

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

**APPLICATIONS OF FRANKLIN MOUNTAIN ENERGY
3, LLC FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO**

Case No. 23968

Case No. 23969

PRE-HEARING STATEMENT

Amtex Energy, Inc. (“Amtex”) and Chap Exploration, LLC (“Chap Exploration”) provide this Pre-Hearing Statement as required by Rule 19.15.4.13B NMAC.

APPEARANCES

APPLICANT

Franklin Mountain Energy 3, LLC

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STATEMENT OF THE CASE

Franklin Mountain Energy 3, LLC (“Franklin Mountain”) filed the force pooling applications in Case Nos. 23968-23969, which are currently set for hearing on December 7, 2023. Franklin Mountain seeks an order from the Division force pooling all uncommitted interests and approving: (1) a standard 320-acre, more or less, Wolfcamp horizontal spacing unit comprising the W/2E/2 of Sections 27 and 34, Township 18 South, Range 34 East, N.M.P.M. Lea County, New Mexico (Case No. 23968); and (2) a standard 320-acre, more or less, Wolfcamp horizontal spacing unit comprised of E/2E/2 of Sections 27 and 34, Township 18 South, Range 34 East, N.M.P.M., Lea County, New Mexico (Case No. 23969). The spacing units are to be dedicated to two (2) horizontal Link wells: the Link Fed Com 703H and 704H wells. Franklin Mountain seeks an order “pooling all uncommitted mineral interests,” approving the wells proposed, designating Franklin Mountain as the operator of the unit, approving Franklin Mountain’s charges for the well, and imposing a 200% non-consent penalty.

Amtex and Chap Exploration object to the Applications in Case Nos. 23968 and 23969 and contend that the Applications should be denied and dismissed for the following reasons:

1. The Division lacks authority under NMSA 1978, § 70-2-17(C) to grant these applications. The acreage comprising the W/2E/2 and E/2E/2 of Section 34 is already subject to a voluntary agreement in the form of a Joint Operating Agreement (“JOA”) which designates Amtex as the operator. A partial copy of the JOA is attached as Exhibit A. Franklin Mountain cannot establish that the parties in the proposed spacing unit have not agreed to pool their interests, at least as to the W/2E/2 and E/2E/2 of Section 34. Because the W/2E/2 and E/2E/2 of Section 34 already are subject of a voluntary agreement by the working interest owners to pool their interests, this application must be denied.

2. The JOA has an agreed procedure for the drilling of wells in the area of mutual interest, which includes the W/2E/2 and E/2E/2 of Section 34. Amtex has already invoked that procedure as the designated operator by sending proposals to the working interest owners by letters dated September 14, 2023 for the drilling of two (2) horizontal oil wells in the Wolfcamp A formation covering the W/2E/2 and E/2E/2 of Section 34, both in T-18S, R-34E, Lea County, New Mexico. All of the working interest owners have already approved and elected to participate in the wells. The approval of Endeavor Energy Resources, L.P., which is a 48% working interest owner, is attached as Exhibit B. Any action by the Division to force pool acreage which is already subject to a voluntary agreement is statutorily unauthorized, and it is particularly inappropriate where the parties are already in the process of developing the acreage under their voluntary agreement.

3. Even if a force pooling application were authorized, which is denied, the Division lacks the authority where Franklin Mountain owned no interest in the W/2E/2 and E/2E/2 of Section 34 at the time it filed its application. In addition to Endeavor Energy Resources, L.P., Chap Exploration, which owns 47%, and Cheryl S. Cotner and David C. Cotner, who own 5%, all agreed to participate in the wells. Thus, Amtex has the voluntary participation in its proposed wells of 100% of the working interest owners.

4. Even if a force pooling application were authorized, which is denied, Franklin Mountain has failed to make a good faith effort to secure voluntary agreement. Rather, Franklin Mountain has ignored the parties' voluntary agreement and has initiated this force pooling proceeding after notice that Amtex already took steps pursuant to the JOA to drill two (2) wells in the target formation. As opposed to a good faith effort, Franklin Mountain's conduct is prima facie evidence of bad faith.

5. Even if a force pooling application were authorized, which is denied, Frontier Mountain lacks the experience and knowledge to justify an order by the Division designating it the operator of a horizontal well in the target Wolfcamp formation.

6. Even if a force pooling application were authorized, which is denied, Frontier Mountain cannot support any risk penalty for its proposed well.

