## 109 3. ADVANCES AND PAYMENTS BY THE PARTIES

110 A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of  
111 the estimated cash outlay for the succeeding month’s operations within ~~fifteen (15)~~ thirty (30) days after receipt of the  
112 advance request or by the first day of the month for which the advance is required, whichever is later. The Operator  
113 shall adjust each monthly billing to reflect advances received from the Non-Operators for such month. If a refund is  
114 due, the Operator shall apply the amount to be refunded to the subsequent month’s billing or advance, unless the Non-  
115 Operator sends the Operator a written request for a cash refund. The Operator shall remit the refund to the Non-Operator  
116 within fifteen (15) days of receipt of such written request.

117 B. Except as provided below, each Party shall pay its proportionate share of all bills in full within ~~fifteen (15)~~ thirty (30)  
118 days of receipt date. If payment is not made within such time, the unpaid balance shall bear interest compounded  
119 monthly at the prime rate published by the Wall Street Journal on the first day of each month the payment is delinquent,  
120 plus three percent (3%), per annum, or the maximum contract rate permitted by the applicable usury Laws governing  
121 the Joint Property, whichever is the lesser, plus attorney’s fees, court costs, and other costs in connection with the  
122 collection of unpaid amounts. If the Wall Street Journal ceases to be published or discontinues publishing a prime rate,  
123 the unpaid balance shall bear interest compounded monthly at the prime rate published by the Federal Reserve plus three  
124 percent (3%) per annum. Interest shall begin accruing on the first day of the month in which the payment was  
125 due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has  
126 agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation  
127 and explanation to the Operator at the time payment is made, to the extent such reduction is caused by:

128 (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator’s actual  
129 working interest or Participating Interest, as applicable; or

130 (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has  
131 not approved or is not otherwise obligated to pay under the Agreement; or

132 (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-  
133 Operator has furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the  
134 foregoing, the Non-Operator shall remain responsible for paying bills attributable to the interest it sold or  
135 transferred for any bills rendered during the thirty (30) day period following the Operator’s receipt of such written  
136 notice; or

137 (4) charges outside the adjustment period, as provided in Section I.4 (Adjustments).

## 138 4. ADJUSTMENTS

- 139 A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof;  
 140 however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively be  
 141 presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end of  
 142 any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim  
 143 for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an audit  
 144 report, within the time periods prescribed in Section I.5 (*Expenditure Audits*).
- 145 B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section I.4.B, are limited  
 146 to the twenty-four (24) month period following the end of the calendar year in which the original charge appeared or  
 147 should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that may be made  
 148 beyond the twenty-four (24) month period are limited to adjustments resulting from the following:
- 149 (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*),  
 150 or
- 151 (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception  
 152 granted by the Operator relating to another property, or
- 153 (3) a government/regulatory audit, or
- 154 (4) a working interest ownership or Participating Interest adjustment.

## 155 5. EXPENDITURE AUDITS

- 156 A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the  
 157 Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the  
 158 end of such calendar year in which such bill was rendered; however, conducting an audit shall not extend the time for  
 159 the taking of written exception to and the adjustment of accounts as provided for in Section I.4 (*Adjustments*). Any  
 160 Party that is subject to payout accounting under the Agreement shall have the right to audit the accounts and records of  
 161 the Party responsible for preparing the payout statements, or of the Party furnishing information to the Party responsible  
 162 for preparing payout statements. Audits of payout accounts may include the volumes of hydrocarbons produced and  
 163 saved and proceeds received for such hydrocarbons as they pertain to payout accounting required under the  
 164 Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the  
 165 twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

166 Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint  
 167 audit in a manner that will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of  
 168 the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be  
 169 conducted more than once each year without prior approval of the Operator, except upon the resignation or removal of  
 170 the Operator, and shall be made at the expense of those Non-Operators approving such audit.

171 The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90)  
 172 days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the  
 173 twenty-four (24) month requirement for taking specific detailed written exception as required in Section I.4.A  
 174 (*Adjustments*) above. All claims shall be supported with sufficient documentation.

175 A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall,  
 176 with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against  
 177 such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims for  
 178 so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this  
 179 Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section I.5.B or I.5.C, the  
 180 Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-Operators  
 181 shall lapse, and such claims shall then be subject to the applicable statute of limitations; provided that such waiver shall  
 182 not lapse in the event that the Operator has failed to comply with the deadlines in Section I.5.B or I.5.C.

- 183 B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days  
 184 after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the  
 185 Operator fails to provide substantive response to an exception within this one hundred eighty (180) day period, the  
 186 Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit  
 187 report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the*  
 188 *Parties*). Operator will make every effort to file a written response within the one hundred eighty (180) day period, but  
 189 shall not incur any penalty for failure to timely respond.

- 190 C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and  
 191 the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided,  
 192 however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's position



193 or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in Section I.5.E,  
 194 if the Operator fails to provide substantive response to an exception within this ninety (90) day period, the Operator will  
 195 owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest  
 196 shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the Parties*). Operator will make  
 197 every effort to file a written response within the one hundred eighty (180) day period, but shall not incur any penalty for  
 198 failure to timely respond.

199 D. If any Party fails to meet the deadlines in Sections I.5.B or I.5.C or if any audit issues are outstanding fifteen (15) months  
 200 after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call  
 201 a resolution meeting, as set forth in this Section I.5.D or it may invoke the dispute resolution procedures included in the  
 202 Agreement, if applicable. The meeting will require one month's written notice to the Operator and all Non-Operators  
 203 participating in the audit. The meeting shall be held at the Operator's office or mutually agreed location, and shall be  
 204 attended by representatives of the Parties with authority to resolve such outstanding issues. Any Party who fails to  
 205 attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead audit company will  
 206 make good faith efforts to coordinate the response and positions of the Non-Operator participants throughout the  
 207 resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will make good faith  
 208 efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its  
 209 position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may  
 210 be discussed at subsequent meetings until each such issue is resolved.

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

221 E. ~~(Optional Provision—Forfeiture Penalties)—~~  
 222 ~~If the Non-Operators fail to meet the deadline in Section I.5.C, any unresolved exceptions that were not addressed by~~  
 223 ~~the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed~~  
 224 ~~to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section I.5.B or I.5.C, any~~  
 225 ~~unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of the audit report~~  
 226 ~~or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed to have been granted~~  
 227 ~~by the Operator and adjustments shall be made, without interest, to the Joint Account.~~

## 228 6. APPROVAL BY PARTIES

### 229 A. General Matters

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

234 This Section I.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for  
 235 charges from that prescribed in this Accounting Procedure. This provision does not apply to amendments to this  
 236 Accounting Procedure, which are covered by Section I.6.B.

### 237 B. Amendments

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

### 242 C. Affiliates

243 For the purpose of administering the voting procedures of Sections I.6.A and I.6.B, if Parties to this Agreement are  
 244 Affiliates of each other, then such Affiliates shall be combined and treated as a single Party having the combined working  
 245 interest or Participating Interest of such Affiliates.

246 For the purposes of administering the voting procedures in Section I.6.A, if a Non-Operator is an Affiliate of the  
 247 Operator, votes under Section I.6.A shall require the majority in interest of the Non-Operator(s) after excluding the  
 248 interest of the Operator's Affiliate.

249 **II. DIRECT CHARGES**

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

251 **1. RENTALS AND ROYALTIES**

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

253 **2. LABOR**

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

- 256 (1) Operator's field employees and/or contractors directly employed On-site in the conduct of Joint Operations,  
 257 (2) Operator's employees and/or contractors directly employed on Shore Base Facilities, Offshore Facilities, or other  
 258 facilities serving the Joint Property if such costs are not charged under Section II.6 (*Equipment and Facilities*  
 259 *Furnished by Operator*) or are not a function covered under Section III (*Overhead*),  
 260 (3) Operator's employees and/or contractors providing First Level Supervision,  
 261 (4) Operator's employees and/or contractors providing On-site Technical Services for the Joint Property if such  
 262 charges are excluded from the overhead rates in Section III (*Overhead*),  
 263 (5) Operator's employees and/or contractors providing Off-site Technical Services for the Joint Property if such  
 264 charges are excluded from the overhead rates in Section III (*Overhead*).

265 Charges for the Operator's employees and/or contractors identified in Section II.2.A may be made based on the  
 266 employee's actual salaries and wages, or in lieu thereof, a day rate representing the Operator's average salaries and  
 267 wages of the employee's specific job category.

268 Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable  
 269 compensation paid to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties  
 270 pursuant to Section I.6.A (*General Matters*).

271 B. Operator's cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to employees  
 272 whose salaries and wages are chargeable to the Joint Account under Section II.2.A, excluding severance payments or  
 273 other termination allowances. Such costs under this Section II.2.B may be charged on a "when and as-paid basis" or by  
 274 "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Section II.2.A. If  
 275 percentage assessment is used, the rate shall be based on the Operator's cost experience.

276 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority that are applicable to  
 277 costs chargeable to the Joint Account under Sections II.2.A and B.

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

280 E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are  
 281 chargeable to the Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from  
 282 reorganization or merger of a Party, or that are for the primary benefit of the Operator, shall not be chargeable to the  
 283 Joint Account. Extraordinary relocation costs, such as those incurred as a result of transfers from remote locations, such  
 284 as Alaska or overseas, shall not be charged to the Joint Account unless approved by the Parties pursuant to Section I.6.A  
 285 (*General Matters*).

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

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



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

297 **3. MATERIAL**

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

302 **4. TRANSPORTATION**

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

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

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

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

316 **5. SERVICES**

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

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

323 **6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR**

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

326 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not  
327 limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with  
328 the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide  
329 direct service to personnel who are chargeable pursuant to Section II.2.A (Labor). Such rates may include labor,  
330 maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation method,  
331 and interest on gross investment less accumulated depreciation not to exceed 6% per annum; provided, however,  
332 depreciation shall not be charged when the equipment and facilities investment have been fully depreciated. The rate  
333 may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not  
334 exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.

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

341 **7. AFFILIATES**

342 A. ~~Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the~~  
343 ~~Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate~~  
344 ~~goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such~~  
345 ~~Affiliate's goods and services billed to such individual project do not exceed. If the total costs for an Affiliate's goods~~

346 and services charged to such individual project are not specifically detailed in the approved AFE or authorization or  
 347 exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General*  
 348 *Matters*).

349 B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-  
 350 Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A  
 351 (*General Matters*), if the charges exceed in a given calendar year.

352 C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint  
 353 Property, unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately  
 354 document and support commercial rates and shall periodically review and update the rate and the supporting  
 355 documentation; provided however, documentation of commercial rates shall not be required if the Operator obtains Non-  
 356 Operator approval of its Affiliate's rates or charges prior to billing Non-Operators for such Affiliates goods and  
 357 services. Notwithstanding the foregoing, direct charges for Affiliate-owned communication facilities or systems shall  
 358 be made pursuant to Section II.12 (*Communications*). If the Parties fail to designate an amount in Sections II.7.A or  
 359 II.7.B., in each instance the amount deemed adopted by the Parties as a result of such omission shall be the amount  
 360 established as the Operator's expenditure limitation in the Agreement. If the Agreement does not contain an Operator's  
 361 expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be zero dollars  
 362 (\$0.00).

### 363 8. DAMAGES AND LOSSES TO JOINT PROPERTY

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

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

### 369 9. LEGAL EXPENSE

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

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

### 378 10. TAXES AND PERMITS

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

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

386 Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding  
 387 ad valorem or other tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section  
 388 I.6.A (*General Matters*).

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

394

395



**396 11. INSURANCE**

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

**404 12. COMMUNICATIONS**

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

**414 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY**

415 Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or  
416 standards recommended by Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All  
417 other labor and functions incurred for ecological, environmental and safety matters, including management,  
418 administration, and permitting, shall be covered by Sections II.2 (*Labor*), II.5 (*Services*), or Section III (*Overhead*), as  
419 applicable. Costs to provide or have available pollution containment and removal equipment plus actual costs of control  
420 and cleanup and resulting responsibilities of oil and other spills as well as discharges from permitted outfalls as required  
421 by applicable Laws, or other pollution containment and removal equipment deemed appropriate by the Operator for  
422 prudent operations, are directly chargeable.

**423 14. ABANDONMENT AND RECLAMATION**

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

**426 15. OTHER EXPENDITURES**

427 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in  
428 Section III (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary  
429 and proper conduct of the Joint Operations. Charges made under this Section II.15 shall require approval of the Parties,  
430 pursuant to Section I.6.A (*General Matters*).

**431 III. OVERHEAD**

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

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

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

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

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

## 453 1. DRILLING AND PRODUCING OPERATIONS

454 As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other  
455 provisions of this Section III, the Operator shall charge on either: *Fixed Rate Basis, Section III.1.B*

### 456 A. Technical Services

- 457 (1) Except as otherwise provided in Section II.13 (*Ecological Environmental, and Safety*) and Section III.2 (*Overhead*  
458 *– Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*),  
459 the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **On-site** Technical Services,  
460 including third party Technical Services: shall be charged direct to the Joint Account.
- 461 (2) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead*  
462 *– Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*),  
463 the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **Off-site** Technical Services,  
464 including third party Technical Services: shall be covered by the overhead rates.

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

### 469 B. Fixed Rate Basis

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

471 Drilling Well Rate per month \$8,000 for a vertical well and \$8,000 for a horizontal well (prorated for less  
472 than a full month)

473 Producing Well Rate per month \$800 for a vertical well and \$800 for a horizontal well.

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

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

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

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

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



- 489 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each  
490 completion is considered a separate well by the governing regulatory authority.
- 491 (c) A one well charge shall be made for the month in which plugging and abandonment operations are completed  
492 on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one well  
493 charge shall be made whether or not the well has produced.
- 494 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to  
495 take production shall be considered as a one-well charge provided the gas well is directly connected to a  
496 permanent sales outlet.
- 497 (e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a  
498 producing overhead charge.
- 499 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement;  
500 provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under  
501 a farmout agreement, the rates shall be adjusted on the first day of April each year following the effective date of  
502 such farmout agreement. The adjustment shall be computed by applying the adjustment factor most recently  
503 published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties increased  
504 or decreased by the adjustment factor described herein, for each year from the effective date of such rates, in  
505 accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").

506 C. **Percentage Basis**

- 507 (1) Operator shall charge the Joint Account at the following rates:
- 508 (a) ~~Development Rate of the cost of development of the Joint Property, exclusive of costs provided under Section~~  
509 ~~II.9 (Legal Expense) and all Material salvage credits.~~
- 510 (b) ~~Operating Rate of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1~~  
511 ~~(Rentals and Royalties) and II.9 (Legal Expense); all Material salvage credits; the value of substances~~  
512 ~~purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments~~  
513 ~~that are levied, assessed, and paid upon the mineral interest in and to the Joint Property.~~
- 514 (2) Application of Overhead—Percentage Basis shall be as follows:
- 515 (a) The Development Rate shall be applied to all costs in connection with:
- 516 i. ~~drilling, redrilling, sidetracking, or deepening of a well~~
- 517 ii. ~~a well undergoing plugback or workover operations for a period of five (5) or more consecutive work-~~  
518 ~~days~~
- 519 iii. ~~preliminary expenditures necessary in preparation for drilling~~
- 520 iv. ~~expenditures incurred in abandoning when the well is not completed as a producer~~
- 521 v. ~~construction or installation of fixed assets, the expansion of fixed assets and any other project clearly~~  
522 ~~discernible as a fixed asset, other than Major Construction or Catastrophe as defined in Section III.2~~  
523 ~~(Overhead Major Construction and Catastrophe).~~
- 524 (b) ~~The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those~~  
525 ~~subject to Section III.2 (Overhead Major Construction and Catastrophe).~~

526 2. **MAJOR CONSTRUCTION AND CATASTROPHE**

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

533 Major Construction shall mean the construction and installation of fixed assets, the expansion of fixed assets, and any  
534 other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, or in  
535 the dismantlement, abandonment, removal, and restoration of platforms, production equipment, and other operating  
536 facilities.

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

- 540 A. If the Operator absorbs the engineering, design and drafting costs related to the project:
- 541 (1) 5% of total costs if such costs are less than \$100,000; plus
- 542 (2) 3% of total costs in excess of \$100,000 but less than \$1,000,000; plus
- 543 (3) 2% of total costs in excess of \$1,000,000.
- 544 B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:
- 545 (1) 5% of total costs if such costs are less than \$100,000; plus
- 546 (2) 3% of total costs in excess of \$100,000 but less than \$1,000,000; plus
- 547 (3) 2% of total costs in excess of \$1,000,000.

548 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a  
549 single Major Construction project shall not be treated separately, and the cost of drilling and workover wells and  
550 purchasing and installing pumping units and downhole artificial lift equipment shall be excluded. For Catastrophes, the  
551 rates shall be applied to all costs associated with each single occurrence or event.

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

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

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

### 559 3. AMENDMENT OF OVERHEAD RATES

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

## 562 IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

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

### 567 1. DIRECT PURCHASES

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

### 577 2. TRANSFERS

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

584



585 A. **PRICING**

586 The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of  
587 physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators  
588 sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are  
589 used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well  
590 design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties  
591 pursuant to Section I.6.A (*General Matters*). Transfers of new Material will be priced using one of the following pricing  
592 methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between methods for  
593 the purpose of choosing the method most favorable to the Operator for a specific transfer:

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

607 B. **FREIGHT**

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

- 610 (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill  
611 to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFI-38  
612 ("Material Pricing Manual") and other COPAS MFIs in effect at the time of the transfer.
- 613 (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway  
614 Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall  
615 be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per weight  
616 of tubing transferred to the Railway Receiving Point.
- 617 (3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston,  
618 Texas, to the Railway Receiving Point.
- 619 (4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated  
620 from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point.  
621 Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the  
622 Railway Receiving Point to the Joint Property are in addition to the foregoing, and may be charged to the Joint  
623 Account based on actual costs incurred. All transportation costs are subject to Equalized Freight as provided in  
624 Section II.4 (Transportation) of this Accounting Procedure.

625 C. **TAXES**

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

630 D. **CONDITION**

- 631 (1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred  
632 percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C  
633 (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged  
634 without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a  
635 direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the

636 vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the  
 637 price originally charged to the Joint Account provided such price is approved by the Parties owning such Material,  
 638 pursuant to Section 1.6.A (*General Matters*). All refurbishing costs required or necessary to return the Material to  
 639 original condition or to correct handling, transportation, or other damages will be borne by the divesting  
 640 property. The Joint Account is responsible for Material preparation, handling, and transportation costs for new  
 641 and unused Material charged to the Joint Property either through a direct purchase or transfer. Any preparation  
 642 costs incurred, including any internal or external coating and wrapping, will be credited on new Material provided  
 643 these services were not repeated for such Material for the receiving property.

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

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

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

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

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

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

659 (4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other purpose,  
 660 (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications  
 661 as a substitute for items with different specifications, is considered Condition "D" Material. Casing, tubing, or  
 662 drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and  
 663 weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing,  
 664 tubing, or drill pipe used as higher pressure service lines than standard line pipe, e.g., power oil lines, shall be  
 665 priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a  
 666 non-upset basis. For other items, the price used should result in the Joint Account being charged or credited with  
 667 the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A  
 668 (*General Matters*).

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

#### 670 E. OTHER PRICING PROVISIONS

##### 671 (1) Preparation Costs

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

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

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

#### 683 3. DISPOSITION OF SURPLUS

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



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

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

693 • The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale  
 694 value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting  
 695 Procedure is attached without the prior approval of the Parties owning such Material.

696 • If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such  
 697 Material.

698 • Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material,  
 699 based on the pricing methods set forth in Section IV.2 (Transfers).

700 • Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value  
 701 of the Materials, based on the pricing methods set forth in Section IV.2 (Transfers), is less than or equal to the Operator's  
 702 expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting the  
 703 classification of the Material as Condition C.

704 • Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior  
 705 approval of the Parties owning such Material.

#### 706 4. SPECIAL PRICING PROVISIONS

##### 707 A. PREMIUM PRICING

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

##### 714 B. SHOP-MADE ITEMS

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

##### 720 C. MILL REJECTS

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

#### 724 V. INVENTORIES OF CONTROLLABLE MATERIAL

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

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

732

733 1. **DIRECTED INVENTORIES**

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

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

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

750 2. **NON-DIRECTED INVENTORIES**751 A. **OPERATOR INVENTORIES**

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

755 B. **NON-OPERATOR INVENTORIES**

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

760 C. **SPECIAL INVENTORIES**

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



**EXHIBIT "D"**

Attached to and made a part of that certain Operating Agreement, dated March 1, 2023, by and between Permian Resources Operating, LLC, as Operator, and Read & Stevens, Inc., et al, as Non-Operators, covering lands in Lea County, New Mexico

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. Worker's Compensation Insurance as contemplated by the laws of the State of Texas and Employer's Liability Insurance with limits of not less than \$1,000,000 per employee.
- B. Comprehensive General Liability with bodily injury limits of not less than \$1,000,000 each occurrence and \$2,000,000 aggregate; and
- C. Excess Liability Insurance in excess of the Comprehensive General Liability and Automobile Liability with a limit of liability of \$1,000,000 each occurrence and \$3,000,000 aggregate;
- D. Operator's Control of Well Insurance including coverage for well control, underground blowout, redrilling expenses, removal of wreck or debris, seepage, pollution, cleanup and containment and evacuation expenses as controlled by the policy, working subject to its conditions and exclusions. The minimum limit of such insurance shall be \$5,000,000.00 for any one occurrence for 100% interest.

The insurance described above 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 "C" to this Agreement.

Operator shall use every reasonable effort to have its contractors and subcontractors comply with applicable Worker's Compensation laws, rules, and regulations and carry such insurance as Operator may deem necessary.

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, and if at any time during the term of this Agreement, Operator is unable to procure or maintain said insurance, Operator shall promptly so notify Non-Operator in writing.

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.

Any party hereto may individually and at its own expense procure such additional insurance as it desires; provided, however, that such party shall obtain waivers by the insurer of all right of subrogation in favor of the other parties. In the event any party hereto carries insurance and does not want to be insured under Operator's Control of Well Insurance arranged by the Operator, then each such party shall provide its certificate of insurance, to the Operator, evidencing the coverage feature as stated above and minimum limits of \$5,000,000.00 for any one occurrence for such party's interest prior to spudding the initial well. Such evidence must indicate the Operator shall be provided will be given thirty (30) days written advance notice of any material changed in or cancellation of such party's coverage. Failure by any party hereto to provide evidence of insurance shall be considered as acceptance of Operator's Control of Well Insurance arranged by the Operator.

All insurance carried by Operator shall name as additional insureds the parties to this Agreement, together with its and their parents, subsidiaries and affiliated companies, its and their limited and general partners, and its and their employees, officers, directors, and shareholders (collectively "Operator Group"). All insurance carried by Operator shall contain waivers of subrogation in favor of Operator Group.





58 SECTION 7.3 - One of the two Alternatives stipulated for payment of amounts due under a cash settlement **MUST** be selected in  
59 order to avoid an automatic election that Alternative 1 applies. Note that Section 7.3.1 is optional, and may **ONLY** be used with  
60 Section 7.3, Alternative 2.

61 SECTION 7.4 - One of the two alternatives stipulated for determining proceeds received by an Overproduced Party for cash  
62 settlement purposes **MUST** be selected in order to avoid an automatic election that Alternative 1 applies.

63 SECTION 7.5.1 through 7.5.2 - Before selecting any of these provisions, the Parties should review the relevant gas processing  
64 arrangements for the Gas. Section 7.5.2, Option 1, contemplates that all wellhead MMBtus of Overproduction(will be valued at the  
65 gas price per MMBtu received by the Overproduced Party, without regard to whether any of the gas may have been processed.  
66 Section 7.5.2, Option 2, on the other hand, would include any enhanced or impaired values resulting from processing in calculating a  
67 valuation for the Overproduction. Note that if Section 7.5.2, Option 1, is selected, and residue gas to be sold on an MMBtu basis, it  
68 will be necessary to measure the number of MMBtus produced at the well (even if the parties have elected to balance on Mcfs), in  
69 order to determine the total value of Overproduction.