7. Application of a 200% risk penalty will mean that the correlative rights of Amtex, Chap Exploration, and other working interest owners will not be protected because they would forfeit their interest in the proposed well if they are force pooled and would result in a loss of a property interest for working interest owners who, like Chap Exploration, do not consent.

PROPOSED EVIDENCE

Amtex and Chap Exploration will present evidence to support Amtex’s position that it invoked the JOA’s procedure as the designated operator for the drilling of wells in the area of mutual interest, which includes the W/2E/2 and E/2E/2 of Section 34, in which Franklin Mountain has no working interest. They will present evidence that all of the working interest owners for Section 34 in the JOA elected to participate in Amtex’s two (2) proposed wells in the W/2E/2 and E/2E/2 of Section 34. They will present evidence that Franklin Mountain has not acted in good faith in the negotiations and has not made a good faith effort to reach voluntary agreement.

WITNESSES	EST. TIME	EXHIBITS
Tate Savage (VP of Land and Business Development)	1 hour	10 approx.

PROCEDURAL ISSUES

Given the nature of the issues and Amtex’s and Chap Exploration’s objections, cross-examination of the witnesses should be allowed. Amtex and Chap Exploration object to having these cases presented and decided by affidavit.

Respectfully submitted,

PEIFER, HANSON, MULLINS & BAKER, P.A.

By: /s/ Matthew M. Beck

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on counsel of record by electronic mail this 30th day of November, 2023.

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/s/ Matthew M. Beck

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

April 1, 2011, year

OPERATOR AMTEX ENERGY, INC.

CONTRACT AREA E/2 of Section 34, T18S, R34E, N.M.P.M.

Four horizontal lines for additional contract area details.

COUNTY OR PARISH OF Lea, STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD.
FORT WORTH, TEXAS, 76137, APPROVED FORM.

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



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

TABLE OF CONTENTS

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

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

TABLE OF CONTENTS

D. ASSIGNMENT; MAINTENANCE OF UNIFORM INTEREST: 15

E. WAIVER OF RIGHTS TO PARTITION:..... 15

~~F. PREFERENTIAL RIGHT TO PURCHASE:..... 15~~

IX. INTERNAL REVENUE CODE ELECTION..... 15

X. CLAIMS AND LAWSUITS..... 15

XI. FORCE MAJEURE..... 16

XII. NOTICES..... 16

XIII. TERM OF AGREEMENT..... 16

XIV. COMPLIANCE WITH LAWS AND REGULATIONS..... 16

 A. LAWS, REGULATIONS AND ORDERS:..... 16

 B. GOVERNING LAW: 16

 C. REGULATORY AGENCIES: 16

XV. MISCELLANEOUS..... 17

 A. EXECUTION:..... 17

 B. SUCCESSORS AND ASSIGNS:..... 17

 C. COUNTERPARTS:..... 17

 D. SEVERABILITY..... 17

XVI. OTHER PROVISIONS..... 17

 A. SUPPLEMENTAL AUTHORIZATIONS..... 17

 B. PRIORITY OF OPERATIONS..... 17

 C. NON-CONSENT PENALTIES FOR SUBSEQUENT WELLS..... 17

 D. HEARINGS AND ADMINISTRATIVE PROCEEDINGS..... 17

 E. OBLIGATORY OPERATIONS..... 17

 F. DEPTH SPECIFIC OPERATIONS..... 17

 G. WAIVER OF JURY TRIAL..... 17

 H. ROYALTY PAYMENTS..... 17

 I. DELAY RENTALS, SHUT-IN ROYALTIES AND RELINQUISHMENTS..... 17

 J. SEPARATE MEASUREMENT FACILITY..... 17

 K. CONFIDENTIALITY..... 17

 L. SELLING OF PRODUCTION..... 17

 M. BANKRUPTCY..... 17

 N. CHARGES..... 17

 O. DEEMED NON-CONSENT..... 17

 P. LIMITATION ON IMPLEMENTATION OF PROPOSALS FOR DRILLING OF NEW WELLS..... 17

 Q. REVERSIONARY WORKING INTEREST..... 17

 R. CONFLICT BETWEEN PROVISIONS..... 17

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

OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

**ARTICLE I.
DEFINITIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**ARTICLE II.
EXHIBITS**

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

- X A. Exhibit "A," shall include the following information:
- (1) Description of lands subject to this agreement,
 - (2) Restrictions, if any, as to depths, formations, or substances,
 - (3) Parties to agreement with addresses and telephone numbers for notice purposes,
 - (4) Percentages or fractional interests of parties to this agreement,
 - (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
 - (6) Burdens on production.
- X B. Exhibit "B," Form of Lease.
- X C. Exhibit "C," Accounting Procedure.
- X D. Exhibit "D," Insurance.
- X E. Exhibit "E," Gas Balancing Agreement.
- X F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.
- G. Exhibit "G," Tax Partnership.
- X H. Other: Memo of JOA to be recorded in lieu of this Joint Operating Agreement.

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

1 If any provision of any exhibit, except Exhibits "E," "F" and "G," is inconsistent with any provision contained in
2 the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.

INTERESTS OF PARTIES

A. Oil and Gas Interests:

6 ~~If any party owns an Oil and Gas Interest in the Contract Area, that Interest shall be treated for all purposes of this
7 agreement and during the term hereof as if it were covered by the form of Oil and Gas Lease attached hereto as Exhibit "B,"
8 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:

10 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne
11 and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their
12 interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the
13 Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter.

14 Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other
15 burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or
16 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,
17 thirty-one/one hundred fiftieth (31/150) and shall indemnify, defend and hold the other parties free from any liability therefor.

18 Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is
19 burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts
20 stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend
21 and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as
22 the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to
23 be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s)
24 which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any
25 liability therefor.

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

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

C. Subsequently Created Interests:

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

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

ARTICLE IV.

TITLES

A. Title Examination:

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

67 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in
68 connection with Leases or Oil and Gas Interests contributed by such party. Operator shall be responsible for the preparation
69 and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings
70 before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to
71 the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings.
72 Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental
73 agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct
74 charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C."

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

1 Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
2 functions.

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

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

7 ~~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
8 reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest
9 (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title
10 failure to acquire a new lease or other instrument during the entirety of the title failure, which acquisition will not be subject
11 to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas
12 Leases and Interests; and;~~

13 ~~All losses of Leases or Interests committed to this agreement shall be joint losses and shall be borne by all parties
14 in proportion to their interests shown on Exhibit "A." This shall include but not be limited to the loss of any Lease or
15 Interest through failure to develop or because express or implied covenants have not been performed (other than
16 performance which requires only the payment of money), and the loss of any Lease by expiration at the end of its
17 primary term if it is not renewed or extended. There shall be no readjustment of interests in the remaining portion of the
18 Contract Area on account of any joint loss.~~

19 ~~In the event of a Failure of Title or a loss of title above, any Lease or Interest acquired by any party hereto
20 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
21 failed or was lost, and the provisions of Article VIII.B. shall not apply to such acquisition.~~

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

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

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

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

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

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

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

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

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

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

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

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

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~~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.~~

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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

AMTEX ENERGY, INC. shall be the Operator of the Contract Area, 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 reasonable 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, **INCLUDING LOSSES CLAIMED, SUSTAINED OR INCURRED AS A CONSEQUENCE OF OPERATOR'S ORDINARY NEGLIGENCE OR LIABILITY NOT PREDICATED UPON FAULT (SUCH THAT THIS PROVISION IS STIPULATED AND AGREED TO MEET THE EXPRESS NEGLIGENCE AND CONSPICUOUS REQUIREMENTS APPLICABLE TO WAIVERS OF LIABILITY AND/OR INDEMNITIES),** except such as may result from gross negligence or willful misconduct. **Operator is specifically permitted to sub-contract to a contract operator of its choosing, in whole or in part. AMTEX ENERGY, INC., in lieu of resigning or being deemed to have resigned pursuant to B (1) below, shall be entitled to assign and transfer its status and position as Operator incident to a sale by it of all of its interest in the Contract Area; provided that any successor operator claiming by and through this right, vested exclusively in AMTEX ENERGY, INC., may be subject to removal as otherwise provided for herein.**

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,~~ 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 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, parent or successor corporation 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 ^{after payout basis of} 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

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

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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

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

1 liens and encumbrances resulting therefrom except for those resulting from a bona fide dispute as to services rendered or
2 materials supplied.