70 SECTION 7.7 - Select the interest rate payable for unpaid amounts owed pursuant to a cash settlement.

71 SECTION 7.9 - In the event that the parties anticipate that Overproduction may be subject to a potential refund by an appropriate  
72 governmental authority, the Parties may choose this provision.

73 SECTION 7.10- If the Parties adopt this provision, an Overproduced Party may make a cash settlement with Underproduced Parties  
74 for all or part of outstanding gas imbalances as often as once every twenty-four (24) months.

75 SECTION 8 - Select the number of days' prior notification required for well tests, as well as the length of suchtests.

76 SECTION 12.9 - Select the appropriate method for computing and reporting income to the Internal Revenue Service based on the  
77 "entitlements" or "sales" methods.

78 SECTION 13 - The purpose of this Section is to stipulate the rights of Parties in the event that any Party sells, exchanges, transfers  
79 or assigns its interest in the Balancing Area. Section 13.2 gives the Underproduced Party an option to demand a cash settlement if  
80 an Overproduced Party sells its interest, and the number of days' notice and response should be selected to implement this  
81 procedure.

82 SECTION 14 - This provision is intended to provide the Parties an opportunity to modify or supplement any of the Gas balancing  
83 Agreement's provisions.

84 SECTION 15 - This provision is to be utilized **ONLY** if the Gas Balancing Agreement is **NOT** agreed to contemporaneously with the  
85 execution of an A.A.P.L. Form 610 Model Form Operating Agreement or another suitable operating agreement. If the Gas Balancing  
86 Agreement is agreed to contemporaneously with any such operating agreement, Section 15 should be omitted. Otherwise, the  
87 Parties must determine the appropriate Percentage Interest which must execute the form to make it effective and the date by which  
88 such interests must execute it.

89 SIGNATURE ELEMENT - The "IN WITNESS WHEREOF," signature and attest/witness elements are **ONLY** to be utilized if the Gas  
90 Balancing Agreement is **NOT** agreed to contemporaneously with the execution of an A.A.P.L. Form 610 Model Form Operating  
91 Agreement or another suitable operating agreement. If the Gas Balancing Agreement is agreed to contemporaneously with any such  
92 operating agreement, the "IN WITNESS WHEREOF," signature and attest/witness elements should be omitted. Otherwise, these  
93 items should be completed in an appropriate fashion, and any appropriate amendment made to the heading of the Gas Balancing  
94 Agreement.

95 NOTE: Instructions For Use of Gas Balancing Agreement **MUST** be reviewed before finalizing this document.

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NOTE: Instructions for use of Gas Balancing Agreement MUST be reviewed before finalizing this document.

**EXHIBIT "E"**  
**GAS BALANCING AGREEMENT ("AGREEMENT")**  
**ATTACHED TO AND MADE PART OF THAT CERTAIN**

**OPERATING AGREEMENT DATED** March 1, 2023  
**BY AND BETWEEN**, Permian Resources Operating, LLC, as Operator and Read & Stevens, Inc., et al, as Non-Operators  
**AND ("OPERATING AGREEMENT") RELATING TO THE AREA**, All of Sections 5 & 8, T20S-R34E  
**COUNTY/PARISH**, Lea County **STATE OF** New Mexico

**1. DEFINITIONS**

The following definitions shall apply to this Agreement:

1.1. "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are representative of prices and delivery conditions existing under other similar agreements in the area between unaffiliated parties at the same time for natural gas of comparable quality and quantity.

1.2. "Balancing Area" shall mean (select one):

each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a single well is completed in two or more producing intervals, each producing interval from which the Gas production is not commingled in the wellbore shall be considered a separate well.

1.3. "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced from the Balancing Area during each month.

1.4. "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel, recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

1.5. "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

1.6. "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic foot of space at a standard pressure base and at a standard temperature base.

1.7. "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.

1.8. "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the event this Agreement is not employed in connection with an operating agreement, the individual or entity designated as the operator of the well(s) located in the Balancing Area.

143 1.9. "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than the Percentage  
144 interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

145 1.10. "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in the cumulative  
146 quantity of all Gas produced from the Balancing Area.

147 1.11. "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors, transferees and  
148 assigns.

149 1.12. "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the Balancing Area  
150 pursuant to the Operating Agreement covering the Balancing Area.

151 1.13. "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding royalties,  
152 production payments or similar interests.

153 1.14. "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than the Percentage  
154 Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

155 1.15. "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its Percentage Interest in  
156 the cumulative quantity of all Gas produced from the Balancing Area.

157 1.16. "Winter Period" shall mean the month(s) of November and December in one calendar year and the month(s) of January, February  
158 and March in the succeeding calendar year.

## 159 2. Balancing Area

160 2.1. If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but  
161 identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in Mcfs.

162 2.2. In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more maximum lawful  
163 prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area and Gas subject to each  
164 maximum lawful price category shall be considered produced from a separate Balancing Area.

## 165 3. RIGHT OF PARTIES TO TAKE GAS

166 3.1. Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes nominated, the name of  
167 the transporting pipeline and the pipeline contract number (if available) and meter station relating to such delivery, sufficiently in advance  
168 for the Operator, acting with reasonable diligence, to meet all nomination and other requirements. Operator is authorized to deliver the  
169 volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this  
170 Agreement.

171 3.2. Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the extent that such  
172 production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or  
173 to maintain oil production.

174 3.3. When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the right of the other  
175 Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any Gas which such Party fails to  
176 take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage  
177 Interest in the Balancing Area bears to the total Percentage Interests of all Underproduced Parties desiring to take such Gas. If all such Gas  
178 is not taken by the Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their  
179 respective Percentage Interests in the Balancing Area bear to the total Percentage Interests of such Parties.

180 3.4. All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is underproduced or  
181 overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party.

182 3.5. Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any Gas in excess  
183 of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum Monthly Availability, provided,  
184 however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to  
185 protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly  
186 Availability" shall mean the maximum average monthly rate of production at which Gas can be delivered from the Balancing Area, as  
187 determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum  
188 allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.

189 3.6. In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain  
190 leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the  
191 Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and  
192 render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or  
193 transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated  
194 herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and  
195 shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof shall be only for such reasonable  
196 periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in  
197 excess of one year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall  
198 be deemed to be Gas taken for the account of such Party.

## 199 4. IN-KIND BALANCING

200 4.1. Effective the first day of any calendar month following at least 60 days' prior written notice to the Operator, any Underproduced  
201 Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this  
202 Agreement, a share of current production determined by multiplying 100% of the Full Shares of Current Production of all Overproduced  
203 Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the  
204 total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be  
205 required to provide more than 100% of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all  
206 Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

207 4.2. ~~(Optional Seasonal Limitation on Makeup - Option 1) Notwithstanding the provisions of Section 4.1, the average monthly~~  
208 ~~amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1 shall not exceed the average~~  
209 ~~monthly amount of Makeup Gas taken by such Underproduced Party during the \_\_\_\_\_ months immediately preceding the~~  
210 ~~Winter Period.~~



212 4.3. ~~(Optional - Seasonal Limitation on Makeup - Option 2)~~ Notwithstanding the provisions of Section 4.1, no Overproduced Party will  
213 be required to provide more than \_\_\_\_\_ of its Full Share of Current Production for Makeup Gas during the Winter Period.

214 4.4. (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns  
215 production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of  
216 the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas,  
217 upon the demand of the Operator or any Underproduced Party, up to 100% of such Overproduced Party's Full Share of Current Production.

218 5. STATEMENT OF GAS BALANCES

219 5.1. The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled  
220 to receive and the volumes of Gas actually taken or sold for each Party's account. Within forty-five (45) days after the month of production,  
221 the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas  
222 actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of  
223 Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the  
224 Council of Petroleum Accountants Societies Bulletin No.24, as amended or supplemented hereafter. Each Party taking Gas will promptly  
225 provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

226 5.2. If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or where the Operator  
227 has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to  
228 provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the  
229 Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the  
230 required data.

231 6. PAYMENTS ON PRODUCTION

232 6.1. Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas actually taken by  
233 such Party.

234 6.2. ~~(Alternative 1 - Entitlements)~~ Each Party shall pay or cause to be paid all Royalty due with respect to Royalty owners to whom it is  
235 accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of Current Production.

236 6.2.1 ~~(Optional - For use only with Section 6.2 - Alternative 1 - Entitlement)~~ Upon written request of a Party taking less than its Full Share  
237 of Current Production in a given month ("Current Underproducer"), any Party taking more than its Full Share of Current Production in such  
238 month ("Current Overproducer") will pay to such Current Underproducer an amount each month equal to the Royalty percentage of the  
239 proceeds received by the Current Overproducer for that portion of the Current Underproducer's Full Share of Current Production taken by the  
240 Current Overproducer, provided, however, that such payment will not exceed the Royalty percentage that is common to all Royalty burdens  
241 in the Balancing Area. Payments made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners  
242 for purposes of Section 7.5.

243 6.3. ~~(Alternative 2 - Sales)~~ Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to whom it is accountable  
244 based on the volume of Gas actually taken for its account.

245 6.4. In the event that any governmental authority requires that Royalty payments be made on any other basis than that provided for in this  
246 Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date required by such governmental  
247 authority, and the method provided for herein shall be thereby superseded.

248 7. CASH SETTLEMENTS

249 7.1. Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating  
250 Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period  
251 of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among  
252 the Parties. Such notice shall be given to all Parties in the Balancing Area.

253 7.2. Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each Party a Final  
254 Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each Underproduced Party and  
255 identifying the month to which such Overproduction is attributed, pursuant to the methodology set out in Section 7.4.

256 7.3. ~~(Alternative 1 - Direct Party-to-Party Settlement)~~ Within sixty (60) days after receipt of the Final Gas Settlement Statement, each  
257 Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash settlement, accompanied by appropriate  
258 accounting detail. At the time of payment, the Overproduced Party will notify the Operator of the Gas imbalance settled by the Overproduced  
259 Party's payment.

260 ~~(Alternative 2 - Settlement Through Operator)~~ Within sixty (60) days after receipt of the Final Gas Settlement Statement, each  
261 Overproduced Party will send its cash settlement, accompanied by appropriate accounting detail, to the Operator. The Operator will  
262 distribute the monies so received, along with any settlement owed by the Operator as an Overproduced Party, to each Underproduced  
263 Party to whom settlement is due within ninety (90) days after issuance of the Final Gas Settlement Statement. In the event that any  
264 Overproduced Party fails to pay any settlement due hereunder, the Operator may turn over responsibility for the collection of such  
265 settlement to the Party to whom it is owed, and the Operator will have no further responsibility with regard to such settlement.

266 ~~(Optional - For use only with Section 7.3, Alternative 2 - Settlement Through Operator)~~ Any Party shall have the right at any time  
267 upon thirty (30) days' prior written notice to all other Parties to demand that any settlements due such Party for Overproduction be paid  
268 directly to such Party by the Overproduced Party, rather than being paid through the Operator. In the event that an Overproduced Party  
269 pays the Operator any sums due to an Underproduced Party at any time after thirty (30) days following the receipt of the notice provided  
270 for herein, the Overproduced Party will continue to be liable to such Underproduced Party for any sums so paid, until payment is  
271 actually received by the Underproduced Party.

272 7.4. ~~(Alternative 1 - Historical Sales Basis)~~ The amount of the cash settlement will be based on the proceeds received by the Overproduced  
273 Party under an Arm's Length Agreement for the Gas taken from time to time by the Overproduced Party in excess of the Overproduced Party's  
274 Full Share of Current Production. Any Makeup Gas taken by the Underproduced Party prior to monetary settlement hereunder will be applied  
275 to offset Overproduction chronologically in the order of accrual.

276 ~~(Alternative 2 - Most Recent Sales Basis)~~ The amount of the cash settlement will be based on the proceeds received by the  
277 Overproduced Party under an Arm's Length Agreement for the volume of Gas that constituted Overproduction by the Overproduced  
278 Party from the Balancing Area. For the purpose of implementing the cash settlement provision of the Section 7, an Overproduced Party  
279 will not be considered to have produced any of an Underproduced Party's share of Gas until the Overproduced Party has produced  
280 cumulatively all of its Percentage Interest share of the Gas ultimately produced from the Balancing Area.

281 7.5. The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the Gas by the  
 282 Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any Royalty actually paid  
 283 by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments amounted to a discharge of said  
 284 Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression, treating, gathering or transportation costs  
 285 incurred directly in connection with the sale of the Overproduction.

286 7.5.1 For Overproduction sold under a gas purchase contract providing for payment based on a percentage of the proceeds obtained by the  
 287 purchaser upon resale of residue gas and liquid hydrocarbons extracted at a gas processing plant, the values used for calculating cash  
 288 settlement will include proceeds received by the Overproduced Party for both the liquid hydrocarbons and the residue gas attributable to the  
 289 Overproduction.

290 ~~(Optional - Valuation for Processed Gas - Option 1) For Overproduction processed for the account of the Overproduced Party at a~~  
 291 ~~gas processing plant for the extraction of liquid hydrocarbons, the full quantity of the Overproduction will be valued for purposes of~~  
 292 ~~cash settlement at the prices received by the Overproduced Party for the sale of the residue gas attributable to the Overproduction~~  
 293 ~~without regard to proceeds attributable to liquid hydrocarbons which may have been extracted from the Overproduction.~~

294 7.5.2 (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the Overproduced Party at a  
 295 gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash settlement will include the proceeds  
 296 received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from the Overproduction, less the actual reasonable  
 297 costs incurred by the Overproduced Party to process the Overproduction and to transport, fractionate and handle the liquid hydrocarbons  
 298 extracted therefrom prior to sale.

299 7.6. To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash settlement will be  
 300 based on the weighted average price received by the Overproduced Party for any gas sold from the Balancing Area under Arm's Length  
 301 Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were  
 302 made during any such month, the cash settlement for such month will be based on the spot sales prices published for the applicable  
 303 geographic area during such month in a mutually acceptable pricing bulletin.

304 7.7. Interest compounded at the rate of per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is  
 305 less, will accrue for all amounts due under Section 7.1 beginning the first day following the date payment is due pursuant to Section 7.3.  
 306 Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines  
 307 set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.

308 7.8. In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party an offer to  
 309 settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the Underproduced Party. If the  
 310 Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished within sixty (60) days after the  
 311 Overproduced Party's offer to settle in kind, which period may be extended by agreement of said Parties, the Overproduced Party shall  
 312 make a cash settlement as provided in Section 7.3. The making of an in-kind settlement offer under this Section 7.8 will not delay the  
 313 accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.

314 7.9. ~~(Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an Overproduced~~  
 315 ~~Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or other governmental~~  
 316 ~~authority may be withheld by the Overproduced Party until such prices are fully approved by such governmental authority, unless the~~  
 317 ~~Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced Party, agreeing to hold the Overproduced Party~~  
 318 ~~harmless from financial loss due to refund orders by such governmental authority.~~

319 7.10. At any time during the term of this Agreement, any Overproduced Party may, in its sole discretion, make cash settlement(s) with the  
 320 Underproduced Parties covering all or part of its outstanding Gas imbalance, provided that such settlements must be made with all  
 321 Underproduced Parties proportionately based on the relative imbalances of the Underproduced Parties, and provided further that such  
 322 settlements may not be made more often than once every twenty-four (24) months. Such settlements will be calculated in the same manner  
 323 provided above for final cash settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement  
 324 within thirty (30) days after the settlement is made.

## 325 8. TESTING

326 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one  
 327 hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the  
 328 right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be  
 329 conducted in accordance with prudent operating practices only after 60 days' prior written notice to the Operator and shall last no longer than 48  
 330 hours.

## 331 9. OPERATING COSTS

332 Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and liabilities incurred in  
 333 operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating Agreement, irrespective of whether any  
 334 Party is at any time selling and using Gas or whether such sales or use are in proportion to its Percentage Interest in the Balancing Area.

## 335 10. LIQUIDS

336 The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated for the joint account  
 337 in accordance with their Percentage Interests in the Balancing Area.

## 338 11. AUDIT RIGHTS

339 Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination  
 340 or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under  
 341 Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not  
 342 limited to information regarding Btu-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the  
 343 calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters  
 344 concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall  
 345 be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business  
 346 hours in the office of the Party whose records are being audited. Each Party hereto agrees to maintain records as to the volumes and prices of Gas  
 347 sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own  
 348 operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.



**12. MISCELLANEOUS**

12.1. As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the Operating Agreement, the provisions of this Agreement shall govern.

12.2. Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

12.3. Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party, (other than Operator) to pay any amounts owed pursuant to the terms hereof.

12.4. This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

12.5. Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

12.6. In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a typed, printed or handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be made concerning the intent of the Parties in such event. In the event that any "Alternative" provision of this Agreement is not so adopted by the Parties, Alternative 1 in each such instance shall be deemed to have been adopted by the Parties as a result of any such omission. In those cases where it is indicated that an Optional provision may be used only if a specific Alternative is selected: (i) an election to include said Optional provision shall not be effective unless the Alternative in question is selected; and (ii) the election to include said Optional provision must be expressly indicated hereon, it being understood that the selection of an Alternative either expressly or by default as provided herein shall not, in and of itself, constitute an election to include an associated Optional provision.

12.7. This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any such person or entity.

12.8. If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the Balancing Area.

12.9. In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all Parties, each Party agrees to compute and report income to the Internal Revenue Service (**select one**) o as if such Party were taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same relate to entitlement method tax computations; or o based on the quantity of Gas taken for its account in accordance with such regulations, insofar as same relate to sales method tax computations.

**13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT**

~~13.1. Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall cause its assignee or other transferee to assume its obligations hereunder.~~

13.2. **(Optional - Cash Settlement Upon Assignment)** Notwithstanding anything in this Agreement (including but not limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are Parties hereto in such Balancing Area of such fact at least 60 days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within ~~30~~ (thirty) days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier (i) of sixty (60) days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance with the provisions of Section 13.1 hereof.

13.3. The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

**14. OTHER PROVISIONS****15. COUNTERPARTS**

This Agreement may be executed in counterparts, each of which when taken with all other counterparts shall constitute a binding agreement between the Parties hereto. ~~provided, however, that if a Party or Parties owning a Percentage Interest in the Balancing Area equal to or greater than their fail(s) to execute this Agreement on or before, this Agreement shall not be binding upon any Party and shall be of no further force and effect.~~



IN WITNESS WHEREOF, this agreement shall be effective as of March 1, 2023.

**ATTEST OR WITNESS**

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

**OPERATOR**

Permian Resources Operating, LLC

By: \_\_\_\_\_  
Name: Patrick Godwin  
Title: Vice President of Land  
Date: \_\_\_\_\_  
Address: \_\_\_\_\_

**ATTEST OR WITNESS**

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

**NON-OPERATORS**

NON-OPERATOR: Read & Stevens, Inc.

By: \_\_\_\_\_  
Name: Patrick Godwin  
Title: Vice President of Land  
Date: \_\_\_\_\_  
Address: \_\_\_\_\_

**ATTEST OR WITNESS**

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

**NON-OPERATOR:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Address: \_\_\_\_\_

**ATTEST OR WITNESS**

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

**NON-OPERATOR:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
Address: \_\_\_\_\_

### ACKNOWLEDGMENTS

**NOTE:**

The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

**Acknowledgment in Representative Capacity**

State of Texas                    §  
                                                 § ss.  
County of Midland            §

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

by Patrick Godwin as Vice President of Permian Resources Operating, LLC, on behalf of said limited liability company. (Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires: \_\_\_\_\_

**Acknowledgement in representative capacity:**

State of Texas                    §  
                                                 § ss.  
County of Midland            §

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

by Patrick Godwin as Vice President of Read & Stevens, Inc., on behalf of said limited liability company. (Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires: \_\_\_\_\_

Acknowledgement in representative capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_,

as \_\_\_\_\_ for \_\_\_\_\_ on

behalf of \_\_\_\_\_.

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgement in representative capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_,

as \_\_\_\_\_ for \_\_\_\_\_ on

behalf of \_\_\_\_\_.

(Seal, if any)

\_\_\_\_\_

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

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



Acknowledgement in individual capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgement in individual capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_

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

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

**MODEL FORM RECORDING SUPPLEMENT TO  
OPERATING AGREEMENT AND FINANCING STATEMENT**

THIS AGREEMENT, entered into by and between Permian Resources Operating, LLC, hereinafter referred to as "Operator," and the signatory party or parties other than Operator, hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land identified in Exhibit "A" (said land, Leases and Interests being hereinafter called the "Contract Area"), and in any instance in which the Leases or Interests of a party are not of record, the record owner and the party hereto that owns the interest or rights therein are reflected on Exhibit "A";

WHEREAS, the parties hereto have executed an Operating Agreement dated March 1, 2023 (herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

WHEREAS, the parties hereto have executed this agreement for the purpose of imparting notice to all persons of the rights and obligations of the parties under the Operating Agreement and for the further purpose of perfecting those rights capable of perfection.

NOW, THEREFORE, in consideration of the mutual rights and obligations of the parties hereto, it is agreed as follows:

1. This agreement supplements the Operating Agreement, which Agreement in its entirety is incorporated herein by reference, and all terms used herein shall have the meaning ascribed to them in the Operating Agreement.
2. The parties do hereby agree that:
  - A. The Oil and Gas Leases and/or Oil and Gas Interests of the parties comprising the Contract Area shall be subject to and burdened with the terms and provisions of this agreement and the Operating Agreement, and the parties do hereby commit such Leases and Interests to the performance thereof.
  - B. The exploration and development of the Contract Area for Oil and Gas shall be governed by the terms and provisions of the Operating Agreement, as supplemented by this agreement.
  - C. All costs and liabilities incurred in operations under this agreement and the Operating Agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties hereto, as provided in the Operating Agreement.
  - D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on Exhibit "A," all production of Oil and Gas from the Contract Area shall be owned by the parties via their actual record title ownership and ~~provided in the Operating Agreement~~, provided nothing contained in this agreement shall be deemed an assignment or cross-assignment of interests covered hereby.
  - E. Each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area as provided in the Operating Agreement.
  - F. An overriding royalty, production payment, net profits interest or other burden payable out of production hereafter created, assignments of production given as security for the payment of money and those overriding royalties, production payments and other burdens payable out of production heretofore created and defined as Subsequently Created Interests in the Operating Agreement shall be (i) borne solely by the party whose interest is burdened therewith, (ii) subject to suspension if a party is required to assign or relinquish to another party an interest which is subject to such burden, and (iii) subject to the lien and security interest hereinafter provided if the party subject to such burden fails to pay its share of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the times and manner provided by the Operating Agreement.
  - G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers.

This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective heirs, devisees, legal representatives, and assigns, and the terms hereof shall be deemed to run with the leases or interests included within the lease Contract Area.

  - H. The parties shall have the right to acquire an interest in renewal, extension and replacement leases, leases proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.
  - I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or loss of title, each party's right to propose operations, obligations with respect to participation in operations on the Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial obligations shall be as provided in the Operating Agreement.
  - J. Each party's interest under this agreement and under the Operating Agreement shall be subject to relinquishment for its failure to participate in subsequent operations and each party's share of production and costs shall be reallocated on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.
  - K. All other matters with respect to exploration and development of the Contract Area and the ownership and transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of the Operating Agreement.
3. The parties hereby grant reciprocal liens and security interests as follows:
  - A. Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this agreement and the Operating Agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid under this agreement and the Operating Agreement, the assignment or relinquishment of interest in Oil and Gas Leases as required under this agreement and the Operating Agreement, and the proper performance of operations under this agreement and the Operating Agreement. Such lien and security interest granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this agreement and the Operating Agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from the sale of production at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.