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

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

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

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

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

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

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

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

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

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

49 **ARTICLE VI.**
50 **DRILLING AND DEVELOPMENT**

51 **A. Initial Well:**

52 **Notwithstanding anything herein to the contrary, all parties are contractually committed to participate in the Teapot**
53 **Well No. 2H, API No. 30-025-39910, the Initial Well. Non-Operators agree to reimburse Operator for their share of all cost**
54 **incurred directly in connection with drilling and completion of Teapot Well No. 2H prior to April 1, 2011 (as depicted on the Teapot**
55 **Well No. 2H Summary Cost Statement provided herewith), upon execution of this agreement. On or before the _____**
56 **_____ day of _____, _____, Operator shall commence the drilling of the Initial**

57 **Well at the following location:**

58 _____
59 _____
60 _____
61 _____
62 _____
63 _____
64 _____

65 **and shall thereafter continue the drilling of the well with due diligence to**
66 _____
67 _____
68 _____
69 _____
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72 **The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1. as to participation**
73 **in Completion operations and Article VI.F. as to termination of operations and Article XI as to occurrence of force majeure.**

74 **Operator shall thereafter, within the period prescribed in paragraph VI (B)(1) below, commence and continue the**

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

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drilling of the Initial Well with due diligence to a depth sufficient to reasonably test the Bone Spring formation unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and/or gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil and/or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.I shall thereafter apply.

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

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

1 under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be
 2 performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a
 3 notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work
 4 whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to
 5 Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-
 6 eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply
 7 within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.
 8 Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties
 9 within the time and in the manner provided in Article VI.B.6.

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

26 2. Operations by Less Than All Parties:

27 (a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VI.B.1. or
 28 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
 29 Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no
 30 later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the
 31 expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the
 32 proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting
 33 Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party,
 34 the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the
 35 account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The
 36 rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party
 37 designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when
 38 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this
 39 agreement.

40 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the
 41 applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its
 42 recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party,
 43 within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the
 44 proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its
 45 proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in
 46 the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of
 47 Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties'
 48 interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is not carried by a
 49 Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its
 50 proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a
 51 drilling rig is on location, notice may be given by telephone, and the time permitted for such a response shall not exceed a
 52 total of forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may
 53 withdraw such proposal if there is less than 100% participation and shall notify all parties of such decision within ten (10)
 54 days, or within twenty-four (24) hours if a drilling rig is on location, following expiration of the applicable response period.
 55 If 100% subscription to the proposed operation is obtained, the proposing party shall promptly notify the Consenting Parties
 56 of their proportionate interests in the operation and the party serving as Operator shall commence such operation within the
 57 period provided in Article VI.B.1., subject to the same extension right as provided therein.

58 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be
 59 borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding
 60 paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
 61 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results
 62 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
 63 the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that
 64 participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate
 65 shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not
 66 increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened,
 67 Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in
 68 paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the
 69 well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the
 70 expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking,
 71 Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the
 72 provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the
 73 Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-
 74 Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking,

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

1 Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-
 2 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect
 3 to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or
 4 market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes,
 5 royalty, overriding royalty and other interests not excepted by Article III.C. payable out of or measured by the production
 6 from such well accruing with respect to such interest until it reverts), shall equal the total of the following:

7 (i) 500 % of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment
 8 beyond the wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment and
 9 piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first
 10 production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other
 11 provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that
 12 interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning
 13 of the operations; and

14 (ii) 500 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening,
 15 Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C.,
 16 and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections),
 17 which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

27 (c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or
 28 Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in
 29 such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full
 30 recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to
 31 participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking
 32 operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at
 33 any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such
 34 Reworking, Recompleting or Plugging Back operation conducted during the recoupment period shall be deemed part of the
 35 cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties 500% of
 36 that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to
 37 such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is
 38 proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting
 39 Parties in said well.

40 (d) Recoupment Matters. During the period of time Consenting Parties are entitled to receive Non-Consenting Party's
 41 share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all ad valorem,
 42 production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to
 43 Non-Consenting Party's share of production not excepted by Article III.C.

44 In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening operation, the Consenting
 45 Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all
 46 such equipment shall remain unchanged; and upon abandonment of a well after such Reworking, Sidetracking, Plugging Back,
 47 Recompleting or Deepening, the Consenting Parties shall account for all such equipment to the owners thereof, with each
 48 party receiving its proportionate part in kind or in value, less cost of salvage.

49 Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations
 50 for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to
 51 the well, and an itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing,
 52 Recompleting, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement
 53 of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the
 54 Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties
 55 shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of
 56 the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized from
 57 the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas
 58 produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or
 59 periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with
 60 any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited
 61 against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such
 62 Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-
 63 Consenting Party.

64 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided
 65 for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the day
 66 following the day on which such recoupment occurs, and, from and after such reversion, such Non-Consenting Party shall
 67 own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as
 68 such Non-Consenting Party would have been entitled to had it participated in the drilling, Sidetracking, Reworking,
 69 Deepening, Recompleting or Plugging Back of said well. Thereafter, such Non-Consenting Party shall be charged with and
 70 shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this
 71 agreement and Exhibit "C" attached hereto.

72 3. Stand-By Costs. When a well which has been drilled or Deepened has reached its authorized depth and all tests have
 73 been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise
 74 terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking,

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

1 Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required
2 under Article VI.B.6. to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening
3 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted,
4 whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms
5 of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the proposed operation,
6 but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated
7 between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total
8 interest as shown on Exhibit "A" of all Consenting Parties.

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

16 4. Deepening: If less than all parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed
17 pursuant to Article VI.B.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article
18 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
19 of which the parties were given notice under Article VI.B.1. ("Initial Objective"). Such well shall not be Deepened beyond the
20 Initial Objective without first complying with this Article to afford the Non-Consenting Parties the opportunity to participate
21 in the Deepening operation.

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

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

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

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

51 5. Sidetracking: Any party having the right to participate in a proposed Sidetracking operation that does not own an
52 interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its
53 proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore
54 to be utilized as follows:

55 (a) If the proposal is for Sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs
56 incurred in the initial drilling of the well down to the depth at which the Sidetracking operation is initiated.

57 (b) If the proposal is for Sidetracking a well which has previously produced, reimbursement shall be on the basis of
58 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth
59 at which the Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's
60 proportionate share of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking
61 operation is initiated shall be determined in accordance with the provisions of Exhibit "C."

62 6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to
63 propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI. such
64 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
65 an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal
66 holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be
67 conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such
68 alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such
69 proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within
70 twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the
71 subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required
72 shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage
73 interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the
74

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

1 initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation
2 within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday
3 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
4 is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to
5 relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within
6 such period shall be deemed an election not to participate in the prevailing proposal.

7 7. Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be
8 proposed to be drilled to or Completed in or produced from a Zone from which a well located elsewhere on the Contract
9 Area is producing, unless such well conforms to the then-existing well spacing pattern for such Zone.

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

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

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

17 ~~Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and
18 equipping of the well, including necessary tankage and/or surface facilities.~~

19 Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of the well. When
20 such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results
21 thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to
22 participate in a Completion attempt whether or not Operator recommends attempting to Complete the well,
23 together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice
24 shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of
25 notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an
26 accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting
27 with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the
28 procedures specified in Article VI.B.6. Election to participate in a Completion attempt shall include consent to all
29 necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface
30 facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any party
31 receiving such notice to reply within the period above fixed shall constitute an election by that party not to
32 participate in the cost of the Completion attempt; provided, that Article VI.B.6. shall control in the case of
33 conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the
34 provision of Article VI.B.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or Plugging
35 Back" as contained in Article VI.B.2. shall be deemed to include "Completing") shall apply to the operations
36 thereafter conducted by less than all parties; provided, however, that Article VI.B.2. shall apply separately to each
37 separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting
38 Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party
39 in subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier
40 Completions or Recompletion have recouped their costs pursuant to Article VI.B.2.; provided further, that any
41 recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in
42 which the Completion attempt is made. Election by a previous Non-Consenting party to participate in a subsequent
43 Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvable
44 materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt,
45 insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a
46 Completion attempt.

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

51 **D. Other Operations:**

52 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifty Thousand
53 _____ Dollars (\$ 50,000.00) except in connection with the
54 drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously
55 authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
56 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion
57 are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the
58 emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so
59 requesting an information copy thereof for any single project costing in excess of Fifty Thousand Dollars
60 (\$ 50,000.00). Any party who has not relinquished its interest in a well shall have the right to propose that
61 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as
62 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but
63 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall
64 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the
65 amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under
66 Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such
67 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent
68 of any party or parties owning at least 51 % of the interests of the parties entitled to participate in such operation,
69 each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated
70 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms
71 of the proposal.

72 **E. Abandonment of Wells:**

73 1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has
74 been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

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

1 plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any
 2 party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after
 3 delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the
 4 proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the
 5 cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to
 6 plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (exclusive of Saturday,
 7 Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such
 8 forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of
 9 Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct
 10 such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and
 11 abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party
 12 taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against
 13 liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and
 14 restoring the surface, for which the abandoning parties shall remain proportionately liable.