- B. Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement and the Operating Agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement and the Operating Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by the Operating Agreement and this instrument as to all obligations attributable to such interest under this agreement and the Operating Agreement whether or not such obligations arise before or after such interest is acquired.
- C. To the extent that the parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any party in the payment of its share of expenses, interest or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by such party, plus interest, has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.
- D. If any party fails to pay its share of expenses within one hundred-twenty (120) days after rendition of a statement therefor by Operator the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in this paragraph 3 and in the Operating Agreement, and each paying party may independently pursue any remedy available under the Operating Agreement or otherwise.
- E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement or the Operating Agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted hereunder or under the Operating Agreement, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.
- F. The lien and security interest granted in this paragraph 3 supplements identical rights granted under the Operating Agreement.
- G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due under this agreement and the Operating Agreement for services performed or materials supplied by Operator.
- H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Recording Supplement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the above-described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial Code, or other state laws.
4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this agreement and the Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon the request of Operator, if Operator has complied with all of its financial obligations.
5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or other disposition shall be made by any party of any interest in the Leases or Interests subject hereto except as expressly permitted under the Operating Agreement and, if permitted, shall be made expressly subject to this agreement and the Operating Agreement and without prejudice to the rights of the other parties. If the transfer is permitted, the assignee of an ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party under this agreement or the Operating Agreement with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under this agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.
6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the Operating Agreement, then, as between the parties, the terms and provisions of the Operating Agreement shall control.
7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. In the event that any provision herein is illegal or unenforceable, the remaining provisions shall not be affected, and shall be enforced as if the illegal or unenforceable provision did not appear herein.
8. Other provisions.



IN WITNESS WHEREOF, this agreement shall be effective as of March 1, 2023.

**ATTEST OR WITNESS**

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

**OPERATOR**

Permian Resources Operating, LLC

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

Name: Patrick Godwin

Title: Vice President of Land

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

Address: 300 N. Marienfeld St., Ste. 1000 Midland, TX 79701

**ATTEST OR WITNESS**

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

**NON-OPERATORS**

NON-OPERATOR: Read & Stevens, Inc.

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

Name: Patrick Godwin

Title: Vice President of Land

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

Address: 300 N. Marienfeld St., Ste. 1000 Midland, TX 79701

**ATTEST OR WITNESS**

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

**NON-OPERATOR:**

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

Name: \_\_\_\_\_

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

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

Address: \_\_\_\_\_

**ATTEST OR WITNESS**

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

**NON-OPERATOR:**

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

Name: \_\_\_\_\_

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

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

Address: \_\_\_\_\_

### ACKNOWLEDGMENTS

**NOTE:**

The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

#### Acknowledgment in Representative Capacity

State of Texas                    §  
                                                 § ss.  
County of Midland            §

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

by Patrick Godwin as Vice President of Land of Permian Resources Operating, LLC, on behalf of said limited liability company. (Seal, if any)

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

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

#### Acknowledgment in representative capacity:

State of Texas                    §  
                                                 § ss.  
County of Midland            §

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

by Patrick Godwin as Vice President of Land of Read & Stevens, Inc., on behalf of said company. (Seal, if any)

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

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

Acknowledgment in representative capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_,

as \_\_\_\_\_ for \_\_\_\_\_ on behalf of \_\_\_\_\_.

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgment in representative capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_,

as \_\_\_\_\_ for \_\_\_\_\_ on behalf of \_\_\_\_\_.

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgment in individual capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_,

(Seal, if any)

\_\_\_\_\_

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

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



## Exhibit "A"

Attached to and made a part of that certain Recording Supplement to Operating Agreement and Financing Statement, dated March 1, 2023, by and between Permian Resources Operating, LLC, as Operator, and Read & Stevens, Inc., et al, as Non-Operators, covering lands in Lea County, New Mexico

1. Contract Area:

All of Sections 5 and 8, T20S-R34E, Lea County, New Mexico, containing 1280.20 acres, more or less

2. Restrictions as to depths and formations:

Only as to the depths of the Bone Spring and Wolfcamp Formations.

3. Parties to this agreement with addresses and telephone numbers for notice purposes:

*Other Parties To Be Determined*

Permian Resources Operating, LLC  
300 N. Marienfeld St., Ste. 1000  
Midland, Texas 79701  
Attn: Travis Macha  
Phone: (432) 400-1037

Read & Stevens, Inc.  
300 N. Marienfeld St., Ste. 1000  
Midland, Texas 79701  
Attn: Travis Macha  
Phone: (432) 400-1037

4. Oil and Gas Leases subject to this Operating Agreement:

1. Lease No.: NMNM 101115  
Lessor: United States of America  
Lessee: Read & Stevens Inc  
Lease Date: September 1, 1998  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: Lot 4 & SW/4NW/4
2. Lease No.: NMLC 0065607  
Lessor: United States of America  
Lessee: Edward R. Hudson, et al  
Lease Date: September 1, 1948  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: Lots 1-3, S/2NE/4, & SE/4NW/4
3. Lease No.: NMLC 0064194  
Lessor: United States of America  
Lessee: Edward R. Hudson, et al  
Lease Date: October 1, 1947  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: S/2  
Section 8: All

End of Exhibit "A"

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

**MODEL FORM OPERATING AGREEMENT  
HORIZONTAL MODIFICATIONS**

**OPERATING AGREEMENT  
DATED MARCH 1, 2023**

OPERATOR: PERMIAN RESOURCES OPERATING, LLC

CONTRACT AREA: ALL OF SECTIONS 5 AND 8, T20S-R34E

COUNTY OR PARISH OF LEA, STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PROFESSIONAL

LANDMEN, 4100 FOSSIL CREEK BLVD

FORT WORTH, TEXAS, 76137, APPROVED FORM

A.A.P.L. NO. 610 - 1989 (Horz.)

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## OPERATING AGREEMENT

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

### WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

#### I. DEFINITIONS

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

- A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder. An AFE is not a contractual commitment. Rather it is only an estimate, made in good faith.
- B. The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation. For Horizontal Wells, the term "Completion" or "Complete" shall include multistage horizontal fracturing operations.
- C. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."
- D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser. When used in connection with a Horizontal Well, the term "Deepen" shall mean include an operation whereby a Lateral is drilled to a Displacement greater than (i) the Displacement contained in the proposal for such operation approved by the Consenting Parties, or (ii) to the Displacement to which the Lateral was drilled pursuant to a previous proposal.
- E. The term "Displacement" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall otherwise mean the length of a Lateral.
- F. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
- G. The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.
- H. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located. When used in connection with a Horizontal Well, the term "Drillsite" shall mean (i) the surface hole location, and (ii) the Oil and Gas Leases or Oil and Gas Interests within the Drilling Unit on or under which the wellbore, including the Lateral, is located.
- I. The term "Horizontal Rig Move-On Period" shall mean the number of days after the date of rig release of a Spudder Rig until the date a rig capable of drilling a Horizontal Well to its Total Measured Depth has moved on to location.
- J. The term "Horizontal Well" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall mean a well containing one or more Laterals which are drilled, Completed or Recompleted in a manner in which the horizontal component of the Completion interval (1) extends at least one hundred feet (100') in the objective formation(s) and (2) exceeds the vertical component of the Completion interval in the objective formation(s).
- K. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.
- L. The term "Lateral" shall mean that portion of a wellbore that deviates from approximate vertical orientation to approximate horizontal orientation and all wellbore beyond such deviation to Total Measured Depth.
- M. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.
- N. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects, or who is deemed to have elected, not to participate in a proposed operation.
- O. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
- P. The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement.
- Q. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
- R. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. When used in connection with a Horizontal Well, the term "Plug Back" shall mean an operation to test or Complete the well at a stratigraphically shallower Zone in which the operation has been or is being Completed and which is not in an existing Lateral.
- S. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.
- T. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation

operations but exclude any routine repair or maintenance work or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well.

U. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties. When used in connection with a Horizontal Well, the term "Sidetrack" shall mean the directional control and deviation of a well outside the existing Lateral(s) so as to change the Zone or the direction of a Lateral from the approved proposal unless done to straighten the hole or drill around junk in the hole or to overcome other mechanical difficulties.

V. The term "Spudder Rig" shall mean a drilling rig utilized only for drilling all or part of the vertical component of a Horizontal Well; a rig used only for setting conductor pipe shall not be considered a Spudder Rig.

W. The term "Terminus" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall mean the furthest point drilled in the Lateral.

X. The term "Total Measured Depth," when used in connection with a Horizontal Well, shall mean the distance from the surface of the ground to the Terminus, as measured along and including the vertical component of the well and Lateral(s). When the proposed operation(s) is the drilling of, or operation on, a Horizontal Well, the terms "depth" or "total depth" wherever used in this agreement shall be deemed to read "Total Measured Depth" insofar as it applies to such well.

Y. The term "Vertical Well" shall mean a well drilled, Completed or Recompleted other than a Horizontal Well.

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

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

## II. EXHIBITS

Exhibit "A"

Exhibit "B," Form of Lease

Exhibit "C," Accounting Procedure

Exhibit "D," Insurance

Exhibit "E," Gas Balancing Agreement

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

Exhibit "G," Tax Partnership

Exhibit "H," Recording Supplement to Operating Agreement and Financing Statement

~~Other Exhibits~~

## III. INTERESTS OF PARTIES

### A. Oil and Gas Interests:

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

### B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter. Operator shall have the right, without the necessity of obtaining the signatures of the Non-Operators, to amend Exhibit "A" from time to time during the term of this Agreement to reflect changes in ownership, whether due to a conveyance, title failure, or identified in a title opinion, or in the addresses of the parties. Non-Operators shall have 30 days to submit corrections to any replacement Exhibit "A", circulated by Operator.

Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area up to, but not in excess of 12.5%, and shall indemnify, defend and hold the other parties free from any liability therefor. Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any liability therefor.

No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected Lease shall bear the additional royalty burden attributable to such higher price.



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

#### C. Subsequently Created Interests:

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

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

#### IV. TITLES

##### A. Title Examination:

Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable Leases; however, Operator may elect to commence drilling operations based on a drilling title opinion only. Each party contributing Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in procuring abstracts, fees paid to landmen or outside attorneys for title examination (including preliminary, supplemental, shut-in royalty opinions and division order title opinions) and other direct charges as provided in Exhibit "C" shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other in-house personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with Leases or Oil and Gas Interests contributed by such party, provided, however, that if such party fails to secure curative matters, pooling amendments, or required agreements within a reasonable time, as determined in the sole opinion of Operator, Operator may, but is under no obligation to, attempt to secure the same, and the party originally responsible for securing such curative matter, pooling amendment, or required agreement shall be liable for payment of all expenses incurred by Operator therefore. Operator shall be responsible for the preparation and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings. Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

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

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

1. Failure of Title: Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII, B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas Leases and Interests; and,

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

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

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

(d) Should any person not a party to this agreement, who is determined to be the owner of any Lease or Interest which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;

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

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

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

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

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

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

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

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

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

## V. OPERATOR

### A. Designation and Responsibilities of Operator:

Permian Resources Operating, LLC shall be the Operator of the Contract Area, if named operator by the New Mexico Oil Conservation division, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonably prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred except such as may result from gross negligence or willful misconduct.

### B. Resignation or Removal of Operator and Selection of Successor:

1. **Resignation or Removal of Operator:** Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area (except as set forth in Article XVI.D.), or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of ~~Non-Operators~~ two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, affiliate, parent or successor ~~corporation~~ entity shall not be the basis for removal of Operator.



2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

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

**C. Employees and Contractors:**

The number of employees or contractors used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees or contractors shall be the employees or contractors of Operator.

**D. Rights and Duties of Operator:**

1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or materials supplied by affiliates or related parties of Operator shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance with customs and standards prevailing in the industry.

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

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

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

5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any and all reports and information obtained by Operator in connection with production and related items, including, without limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures shall be conducted in accordance with the audit protocol specified in Exhibit "C." Notwithstanding anything herein to the contrary, for any operations in which Non-Operator is a Non-Consenting Party, such Non-Operator shall not be permitted access to such operations or to the records, books, reports, or information related to such operation, except such information required to be provided to a Non-Consenting Party pursuant to Article V.I.B.2.(d).

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

7. Drilling and Testing Operations: The following provisions shall apply to each well drilled hereunder, including but not limited to the Initial Well:

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

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

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



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

9. **Insurance:** At all times while operations are conducted hereunder, Operator shall comply with the workers compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C." Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D" attached hereto and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile liability insurance is specified in said Exhibit "D," or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

## VI. DRILLING AND DEVELOPMENT

### A. Initial Well:

On or before June 1, 2024, Operator shall commence the drilling of the Initial Well at the following location: at a First Take Point at a legal location in the NW/4NW/4 of Section 5, T20S-R34E and a Last Take Point at a legal location in SW/4SW/4 of Section 8, T20S-34E, Lea County, New Mexico (if a Horizontal Well, surface and Terminus/Termini of the Lateral(s)); and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to the Bone Spring Formation. Operator at its sole discretion may extend the commencement of drilling of the Initial Well by 180 days by providing written notice to Non-Operators prior to the date in this paragraph.

The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1. as to participation in Completion operations and Article VI.F. as to termination of operations and Article XI as to occurrence of force majeure.

### B. Subsequent Operations:

1. **Proposed Operations:** If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone under this agreement (and to all other parties in the case of a proposal for Sidetracking or Deepening as to a Vertical Well), specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation as outlined in an AFE. A proposal for the drilling of or other operations for a Horizontal Well shall: (1) state that the proposed operation is a Horizontal Well operation; (2) include drilling and Completion plans specifying the proposed: (i) Total Measured Depth(s), (ii) surface hole location(s), (iii) Terminus/Termini, (iv) Displacement(s), (v) utilization and scheduling of rig(s) (Spudder Rig, drilling and Completion), and (vi) stimulation operations, staging and sizing; and (3) include estimated drilling and Completion costs as set forth in an AFE. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

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

### 2. Operations by Less Than All Parties:

(a) **Determination of Participation.** If any party to whom such notice is delivered as provided in Article VI.B.1. or VI.C.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties'



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

(b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking, Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1., Option No. 2, all of such Non-Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be effective 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 applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other interests not excepted by Article III.C. 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:

- i. 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
- ii. 300% of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) 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.

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

(c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. 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 300% 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 VI.B. shall be applicable as between said Consenting Parties in said well.

(d) Recoupment Matters. 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 ad valorem, production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.C.

In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening 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, Sidetracking, Plugging Back, Recompleting or Deepening, 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 ninety (90) days after the 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, Sidetracking, Deepening, Plugging Back, testing, Completing, Recompleting, 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 month 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 realized from the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas produced during any month, 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.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the day following the day on which such recoupment occurs, 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, Sidetracking, Reworking, Deepening, Recompleting 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 Exhibit "C" attached hereto.

3. **Stand-By Costs:** 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, or when operations on the well have been otherwise terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6. to resolve competing proposals) shall be charged and borne as 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 pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), 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 as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in Article VI.B.1. within which to respond by paying for all stand-by costs and other costs incurred during such extended response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending the response period. If more than one party elects to take such additional time to respond to the notice, standby 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 as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties.

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

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

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

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

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

This Article VI.B.4 shall not apply to Deepening operations within an existing Lateral of a Horizontal Well.

5. **Sidetracking:** Any party having the right to participate in a proposed Sidetracking operation that does not own an interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore 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 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth at which the Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's proportionate share of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking operation is initiated shall be determined in accordance with the provisions of Exhibit "C." This Article VI.B.5, "Sidetracking," shall not apply to operations in an existing Lateral of a Horizontal Well.

6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty four (24) hours if a rig is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within such period shall be deemed an election not to participate in the prevailing proposal.

7. Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be proposed to be drilled to or Completed in or produced from a Zone 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 Zone.

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

9. Spudder Rigs.

(a) Within Approved Horizontal Well proposals (i.e. proposals which include an approved AFE). If an approved Horizontal Well proposal provides that a Spudder Rig shall be utilized, and Operator desires to extend the proposed Horizontal Rig Move-On Period, Operator may obtain one or more extensions, each for a period of time not to exceed 0 days only upon notice and the affirmative vote of not less than 0% in interest of the Consenting Parties to the drilling of the proposed well.

(b) Not Within Approved Horizontal Well proposals. If an approved Horizontal Well proposal does not provide that a Spudder Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to the Drilling Parties (which notice shall include a Horizontal Rig Move-On Period) and the affirmative vote of not less than 0% in interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On Period may be requested by Operator in the same manner as provided in Article VI.B.9.(a) immediately above.

(c) Failure to meet Horizontal Rig Move-On Period. If a rig capable of drilling a Horizontal Well to its Total Measured Depth has not commenced operations within the Horizontal Rig Move-On Period, or any approved extension(s) thereof, unless 0% in interest of the Consenting Parties agree to abandon the operation, Operator shall re-propose the well in the manner provided in Article VI.B of this agreement. Any party who was a Non-Consenting Party to the original drilling proposal shall be entitled to a new election. Costs of the operation, incurred both before and after such re-proposal, shall be borne as follows:

(1) Operator shall promptly reimburse all unused funds previously advanced for the drilling of the well to each party who advanced such unused funds;

(2) If the well's drilling operations are subsequently resumed, all costs, whether incurred before or after the re-proposal, shall be borne by the Consenting Parties to the re-proposed well; and, the Consenting Parties shall proportionately reimburse each party who consented to the original proposal but did not consent to the re-proposal such party's share of costs incurred prior to the re-proposal.

(3) If the well's drilling operations are not subsequently resumed pursuant to a re-proposal as herein provided, all costs incurred prior to the re-proposal, and all costs of abandonment, shall be borne and paid by the original Consenting Parties.

(d) Commencement of Operations. For purposes of Article VI.B., and subject to the provisions of this sub-section 9, the date a Spudder Rig commences actual drilling operations shall be considered the commencement of drilling operations of the proposed well.

10. Multi-well Pads. If multiple Horizontal Wells are drilled or proposed to be drilled from a single pad or location, the costs of such pad or location shall be allocated, and/or reallocated as necessary, to the Consenting Parties of each of the wells thereon.

### C. Completion of Wells; Reworking and Plugging Back:

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

Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completion and equipping of the Well, including tankage and/or surface facilities.

~~Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of a Vertical Well. When such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to participate in a Completion attempt whether or not Operator recommends attempting to Complete the well, together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice shall have forty eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting~~



with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the procedures specified in Article VI.B.6. Election to participate in a Completion attempt shall include consent to all necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any 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 Completion attempt; provided, that Article VI.B.6. shall control in the case of conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the provisions of Article VI.B.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or Plugging Back" as contained in Article VI.B.2. shall be deemed to include "Completing") shall apply to the operations thereafter conducted by less than all parties; provided, however, that Article VI.B.2. shall apply separately to each separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party in subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier Completions or Re Completions have recouped their costs pursuant to Article VI.B.2.; provided further, that any recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in which the Completion attempt is made. Election by a previous Non-Consenting party to participate in a subsequent Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvable materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt, insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a Completion attempt. Notwithstanding anything to the contrary, including the selection of Option 2 above, or anything else in this agreement, Option 1 shall apply to all Horizontal Wells. —

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

#### D. Other Operations:

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \$75,000 except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of \$75,000. Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 51% of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

#### E. Abandonment of Wells:

1. **Abandonment of Dry Holes:** Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.
2. **Abandonment of Wells That Have Produced:** Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed abandonment shall be deemed an election to consent to the proposal. If, within sixty (60) days after delivery of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession of such well and plug and abandon the well.

Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio



based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

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

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

**F. Termination of Operations:**

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

**G. Taking Production in Kind:**

**Option No. 1: Gas Balancing Agreement Attached:**

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

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

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise at any time its right to take in kind, or separately dispose of, its share of all Oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

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

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

In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

**Option No. 2: No Gas Balancing Agreement:**

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

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

~~If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil and/or Gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil and/or Gas or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject~~



always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise its right to take in kind, or separately dispose of, its share of all Oil and/or Gas not previously delivered to a purchaser, provided, however, that the effective date of any such revocation may be deferred at Operator's election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase contract having a term extending beyond such ten (10) day period. Any purchase or sale by Operator of any other party's share of Oil and/or Gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

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

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

## VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

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

### B. Liens and Security Interests:

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

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

Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article VII.B. as to all obligations attributable to such interest hereunder whether or not such obligations arise before or after such interest is acquired.

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

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

If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and



security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

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

**C. Advances:**

Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within ~~fifteen (15)~~ thirty (30) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

**D. Defaults and Remedies:**

If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator, and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator. Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified below or otherwise available to a non-defaulting party.

1. **Suspension of Rights:** Any party may deliver to the party in default a Notice of Default, which shall specify the default, specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one or more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the Non-Operators shall have in addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right to receive information as to any operation conducted hereunder during the period of such default, the right to elect to participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being conducted under this agreement even if the party has previously elected to participate in such operation, and the right to receive proceeds of production from any well subject to this agreement.
2. **Suit for Damages:** Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint account expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default until the date of collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from suing any defaulting party to collect consequential damages accruing to such party as a result of the default.
3. **Deemed Non-Consent:** The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in which event if the billing is for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to have elected not to participate in the operation and to be a Non-Consenting Party with respect thereto under Article VI.B. or VI.C., as the case may be, to the extent of the costs unpaid by such party, notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then the non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

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

4. **Advance Payment:** If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or Non-Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting party of such defaulting party's anticipated share of any item of expense for which Operator, or Non-Operators, as the case may be, would be entitled to reimbursement under any provision of this agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of drilling a well or Completion of a well as to which an election to participate in drilling or Completion has been made. If the defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of the remedies provided in this Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced remaining when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.
5. **Costs and Attorneys' Fees:** In the event any party is required to bring legal proceedings to enforce any financial obligation of a party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.

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

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-



in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

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

#### **F. Taxes:**

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

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

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

### **VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

#### **A. Surrender of Leases:**

The Leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto. However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such Oil and Gas Interest for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B." Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth, then the interest assigned shall similarly reflect such variances.

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

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

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

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

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



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

**C. Acreage or Cash Contributions:**

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

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

**D. Assignment; Maintenance of Uniform Interest:**

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

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

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

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 Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

**E. Waiver of Rights to Partition:**

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

**F. Preferential Right to Purchase:**

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

**IX. INTERNAL REVENUE CODE ELECTION**

If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election

similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

#### X. CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed seven hundred fifty thousand, USD (\$750,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

#### XI. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The term "force majeure," as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

#### XII. NOTICES

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

#### XIII. TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the Oil and Gas Leases and/or Oil and Gas Interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

~~Option No. 1: So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise~~

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional 120 days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within 120 days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

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

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



This agreement shall be subject to the applicable laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations and orders.

**B. Governing Law:**

This agreement and all matters pertaining hereto, including but not limited to matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state of . If the Contract Area is in two or more states, the law of the state of Texas shall govern.

**C. Regulatory Agencies:**

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

**XV. MISCELLANEOUS**

**A. Execution:**

This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. Operator may, however, by written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the Initial Well but in no event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest. Except as otherwise provided in Article IV.B, in the event operations on a well shall be commenced without execution of this agreement by all persons listed on Exhibit "A" as having a current interest in such well, or in the event that subsequent to the commencement of operations on the well previously unknown or undisclosed persons owning working interests in a well are discovered, or both, the parties executing this agreement agree to one of the following:

~~Option No. 1: Operator shall indemnify executing Non-Operators with respect to all costs incurred for the well which would have been charged to each such person under this agreement as if such person had executed the same and Operator shall receive all revenues which would have been received by each such person under this agreement as if such person had executed the same.~~

Option No. 2: The Operator shall advise all parties of the total interest of the parties that have executed this agreement. Each party executing this agreement, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the Operator of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interest of all parties executing this agreement) of non-executing persons' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of non-executing persons' interests together with all or a portion of its proportionate part of any non-executing persons interests that any executing party did not elect to take. Any interest of non-executing persons that is not carried by an executing party shall be deemed to be carried by the Operator. Failure to advise the Operator within the time required shall be deemed an election under (i).

**B. Successors and Assigns:**

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or Interests included within the Contract Area.

**C. Counterparts:**

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

**D. Severability:**

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

**XVI. OTHER PROVISIONS**

**A. Conflict of Terms:**

Notwithstanding anything in this agreement to the contrary, in the event of any conflict between the provisions of Article I through XV of this agreement and the provisions of this Article XVI, the provisions of this Article XVI shall govern.



Unless drilling operations are terminated pursuant to Article VI.F, Operator shall drill a Horizontal Well to the objective Zone(s) and drill the Lateral in the Zone(s) at least to a Displacement to which a reasonably prudent operator would deem further drilling is neither justified nor required.