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

28 Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of
 29 the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost
 30 of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event
 31 the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the
 32 value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing
 33 operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning
 34 parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all
 35 of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only
 36 insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the
 37 interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-
 38 abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of
 39 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
 40 attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located.
 41 The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their
 42 respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract
 43 Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

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

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

F. Termination of Operations:

59 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,
 60 Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without
 61 consent of parties bearing 51 % of the costs of such operation; provided, however, that in the event granite or other
 62 practically impenetrable substance or condition in the hole is encountered which renders further operations impractical,
 63 Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the
 64 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**

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

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

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

1 directly from the purchaser thereof for its share of all production.

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

9 Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time
10 as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a
11 period in excess of one (1) year.

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

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

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

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

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

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

37 ~~If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate~~
38 ~~share of the Oil and/or Gas produced from the Contract Area, Operator shall have the right, subject to the~~
39 ~~revocation at will by the party owning it, but not the obligation, to purchase such Oil and/or Gas or sell it to others~~
40 ~~at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator~~
41 ~~may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall~~
42 ~~be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator~~
43 ~~to exercise its right to take in kind, or separately dispose of, its share of all Oil and/or Gas not previously delivered~~
44 ~~to a purchaser; provided, however, that the effective date of any such revocation may be deferred at Operator's~~
45 ~~election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase~~
46 ~~contract having a term extending beyond such ten (10) day period. Any purchase or sale by Operator of any other~~
47 ~~party's share of Oil and/or Gas shall be only for such reasonable periods of time as are consistent with the~~
48 ~~minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1)~~
49 ~~year.~~

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

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

62 **ARTICLE VII.**

63 **EXPENDITURES AND LIABILITY OF PARTIES**

64 **A. Liability of Parties:**

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

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

1 **B. Liens and Security Interests:**

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

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

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

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

42 If any party fails to pay its share of cost within ~~one hundred twenty (120)~~ **sixty (60)** days after rendition of a statement therefor by
 43 Operator, the non-defaulting parties, including Operator, shall upon request by Operator, pay the unpaid amount in the
 44 proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so
 45 paying its share of the unpaid amount shall be secured by the liens and security rights described in Article VII.B., and each
 46 paying party may independently pursue any remedy available hereunder or otherwise.

47 If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure
 48 or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting
 49 party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal
 50 of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets
 51 and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party
 52 hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted
 53 hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable
 54 manner and upon reasonable notice.

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

60 **C. Advances:**

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

70 **D. Defaults and Remedies:**

71 If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to
 72 make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for
 73 such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the
 74 remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered

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

1 only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator,
 2 and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator.
 3 Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified
 4 below or otherwise available to a non-defaulting party.

5 1. Suspension of Rights: Any party may deliver to the party in default a Notice of Default, which shall specify the default,
 6 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
 7 or more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such
 8 Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the
 9 default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of
 10 the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the
 11 Non-Operators shall have in addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area
 12 after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting
 13 party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right
 14 to receive information as to any operation conducted hereunder during the period of such default, the right to elect to
 15 participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being
 16 conducted under this agreement even if the party has previously elected to participate in such operation, and the right to
 17 receive proceeds of production from any well subject to this agreement.

18 2. Suit for Damages: Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint
 19 account expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default
 20 until the date of collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from
 21 suing any defaulting party to collect consequential damages accruing to such party as a result of the default.

22 3. Deemed Non-Consent: The non-defaulting party may deliver a written Notice of Non-Consent Election to the
 23 defaulting party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in
 24 which event if the billing is for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a
 25 well which is to be or has been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting
 26 party will be conclusively deemed to have elected not to participate in the operation and to be a Non-Consenting Party with
 27 respect thereto under Article VI.B. or VI.C., as the case may be, to the extent of the costs unpaid by such party,
 28 notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then the
 29 non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

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

36 4. Advance Payment: If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or
 37 Non-Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting
 38 party of such defaulting party's anticipated share of any item of expense for which Operator, or Non-Operators, as the case may
 39 be, would be entitled to reimbursement under any provision of this agreement, whether or not such expense was the subject of
 40 the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of
 41 drilling a well or Completion of a well as to which an election to participate in drilling or Completion has been made. If the
 42 defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of the remedies provided
 43 in the Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced remaining
 44 when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.