**C. Priority of Operations – Horizontal Wells:**

Notwithstanding Article VI.B.6 or anything else in this agreement to the contrary, it is agreed that where a Horizontal Well subject to this agreement has been drilled to the objective Displacement and the Consenting Parties cannot agree upon the sequence and timing of further operations regarding such Horizontal Well, the following elections shall control the order of priority enumerated hereafter:

First: Testing, coring or logging;

Second: Complete drilling operations of all proposed Laterals;

Third: Extend or Deepen a Lateral;

Fourth: Kick out and drill an additional Lateral in the same Zone;

Fifth: Plug Back the well to a Zone above the Zone in which a Lateral was drilled; if there is more than one proposal to Plug Back, the proposal to Plug Back to the next deepest prospective Zone shall have priority over a proposal to Plug Back to a shallower prospective Zone;

Sixth: Sidetrack; and

Seventh: Plug and abandon as provided for in Article VI.E

Provided, however, that if, at the time the Consenting Parties are considering any of the above, the hole is in such a condition that a reasonably prudent operator would not conduct the particular contemplated operation involved for fear of placing the hole in jeopardy or losing the hole prior to Completing the Horizontal Well in the objective Zone, such operation shall be eliminated from the priorities set forth above.

**D. Operator Owns No Interest:**

The parties to this agreement acknowledge that Permian Resources Operating, LLC does not own an interest in the Contract Area. Notwithstanding anything in this agreement to the contrary, the parties agree that Permian Resources Operating, LLC shall serve as Operator even though it owns no interest in the Contract Area.

**E. Separate Measurement Facilities:**

If any party hereto creates the necessity of separate measurement facilities within the Contract Area, such party alone shall bear the entire costs of purchasing, installing, and operating such separate measurement facilities, which facilities may be installed and operated by Operator, at Operator's sole election, for the account of said party.

**F. Bankruptcy:**

If, following the granting of relief under the United States Bankruptcy Code to any party hereto as a debtor, this agreement is held to be an executory contract under such Code, then the other party(ies) hereto shall be entitled to a determination by debtor or any trustee of debtor within thirty (30) days from the date an order for relief is entered as to the rejection or assumption of this agreement. If the debtor or trustee decides to assume this agreement, the party(ies) seeking such determination shall be entitled to adequate assurances as to the future performance of debtor's obligations hereunder and the protection of the interests of the parties hereto. The debtor shall satisfy its obligations to provide adequate assurances by depositing debtor's proportionate share of anticipated expenses in escrow. Adequate assurances shall include timely payment of any outstanding invoices and AFEs promptly upon presentation to debtor.

**G. Foreclosure of Operator's Lien:**

G. Foreclosure of Operator's Lien:  
In the event that the Contract Area is located in the State of Texas and Operator elects to foreclose its lien and security interest against the interest of Non-Operator as provided for in this agreement, such may be foreclosed non-judicially in the manner provided for by the then current form of Deed of Trust promulgated by the State Bar of Texas, in accordance with the terms and provisions thereof, and in accordance with the terms and provisions of the laws of the State of Texas pertaining to non-judicial foreclosure sales, including, but not limited to, laws pertaining to giving of notice of such sale. For such purposes, Non-Operator hereby appoints Operator, and each of its officer, as a trustee to carry out the trust imposed by such current Deed of Trust form, and agrees that a substitute trustee may be appointed in the manner provided for in such current Deed of Trust form. Operator shall be deemed to be the secured party and beneficiary under the terms and provisions of such then current Deed of Trust form, and the defaulting Non-Operator shall be deemed to be the grantor thereof, with the lien granted thereby covering and pertaining to all of the interest if the Non-Operator in the Contract Area. As used herein, the words, "current form of Deed of Trust" shall mean the Deed of Trust form then in effect as of the date the Operator elects to foreclose its lien and security interest against the interest of Non-Operator.

**H. Operations:**

For the purposes of Articles VI.B.1 and VI.B.2, Operator may commence operations including, without limitation, building location, roads and pits, delivering materials and equipment to the well site, rigging up a drilling rig, and/or actual drilling operations, at any time either before or after giving the notice of proposed operations required by said Articles. Notwithstanding the foregoing, the parties receiving notice of proposed operations pursuant to Articles VI.B.1 and VI.B.2 shall have the full time allowed in which to make their election(s) and shall be subject to the non-consent provisions thereof to the same extent and in the same manner as provided in Article VI.B regardless of whether any activities were commenced prior to receiving notice thereof.

**I. Superseded Agreements:**

For so long as this Agreement remains in force it shall supersede in its entirety any and all previous joint operating agreements pertaining to or covering any portion the Contract Area is subject to this Agreement insofar, and only insofar, as to the land and depths within the Contract Area hereof. Notwithstanding the foregoing, to the extent any previous joint operating agreement covers any wells on the Contract Area which were in existence prior to the Effective Date of this Agreement, said previous joint operating agreement shall continue to govern the rights and obligations of the parties, thereto in regards to the wellbore only of such existing well(s), production from and expenses incurred on such wells, and any equipment directly associated with such wells.

**J. Advances:**

See Art. VII.

**K. Excluded Wellbores:**

This Operating Agreement specifically excludes existing wellbores, associated equipment, associated production including the operations of such wells existing as of the date of this Operating Agreement whether or not such wellbores are producing, shut-in, or otherwise temporarily abandoned.

**L. Sub-Contract Areas:**

Notwithstanding anything herein to the contrary, each Sub-Contract Area identified in paragraph 4 of Exhibit A shall be considered a separate Contract Area for all purposes of this Agreement, provided, however, that so long as the Initial Well is drilled in accordance with Article VI.A., this Agreement shall remain in force as to all property within the Contract Area defined in paragraph 1 of Exhibit A for so long as there is compliance with Article XIII, Option No. 2 with regards to any well or wells located on any property covered by this Agreement.

**M. Regulatory Costs:**

Should it be necessary to conduct the hearings before governmental agencies for the securing of spacing or pooling orders, or for certifying new gas, the costs attributable to such hearings as well as fees paid attorneys and witnesses, shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A".

IN WITNESS WHEREOF, this agreement shall be effective as of the day of March 1, 2023.

Permian Resources Operating, LLC, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below is identical to the AAPL Form 610-1989 Model Form Operating Agreement, as published in computerized form by AAPL. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles I.-XVI, have been made to the form.

ATTEST OR WITNESS:

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

**OPERATOR:** Permian Resources Operating, LLC

BY: \_\_\_\_\_

Print Name: Patrick Godwin

Title: Vice President of Land

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

Tax ID: \_\_\_\_\_

**NON-OPERATORS**

ATTEST OR WITNESS:

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

**NON-OPERATOR NAME:** Read & Stevens, Inc.

BY: \_\_\_\_\_

Print Name: Patrick Godwin

Title: Vice President of Land

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

Tax ID: \_\_\_\_\_

ATTEST OR WITNESS:

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

**NON-OPERATOR NAME:**

BY: \_\_\_\_\_

Print Name: \_\_\_\_\_

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

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

Tax ID: \_\_\_\_\_

ATTEST OR WITNESS:

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

**NON-OPERATOR NAME:**

BY: \_\_\_\_\_

Print Name: \_\_\_\_\_

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

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

Tax ID: \_\_\_\_\_



ACKNOWLEDGMENTS

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

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

Acknowledgment in representative capacity:

State of Texas )

) ss.

County of Midland )

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by Patrick Godwin as Vice President of Permian Resources Operating, LLC, on behalf of said limited liability company.

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgment in representative capacity:

State of Texas )

) ss.

County of Midland )

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by Patrick Godwin as Vice President of Read & Stevens, Inc., on behalf of said company.

(Seal, if any)

\_\_\_\_\_

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

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

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*Acknowledgment in representative capacity:*

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by  
\_\_\_\_\_ as \_\_\_\_\_ for \_\_\_\_\_  
on behalf of said \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires \_\_\_\_\_

*Acknowledgment in representative capacity:*

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by  
\_\_\_\_\_ as \_\_\_\_\_ for \_\_\_\_\_  
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*Individual Acknowledgment:*

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

) ss.

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by

\_\_\_\_\_

(Seal, if any)

\_\_\_\_\_

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

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

*Individual Acknowledgment:*

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

) ss.

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by

\_\_\_\_\_

(Seal, if any)

\_\_\_\_\_

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

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



## Exhibit "A"

Attached to and made a part of that certain Operating Agreement, dated March 1, 2023, by and between Permian Resources Operating, LLC, as Operator, and Read & Stevens, Inc., et al as Non-Operators, covering lands in Lea County, New Mexico

1. Contract Area:

All of Sections 5 and 8, T20S-R34E, Lea County, New Mexico, containing 1280.20 acres, more or less

2. Restrictions as to depths and formations:

Only as to the depths of the Bone Spring and Wolfcamp Formations.

3. Parties to this agreement with addresses and telephone numbers for notice purposes:

*Other Parties To Be Determined*

Permian Resources Operating, LLC  
300 N. Marienfeld St., Ste. 1000  
Midland, Texas 79701  
Attn: Travis Macha  
Phone: (432) 400-1037

Read & Stevens, Inc.  
300 N. Marienfeld St., Ste. 1000  
Midland, Texas 79701  
Attn: Travis Macha  
Phone: (432) 400-1037

4. Percentages or fractional interests of the parties to this agreement:

*To Be Determined. Please note that the JOA will be subject to separate Contract Areas dependent on lateral length and depth severances.*

5. Oil and Gas Leases subject to this Operating Agreement:

1. Lease No.: NMNM 101115  
Lessor: United States of America  
Lessee: Read & Stevens Inc  
Lease Date: September 1, 1998  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: Lot 4 & SW/4NW/4
2. Lease No.: NMLC 0065607  
Lessor: United States of America  
Lessee: Edward R. Hudson, et al  
Lease Date: September 1, 1948  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: Lots 1-3, S/2NE/4, & SE/4NW/4
3. Lease No.: NMLC 0064194  
Lessor: United States of America  
Lessee: Edward R. Hudson, et al  
Lease Date: October 1, 1947  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: S/2  
Section 8: All

# EXHIBIT C-12B

IN WITNESS WHEREOF, this agreement shall be effective as of the day of March 1, 2023.

Permian Resources Operating, LLC, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below is identical to the AAPL Form 610-1989 Model Form Operating Agreement, as published in computerized form by AAPL. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles I-XVI, have been made to the form.

ATTEST OR WITNESS:

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

OPERATOR: Permian Resources Operating, LLC

BY: \_\_\_\_\_

Print Name: Patrick Godwin

Title: Vice President of Land

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

Tax ID: \_\_\_\_\_

### NON-OPERATORS

ATTEST OR WITNESS:

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

NON-OPERATOR NAME: Read & Stevens, Inc.

BY: \_\_\_\_\_

Print Name: Patrick Godwin

Title: Vice President of Land

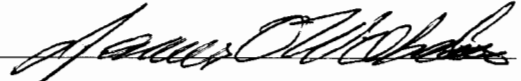
Date: \_\_\_\_\_

Tax ID: \_\_\_\_\_

ATTEST OR WITNESS:

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

NON-OPERATOR NAME: Wilbanks Reserve Corporation

BY: 

Print Name: James O. Wilbanks

Title: President

Date: 11/16/2023

Tax ID: 84-1056576

ATTEST OR WITNESS:

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

NON-OPERATOR NAME:

BY: \_\_\_\_\_

Print Name: \_\_\_\_\_

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

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

Tax ID: \_\_\_\_\_

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Acknowledgment in representative capacity:

State of COLORADO )  
 ) ss.  
County of DENVER )

This instrument was acknowledged before me on the 16<sup>th</sup> day of NOVEMBER, 2023, by  
James O. Wilbanks as President for Wilbanks Reserve Corporation  
on behalf of said company

(Seal, if any)

HANNAH FREDERICK  
NOTARY PUBLIC  
STATE OF COLORADO  
NOTARY ID 20144039777  
MY COMMISSION EXPIRES OCTOBER 21, 2026

Hannah Frederick  
Title (and Rank) Notary Public  
My commission expires 10/21/2026

Acknowledgment in representative capacity:

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by  
\_\_\_\_\_ as \_\_\_\_\_ for \_\_\_\_\_  
on behalf of said \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires \_\_\_\_\_



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

**MODEL FORM OPERATING AGREEMENT  
HORIZONTAL MODIFICATIONS**

**OPERATING AGREEMENT  
DATED MARCH 1, 2023**

OPERATOR: PERMIAN RESOURCES OPERATING, LLC

CONTRACT AREA: ALL OF SECTIONS 5 AND 8, T20S-R34E

COUNTY OR PARISH OF LEA, STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PROFESSIONAL

LANDMEN, 4100 FOSSIL CREEK BLVD

FORT WORTH, TEXAS, 76137, APPROVED FORM

A.A.P.L. NO. 610 - 1989 (Horz.)

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## OPERATING AGREEMENT

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

### WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

### I. DEFINITIONS

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

- A.** The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder. An AFE is not a contractual commitment. Rather it is only an estimate, made in good faith.
- B.** The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation. For Horizontal Wells, the term "Completion" or "Complete" shall include multistage horizontal fracturing operations.
- C.** The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."
- D.** The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser. When used in connection with a Horizontal Well, the term "Deepen" shall ~~mean~~ include an operation whereby a Lateral is drilled to a Displacement greater than (i) the Displacement contained in the proposal for such operation approved by the Consenting Parties, or (ii) to the Displacement to which the Lateral was drilled pursuant to a previous proposal.
- E.** The term "Displacement" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall otherwise mean the length of a Lateral.
- F.** The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
- G.** The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.
- H.** The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located. When used in connection with a Horizontal Well, the term "Drillsite" shall mean (i) the surface hole location, and (ii) the Oil and Gas Leases or Oil and Gas Interests within the Drilling Unit on or under which the wellbore, including the Lateral, is located.
- I.** The term "Horizontal Rig Move-On Period" shall mean the number of days after the date of rig release of a Spudder Rig until the date a rig capable of drilling a Horizontal Well to its Total Measured Depth has moved on to location.
- J.** The term "Horizontal Well" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall mean a well containing one or more Laterals which are drilled, Completed or Recompleted in a manner in which the horizontal component of the Completion interval (1) extends at least one hundred feet (100') in the objective formation(s) and (2) exceeds the vertical component of the Completion interval in the objective formation(s).
- K.** The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.
- L.** The term "Lateral" shall mean that portion of a wellbore that deviates from approximate vertical orientation to approximate horizontal orientation and all wellbore beyond such deviation to Total Measured Depth.
- M.** The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.
- N.** The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects, or who is deemed to have elected, not to participate in a proposed operation.
- O.** The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
- P.** The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement.
- Q.** The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
- R.** The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. When used in connection with a Horizontal Well, the term "Plug Back" shall mean an operation to test or Complete the well at a stratigraphically shallower Zone in which the operation has been or is being Completed and which is not in an existing Lateral.
- S.** The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.
- T.** The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation

operations but exclude any routine repair or maintenance work or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well.

U. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties. When used in connection with a Horizontal Well, the term "Sidetrack" shall mean the directional control and deviation of a well outside the existing Lateral(s) so as to change the Zone or the direction of a Lateral from the approved proposal unless done to straighten the hole or drill around junk in the hole or to overcome other mechanical difficulties.

V. The term "Spudder Rig" shall mean a drilling rig utilized only for drilling all or part of the vertical component of a Horizontal Well; a rig used only for setting conductor pipe shall not be considered a Spudder Rig.

W. The term "Terminus" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall mean the furthest point drilled in the Lateral.

X. The term "Total Measured Depth," when used in connection with a Horizontal Well, shall mean the distance from the surface of the ground to the Terminus, as measured along and including the vertical component of the well and Lateral(s). When the proposed operation(s) is the drilling of, or operation on, a Horizontal Well, the terms "depth" or "total depth" wherever used in this agreement shall be deemed to read "Total Measured Depth" insofar as it applies to such well.

Y. The term "Vertical Well" shall mean a well drilled, Completed or Recompleted other than a Horizontal Well.

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

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

## II. EXHIBITS

Exhibit "A"

Exhibit "B," Form of Lease

Exhibit "C," Accounting Procedure

Exhibit "D," Insurance

Exhibit "E," Gas Balancing Agreement

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

Exhibit "G," Tax Partnership

Exhibit "H," Recording Supplement to Operating Agreement and Financing Statement

Other Exhibits

## III. INTERESTS OF PARTIES

### A. Oil and Gas Interests:

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

### B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter. Operator shall have the right, without the necessity of obtaining the signatures of the Non-Operators, to amend Exhibit "A" from time to time during the term of this Agreement to reflect changes in ownership, whether due to a conveyance, title failure, or identified in a title opinion, or in the addresses of the parties. Non-Operators shall have 30 days to submit corrections to any replacement Exhibit "A", circulated by Operator.

Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area up to, but not in excess of 12.5%, and shall indemnify, defend and hold the other parties free from any liability therefor. Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any liability therefor.

No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected Lease shall bear the additional royalty burden attributable to such higher price.

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

**C. Subsequently Created Interests:**

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

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

**IV. TITLES**

**A. Title Examination:**

Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable Leases; however, Operator may elect to commence drilling operations based on a drilling title opinion only. Each party contributing Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in procuring abstracts, fees paid to landmen or outside attorneys for title examination (including preliminary, supplemental, shut-in royalty opinions and division order title opinions) and other direct charges as provided in Exhibit "C" shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other in-house personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with Leases or Oil and Gas Interests contributed by such party; provided, however, that if such party fails to secure curative matters, pooling amendments, or required agreements within a reasonable time, as determined in the sole opinion of Operator, Operator may, but is under no obligation to, attempt to secure the same, and the party originally responsible for securing such curative matter, pooling amendment, or required agreement shall be liable for payment of all expenses incurred by Operator therefore. Operator shall be responsible for the preparation and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings. Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

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

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

1. **Failure of Title:** Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a new Lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas Leases and Interests; and,

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

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

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

(d) Should any person not a party to this agreement, who is determined to be the owner of any Lease or Interest which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;



- (e) Any liability to account to a person not a party to this agreement for prior production of Oil and Gas which arises by reason of title failure shall be borne severally by each party (including a predecessor to a current party) who received production for which such accounting is required based on the amount of such production received, and each such party shall severally indemnify, defend and hold harmless all other parties hereto for any such liability to account;
- (f) No charge shall be made to the joint account for legal expenses, fees or salaries in connection with the defense of the Lease or Interest claimed to have failed, but if the party contributing such Lease or Interest hereto elects to defend its title it shall bear all expenses in connection therewith; and
- (g) If any party is given credit on Exhibit "A" to a Lease or Interest which is limited solely to ownership of an interest in the wellbore of any well or wells and the production therefrom, such party's absence of interest in the remainder of the Contract Area shall be considered a Failure of Title as to such remaining Contract Area unless that absence of interest is reflected on Exhibit "A."
2. **Loss by Non-Payment or Erroneous Payment of Amount Due:** If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, or other payment necessary to maintain all or a portion of an Oil and Gas Lease or interest is not paid or is erroneously paid, and as a result a Lease or Interest terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new Lease or Interest covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties reflected on Exhibit "A" shall be revised on an acreage basis, effective as of the date of termination of the Lease or Interest involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the Lease or Interest which has terminated. If the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of Oil and Gas attributable to the lost Lease or Interest, calculated on an acreage basis, for the development and operating costs previously paid on account of such Lease or Interest, it shall be reimbursed for unrecovered actual costs previously paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:
- (a) Proceeds of Oil and Gas produced prior to termination of the Lease or Interest, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, previously accrued to the credit of the lost Lease or Interest, on an acreage basis, up to the amount of unrecovered costs;
- (b) Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination, would be attributable to the lost Lease or Interest on an acreage basis and which as a result of such Lease or Interest termination is credited to other parties, the proceeds of said portion of the Oil and Gas to be contributed by the other parties in proportion to their respective interests reflected on Exhibit "A"; and,
- (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.
3. **Other Losses:** All losses of Leases or Interests committed to this agreement, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because express or implied covenants have not been performed (other than performance which requires only the payment of money), and the loss of any Lease by expiration at the end of its primary term if it is not renewed or extended. There shall be no readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.
4. **Curing Title:** In the event of a Failure of Title under Article IV.B.1. or a loss of title under Article IV.B.2. above, any Lease or Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period provided by Article IV.B.1. and Article IV.B.2. above covering all or a portion of the interest that has failed or was lost shall be offered at cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B. shall not apply to such acquisition.

## V. OPERATOR

### A. Designation and Responsibilities of Operator:

Permian Resources Operating, LLC shall be the Operator of the Contract Area, if named operator by the New Mexico Oil Conservation division, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonably prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred except such as may result from gross negligence or willful misconduct.

### B. Resignation or Removal of Operator and Selection of Successor:

1. **Resignation or Removal of Operator:** Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area (except as set forth in Article XVI.D.), or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of Non-Operators two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, affiliate, parent or successor corporation entity shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

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

**C. Employees and Contractors:**

The number of employees or contractors used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees or contractors shall be the employees or contractors of Operator.

**D. Rights and Duties of Operator:**

1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area ~~and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced~~, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or materials supplied by affiliates or related parties of Operator shall be performed or supplied at competitive rates, ~~pursuant to written agreement~~, and in accordance with customs and standards prevailing in the industry.

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

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

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

5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any and all reports and information obtained by Operator in connection with production and related items, including, without limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures shall be conducted in accordance with the audit protocol specified in Exhibit "C." Notwithstanding anything herein to the contrary, for any operations in which Non-Operator is a Non-Consenting Party, such Non-Operator shall not be permitted access to such operations or to the records, books, reports, or information related to such operation, except such information required to be provided to a Non-Consenting Party pursuant to Article V.I.B.2.(d).

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

7. Drilling and Testing Operations: The following provisions shall apply to each well drilled hereunder, including but not limited to the Initial Well:

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

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

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

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

9. Insurance: At all times while operations are conducted hereunder, Operator shall comply with the workers compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C." Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D" attached hereto and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile liability insurance is specified in said Exhibit "D," or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

## VI. DRILLING AND DEVELOPMENT

### A. Initial Well:

On or before June 1, 2024, Operator shall commence the drilling of the Initial Well at the following location: at a First Take Point at a legal location in the NW/4NW/4 of Section 5, T20S-R34E and a Last Take Point at a legal location in SW/4SW/4 of Section 8, T20S-34E, Lea County, New Mexico (if a Horizontal Well, surface and Terminus/Termini of the Lateral(s)); and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to the Bone Spring Formation. Operator at its sole discretion may extend the commencement of drilling of the Initial Well by 180 days by providing written notice to Non-Operators prior to the date in this paragraph.

The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1. as to participation in Completion operations and Article VI.F. as to termination of operations and Article XI as to occurrence of force majeure.

### B. Subsequent Operations:

1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone under this agreement (and to all other parties in the case of a proposal for Sidetracking or Deepening as to a Vertical Well), specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation as outlined in an AFE. A proposal for the drilling of or other operations for a Horizontal Well shall: (1) state that the proposed operation is a Horizontal Well operation; (2) include drilling and Completion plans specifying the proposed: (i) Total Measured Depth(s), (ii) surface hole location(s), (iii) Terminus/Termini, (iv) Displacement(s), (v) utilization and scheduling of rig(s) (Spudder Rig, drilling and Completion), and (vi) stimulation operations, staging and sizing; and (3) include estimated drilling and Completion costs as set forth in an AFE. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

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

### 2. Operations by Less Than All Parties:

(a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VI.B.1. or VI.C.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties'



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

(b) **Relinquishment of Interest for Non-Participation.** The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, ReCompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking, Deepening, ReCompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be effective 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 applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other interests not excepted by Article III.C. 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:

- i. 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
- ii. 300% of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing, Completing, and ReCompleting, after deducting any cash contributions received under Article VIII.C., and of (b) 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.

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

(c) **Reworking, ReCompleting or Plugging Back.** An election not to participate in the drilling, Sidetracking or Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to participate in the Completing or ReCompleting of a well shall be deemed an election not to participate in any Reworking operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. 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 300% 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 VI.B. shall be applicable as between said Consenting Parties in said well.

(d) **Recoupment Matters.** 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 ad valorem, production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.C.

In the case of any Reworking, Sidetracking, Plugging Back, ReCompleting or Deepening 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, Sidetracking, Plugging Back, ReCompleting or Deepening, 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 ninety (90) days after the 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, Sidetracking, Deepening, Plugging Back, testing, Completing, ReCompleting, 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 month 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 realized from the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas produced during any month, 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.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the day following the day on which such recoupment occurs, 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, Sidetracking, Reworking, Deepening, Recompleting 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 Exhibit "C" attached hereto.

3. **Stand-By Costs:** 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, or when operations on the well have been otherwise terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6. to resolve competing proposals) shall be charged and borne as 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 pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), 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 as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in Article VI.B.1. within which to respond by paying for all stand-by costs and other costs incurred during such extended response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending the response period. If more than one party elects to take such additional time to respond to the notice, standby 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 as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties.

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

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

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

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

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

This Article VI.B.4 shall not apply to Deepening operations within an existing Lateral of a Horizontal Well.

5. **Sidetracking:** Any party having the right to participate in a proposed Sidetracking operation that does not own an interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore 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 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth at which the Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's proportionate share of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking operation is initiated shall be determined in accordance with the provisions of Exhibit "C." This Article VI.B.5, "Sidetracking," shall not apply to operations in an existing Lateral of a Horizontal Well.

6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty four (24) hours if a rig is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within such period shall be deemed an election not to participate in the prevailing proposal.

7. Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be proposed to be drilled to or Completed in or produced from a Zone 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 Zone.

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

9. Spudder Rigs.

(a) Within Approved Horizontal Well proposals (i.e. proposals which include an approved AFE). If an approved Horizontal Well proposal provides that a Spudder Rig shall be utilized, and Operator desires to extend the proposed Horizontal Rig Move-On Period, Operator may obtain one or more extensions, each for a period of time not to exceed 0 days only upon notice and the affirmative vote of not less than 0% in interest of the Consenting Parties to the drilling of the proposed well.

(b) Not Within Approved Horizontal Well proposals. If an approved Horizontal Well proposal does not provide that a Spudder Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to the Drilling Parties (which notice shall include a Horizontal Rig Move-On Period) and the affirmative vote of not less than 0% in interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On Period may be requested by Operator in the same manner as provided in Article VI.B.9.(a) immediately above.

(c) Failure to meet Horizontal Rig Move-On Period. If a rig capable of drilling a Horizontal Well to its Total Measured Depth has not commenced operations within the Horizontal Rig Move-On Period, or any approved extension(s) thereof, unless 0% in interest of the Consenting Parties agree to abandon the operation, Operator shall re-propose the well in the manner provided in Article VI.B. of this agreement. Any party who was a Non-Consenting Party to the original drilling proposal shall be entitled to a new election. Costs of the operation, incurred both before and after such re-proposal, shall be borne as follows:

(1) Operator shall promptly reimburse all unused funds previously advanced for the drilling of the well to each party who advanced such unused funds;

(2) If the well's drilling operations are subsequently resumed, all costs, whether incurred before or after the re-proposal, shall be borne by the Consenting Parties to the re-proposed well; and, the Consenting Parties shall proportionately reimburse each party who consented to the original proposal but did not consent to the re-proposal such party's share of costs incurred prior to the re-proposal.

(3) If the well's drilling operations are not subsequently resumed pursuant to a re-proposal as herein provided, all costs incurred prior to the re-proposal, and all costs of abandonment, shall be borne and paid by the original Consenting Parties.

(d) Commencement of Operations. For purposes of Article VI.B., and subject to the provisions of this sub-section 9, the date a Spudder Rig commences actual drilling operations shall be considered the commencement of drilling operations of the proposed well.

10. Multi-well Pads. If multiple Horizontal Wells are drilled or proposed to be drilled from a single pad or location, the costs of such pad or location shall be allocated, and/or reallocated as necessary, to the Consenting Parties of each of the wells thereon.

### C. Completion of Wells; Reworking and Plugging Back:

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

Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completion and equipping of the Well, including tankage and/or surface facilities.

Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of a Vertical Well. When such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to participate in a Completion attempt whether or not Operator recommends attempting to Complete the well, together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting



with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the procedures specified in Article VI.B.6. Election to participate in a Completion attempt shall include consent to all necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any 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 Completion attempt; provided, that Article VI.B.6 shall control in the case of conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the provisions of Article VI.B.2 hereof (the phrase "Reworking, Sidetracking, Deepening, Re-completing or Plugging Back" as contained in Article VI.B.2 shall be deemed to include "Completing") shall apply to the operations thereafter conducted by less than all parties; provided, however, that Article VI.B.2 shall apply separately to each separate Completion or Re-completion attempt undertaken hereunder, and an election to become a Non-Consenting Party as to one Completion or Re-completion attempt shall not prevent a party from becoming a Consenting Party in subsequent Completion or Re-completion attempts regardless whether the Consenting Parties as to earlier Completions or Re-completions have recouped their costs pursuant to Article VI.B.2; provided further, that any recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in which the Completion attempt is made. Election by a previous Non-Consenting party to participate in a subsequent Completion or Re-completion attempt shall require such party to pay its proportionate share of the cost of salvable materials and equipment installed in the well pursuant to the previous Completion or Re-completion attempt, insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a Completion attempt. Notwithstanding anything to the contrary, including the selection of Option 2 above, or anything else in this agreement, Option 1 shall apply to all Horizontal Wells.

2. Rework, Re-complete or Plug Back: No well shall be Reworked, Re-completed or Plugged Back except a well Reworked, Re-completed, or Plugged Back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the Reworking, Re-completing or Plugging Back of a well shall include all necessary expenditures in conducting such operations and Completing and equipping of said well, including necessary tankage and/or surface facilities.

#### D. Other Operations:

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \$75,000 except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Re-completing or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of \$75,000. Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 51% of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

#### E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.
2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed abandonment shall be deemed an election to consent to the proposal. If, within sixty (60) days after delivery of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession of such well and plug and abandon the well.

Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio

based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

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

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

**F. Termination of Operations:**

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

**G. Taking Production in Kind:**

**Option No. 1: Gas Balancing Agreement Attached:**

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

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

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise at any time its right to take in kind, or separately dispose of, its share of all Oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

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

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

In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

**Option No. 2: No Gas Balancing Agreement:**

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

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

~~If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil and/or Gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil and/or Gas or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject~~

~~always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise its right to take in kind, or separately dispose of, its share of all Oil and/or Gas not previously delivered to a purchaser, provided, however, that the effective date of any such revocation may be deferred at Operator's election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase contract having a term extending beyond such ten (10) day period. Any purchase or sale by Operator of any other party's share of Oil and/or Gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.~~

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

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

## VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

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

### B. Liens and Security Interests:

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

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

Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article VII.B. as to all obligations attributable to such interest hereunder whether or not such obligations arise before or after such interest is acquired.

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

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

If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and



security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

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

**C. Advances:**

Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within ~~thirteen (13)~~ thirty (30) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

**D. Defaults and Remedies:**

If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator, and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator. Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified below or otherwise available to a non-defaulting party.

1. **Suspension of Rights:** Any party may deliver to the party in default a Notice of Default, which shall specify the default, specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one or more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the Non-Operators shall have in addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right to receive information as to any operation conducted hereunder during the period of such default, the right to elect to participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being conducted under this agreement even if the party has previously elected to participate in such operation, and the right to receive proceeds of production from any well subject to this agreement.
2. **Suit for Damages:** Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint account expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default until the date of collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from suing any defaulting party to collect consequential damages accruing to such party as a result of the default.
3. **Deemed Non-Consent:** The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in which event if the billing is for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to have elected not to participate in the operation and to be a Non-Consenting Party with respect thereto under Article VI.B. or VI.C., as the case may be, to the extent of the costs unpaid by such party, notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then the non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

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

4. **Advance Payment:** If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or Non-Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting party of such defaulting party's anticipated share of any item of expense for which Operator, or Non-Operators, as the case may be, would be entitled to reimbursement under any provision of this agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of drilling a well or Completion of a well as to which an election to participate in drilling or Completion has been made. If the defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of the remedies provided in this Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced remaining when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.
5. **Costs and Attorneys' Fees:** In the event any party is required to bring legal proceedings to enforce any financial obligation of a party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.

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

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-

in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

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

**F. Taxes:**

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

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

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

**VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

**A. Surrender of Leases:**

The Leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto. However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such Oil and Gas Interest for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B." Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth, then the interest assigned shall similarly reflect such variances.

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

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

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

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

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

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

**C. Acreage or Cash Contributions:**

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

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

**D. Assignment; Maintenance of Uniform Interest:**

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

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

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

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 Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

**E. Waiver of Rights to Partition:**

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

**F. Preferential Right to Purchase:**

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

**IX. INTERNAL REVENUE CODE ELECTION**

If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election



similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

#### X. CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed seven hundred fifty thousand, USD (\$750,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

#### XI. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The term "force majeure," as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightening, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

#### XII. NOTICES

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

#### XIII. TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the Oil and Gas Leases and/or Oil and Gas Interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

~~Option No. 1: So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise~~

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional 120 days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within 120 days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

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

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

This agreement shall be subject to the applicable laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations and orders.

**B. Governing Law:**

This agreement and all matters pertaining hereto, including but not limited to matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state of . If the Contract Area is in two or more states, the law of the state of Texas shall govern.

**C. Regulatory Agencies:**

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

**XV. MISCELLANEOUS**

**A. Execution:**

This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. Operator may, however, by written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the Initial Well but in no event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest. Except as otherwise provided in Article IV.B, in the event operations on a well shall be commenced without execution of this agreement by all persons listed on Exhibit "A" as having a current interest in such well, or in the event that subsequent to the commencement of operations on the well previously unknown or undisclosed persons owning working interests in a well are discovered, or both, the parties executing this agreement agree to one of the following:

~~Option No. 1: Operator shall indemnify executing Non-Operators with respect to all costs incurred for the well which would have been charged to each such person under this agreement as if such person had executed the same and Operator shall receive all revenues which would have been received by each such person under this agreement as if such person had executed the same.~~

Option No. 2: The Operator shall advise all parties of the total interest of the parties that have executed this agreement. Each party executing this agreement, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the Operator of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interest of all parties executing this agreement) of non-executing persons' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of non-executing persons' interests together with all or a portion of its proportionate part of any non-executing persons interests that any executing party did not elect to take. Any interest of non-executing persons that is not carried by an executing party shall be deemed to be carried by the Operator. Failure to advise the Operator within the time required shall be deemed an election under (i).

**B. Successors and Assigns:**

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or Interests included within the Contract Area.

**C. Counterparts:**

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

**D. Severability:**

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

**XVI. OTHER PROVISIONS**

**A. Conflict of Terms:**

Notwithstanding anything in this agreement to the contrary, in the event of any conflict between the provisions of Article I through XV of this agreement and the provisions of this Article XVI, the provisions of this Article XVI shall govern.

Unless drilling operations are terminated pursuant to Article VI.F, Operator shall drill a Horizontal Well to the objective Zone(s) and drill the Lateral in the Zone(s) at least to a Displacement to which a reasonably prudent operator would deem further drilling is neither justified nor required.

**C. Priority of Operations – Horizontal Wells:**

Notwithstanding Article VI.B.6 or anything else in this agreement to the contrary, it is agreed that where a Horizontal Well subject to this agreement has been drilled to the objective Displacement and the Consenting Parties cannot agree upon the sequence and timing of further operations regarding such Horizontal Well, the following elections shall control the order of priority enumerated hereafter:

First: Testing, coring or logging;

Second: Complete drilling operations of all proposed Laterals;

Third: Extend or Deepen a Lateral;

Fourth: Kick out and drill an additional Lateral in the same Zone;

Fifth: Plug Back the well to a Zone above the Zone in which a Lateral was drilled; if there is more than one proposal to Plug Back, the proposal to Plug Back to the next deepest prospective Zone shall have priority over a proposal to Plug Back to a shallower prospective Zone;

Sixth: Sidetrack; and

Seventh: Plug and abandon as provided for in Article VI.E

Provided, however, that if, at the time the Consenting Parties are considering any of the above, the hole is in such a condition that a reasonably prudent operator would not conduct the particular contemplated operation involved for fear of placing the hole in jeopardy or losing the hole prior to Completing the Horizontal Well in the objective Zone, such operation shall be eliminated from the priorities set forth above.

**D. Operator Owns No Interest:**

The parties to this agreement acknowledge that Permian Resources Operating, LLC does not own an interest in the Contract Area. Notwithstanding anything in this agreement to the contrary, the parties agree that Permian Resources Operating, LLC shall serve as Operator even though it owns no interest in the Contract Area.

**E. Separate Measurement Facilities:**

If any party hereto creates the necessity of separate measurement facilities within the Contract Area, such party alone shall bear the entire costs of purchasing, installing, and operating such separate measurement facilities, which facilities may be installed and operated by Operator, at Operator's sole election, for the account of said party.

**F. Bankruptcy:**

If, following the granting of relief under the United States Bankruptcy Code to any party hereto as a debtor, this agreement is held to be an executory contract under such Code, then the other party(ies) hereto shall be entitled to a determination by debtor or any trustee of debtor within thirty (30) days from the date an order for relief is entered as to the rejection or assumption of this agreement. If the debtor or trustee decides to assume this agreement, the party(ies) seeking such determination shall be entitled to adequate assurances as to the future performance of debtor's obligations hereunder and the protection of the interests of the parties hereto. The debtor shall satisfy its obligations to provide adequate assurances by depositing debtor's proportionate share of anticipated expenses in escrow. Adequate assurances shall include timely payment of any outstanding invoices and AFEs promptly upon presentation to debtor.

**G. Foreclosure of Operator's Lien:**

G. Foreclosure of Operator's Lien:

In the event that the Contract Area is located in the State of Texas and Operator elects to foreclose its lien and security interest against the interest of Non-Operator as provided for in this agreement, such may be foreclosed non-judicially in the manner provided for by the then current form of Deed of Trust promulgated by the State Bar of Texas, in accordance with the terms and provisions thereof, and in accordance with the terms and provisions of the laws of the State of Texas pertaining to non-judicial foreclosure sales, including, but not limited to, laws pertaining to giving of notice of such sale. For such purposes, Non-Operator hereby appoints Operator, and each of its officer, as a trustee to carry out the trust imposed by such current Deed of Trust form, and agrees that a substitute trustee may be appointed in the manner provided for in such current Deed of Trust form. Operator shall be deemed to be the secured party and beneficiary under the terms and provisions of such then current Deed of Trust form, and the defaulting Non-Operator shall be deemed to be the grantor thereof, with the lien granted thereby covering and pertaining to all of the interest if the Non-Operator in the Contract Area. As used herein, the words, "current form of Deed of Trust" shall mean the Deed of Trust form then in effect as of the date the Operator elects to foreclose its lien and security interest against the interest of Non-Operator.

**H. Operations:**

For the purposes of Articles VI.B.1 and VI.B.2, Operator may commence operations including, without limitation, building location, roads and pits, delivering materials and equipment to the well site, rigging up a drilling rig, and/or actual drilling operations, at any time either before or after giving the notice of proposed operations required by said Articles. Notwithstanding the foregoing, the parties receiving notice of proposed operations pursuant to Articles VI.B.1 and VI.B.2 shall have the full time allowed in which to make their election(s) and shall be subject to the non-consent provisions thereof to the same extent and in the same manner as provided in Article VI.B regardless of whether any activities were commenced prior to receiving notice thereof.



**I. Superseded Agreements:**

For so long as this Agreement remains in force it shall supersede in its entirety any and all previous joint operating agreements pertaining to or covering any portion the Contract Area is subject to this Agreement insofar, and only insofar, as to the land and depths within the Contract Area hereof. Notwithstanding the foregoing, to the extent any previous joint operating agreement covers any wells on the Contract Area which were in existence prior to the Effective Date of this Agreement, said previous joint operating agreement shall continue to govern the rights and obligations of the parties, thereto in regards to the wellbore only of such existing well(s), production from and expenses incurred on such wells, and any equipment directly associated with such wells.

**J. Advances:**

See Art. VII

**K. Excluded Wellbores:**

This Operating Agreement specifically excludes existing wellbores, associated equipment, associated production including the operations of such wells existing as of the date of this Operating Agreement whether or not such wellbores are producing, shut-in, or otherwise temporarily abandoned.

**L. Sub-Contract Areas:**

Notwithstanding anything herein to the contrary, each Sub-Contract Area identified in paragraph 4 of Exhibit A shall be considered a separate Contract Area for all purposes of this Agreement, provided, however, that so long as the Initial Well is drilled in accordance with Article VI.A., this Agreement shall remain in force as to all property within the Contract Area defined in paragraph 1 of Exhibit A for so long as there is compliance with Article XIII, Option No. 2 with regards to any well or wells located on any property covered by this Agreement.

**M. Regulatory Costs:**

Should it be necessary to conduct the hearings before governmental agencies for the securing of spacing or pooling orders, or for certifying new gas, the costs attributable to such hearings as well as fees paid attorneys and witnesses, shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A".

**Exhibit "A"**

Attached to and made a part of that certain Operating Agreement, dated March 1, 2023, by and between Permian Resources Operating, LLC, as Operator, and Read & Stevens, Inc., et al as Non-Operators, covering lands in Lea County, New Mexico

## 1. Contract Area:

All of Sections 5 and 8, T20S-R34E, Lea County, New Mexico, containing 1280.20 acres, more or less

## 2. Restrictions as to depths and formations:

Only as to the depths of the Bone Spring and Wolfcamp Formations.

## 3. Parties to this agreement with addresses and telephone numbers for notice purposes:

*Other Parties To Be Determined*

Permian Resources Operating, LLC  
300 N. Marienfeld St., Ste. 1000  
Midland, Texas 79701  
Attn: Travis Macha  
Phone: (432) 400-1037

Read & Stevens, Inc.  
300 N. Marienfeld St., Ste. 1000  
Midland, Texas 79701  
Attn: Travis Macha  
Phone: (432) 400-1037

## 4. Percentages or fractional interests of the parties to this agreement:

*To Be Determined. Please note that the JOA will be subject to separate Contract Areas dependent on lateral length and depth severances.*

## 5. Oil and Gas Leases subject to this Operating Agreement:

1. Lease No.: NMNM 101115  
Lessor: United States of America  
Lessee: Read & Stevens Inc  
Lease Date: September 1, 1998  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: Lot 4 & SW/4NW/4
2. Lease No.: NMLC 0065607  
Lessor: United States of America  
Lessee: Edward R. Hudson, et al  
Lease Date: September 1, 1948  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: Lots 1-3, S/2NE/4, & SE/4NW/4
3. Lease No.: NMLC 0064194  
Lessor: United States of America  
Lessee: Edward R. Hudson, et al  
Lease Date: October 1, 1947  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: S/2  
Section 8: All

End of Exhibit "A"

## EXHIBIT "B"

**ATTACHED TO AND BY REFERENCE MADE A PART OF THAT CERTAIN JOINT OPERATING AGREEMENT, DATED MARCH 1, 2023, BY AND BETWEEN PERMIAN RESOURCES OPERATING, LLC, AS OPERATOR, AND READ & STEVENS, INC., ET AL, AS NON-OPERATORS**

**NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.**

PRODUCERS 88 REV.-TEX. PAID-UP (3-73)

**OIL, GAS AND MINERAL LEASE**

THIS AGREEMENT made this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, between \_\_\_\_\_, Lessor (whether one or more), whose address is \_\_\_\_\_ and \_\_\_\_\_, Lessee, with address of \_\_\_\_\_, WITNESSETH:

1. Lessor, in consideration of Ten and No/100\*\*\*\*\* Dollars (\$10.00) In hand paid, receipt of which is hereby acknowledged, and of the royalties herein provided and of the agreements of the Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling, mining and operating for and producing oil, gas and all other minerals, conducting seismic operations, injecting gas, water, other fluids, and air into subsurface strata, establishing and utilizing facilities for surface and subsurface disposal of salt water, constructing roads, laying pipe lines, storing oil, building tanks, power stations and lines, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals and other products manufactured therefrom, and housing and otherwise caring for its employees, the following described land in \_\_\_\_\_ County, New Mexico, to-wit:

**LAND DESCRIPTION**

This lease covers all of the land described above, and in addition thereto, it covers and there is hereby leased, let and demised to the same extent as if they were described herein specifically, all lands owned or claimed by Lessor adjacent, contiguous to, or a part of the tract or tracts specifically described above, whether such additional lands be owned or claimed by deed, limitation or otherwise, and whether the same be inside or outside the metes and bounds description and whether the same be held under fence by Lessor or not and whether such additional lands be in the named survey or other survey or surveys. This is a lease in gross and not by the acre and the bonus money paid shall be effective to cover all such lands irrespective of the number of acres contained therein, and the lands included within the terms of this lease are estimated to comprise \_\_\_\_\_ gross acres, whether they actually comprise more or less.

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations, or to the discovery, development or cessation at any time of production of oil, gas or other minerals, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of three (3) years from this date (called "primary term") and as long thereafter as oil, gas or other minerals are produced from said land, or land with which said land is pooled hereunder, or as long as this lease is continued in effect as otherwise herein provided.

3. The royalties to be paid by Lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, 1/4 of that produced and saved from said land, same to be delivered at the wells or to the credit of Lessor in the pipelines to which the wells may be connected; Lessor's interest in either case shall bear its proportion of any expenses for treating oil to make it marketable as crude; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the mouth of the well of 1/4 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/4 of the amount realized from such a sale; (c) on all other minerals mined and marketed 1/4, either in kind or value at the well or mine, at Lessee's election, except that on sulphur the royalty shall be One Dollar (\$1.00) per long ton; and (d) at any time and from time to time either at or after the expiration of the primary term of this lease, if there is a gas well or wells on said land or lands pooled therewith (and for the purposes of this clause (d) the term "gas well" shall include wells capable of producing natural gas, condensate, distillate, or any gaseous substance and wells classified as gas wells by any governmental authority) and such well or wells are or have been shut-in before or after production therefrom, it shall be deemed that said well or wells are producing gas within the meaning of paragraph numbered 2 of this lease and this lease shall not terminate. In such event, Lessee covenants and agrees to pay as royalty shut-in gas royalty in the amount of One and 00/100 Dollars per net acre (\$1.00/net acre) per annum as long as such well or wells are shut-in and this lease is not maintained in force or effect by other provisions hereof. Such shut-in royalty shall be paid or tendered to Lessor or to his credit in the \_\_\_\_\_ **PAY DIRECTLY TO LESSOR** Bank of \_\_\_\_\_ which Bank or any successor Bank thereof shall continue to be the agent for Lessor and Lessor's successors and assigns. Should Lessee elect, such Bank may also be used to pay any other sums, including royalties, due hereunder. If such Bank (or any successor Bank) should fail, liquidate or be succeeded by another Bank or for any reason fail or refuse to accept shut-in royalty or any other payment, Lessee shall not be held in default until thirty (30) days after Lessor shall deliver to Lessee a recordable instrument making provision for another method of payment or tender. Any depository charge is a liability of the Lessor. Any payment or tender of shut-in royalty made under the terms of this lease may be made by check or draft of Lessee mailed or delivered to said Bank or to Lessor. In the event Lessee is obligated to pay the shut-in royalty above indicated, the first payment of such shut-in royalty shall be due and payable on or before ninety (90) days following the date on which the well is shut-in, or if shut-in during the primary term then on or before ninety (90) days following the expiration of the primary term, and subsequent payments, if required under the terms of this paragraph, shall be due and payable annually on or before the anniversary of the date of the original payment. It is specifically provided that this is a paid-up lease during the term set out above as "primary term" and there shall be no obligation or liability on the Lessee to make any shut-in royalty payment or other payment during said primary term, and without any such payment this lease shall remain in full force and effect during said primary term. The obligation to pay the shut-in royalty provided for above, shall be a covenant running with the land and, under no conditions, shall the failure to comply with such obligation serve or be used to terminate this lease or to work any forfeiture.