45 5. Costs and Attorneys' Fees: In the event any party is required to bring legal proceedings to enforce any financial
 46 obligation of a party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of
 47 collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.

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

49 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid
 50 by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties
 51 own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to
 52 make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper
 53 evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or
 54 minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which
 55 results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

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

62 **F. Taxes:**

63 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all
 64 property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed
 65 thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as
 66 to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and
 67 Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being
 68 subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes
 69 resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to
 70 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
 71 upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to
 72 the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's
 73 working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner
 74 provided in Exhibit "C."

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

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

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

ARTICLE VIII.**ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST****A. Surrender of Leases:**

11 The Leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
 12 or in part unless all parties consent thereto.

13 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written
 14 notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after
 15 delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a
 16 party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases
 17 described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or
 18 implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be
 19 located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the
 20 assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not
 21 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
 22 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."
 23 Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore
 24 accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party
 25 shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained
 26 in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the
 27 reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased
 28 acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less
 29 the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less
 30 than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the
 31 assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the
 32 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
 33 varies according to depth, then the interest assigned shall similarly reflect such variances.

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

B. Renewal or Extension of Leases:

40 If any party secures a renewal or replacement of an Oil and Gas Lease or Interest subject to this agreement, then all other parties
 41 shall be notified promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing Lease,
 42 promptly upon expiration of the existing Lease. The parties notified shall have the right for a period of thirty (30) days following
 43 delivery of such notice in which to elect to participate in the ownership of the renewal or replacement Lease, insofar as such Lease
 44 affects lands within the Contract Area, by paying to the party who acquired it their proportionate shares of the acquisition cost
 45 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
 46 parties in the Contract Area. Each party who participates in the purchase of a renewal or replacement Lease shall be given an
 47 assignment of its proportionate interest therein by the acquiring party.

48 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
 49 by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in
 50 the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the
 51 purchase of such renewal or replacement Lease. The acquisition of a renewal or replacement Lease by any or all of the parties hereto
 52 shall not cause a readjustment of the interests of the parties stated in Exhibit "A," but any renewal or replacement Lease in which
 53 less than all parties elect to participate shall not be subject to this agreement but shall be deemed subject to a separate Operating
 54 Agreement in the form of this agreement.

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

57 The provisions of this Article shall apply to renewal or replacement Leases whether they are for the entire interest covered by
 58 the expiring Lease or cover only a portion of its area or an interest therein. Any renewal or replacement Lease taken before the
 59 expiration of its predecessor Lease, or taken or contracted for or becoming effective within six (6) months after the expiration of the
 60 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
 61 the renewal or replacement Lease becomes effective; but any Lease taken or contracted for more than six (6) months after the
 62 expiration of an existing Lease shall not be deemed a renewal or replacement Lease and shall not be subject to the provisions of this
 63 agreement.

64 The provisions in this Article shall also be applicable to extensions of Oil and Gas Leases.

C. Acreage or Cash Contributions:

66 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
 67 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall
 68 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
 69 the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the
 70 proportions said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the
 71 extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any
 72 acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above
 73 provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of well drilled
 74 inside Contract Area.

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

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

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

4 For the purpose of maintaining uniformity of ownership in the oil Contract Area, **and not withstanding any other provisions to the**
5 **contrary, no Non-Operator shall sell, encumber, transfer or make other disposition of its interest in the Oil and Gas Leases and**
6 ~~in the Oil and Gas Leases, Oil and Gas~~
7 ~~Interests, wells, equipment and production covered by this agreement no party shall sell, encumber, transfer or make other~~
8 ~~disposition of its interest in the Oil and Gas Leases and~~ Oil and Gas Interests embraced within the Contract Area or in wells,
9 equipment and production (provided that should Operator make such a sale, encumbrance, transfer or other disposition, Non-
10 Operators may make a comparable and complementary disposition of its interest) unless such disposition covers either:

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

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

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

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

32 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
33 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
34 undivided interest therein.