4 If production of oil, gas or other minerals on said land or land pooled therewith should cease from any cause after the primary term, this lease nevertheless shall continue in force and effect as long as additional drilling operations or reworking operations are conducted on this lease, or on acreage pooled therewith, in a similar manner as described in paragraph 13, which additional operations shall be deemed to be had when not more than one hundred eighty (180) days elapse between the



completion or abandonment of one well and the commencement of operations on another well thereon, and if production is obtained this lease shall continue as long thereafter as oil, gas or other mineral is produced from said land or land pooled therewith, and as long thereafter as additional operations, either drilling or reworking, are had thereon. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land, not owned by Lessors, within 467 feet of or shown to be economically draining the leased premises, or land pooled therewith, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

5. Lessee, its successors and assigns, at its option, at any time and from time to time, and without Lessor's joinder or further consent, is hereby given the right and power to pool the land or any interests covered by this lease, or any portion thereof, as to oil, gas, condensate or distillate, or any of them, or either of them, with any other land, interests, lease or leases, or any of them, adjacent, adjoining or located in the immediate vicinity of these lands, when in Lessee's judgment it is necessary or advisable to do so in order efficiently to develop or operate said premises in compliance with the spacing rules of the Railroad Commission of Texas or other lawful authority or when to do so, would, in the judgment of the Lessee, promote the conservation of oil and gas on said premises, such pooling to be into a well unit or units not exceeding eighty (80) acres plus an acreage tolerance of ten percent (10%) of eighty (80) acres for oil, and not exceeding six-hundred-forty (640) acres plus an acreage tolerance of ten percent (10%) of six-hundred-forty (640) acres for gas, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units may be created or enlarged to conform substantially in size with those prescribed by governmental regulations. Lessee may pool the acreage or interests above described, or any portion thereof, as above provided, as to oil or gas in any one or more strata, and units so formed need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool the land above described, or any portion thereof, into other units. Lessee shall execute in writing and file for record in the county or counties where the land is situated an instrument designating and describing the pooled acreage, which pooling and designation may be accomplished either before or after a well or wells are drilled or completed on the unit. The entire acreage so pooled into a unit shall be treated for all purposes, except the payment of royalties, overriding royalties or payments out of production, as if it were included in this lease; and drilling or reworking operations thereon, production of oil or gas, condensate or distillate therefrom, cessation of production thereon, or the existence thereon of a shut-in gas well, shall be considered for all purposes, except the payment of royalties, as if such operations were conducted, or such production or cessation of production, or existence of a shut-in gas well were on the land above described, whether or not the well or wells be located on the said lands. In lieu of the royalties, overriding royalties or payments out of production, if any, elsewhere herein specified, Lessor shall receive from a unit so formed only such portion of the royalty, overriding royalty or payment out of production, if any, stipulated herein as the amount of the acreage (surface acres) above described which is placed in the unit bears to the total acreage (surface acres) so pooled in the particular unit involved. Shut-in gas royalties with respect to unit shut-in gas wells shall be payable in accordance with the provisions and in the amount set forth in this Lease. Should any unit as created hereunder contain less than the maximum number of acres hereinabove specified or allowed, then Lessee may at any time thereafter, whether before or after production is obtained on the unit, enlarge such unit by adding additional acreage thereto, but the enlarged unit shall in no event exceed the acreage content hereinabove specified or allowed. In the event an existing unit is so enlarged, Lessee shall execute and file for record in the county or counties in which the land is situated a supplemental designation and description of the land added to the existing unit; provided, that if such supplemental designation and description is not filed until production is obtained on the unit as originally created, then and in such event the supplemental designation and description shall not become effective until the first day of the calendar month next following the filing thereof. In the event the well or wells drilled on any unit shall fail to produce oil or gas, or in the event the production from any such well or wells shall cease, Lessee may terminate any unitized area created hereunder by filing for record in the county or counties where the land is situated proper instruments evidencing such termination.

6. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells and tanks, for all operations hereunder, including, but not limited to, repressuring, pressure maintenance, cycling, and secondary recovery operations, and the royalty on oil and gas shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. No well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns of the parties hereto, but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee or impair the effectiveness of any payment theretofore made by Lessee. No such change or division in the ownership of the land or royalties shall impair the effectiveness of any payment theretofore made by Lessee or be binding upon Lessee for any purpose (and irrespective of whether Lessee has either actual or constructive knowledge thereof) until 60 days after such person acquiring any interest has furnished Lessee with the instrument or instruments, or certified copies thereof, constituting his chain of title from the original Lessor.

8. Lessee shall not be liable for delays or defaults in its performance of any agreement or covenant hereunder due to force majeure. The term "force majeure" as employed herein shall mean: any act of God including, but not limited to storms, floods, washouts, landslides and lightning; acts of the public enemy; wars, blockades, insurrection or riots; strikes or lockouts; epidemics or quarantine regulations; laws, acts, orders or requests of federal, state, municipal or other governments or other governmental officers, or agents under color of authority; freight embargoes or failures; exhaustion or unavailability or delays in delivery of any product, labor, service or material. If Lessee is required, ordered or directed by any federal, state or municipal law, executive order, rule, regulation or request enacted or promulgated under color of authority to cease drilling operations, reworking operations or producing operations on the land covered by this lease or if Lessee by force majeure is prevented from conducting drilling operations, reworking operations, or producing operations, then until such time as such law, order, rule, regulation, request or force majeure is terminated and for a period of ninety (90) days after such termination each and every provision of this lease that might operate to terminate it or the estate conveyed by it shall be suspended and inoperative and this lease shall continue in full force. If any period of suspension occurs during the primary term, the time thereof shall be added to such term.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee, at its option, may discharge any tax, mortgage, other lien upon said land, and in the event Lessee does so, it shall be subrogated to such lien with the right to enforce the same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in the event of failure of title in whole or in part, it is agreed that if Lessor does not own, or have the right to lease, the entire mineral estate herein purported to be leased in the land above described, then the royalties and any other sums payable hereunder shall be reduced proportionately. Should any party named above as Lessor fail to execute this lease, or should any party execute the lease who is not named as a Lessor, it shall nevertheless be binding upon the party or parties executing the same. In the event the leased lands are encumbered by a mortgage, then prior to the payment of any royalties due hereunder, Lessor agrees to obtain a subordination of mortgage, at Lessor's expense, in a form acceptable to Lessee.

10. Lessee, its successors and assigns, shall have the right at any time to surrender this lease, in whole or in part, to Lessor or his heirs and assigns by delivering or mailing a release thereof to the Lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon Lessee shall be relieved from all obligations, expressed or implied, of this agreement as to the acreage so surrendered.

IN WITNESS WHEREOF, this instrument is executed the day and year first above written.

LESSOR

\_\_\_\_\_

**ACKNOWLEDGMENT**

STATE OF            }  
                              }  
COUNTY OF        }

This instrument was acknowledged before me on \_\_\_\_\_, 20\_\_\_\_, by \_\_\_\_\_, as  
\_\_\_\_\_ of \_\_\_\_\_ on behalf of said

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

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

Commission Number: \_\_\_\_\_



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**COPAS 2005 ACCOUNTING PROCEDURE**

**EXHIBIT C**

**ACCOUNTING PROCEDURE JOINT OPERATIONS**

Attached to and made part of that certain Operating Agreement, dated March 1, 2023, by and between Permian Resources Operating, LLC, as Operator, and Read & Stevens, Inc., et al, as Non-Operators, covering lands in Lea County, New Mexico.

**I. GENERAL PROVISIONS – ACCOUNTING PROCEDURE**

**IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING “ALTERNATIVE” PROVISIONS, OR SELECT ALL THE COMPETING “ALTERNATIVE” PROVISIONS, ALTERNATIVE 1 IN EACH SUCH INSTANCE SHALL BE DEEMED TO HAVE BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR DUPLICATE NOTATION.**

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

**1. DEFINITIONS**

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

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

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

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

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

**“Excluded Amount”** means a specified excluded trucking amount most recently recommended by COPAS.

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

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

- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations



- 41 • Responsibility for day-to-day direct oversight of construction operations
  - 42 • Coordination of job priorities and approval of work procedures
  - 43 • Responsibility for optimal resource utilization (equipment, Materials, personnel)
  - 44 • Responsibility for meeting production and field operating expense targets
  - 45 • Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an
  - 46 incidental part of the supervisor's operating responsibilities
  - 47 • Responsibility for all emergency responses with field staff
  - 48 • Responsibility for implementing safety and environmental practices
  - 49 • Responsibility for field adherence to company policy
  - 50 • Responsibility for employment decisions and performance appraisals for field personnel
  - 51 • Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may
  - 52 have group or team leaders.
- 53 **“Joint Account”** means the account showing the charges paid and credits received in the conduct of the Joint Operations that are
- 54 to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the
- 55 Agreement.
- 56 **“Joint Operations”** means all operations necessary or proper for the exploration, appraisal, development, production, protection,
- 57 maintenance, repair, abandonment, and restoration of the Joint Property.
- 58 **“Joint Property”** means the real and personal property subject to the Agreement.
- 59 **“Laws”** means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other
- 60 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the
- 61 transactions contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter
- 62 amended, enacted, promulgated or issued.
- 63 **“Material”** means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.
- 64 **“Non-Operators”** means the Parties to the Agreement other than the Operator.
- 65 **“Offshore Facilities”** means platforms, surface and subsea development and production systems, and other support systems such
- 66 as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water
- 67 storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities
- 68 necessary in the conduct of offshore operations, all of which are located offshore.
- 69 **“Off-site”** means any location that is not considered On-site as defined in this Accounting Procedure.
- 70 **“On-site”** means on the Joint Property when in direct conduct of Joint Operations. The term “On-site” shall also include that
- 71 portion of Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted,
- 72 or other facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint
- 73 Account.
- 74 **“Operator”** means the Party designated pursuant to the Agreement to conduct the Joint Operations.
- 75 **“Parties”** means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually
- 76 as “Party.”
- 77 **“Participating Interest”** means the percentage of the costs and risks of conducting an operation under the Agreement that a Party
- 78 agrees, or is otherwise obligated, to pay and bear.
- 79 **“Participating Party”** means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a
- 80 share of the costs and risks of conducting an operation under the Agreement.
- 81 **“Personal Expenses”** means reimbursed costs for travel and temporary living expenses.
- 82 **“Railway Receiving Point”** means the railhead nearest the Joint Property for which freight rates are published, even though an
- 83 actual railhead may not exist.

84 **“Shore Base Facilities”** means onshore support facilities that during Joint Operations provide such services to the Joint Property  
 85 as a receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services;  
 86 communication, scheduling and dispatching center; and other associated functions serving the Joint Property.

87 **“Supply Store”** means a recognized source or common stock point for a given Material item.

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

## 93 2. STATEMENTS AND BILLINGS

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

100 The Operator may make available to Non-Operators any statements and bills required under Section I.2 and/or Section  
 101 I.3.A (*Advances and Payments by the Parties*) via email, electronic data interchange, internet websites or other  
 102 equivalent electronic media in lieu of paper copies. The Operator shall provide the Non-Operators instructions and any  
 103 necessary information to access and receive the statements and bills within the timeframes specified herein. A statement  
 104 or billing shall be deemed as delivered twenty-four (24) hours (exclusive of weekends and holidays) after the Operator  
 105 notifies the Non-Operator that the statement or billing is available on the website and/or sent via email or electronic data  
 106 interchange transmission. Each Non-Operator individually shall elect to receive statements and billings electronically,  
 107 if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written  
 108 notice to the Operator.

## 109 3. ADVANCES AND PAYMENTS BY THE PARTIES

110 A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of  
 111 the estimated cash outlay for the succeeding month’s operations within ~~fifteen (15)~~ thirty (30) days after receipt of the  
 112 advance request or by the first day of the month for which the advance is required, whichever is later. The Operator  
 113 shall adjust each monthly billing to reflect advances received from the Non-Operators for such month. If a refund is  
 114 due, the Operator shall apply the amount to be refunded to the subsequent month’s billing or advance, unless the Non-  
 115 Operator sends the Operator a written request for a cash refund. The Operator shall remit the refund to the Non-Operator  
 116 within fifteen (15) days of receipt of such written request.

117 B. Except as provided below, each Party shall pay its proportionate share of all bills in full within ~~fifteen (15)~~ thirty (30)  
 118 days of receipt date. If payment is not made within such time, the unpaid balance shall bear interest compounded  
 119 monthly at the prime rate published by the Wall Street Journal on the first day of each month the payment is delinquent,  
 120 plus three percent (3%), per annum, or the maximum contract rate permitted by the applicable usury Laws governing  
 121 the Joint Property, whichever is the lesser, plus attorney’s fees, court costs, and other costs in connection with the  
 122 collection of unpaid amounts. If the Wall Street Journal ceases to be published or discontinues publishing a prime rate,  
 123 the unpaid balance shall bear interest compounded monthly at the prime rate published by the Federal Reserve plus three  
 124 percent (3%) per annum. Interest shall begin accruing on the first day of the month in which the payment was  
 125 due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has  
 126 agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation  
 127 and explanation to the Operator at the time payment is made, to the extent such reduction is caused by:

- 128 (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator’s actual  
 129 working interest or Participating Interest, as applicable; or
- 130 (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has  
 131 not approved or is not otherwise obligated to pay under the Agreement; or
- 132 (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-  
 133 Operator has furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the  
 134 foregoing, the Non-Operator shall remain responsible for paying bills attributable to the interest it sold or  
 135 transferred for any bills rendered during the thirty (30) day period following the Operator’s receipt of such written  
 136 notice; or
- 137 (4) charges outside the adjustment period, as provided in Section I.4 (Adjustments).

## 138 4. ADJUSTMENTS

139 A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof;  
 140 however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively be  
 141 presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end of  
 142 any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim  
 143 for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an audit  
 144 report, within the time periods prescribed in Section I.5 (*Expenditure Audits*).

145 B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section I.4.B, are limited  
 146 to the twenty-four (24) month period following the end of the calendar year in which the original charge appeared or  
 147 should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that may be made  
 148 beyond the twenty-four (24) month period are limited to adjustments resulting from the following:

149 (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*),  
 150 or

151 (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception  
 152 granted by the Operator relating to another property, or

153 (3) a government/regulatory audit, or

154 (4) a working interest ownership or Participating Interest adjustment.

## 155 5. EXPENDITURE AUDITS

156 A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the  
 157 Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the  
 158 end of such calendar year in which such bill was rendered; however, conducting an audit shall not extend the time for  
 159 the taking of written exception to and the adjustment of accounts as provided for in Section I.4 (*Adjustments*). Any  
 160 Party that is subject to payout accounting under the Agreement shall have the right to audit the accounts and records of  
 161 the Party responsible for preparing the payout statements, or of the Party furnishing information to the Party responsible  
 162 for preparing payout statements. Audits of payout accounts may include the volumes of hydrocarbons produced and  
 163 saved and proceeds received for such hydrocarbons as they pertain to payout accounting required under the  
 164 Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the  
 165 twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

166 Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint  
 167 audit in a manner that will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of  
 168 the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be  
 169 conducted more than once each year without prior approval of the Operator, except upon the resignation or removal of  
 170 the Operator, and shall be made at the expense of those Non-Operators approving such audit.

171 The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90)  
 172 days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the  
 173 twenty-four (24) month requirement for taking specific detailed written exception as required in Section I.4.A  
 174 (*Adjustments*) above. All claims shall be supported with sufficient documentation.

175 A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall,  
 176 with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against  
 177 such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims for  
 178 so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this  
 179 Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section I.5.B or I.5.C, the  
 180 Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-Operators  
 181 shall lapse, and such claims shall then be subject to the applicable statute of limitations; provided that such waiver shall  
 182 not lapse in the event that the Operator has failed to comply with the deadlines in Section I.5.B or I.5.C.

183 B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days  
 184 after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the  
 185 Operator fails to provide substantive response to an exception within this one hundred eighty (180) day period, the  
 186 Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit  
 187 report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the*  
 188 *Parties*). Operator will make every effort to file a written response within the one hundred eighty (180) day period, but  
 189 shall not incur any penalty for failure to timely respond.

190 C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and  
 191 the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided,  
 192 however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's position



193 or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in Section I.5.E,  
194 if the Operator fails to provide substantive response to an exception within this ninety (90) day period, the Operator will  
195 owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest  
196 shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the Parties*). Operator will make  
197 every effort to file a written response within the one hundred eighty (180) day period, but shall not incur any penalty for  
198 failure to timely respond.

199 D. If any Party fails to meet the deadlines in Sections I.5.B or I.5.C or if any audit issues are outstanding fifteen (15) months  
200 after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call  
201 a resolution meeting, as set forth in this Section I.5.D or it may invoke the dispute resolution procedures included in the  
202 Agreement, if applicable. The meeting will require one month’s written notice to the Operator and all Non-Operators  
203 participating in the audit. The meeting shall be held at the Operator’s office or mutually agreed location, and shall be  
204 attended by representatives of the Parties with authority to resolve such outstanding issues. Any Party who fails to  
205 attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead audit company will  
206 make good faith efforts to coordinate the response and positions of the Non-Operator participants throughout the  
207 resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will make good faith  
208 efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its  
209 position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may  
210 be discussed at subsequent meetings until each such issue is resolved.

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

221 E. ~~(Optional Provision—Forfeiture Penalties)—~~  
222 ~~If the Non-Operators fail to meet the deadline in Section I.5.C, any unresolved exceptions that were not addressed by~~  
223 ~~the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed~~  
224 ~~to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section I.5.B or I.5.C, any~~  
225 ~~unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of the audit report~~  
226 ~~or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed to have been granted~~  
227 ~~by the Operator and adjustments shall be made, without interest, to the Joint Account.~~

228 **6. APPROVAL BY PARTIES**

229 **A. General Matters**

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

234 This Section I.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for  
235 charges from that prescribed in this Accounting Procedure. This provision does not apply to amendments to this  
236 Accounting Procedure, which are covered by Section I.6.B.

237 **B. Amendments**

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

242 **C. Affiliates**

243 For the purpose of administering the voting procedures of Sections I.6.A and I.6.B, if Parties to this Agreement are  
244 Affiliates of each other, then such Affiliates shall be combined and treated as a single Party having the combined working  
245 interest or Participating Interest of such Affiliates.

246 For the purposes of administering the voting procedures in Section I.6.A, if a Non-Operator is an Affiliate of the  
 247 Operator, votes under Section I.6.A shall require the majority in interest of the Non-Operator(s) after excluding the  
 248 interest of the Operator's Affiliate.

## 249 II. DIRECT CHARGES

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

### 251 1. RENTALS AND ROYALTIES

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

### 253 2. LABOR

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

256 (1) Operator's field employees and/or contractors directly employed On-site in the conduct of Joint Operations,

257 (2) Operator's employees and/or contractors directly employed on Shore Base Facilities, Offshore Facilities, or other  
 258 facilities serving the Joint Property if such costs are not charged under Section II.6 (*Equipment and Facilities*  
 259 *Furnished by Operator*) or are not a function covered under Section III (*Overhead*),

260 (3) Operator's employees and/or contractors providing First Level Supervision,

261 (4) Operator's employees and/or contractors providing On-site Technical Services for the Joint Property if such  
 262 charges are excluded from the overhead rates in Section III (*Overhead*),

263 (5) Operator's employees and/or contractors providing Off-site Technical Services for the Joint Property if such  
 264 charges are excluded from the overhead rates in Section III (*Overhead*).

265 Charges for the Operator's employees and/or contractors identified in Section II.2.A may be made based on the  
 266 employee's actual salaries and wages, or in lieu thereof, a day rate representing the Operator's average salaries and  
 267 wages of the employee's specific job category.

268 Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable  
 269 compensation paid to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties  
 270 pursuant to Section I.6.A (*General Matters*).

271 B. Operator's cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to employees  
 272 whose salaries and wages are chargeable to the Joint Account under Section II.2.A, excluding severance payments or  
 273 other termination allowances. Such costs under this Section II.2.B may be charged on a "when and as-paid basis" or by  
 274 "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Section II.2.A. If  
 275 percentage assessment is used, the rate shall be based on the Operator's cost experience.

276 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority that are applicable to  
 277 costs chargeable to the Joint Account under Sections II.2.A and B.

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

280 E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are  
 281 chargeable to the Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from  
 282 reorganization or merger of a Party, or that are for the primary benefit of the Operator, shall not be chargeable to the  
 283 Joint Account. Extraordinary relocation costs, such as those incurred as a result of transfers from remote locations, such  
 284 as Alaska or overseas, shall not be charged to the Joint Account unless approved by the Parties pursuant to Section I.6.A  
 285 (*General Matters*).

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

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

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

297 **3. MATERIAL**

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

302 **4. TRANSPORTATION**

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

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

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

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

316 **5. SERVICES**

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

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

323 **6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR**

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

326 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not  
327 limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with  
328 the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide  
329 direct service to personnel who are chargeable pursuant to Section II.2.A (Labor). Such rates may include labor,  
330 maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation method,  
331 and interest on gross investment less accumulated depreciation not to exceed 6% per annum; provided, however,  
332 depreciation shall not be charged when the equipment and facilities investment have been fully depreciated. The rate  
333 may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not  
334 exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.

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

341 **7. AFFILIATES**

342 A. ~~Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the~~  
343 ~~Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate~~  
344 ~~goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such~~  
345 ~~Affiliate's goods and services billed to such individual project do not exceed. If the total costs for an Affiliate's goods~~



346 and services charged to such individual project are not specifically detailed in the approved AFE or authorization or  
347 exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General*  
348 *Matters*).

349 B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-  
350 Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A  
351 (*General Matters*), if the charges exceed in a given calendar year.

352 C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint  
353 Property, unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately  
354 document and support commercial rates and shall periodically review and update the rate and the supporting  
355 documentation; provided however, documentation of commercial rates shall not be required if the Operator obtains Non-  
356 Operator approval of its Affiliate's rates or charges prior to billing Non-Operators for such Affiliates goods and  
357 services. Notwithstanding the foregoing, direct charges for Affiliate-owned communication facilities or systems shall  
358 be made pursuant to Section II.12 (*Communications*). If the Parties fail to designate an amount in Sections II.7.A. or  
359 II.7.D., in each instance the amount deemed adopted by the Parties as a result of such omission shall be the amount  
360 established as the Operator's expenditure limitation in the Agreement. If the Agreement does not contain an Operator's  
361 expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be zero dollars  
362 (\$0.00).

363 **8. DAMAGES AND LOSSES TO JOINT PROPERTY**

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

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

369 **9. LEGAL EXPENSE**

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

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

378 **10. TAXES AND PERMITS**

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

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

386 Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding  
387 ad valorem or other tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section  
388 I.6.A (*General Matters*).

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

394

395

## 396 11. INSURANCE

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

## 404 12. COMMUNICATIONS

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

## 414 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

415 Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or  
 416 standards recommended by Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All  
 417 other labor and functions incurred for ecological, environmental and safety matters, including management,  
 418 administration, and permitting, shall be covered by Sections II.2 (*Labor*), II.5 (*Services*), or Section III (*Overhead*), as  
 419 applicable. Costs to provide or have available pollution containment and removal equipment plus actual costs of control  
 420 and cleanup and resulting responsibilities of oil and other spills as well as discharges from permitted outfalls as required  
 421 by applicable Laws, or other pollution containment and removal equipment deemed appropriate by the Operator for  
 422 prudent operations, are directly chargeable.

## 423 14. ABANDONMENT AND RECLAMATION

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

## 426 15. OTHER EXPENDITURES

427 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in  
 428 Section III (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary  
 429 and proper conduct of the Joint Operations. Charges made under this Section II.15 shall require approval of the Parties,  
 430 pursuant to Section I.6.A (*General Matters*).

## 431 III. OVERHEAD

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

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

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

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

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

#### 453 1. DRILLING AND PRODUCING OPERATIONS

454 As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other  
455 provisions of this Section III, the Operator shall charge on either: *Fixed Rate Basis, Section III.1.B*

##### 456 A. Technical Services

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

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

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

##### 469 B. Fixed Rate Basis

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

471 Drilling Well Rate per month \$8,000 for a vertical well and \$8,000 for a horizontal well (prorated for less  
472 than a full month)

473 Producing Well Rate per month \$800 for a vertical well and \$800 for a horizontal well.

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

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

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

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

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



- 489 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each  
490 completion is considered a separate well by the governing regulatory authority.
- 491 (c) A one well charge shall be made for the month in which plugging and abandonment operations are completed  
492 on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one well  
493 charge shall be made whether or not the well has produced.
- 494 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to  
495 take production shall be considered as a one-well charge provided the gas well is directly connected to a  
496 permanent sales outlet.
- 497 (e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a  
498 producing overhead charge.
- 499 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement;  
500 provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under  
501 a farmout agreement, the rates shall be adjusted on the first day of April each year following the effective date of  
502 such farmout agreement. The adjustment shall be computed by applying the adjustment factor most recently  
503 published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties increased  
504 or decreased by the adjustment factor described herein, for each year from the effective date of such rates, in  
505 accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").

506 **C. ~~Percentage Basis~~**

- 507 (1) ~~Operator shall charge the Joint Account at the following rates:~~
- 508 (a) ~~Development Rate of the cost of development of the Joint Property, exclusive of costs provided under Section~~  
509 ~~II.9 (Legal Expense) and all Material salvage credits.~~
- 510 (b) ~~Operating Rate of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1~~  
511 ~~(Rentals and Royalties) and II.9 (Legal Expense); all Material salvage credits; the value of substances~~  
512 ~~purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments~~  
513 ~~that are levied, assessed, and paid upon the mineral interest in and to the Joint Property.~~
- 514 (2) ~~Application of Overhead—Percentage Basis shall be as follows:~~
- 515 (a) ~~The Development Rate shall be applied to all costs in connection with:~~
- 516 i. ~~drilling, redrilling, sidetracking, or deepening of a well~~
- 517 ii. ~~a well undergoing plugback or workover operations for a period of five (5) or more consecutive work-~~  
518 ~~days~~
- 519 iii. ~~preliminary expenditures necessary in preparation for drilling~~
- 520 iv. ~~expenditures incurred in abandoning when the well is not completed as a producer~~
- 521 v. ~~construction or installation of fixed assets, the expansion of fixed assets and any other project clearly~~  
522 ~~discernible as a fixed asset, other than Major Construction or Catastrophe as defined in Section III.2~~  
523 ~~(Overhead Major Construction and Catastrophe).~~
- 524 (b) ~~The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those~~  
525 ~~subject to Section III.2 (Overhead Major Construction and Catastrophe).~~

526 **2. MAJOR CONSTRUCTION AND CATASTROPHE**

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

533 Major Construction shall mean the construction and installation of fixed assets, the expansion of fixed assets, and any  
534 other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, or in  
535 the dismantlement, abandonment, removal, and restoration of platforms, production equipment, and other operating  
536 facilities.

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

- 540 A. If the Operator absorbs the engineering, design and drafting costs related to the project:
- 541 (1) 5% of total costs if such costs are less than \$100,000; plus
- 542 (2) 3% of total costs in excess of \$100,000 but less than \$1,000,000; plus
- 543 (3) 2% of total costs in excess of \$1,000,000.
- 544 B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:
- 545 (1) 5% of total costs if such costs are less than \$100,000; plus
- 546 (2) 3% of total costs in excess of \$100,000 but less than \$1,000,000; plus
- 547 (3) 2% of total costs in excess of \$1,000,000.

548 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a  
 549 single Major Construction project shall not be treated separately, and the cost of drilling and workover wells and  
 550 purchasing and installing pumping units and downhole artificial lift equipment shall be excluded. For Catastrophes, the  
 551 rates shall be applied to all costs associated with each single occurrence or event.

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

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

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

### 559 3. AMENDMENT OF OVERHEAD RATES

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

## 562 IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

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

### 567 1. DIRECT PURCHASES

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

### 577 2. TRANSFERS

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

584

585           A.   **PRICING**

586           The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of  
 587           physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators  
 588           sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are  
 589           used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well  
 590           design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties  
 591           pursuant to Section I.6.A (*General Matters*). Transfers of new Material will be priced using one of the following pricing  
 592           methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between methods for  
 593           the purpose of choosing the method most favorable to the Operator for a specific transfer:

594           (1) Using published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price  
 595           Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS).

596           (a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill carload base prices  
 597           (Houston, Texas, for special end) adjusted as of date of movement, plus transportation cost as defined in  
 598           Section IV.2.B (*Freight*).

599           (b) For other Material, the published price shall be the published list price in effect at date of movement, as listed  
 600           by a Supply Store nearest the Joint Property where like Material is normally available, or point of  
 601           manufacture plus transportation costs as defined in Section IV.2.B (*Freight*).

602           (2) Based on a price quotation from a vendor that reflects a current realistic acquisition cost.

603           (3) Based on the amount paid by the Operator for like Material in the vicinity of the Joint Property within the previous  
 604           twelve (12) months from the date of physical transfer.

605           (4) As agreed to by the Participating Parties for Material being transferred to the Joint Property, and by the Parties  
 606           owning the Material for Material being transferred from the Joint Property.

607           B.   **FREIGHT**

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

610           (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill  
 611           to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFI-38  
 612           ("Material Pricing Manual") and other COPAS MFIs in effect at the time of the transfer.

613           (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway  
 614           Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall  
 615           be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per weight  
 616           of tubing transferred to the Railway Receiving Point.

617           (3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston,  
 618           Texas, to the Railway Receiving Point.

619           (4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated  
 620           from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point.  
 621           Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the  
 622           Railway Receiving Point to the Joint Property are in addition to the foregoing, and may be charged to the Joint  
 623           Account based on actual costs incurred. All transportation costs are subject to Equalized Freight as provided in  
 624           Section II.4 (Transportation) of this Accounting Procedure.

625           C.   **TAXES**

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

630           D.   **CONDITION**

631           (1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred  
 632           percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C  
 633           (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged  
 634           without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a  
 635           direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the



636 vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the  
 637 price originally charged to the Joint Account provided such price is approved by the Parties owning such Material,  
 638 pursuant to Section 1.6.A (*General Matters*). All refurbishing costs required or necessary to return the Material to  
 639 original condition or to correct handling, transportation, or other damages will be borne by the divesting  
 640 property. The Joint Account is responsible for Material preparation, handling, and transportation costs for new  
 641 and unused Material charged to the Joint Property either through a direct purchase or transfer. Any preparation  
 642 costs incurred, including any internal or external coating and wrapping, will be credited on new Material provided  
 643 these services were not repeated for such Material for the receiving property.

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

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

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

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

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

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

659 (4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other purpose,  
 660 (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications  
 661 as a substitute for items with different specifications, is considered Condition "D" Material. Casing, tubing, or  
 662 drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and  
 663 weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing,  
 664 tubing, or drill pipe used as higher pressure service lines than standard line pipe, e.g., power oil lines, shall be  
 665 priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a  
 666 non-upset basis. For other items, the price used should result in the Joint Account being charged or credited with  
 667 the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A  
 668 (*General Matters*).

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

#### 670 E. OTHER PRICING PROVISIONS

##### 671 (1) Preparation Costs

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

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

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

#### 683 3. DISPOSITION OF SURPLUS

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

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

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

693 • The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale  
 694 value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting  
 695 Procedure is attached without the prior approval of the Parties owning such Material.

696 • If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such  
 697 Material.

698 • Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material,  
 699 based on the pricing methods set forth in Section IV.2 (Transfers).

700 • Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value  
 701 of the Materials, based on the pricing methods set forth in Section IV.2 (Transfers), is less than or equal to the Operator's  
 702 expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting the  
 703 classification of the Material as Condition C.

704 • Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior  
 705 approval of the Parties owning such Material.

#### 706 4. SPECIAL PRICING PROVISIONS

##### 707 A. PREMIUM PRICING

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

##### 714 B. SHOP-MADE ITEMS

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

##### 720 C. MILL REJECTS

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

#### 724 V. INVENTORIES OF CONTROLLABLE MATERIAL

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

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

732

## 733 1. DIRECTED INVENTORIES

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

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

744 A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of  
745 the personnel performing the inventory or a rate agreed to by the Parties pursuant to Section I.6.A (*General*  
746 *Matters*). The per diem rate shall also be applied to a reasonable number of days for pre-inventory work and report  
747 preparation.

748 B. Actual transportation costs and Personal Expenses for the inventory team.

749 C. Reasonable charges for report preparation and distribution to the Non-Operators.

## 750 2. NON-DIRECTED INVENTORIES

## 751 A. OPERATOR INVENTORIES

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

## 755 B. NON-OPERATOR INVENTORIES

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

## 760 C. SPECIAL INVENTORIES

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



**EXHIBIT "D"**

Attached to and made a part of that certain Operating Agreement, dated March 1, 2023, by and between Permian Resources Operating, LLC, as Operator, and Read & Stevens, Inc., et al, as Non-Operators, covering lands in Lea County, New Mexico

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. Worker's Compensation Insurance as contemplated by the laws of the State of Texas and Employer's Liability Insurance with limits of not less than \$1,000,000 per employee.
- B. Comprehensive General Liability with bodily injury limits of not less than \$1,000,000 each occurrence and \$2,000,000 aggregate; and
- C. Excess Liability Insurance in excess of the Comprehensive General Liability and Automobile Liability with a limit of liability of \$1,000,000 each occurrence and \$3,000,000 aggregate;
- D. Operator's Control of Well Insurance including coverage for well control, underground blowout, redrilling expenses, removal of wreck or debris, seepage, pollution, cleanup and containment and evacuation expenses as controlled by the policy, working subject to its conditions and exclusions. The minimum limit of such insurance shall be \$5,000,000.00 for any one occurrence for 100% interest.

The insurance described above 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 "C" to this Agreement.

Operator shall use every reasonable effort to have its contractors and subcontractors comply with applicable Worker's Compensation laws, rules, and regulations and carry such insurance as Operator may deem necessary.

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, and if at any time during the term of this Agreement, Operator is unable to procure or maintain said insurance, Operator shall promptly so notify Non-Operator in writing.

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.

Any party hereto may individually and at its own expense procure such additional insurance as it desires; provided, however, that such party shall obtain waivers by the insurer of all right of subrogation in favor of the other parties. In the event any party hereto carries insurance and does not want to be insured under Operator's Control of Well Insurance arranged by the Operator, then each such party shall provide its certificate of insurance, to the Operator, evidencing the coverage feature as stated above and minimum limits of \$5,000,000.00 for any one occurrence for such party's interest prior to spudding the initial well. Such evidence must indicate the Operator shall be provided will be given thirty (30) days written advance notice of any material changed in or cancellation of such party's coverage. Failure by any party hereto to provide evidence of insurance shall be considered as acceptance of Operator's Control of Well Insurance arranged by the Operator.

All insurance carried by Operator shall name as additional insureds the parties to this Agreement, together with its and their parents, subsidiaries and affiliated companies, its and their limited and general partners, and its and their employees, officers, directors, and shareholders (collectively "Operator Group"). All insurance carried by Operator shall contain waivers of subrogation in favor of Operator Group.

1

2

**INSTRUCTIONS FOR USE OF GAS BALANCING AGREEMENT FORM****3 GENERAL**

4 This Gas Balancing Agreement form is intended to be used as Exhibit "E" to the 1977, 1982 and 1989 A.A.P.L. Form 610 Model  
5 Form Operating Agreements. It is also generally suitable for use with other forms of operating agreements. However, before using  
6 this form, both it and the operating agreement in question should be reviewed and revised as required to ensure consistency.

7 If this form is used as an exhibit to an A.A.P.L. Form 610 Model Form Operating Agreement or other operating agreement, the  
8 provisions in Section 15 (Counterparts), the "IN WITNESS WHEREOF" paragraph on page 6 and the signature lines and  
9 acknowledgments on page 7 should be omitted.

10 This Gas Balancing Agreement may also be executed as a separate agreement for properties covered by an existing operating  
11 agreement where there is no gas balancing agreement or where the one employed is deemed inadequate. In that event, the  
12 properties subject to the form will have to be described, and the provisions of Section 15 (Counterparts), the "IN WITNESS  
13 WHEREOF" on page 6 and the signature lines and acknowledgments will have to be employed.

14 The description of the area covered by the Agreement may be included in the definition of the Balancing Area in Section 1.02. Care  
15 should be taken in drafting this description, however, because it may be desirable to cover more than one Balancing Area. Such a  
16 definition might, for example, read as follows:

17           Each well subject to that Operating Agreement dated December 1, 2017, covering lands in  
18 Reeves County, Texas, that produces gas or is allocated a share of gas production. If a  
19 single well is completed in two or more reservoirs, such well shall be considered a separate  
20 well with respect to, but only with respect to, each reservoir from which the gas production  
21 is not commingled in the wellbore.

22 This Gas Balancing Agreement contains both "alternative" and "optional" provisions. In the case of alternative provisions, it will  
23 generally be necessary to select one alternative in order to make the Gas Balancing Agreement effective. Provisions which are  
24 designated as optional (or as Option 1, 2, etc.) may or may not be used. **Note that, in order for an Alternative or Option to be  
25 selected and effective, it must be checked. If, however, an Alternative is not selected, "Alternative 1" in each instance will  
26 be deemed to have been adopted by the Parties, but if an Option is not selected, it will not form a part of the Gas Balancing  
27 Agreement. See Section 12.6.**

28 **HEADING** - Indicate the applicable Operating Agreement and other information. If the Gas Balancing Agreement is to be used  
29 without an Operating Agreement, the heading on page 1 should be modified appropriately, and the following references to the  
30 "Operating Agreement" should be deleted or modified appropriately: Section 1.12; Section 7.1; Section 9; Section 12.4; Section  
31 13.1; and Section 13.2.

32 **SECTION 1.02** - Select the Balancing Area to be used, or insert a description of the Balancing Area. As a general rule, the use of a  
33 mineral lease as a Balancing Area will only be appropriate in certain situations involving offshore wells.

34 **SECTION 1.16** - This definition should be used only if one of the optional seasonal limitation provisions in Section 4.2 is employed.  
35 The specific months during which makeup is to be restricted should be included, e.g., "the months of November, December, and the  
36 following January and February."

37 **SECTION 2.1** - The parties should decide whether the basis of balancing in the Balancing Area will be in Mcfs or MMBtus. One of  
38 the two Alternatives stipulated **MUST** be selected to avoid an automatic election that Alternative 1 applies.

39 **SECTION 2.2** - Since most gas is now decontrolled, the primary purpose of this provision is to provide for separate application of the  
40 form to different price categories in the event that price controls are imposed in the future by governmental entity.

41 **SECTION 3.5** - This provision is intended to limit Overproduction in order to keep a Party from getting too far out of balance. It  
42 should be noted that this Section will only have an impact if a Party owns less than a 1/3 working interest in the Balancing Area,  
43 since under it a party owning a 1/3 interest will be entitled to take 300%,  $x \frac{1}{3} = 100\%$ .

44 **SECTION 4.1** - Select the number of days' notification that an Underproduced Party must give prior to making up Gas. Also, indicate  
45 the percentage of each Overproduced Parties' Gas that Underproduced Parties will be allowed to make up. The percentages should  
46 be identical.

47 **SECTION 4.2** - The form sets out two Options for imposing seasonal limitations on making up Gas. It should be noted that it is **NOT**  
48 required that any seasonal limitation be included. If Option 1 is selected, select the number of months prior to the Winter Period that  
49 will be used to determine how much Gas an Underproduced Party may make up during the Winter Period. This number and the  
50 number of months in the Winter Period (as defined in Section 1.16) should add up to 12 or less. If Option 2 is selected, indicate the  
51 percentage of an Overproduced Party's Gas that an Underproduced Party may make up during the Winter Period. This percentage  
52 should be lower than the percentage set out in Section 4.1.

53 **SECTION 4.3** - Select the percentage of an Overproduced Party's Gas which it should be required to make available for make up  
54 once it has produced all of its share of ultimately recoverable reserves. This percentage should be greater than the percentage set  
55 out in Section 4.1.

56 **SECTION 6.2** - One of the two Alternatives stipulated **MUST** be selected as the basis upon which Royalty is to be calculated and  
57 paid in order to avoid an automatic election that Alternative 1 applies.

58 SECTION 7.3 - One of the two Alternatives stipulated for payment of amounts due under a cash settlement **MUST** be selected in  
59 order to avoid an automatic election that Alternative 1 applies. Note that Section 7.3.1 is optional, and may **ONLY** be used with  
60 Section 7.3, Alternative 2.

61 SECTION 7.4 - One of the two alternatives stipulated for determining proceeds received by an Overproduced Party for cash  
62 settlement purposes **MUST** be selected in order to avoid an automatic election that Alternative 1 applies.

63 SECTION 7.5.1 through 7.5.2 - Before selecting any of these provisions, the Parties should review the relevant gas processing  
64 arrangements for the Gas. Section 7.5.2, Option 1, contemplates that all wellhead MMBtus of Overproduction(will be valued at the  
65 gas price per MMBtu received by the Overproduced Party, without regard to whether any of the gas may have been processed.  
66 Section 7.5.2, Option 2, on the other hand, would include any enhanced or impaired values resulting from processing in calculating a  
67 valuation for the Overproduction. Note that if Section 7.5.2, Option 1, is selected, and residue gas to be sold on an MMBtu basis, it  
68 will be necessary to measure the number of MMBtus produced at the well (even if the parties have elected to balance on Mcfs), in  
69 order to determine the total value of Overproduction.

70 SECTION 7.7 - Select the interest rate payable for unpaid amounts owed pursuant to a cash settlement.

71 SECTION 7.9 - In the event that the parties anticipate that Overproduction may be subject to a potential refund by an appropriate  
72 governmental authority, the Parties may choose this provision.

73 SECTION 7.10- If the Parties adopt this provision, an Overproduced Party may make a cash settlement with Underproduced Parties  
74 for all or part of outstanding gas imbalances as often as once every twenty-four (24) months.

75 SECTION 8 - Select the number of days' prior notification required for well tests, as well as the length of such tests.

76 SECTION 12.9 - Select the appropriate method for computing and reporting income to the Internal Revenue Service based on the  
77 "entitlements" or "sales" methods.

78 SECTION 13 - The purpose of this Section is to stipulate the rights of Parties in the event that any Party sells, exchanges, transfers  
79 or assigns its interest in the Balancing Area. Section 13.2 gives the Underproduced Party an option to demand a cash settlement if  
80 an Overproduced Party sells its interest, and the number of days' notice and response should be selected to implement this  
81 procedure.

82 SECTION 14 - This provision is intended to provide the Parties an opportunity to modify or supplement any of the Gas balancing  
83 Agreement's provisions.

84 SECTION 15 - This provision is to be utilized **ONLY** if the Gas Balancing Agreement is **NOT** agreed to contemporaneously with the  
85 execution of an A.A.P.L. Form 610 Model Form Operating Agreement or another suitable operating agreement. If the Gas Balancing  
86 Agreement is agreed to contemporaneously with any such operating agreement, Section 15 should be omitted. Otherwise, the  
87 Parties must determine the appropriate Percentage Interest which must execute the form to make it effective and the date by which  
88 such interests must execute it.

89 SIGNATURE ELEMENT - The "IN WITNESS WHEREOF," signature and attest/witness elements are **ONLY** to be utilized if the Gas  
90 Balancing Agreement is **NOT** agreed to contemporaneously with the execution of an A.A.P.L. Form 610 Model Form Operating  
91 Agreement or another suitable operating agreement. If the Gas Balancing Agreement is agreed to contemporaneously with any such  
92 operating agreement, the "IN WITNESS WHEREOF," signature and attest/witness elements should be omitted. Otherwise, these  
93 items should be completed in an appropriate fashion, and any appropriate amendment made to the heading of the Gas Balancing  
94 Agreement.

95 NOTE: Instructions For Use of Gas Balancing Agreement **MUST** be reviewed before finalizing this document.

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NOTE: Instructions for use of Gas Balancing Agreement MUST be reviewed before finalizing this document.

**EXHIBIT "E"**  
**GAS BALANCING AGREEMENT ("AGREEMENT")**  
**ATTACHED TO AND MADE PART OF THAT CERTAIN**

**OPERATING AGREEMENT DATED** March 1, 2023  
**BY AND BETWEEN**, Permian Resources Operating, LLC, as Operator and Read & Stevens, Inc., et al, as Non-Operators  
**AND ("OPERATING AGREEMENT") RELATING TO THE AREA**, All of Sections 5 & 8, T20S-R34E  
**COUNTY/PARISH**, Lea County **STATE OF** New Mexico

**1. DEFINITIONS**

The following definitions shall apply to this Agreement:

1.1. "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are representative of prices and delivery conditions existing under other similar agreements in the area between unaffiliated parties at the same time for natural gas of comparable quality and quantity.

1.2. "Balancing Area" shall mean (select one):

each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a single well is completed in two or more producing intervals, each producing interval from which the Gas production is not commingled in the wellbore shall be considered a separate well.

1.3. "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced from the Balancing Area during each month.

1.4. "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel, recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

1.5. "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

1.6. "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic foot of space at a standard pressure base and at a standard temperature base.

1.7. "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.

1.8. "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the event this Agreement is not employed in connection with an operating agreement, the individual or entity designated as the operator of the well(s) located in the Balancing Area.

143 1.9. "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than the Percentage  
144 interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

145 1.10. "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in the cumulative  
146 quantity of all Gas produced from the Balancing Area.

147 1.11. "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors, transferees and  
148 assigns.

149 1.12. "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the Balancing Area  
150 pursuant to the Operating Agreement covering the Balancing Area.

151 1.13. "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding royalties,  
152 production payments or similar interests.

153 1.14. "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than the Percentage  
154 Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

155 1.15. "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its Percentage Interest in  
156 the cumulative quantity of all Gas produced from the Balancing Area.

157 1.16. "Winter Period" shall mean the month(s) of November and December in one calendar year and the month(s) of January, February  
158 and March in the succeeding calendar year.

## 159 2. Balancing Area

160 2.1. If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but  
161 identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in Mcfs.

162 2.2. In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more maximum lawful  
163 prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area and Gas subject to each  
164 maximum lawful price category shall be considered produced from a separate Balancing Area.

## 165 3. RIGHT OF PARTIES TO TAKE GAS

166 3.1. Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes nominated, the name of  
167 the transporting pipeline and the pipeline contract number (if available) and meter station relating to such delivery, sufficiently in advance  
168 for the Operator, acting with reasonable diligence, to meet all nomination and other requirements. Operator is authorized to deliver the  
169 volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this  
170 Agreement.

171 3.2. Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the extent that such  
172 production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or  
173 to maintain oil production.

174 3.3. When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the right of the other  
175 Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any Gas which such Party fails to  
176 take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage  
177 Interest in the Balancing Area bears to the total Percentage Interests of all Underproduced Parties desiring to take such Gas. If all such Gas  
178 is not taken by the Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their  
179 respective Percentage Interests in the Balancing Area bear to the total Percentage Interests of such Parties.

180 3.4. All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is underproduced or  
181 overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party.

182 3.5. Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any Gas in excess  
183 of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then current Maximum Monthly Availability; provided,  
184 however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to  
185 protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly  
186 Availability" shall mean the maximum average monthly rate of production at which Gas can be delivered from the Balancing Area, as  
187 determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum  
188 allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.

189 3.6. In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain  
190 leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the  
191 Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and  
192 render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or  
193 transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated  
194 herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and  
195 shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof shall be only for such reasonable  
196 periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in  
197 excess of one year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall  
198 be deemed to be Gas taken for the account of such Party.

## 199 4. IN-KIND BALANCING

200 4.1. Effective the first day of any calendar month following at least 60 days' prior written notice to the Operator, any Underproduced  
201 Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this  
202 Agreement, a share of current production determined by multiplying 100% of the Full Shares of Current Production of all Overproduced  
203 Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the  
204 total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be  
205 required to provide more than 100% of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all  
206 Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

207 4.2. ~~(Optional Seasonal Limitation on Makeup Option 1)~~ Notwithstanding the provisions of Section 4.1, the average monthly  
208 amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1 shall not exceed the average  
209 monthly amount of Makeup Gas taken by such Underproduced Party during the \_\_\_\_\_ months immediately preceding the  
210 Winter Period.

212 4.3. ~~(Optional - Seasonal Limitation on Makeup - Option 2)~~ Notwithstanding the provisions of Section 4.1, no Overproduced Party will  
213 be required to provide more than \_\_\_\_\_ of its Full Share of Current Production for Makeup Gas during the Winter Period.

214 4.4. (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns  
215 production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of  
216 the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas,  
217 upon the demand of the Operator or any Underproduced Party, up to 100% of such Overproduced Party's Full Share of Current Production.

## 218 5. STATEMENT OF GAS BALANCES

219 5.1. The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled  
220 to receive and the volumes of Gas actually taken or sold for each Party's account. Within forty-five (45) days after the month of production,  
221 the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas  
222 actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of  
223 Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the  
224 Council of Petroleum Accountants Societies Bulletin No.24, as amended or supplemented hereafter. Each Party taking Gas will promptly  
225 provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

226 5.2. If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or where the Operator  
227 has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to  
228 provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the  
229 Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the  
230 required data.

## 231 6. PAYMENTS ON PRODUCTION

232 6.1. Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas actually taken by  
233 such Party.

234 6.2. ~~(Alternative 1 - Entitlements)~~ Each Party shall pay or cause to be paid all Royalty due with respect to Royalty owners to whom it is  
235 accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of Current Production.

236 6.2.1 ~~(Optional - For use only with Section 6.2 - Alternative 1 - Entitlement)~~ Upon written request of a Party taking less than its Full Share  
237 of Current Production in a given month ("Current Underproducer"), any Party taking more than its Full Share of Current Production in such  
238 month ("Current Overproducer") will pay to such Current Underproducer an amount each month equal to the Royalty percentage of the  
239 proceeds received by the Current Overproducer for that portion of the Current Underproducer's Full Share of Current Production taken by the  
240 Current Overproducer, provided, however, that such payment will not exceed the Royalty percentage that is common to all Royalty burdens  
241 in the Balancing Area. Payments made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners  
242 for purposes of Section 7.5.

243 6.3. ~~(Alternative 2 - Sales)~~ Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to whom it is accountable  
244 based on the volume of Gas actually taken for its account.

245 6.4. In the event that any governmental authority requires that Royalty payments be made on any other basis than that provided for in this  
246 Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date required by such governmental  
247 authority, and the method provided for herein shall be thereby superseded.

## 248 7. CASH SETTLEMENTS

249 7.1. Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating  
250 Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period  
251 of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among  
252 the Parties. Such notice shall be given to all Parties in the Balancing Area.

253 7.2. Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each Party a Final  
254 Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each Underproduced Party and  
255 identifying the month to which such Overproduction is attributed, pursuant to the methodology set out in Section 7.4.

256 7.3. ~~(Alternative 1 - Direct Party-to-Party Settlement)~~ Within sixty (60) days after receipt of the Final Gas Settlement Statement, each  
257 Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash settlement, accompanied by appropriate  
258 accounting detail. At the time of payment, the Overproduced Party will notify the Operator of the Gas imbalance settled by the Overproduced  
259 Party's payment.

260 ~~(Alternative 2 - Settlement Through Operator)~~ Within sixty (60) days after receipt of the Final Gas Settlement Statement, each  
261 Overproduced Party will send its cash settlement, accompanied by appropriate accounting detail, to the Operator. The Operator will  
262 distribute the monies so received, along with any settlement owed by the Operator as an Overproduced Party, to each Underproduced  
263 Party to whom settlement is due within ninety (90) days after issuance of the Final Gas Settlement Statement. In the event that any  
264 Overproduced Party fails to pay any settlement due hereunder, the Operator may turn over responsibility for the collection of such  
265 settlement to the Party to whom it is owed, and the Operator will have no further responsibility with regard to such settlement.

266 ~~(Optional - For use only with Section 7.3, Alternative 2 - Settlement Through Operator)~~ Any Party shall have the right at any time  
267 upon thirty (30) days' prior written notice to all other Parties to demand that any settlements due such Party for Overproduction be paid  
268 directly to such Party by the Overproduced Party, rather than being paid through the Operator. In the event that an Overproduced Party  
269 pays the Operator any sums due to an Underproduced Party at any time after thirty (30) days following the receipt of the notice provided  
270 for herein, the Overproduced Party will continue to be liable to such Underproduced Party for any sums so paid, until payment is  
271 actually received by the Underproduced Party.

272 7.4. ~~(Alternative 1 - Historical Sales Basis)~~ The amount of the cash settlement will be based on the proceeds received by the Overproduced  
273 Party under an Arm's Length Agreement for the Gas taken from time to time by the Overproduced Party in excess of the Overproduced Party's  
274 Full Share of Current Production. Any Makeup Gas taken by the Underproduced Party prior to monetary settlement hereunder will be applied  
275 to offset Overproduction chronologically in the order of accrual.

276 ~~(Alternative 2 - Most Recent Sales Basis)~~ The amount of the cash settlement will be based on the proceeds received by the  
277 Overproduced Party under an Arm's Length Agreement for the volume of Gas that constituted Overproduction by the Overproduced  
278 Party from the Balancing Area. For the purpose of implementing the cash settlement provision of the Section 7, an Overproduced Party  
279 will not be considered to have produced any of an Underproduced Party's share of Gas until the Overproduced Party has produced  
280 cumulatively all of its Percentage Interest share of the Gas ultimately produced from the Balancing Area.



281 7.5. The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the Gas by the  
282 Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any Royalty actually paid  
283 by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments amounted to a discharge of said  
284 Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression, treating, gathering or transportation costs  
285 incurred directly in connection with the sale of the Overproduction.

286 7.5.1 For Overproduction sold under a gas purchase contract providing for payment based on a percentage of the proceeds obtained by the  
287 purchaser upon resale of residue gas and liquid hydrocarbons extracted at a gas processing plant, the values used for calculating cash  
288 settlement will include proceeds received by the Overproduced Party for both the liquid hydrocarbons and the residue gas attributable to the  
289 Overproduction.

290 ~~(Optional - Valuation for Processed Gas - Option 1) For Overproduction processed for the account of the Overproduced Party at a~~  
291 ~~gas processing plant for the extraction of liquid hydrocarbons, the full quantity of the Overproduction will be valued for purposes of~~  
292 ~~cash settlement at the prices received by the Overproduced Party for the sale of the residue gas attributable to the Overproduction~~  
293 ~~without regard to proceeds attributable to liquid hydrocarbons which may have been extracted from the Overproduction.~~

294 7.5.2 (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the Overproduced Party at a  
295 gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash settlement will include the proceeds  
296 received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from the Overproduction, less the actual reasonable  
297 costs incurred by the Overproduced Party to process the Overproduction and to transport, fractionate and handle the liquid hydrocarbons  
298 extracted therefrom prior to sale.

299 7.6. To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash settlement will be  
300 based on the weighted average price received by the Overproduced Party for any gas sold from the Balancing Area under Arm's Length  
301 Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were  
302 made during any such month, the cash settlement for such month will be based on the spot sales prices published for the applicable  
303 geographic area during such month in a mutually acceptable pricing bulletin.

304 7.7. Interest compounded at the rate of per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is  
305 less, will accrue for all amounts due under Section 7.1 beginning the first day following the date payment is due pursuant to Section 7.3.  
306 Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines  
307 set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.

308 7.8. In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party an offer to  
309 settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the Underproduced Party. If the  
310 Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished within sixty (60) days after the  
311 Overproduced Party's offer to settle in kind, which period may be extended by agreement of said Parties, the Overproduced Party shall  
312 make a cash settlement as provided in Section 7.3. The making of an in-kind settlement offer under this Section 7.8 will not delay the  
313 accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.

314 7.9. ~~(Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an Overproduced~~  
315 ~~Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or other governmental~~  
316 ~~authority may be withheld by the Overproduced Party until such prices are fully approved by such governmental authority, unless the~~  
317 ~~Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced Party, agreeing to hold the Overproduced Party~~  
318 ~~harmless from financial loss due to refund orders by such governmental authority.~~

319 7.10. At any time during the term of this Agreement, any Overproduced Party may, in its sole discretion, make cash settlement(s) with the  
320 Underproduced Parties covering all or part of its outstanding Gas imbalance, provided that such settlements must be made with all  
321 Underproduced Parties proportionately based on the relative imbalances of the Underproduced Parties, and provided further that such  
322 settlements may not be made more often than once every twenty-four (24) months. Such settlements will be calculated in the same manner  
323 provided above for final cash settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement  
324 within thirty (30) days after the settlement is made.

## 325 8. TESTING

326 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one  
327 hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the  
328 right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be  
329 conducted in accordance with prudent operating practices only after 60 days' prior written notice to the Operator and shall last no longer than 48  
330 hours.

## 331 9. OPERATING COSTS

332 Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and liabilities incurred in  
333 operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating Agreement, irrespective of whether any  
334 Party is at any time selling and using Gas or whether such sales or use are in proportion to its Percentage Interest in the Balancing Area.

## 335 10. LIQUIDS

336 The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated for the joint account  
337 in accordance with their Percentage Interests in the Balancing Area.

## 338 11. AUDIT RIGHTS

339 Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination  
340 or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under  
341 Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not  
342 limited to information regarding Btu-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the  
343 calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters  
344 concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall  
345 be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business  
346 hours in the office of the Party whose records are being audited. Each Party hereto agrees to maintain records as to the volumes and prices of Gas  
347 sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own  
348 operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

## 349 12. MISCELLANEOUS

350 12.1. As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales  
351 contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the Operating Agreement, the  
352 provisions of this Agreement shall govern.

353 12.2. Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for any claims,  
354 which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and  
355 which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and  
356 does further agree to save the other Parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

357 12.3. Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall  
358 have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of  
359 Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable  
360 to any Underproduced Party for the failure of any Overproduced Party, (other than Operator) to pay any amounts owed pursuant to the  
361 terms hereof.

362 12.4. This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the  
363 Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding  
364 upon the Parties hereto, and their respective heirs, successors, legal representatives and assigns, if any. The Parties hereto agree to give  
365 notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be  
366 bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also  
367 subject to the terms of this Agreement.

368 12.5. Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the singular, and the  
369 neuter gender includes the masculine and the feminine.

370 12.6. In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a typed, printed or  
371 handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be made concerning the intent of the  
372 Parties in such event. In the event that any "Alternative" provision of this Agreement is not so adopted by the Parties, Alternative 1 in each  
373 such instance shall be deemed to have been adopted by the Parties as a result of any such omission. In those cases where it is indicated that  
374 an Optional provision may be used only if a specific Alternative is selected: (i) an election to include said Optional provision shall not be  
375 effective unless the Alternative in question is selected; and (ii) the election to include said Optional provision must be expressly indicated  
376 hereon, it being understood that the selection of an Alternative either expressly or by default as provided herein shall not, in and of itself,  
377 constitute an election to include an associated Optional provision.

378 12.7. This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed or interpreted  
379 as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any such person or entity.

380 12.8. If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party execute an  
381 appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and submits same for execution  
382 in recordable form, such memorandum or notice shall be duly executed by the Party to which such request is made and delivered promptly  
383 thereafter to the Party making the request. Upon receipt, the Party making the request shall cause the memorandum or notice to be duly  
384 recorded in the appropriate real property or other records affecting the Balancing Area.

385 12.9. In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all Parties, each Party  
386 agrees to compute and report income to the Internal Revenue Service (**select one**) o as if such Party were taking its Full Share of Current  
387 Production during each relevant tax period in accordance with such regulations, insofar as same relate to entitlement method tax  
388 computations; or o based on the quantity of Gas taken for its account in accordance with such regulations, insofar as same relate to sales  
389 method tax computations.

## 390 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

391 ~~13.1. Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement or in the~~  
392 ~~Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its working interest in the~~  
393 ~~Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other act of transfer shall, insofar as the~~  
394 ~~Parties hereto are concerned, include all interest of the assigning or transferring Party in the Gas, all rights to receive or obligations to~~  
395 ~~provide or take Makeup Gas and all rights to receive or obligations to make any monetary payment which may ultimately be due hereunder,~~  
396 ~~as applicable. Operator and each of the other Parties hereto shall thereafter treat the assignment accordingly, and the assigning or~~  
397 ~~transferring Party shall look solely to its assignee or other transferee for any interest in the Gas or monetary payment that such Party may~~  
398 ~~have or to which it may be entitled, and shall cause its assignee or other transferee to assume its obligations hereunder.~~

399 **13.2. (Optional - Cash Settlement Upon Assignment)** Notwithstanding anything in this Agreement (including but not limited to the  
400 provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions of Section 13.3 hereof, in  
401 the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such  
402 Overproduced Party shall notify in writing the other working interest owners who are Parties hereto in such Balancing Area of such fact at  
403 least 60 days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing,  
404 within ~~30 (thirty)~~ days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area.  
405 The Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 13, and the Overproduction and  
406 Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 13 shall be paid by the  
407 Overproduced Party on or before the earlier to occur (i) of sixty (60) days after receipt of the Underproduced Party's demand or (ii) at the  
408 closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area  
409 on the same basis as otherwise set forth in Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof,  
410 beginning sixty (60) days after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any  
411 amounts not paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from  
412 the Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the Overproduced  
413 Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance with the provisions of  
414 Section 13.1 hereof.

415 13.3. The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its interest by  
416 merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which  
417 any parent or subsidiary of such Party owns a majority of the stock of such company.

## 418 14. OTHER PROVISIONS

419  
420 15. COUNTERPARTS

421 This Agreement may be executed in counterparts, each of which when taken with all other counterparts shall constitute a binding agreement  
422 between the Parties hereto, provided, however, that if a Party or Parties owning a Percentage Interest in the Balancing Area equal to or greater  
423 than therein fail(s) to execute this Agreement on or before this Agreement shall not be binding upon any Party and shall be of no further force  
424 and effect.

IN WITNESS WHEREOF, this agreement shall be effective as of March 1, 2023.

**ATTEST OR WITNESS**

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

**OPERATOR**

Permian Resources Operating, LLC

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

Name: Patrick Godwin

Title: Vice President of Land

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

Address: \_\_\_\_\_

**ATTEST OR WITNESS**

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

**NON-OPERATORS**

NON-OPERATOR: Read & Stevens, Inc.

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

Name: Patrick Godwin

Title: Vice President of Land

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

Address: \_\_\_\_\_

**ATTEST OR WITNESS**

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

NON-OPERATOR:

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

Name: \_\_\_\_\_

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

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

Address: \_\_\_\_\_

**ATTEST OR WITNESS**

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

NON-OPERATOR:

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

Name: \_\_\_\_\_

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

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

Address: \_\_\_\_\_



**ACKNOWLEDGMENTS**

**NOTE:**

The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

**Acknowledgment in Representative Capacity**

State of Texas §

§ ss.

County of Midland §

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

by Patrick Godwin as Vice President of Permian Resources Operating, LLC, on behalf of said limited liability company. (Seal, if any)

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

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

**Acknowledgement in representative capacity:**

State of Texas §

§ ss.

County of Midland §

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

by Patrick Godwin as Vice President of Read & Stevens, Inc., on behalf of said limited liability company. (Seal, if any)

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

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

Acknowledgement in representative capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_,

as \_\_\_\_\_ for \_\_\_\_\_ on

behalf of \_\_\_\_\_.

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgement in representative capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_,

as \_\_\_\_\_ for \_\_\_\_\_ on

behalf of \_\_\_\_\_.

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgement in individual capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgement in individual capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_

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

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



**MODEL FORM RECORDING SUPPLEMENT TO  
OPERATING AGREEMENT AND FINANCING STATEMENT**

THIS AGREEMENT, entered into by and between Permian Resources Operating, LLC, hereinafter referred to as "Operator," and the signatory party or parties other than Operator, hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land identified in Exhibit "A" (said land, Leases and Interests being hereinafter called the "Contract Area"), and in any instance in which the Leases or Interests of a party are not of record, the record owner and the party hereto that owns the interest or rights therein are reflected on Exhibit "A";

WHEREAS, the parties hereto have executed an Operating Agreement dated March 1, 2023 (herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

WHEREAS, the parties hereto have executed this agreement for the purpose of imparting notice to all persons of the rights and obligations of the parties under the Operating Agreement and for the further purpose of perfecting those rights capable of perfection.

NOW, THEREFORE, in consideration of the mutual rights and obligations of the parties hereto, it is agreed as follows:

1. This agreement supplements the Operating Agreement, which Agreement in its entirety is incorporated herein by reference, and all terms used herein shall have the meaning ascribed to them in the Operating Agreement.
2. The parties do hereby agree that:
  - A. The Oil and Gas Leases and/or Oil and Gas Interests of the parties comprising the Contract Area shall be subject to and burdened with the terms and provisions of this agreement and the Operating Agreement, and the parties do hereby commit such Leases and Interests to the performance thereof.
  - B. The exploration and development of the Contract Area for Oil and Gas shall be governed by the terms and provisions of the Operating Agreement, as supplemented by this agreement.
  - C. All costs and liabilities incurred in operations under this agreement and the Operating Agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties hereto, as provided in the Operating Agreement.
  - D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on Exhibit "A," all production of Oil and Gas from the Contract Area shall be owned by the parties via their actual record title ownership and provided in the Operating Agreement; provided nothing contained in this agreement shall be deemed an assignment or cross-assignment of interests covered hereby.
  - E. Each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area as provided in the Operating Agreement.
  - F. An overriding royalty, production payment, net profits interest or other burden payable out of production hereafter created, assignments of production given as security for the payment of money and those overriding royalties, production payments and other burdens payable out of production heretofore created and defined as Subsequently Created Interests in the Operating Agreement shall be (i) borne solely by the party whose interest is burdened therewith, (ii) subject to suspension if a party is required to assign or relinquish to another party an interest which is subject to such burden, and (iii) subject to the lien and security interest hereinafter provided if the party subject to such burden fails to pay its share of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the times and manner provided by the Operating Agreement.
  - G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers.

This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective heirs, devisees, legal representatives, and assigns, and the terms hereof shall be deemed to run with the leases or interests included within the lease Contract Area.

  - H. The parties shall have the right to acquire an interest in renewal, extension and replacement leases, leases proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.
  - I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or loss of title, each party's right to propose operations, obligations with respect to participation in operations on the Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial obligations shall be as provided in the Operating Agreement.
  - J. Each party's interest under this agreement and under the Operating Agreement shall be subject to relinquishment for its failure to participate in subsequent operations and each party's share of production and costs shall be reallocated on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.
  - K. All other matters with respect to exploration and development of the Contract Area and the ownership and transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of the Operating Agreement.
3. The parties hereby grant reciprocal liens and security interests as follows:
  - A. Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this agreement and the Operating Agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid under this agreement and the Operating Agreement, the assignment or relinquishment of interest in Oil and Gas Leases as required under this agreement and the Operating Agreement, and the proper performance of operations under this agreement and the Operating Agreement. Such lien and security interest granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this agreement and the Operating Agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from the sale of production at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.

- B. Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement and the Operating Agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement and the Operating Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by the Operating Agreement and this instrument as to all obligations attributable to such interest under this agreement and the Operating Agreement whether or not such obligations arise before or after such interest is acquired.
- C. To the extent that the parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any party in the payment of its share of expenses, interest or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by such party, plus interest, has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.
- D. If any party fails to pay its share of expenses within one hundred-twenty (120) days after rendition of a statement therefor by Operator the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in this paragraph 3 and in the Operating Agreement, and each paying party may independently pursue any remedy available under the Operating Agreement or otherwise.
- E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement or the Operating Agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted hereunder or under the Operating Agreement, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.
- F. The lien and security interest granted in this paragraph 3 supplements identical rights granted under the Operating Agreement.
- G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due under this agreement and the Operating Agreement for services performed or materials supplied by Operator.
- H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Recording Supplement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the above-described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial Code, or other state laws.
4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this agreement and the Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon the request of Operator, if Operator has complied with all of its financial obligations.
5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or other disposition shall be made by any party of any interest in the Leases or Interests subject hereto except as expressly permitted under the Operating Agreement and, if permitted, shall be made expressly subject to this agreement and the Operating Agreement and without prejudice to the rights of the other parties. If the transfer is permitted, the assignee of an ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party under this agreement or the Operating Agreement with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under this agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.
6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the Operating Agreement, then, as between the parties, the terms and provisions of the Operating Agreement shall control.
7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. In the event that any provision herein is illegal or unenforceable, the remaining provisions shall not be affected, and shall be enforced as if the illegal or unenforceable provision did not appear herein.
8. Other provisions.

IN WITNESS WHEREOF, this agreement shall be effective as of March 1, 2023.

**OPERATOR**

**ATTEST OR WITNESS**

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

Permian Resources Operating, LLC

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

Name: Patrick Godwin

Title: Vice President of Land

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

Address: 300 N. Marienfeld St., Ste. 1000 Midland, TX 79701

**NON-OPERATORS**

**ATTEST OR WITNESS**

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

NON-OPERATOR: Read & Stevens, Inc.

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

Name: Patrick Godwin

Title: Vice President of Land

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

Address: 300 N. Marienfeld St., Ste. 1000 Midland, TX 79701

**ATTEST OR WITNESS**

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

NON-OPERATOR:

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

Name: \_\_\_\_\_

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

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

Address: \_\_\_\_\_

**ATTEST OR WITNESS**

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

NON-OPERATOR:

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

Name: \_\_\_\_\_

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

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

Address: \_\_\_\_\_



**ACKNOWLEDGMENTS**

**NOTE:**

The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

**Acknowledgment in Representative Capacity**

State of Texas §

§ ss.

County of Midland §

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

by Patrick Godwin as Vice President of Land of Permian Resources Operating, LLC, on behalf of said limited liability

company. (Seal, if any)

\_\_\_\_\_

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

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

**Acknowledgment in representative capacity:**

State of Texas §

§ ss.

County of Midland §

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

by Patrick Godwin as Vice President of Land of Read & Stevens, Inc., on behalf of said company.

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgment in representative capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_,

as \_\_\_\_\_ for \_\_\_\_\_ on behalf of \_\_\_\_\_.

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgment in representative capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_,

as \_\_\_\_\_ for \_\_\_\_\_ on behalf of \_\_\_\_\_.

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgment in individual capacity:

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

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

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

This instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 2023, by \_\_\_\_\_,

(Seal, if any)

\_\_\_\_\_

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

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

## Exhibit "A"

Attached to and made a part of that certain Recording Supplement to Operating Agreement and Financing Statement, dated March 1, 2023, by and between Permian Resources Operating, LLC, as Operator, and Read & Stevens, Inc., et al, as Non-Operators, covering lands in Lea County, New Mexico

## 1. Contract Area:

All of Sections 5 and 8, T20S-R34E, Lea County, New Mexico, containing 1280.20 acres, more or less

## 2. Restrictions as to depths and formations:

Only as to the depths of the Bone Spring and Wolfcamp Formations.

## 3. Parties to this agreement with addresses and telephone numbers for notice purposes:

*Other Parties To Be Determined*

Permian Resources Operating, LLC  
300 N. Marienfeld St., Ste. 1000  
Midland, Texas 79701  
Attn: Travis Macha  
Phone: (432) 400-1037

Read & Stevens, Inc.  
300 N. Marienfeld St., Ste. 1000  
Midland, Texas 79701  
Attn: Travis Macha  
Phone: (432) 400-1037

## 4. Oil and Gas Leases subject to this Operating Agreement:

1. Lease No.: NMNM 101115  
Lessor: United States of America  
Lessee: Read & Stevens Inc  
Lease Date: September 1, 1998  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: Lot 4 & SW/4NW/4
2. Lease No.: NMLC 0065607  
Lessor: United States of America  
Lessee: Edward R. Hudson, et al  
Lease Date: September 1, 1948  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: Lots 1-3, S/2NE/4, & SE/4NW/4
3. Lease No.: NMLC 0064194  
Lessor: United States of America  
Lessee: Edward R. Hudson, et al  
Lease Date: October 1, 1947  
Recording: N/A  
Description: Township 20 South, Range 34 East, Lea County, New Mexico  
Section 5: S/2  
Section 8: All

End of Exhibit "A"