35 **F. Preferential Right to Purchase:**

36 ~~(Optional; Check if applicable.)~~

37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~
38 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which~~
39 ~~shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase~~
40 ~~price, a legal description sufficient to identify the property, and all other terms of the offer. The other parties shall then have an~~
41 ~~optional prior right, for a period of ten (10) days after the notice is delivered, to purchase for the stated consideration on the~~
42 ~~same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the~~
43 ~~purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all~~
44 ~~purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage~~
45 ~~its interests, or to transfer title to its interests to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests,~~
46 ~~or to dispose of its interests by merger, reorganization, consolidation, or by sale of all or substantially all of its Oil and Gas assets~~
47 ~~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~~
48 ~~company in which such party owns a majority of the stock.~~

51 **ARTICLE IX.**52 **INTERNAL REVENUE CODE ELECTION**

53 If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the
54 parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each
55 party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter I, Subtitle
56 "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and
57 the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected
58 such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal
59 Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by
60 Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this
61 election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal
62 Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action
63 inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
64 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter
65 I, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party
66 hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each
67 such party states that the income derived by such party from operations hereunder can be adequately determined without the
68 computation of partnership taxable income.

69 **ARTICLE X.**70 **CLAIMS AND LAWSUITS**

71 Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure
72 does not exceed Fifty Thousand Dollars (\$ 50,000.00) and if the payment is in complete settlement
73 of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over
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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling,
2 or otherwise discharging such claim or suit shall be a the joint expense of the parties participating in the operation from which the
3 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
4 hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall
5 immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

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

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**ARTICLE 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.

**ARTICLE 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.

**ARTICLE 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 period of _____ 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 _____ 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.

**ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS**

A. Laws, Regulations and Orders:

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 in which the Contract Area is located. 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

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

1 orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or
2 production of wells, on tracts offsetting or adjacent to the Contract Area.

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

11 **ARTICLE XV.**
12 **MISCELLANEOUS**

13 **A. Execution:**

14 This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been
15 executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of
16 the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which
17 own, in fact, an interest in the Contract Area. Operator may, however, by written notice to all Non-Operators who have
18 become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the Initial Well but in no
19 event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this
20 agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of
21 drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease
22 as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs
23 hereunder, all sums so advanced shall be returned to such Non-Operator without interest. In the event Operator proceeds
24 with drilling operations for the Initial Well without the execution hereof by all persons listed on Exhibit "A" as having a
25 current working interest in such well, Operator shall indemnify Non-Operators with respect to all costs incurred for the
26 Initial Well which would have been charged to such person under this agreement if such person had executed the same and
27 Operator shall receive all revenues which would have been received by such person under this agreement if such person had
28 executed the same.

29 **B. Successors and Assigns:**

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

33 **C. Counterparts:**

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

36 **D. Severability:**

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

40 **ARTICLE XVI.**
41 **OTHER PROVISIONS**

42 **A. Supplemental Authorizations:**

43 **As to any operations which may be proposed under Articles VI and VII herein, the Proposing Party will furnish both detailed**
44 **Authority For Expenditures (AFE) and detailed programs for each proposed operation.**

45 **B. Priority Of Operations: Where a well authorized under the terms of this agreement has been drilled to the Objective Depth**
46 **and the parties participating in the well cannot agree upon the sequence and timing of further operations regarding such well, the**
47 **following elections shall control in the order enumerated below:**

- 49 1. **An election to do additional logging, coring or testing;**
- 50 2. **An election to attempt to complete the well in the objective formation;**
- 51 3. **An election to plug back and attempt to complete said well at a shallower formation or zone;**
- 52 4. **An election to deepen said well;**
- 53 5. **An election to sidetrack the well; and**
- 54 6. **An election to plug and abandon the well.**

55 **However, if at any time the participating parties are considering the above elections, the hole is in such a condition that in the**
56 **opinion of a majority of the parties a reasonably prudent operator would not conduct the operations contemplated by the particular**
57 **election involved because of the possibility of placing the hole in jeopardy or losing the same prior to completing the well, such**
58 **election shall not be given the priority hereinabove set forth. Instead, the operation which is less likely to jeopardize the well, in the**
59 **opinion of the majority of the parties entitled to participate in the operation, based on ownership, will be conducted. It is further**
60 **understood that if some, but not all, parties elect to participate in the additional logging, coring or testing, they may do so and the**
61 **party or parties not logging, coring or testing shall not be entitled to the logs, cores, or the results of the tests but shall suffer no**
62 **other penalty.**

63 **C. Non-Consent for Subsequent Wells:**

64 **If a party to this agreement elects or is deemed to have elected not to participate in the drilling or re-entry of any well that is**
65 **proposed to be drilled or re-entered on the Contract Area pursuant to this agreement, then, in lieu of the provisions set forth in**
66 **Article VI, Paragraph B2, and provided that such drilling or re-entry operations are commenced within the period required by**
67 **Article VI, Paragraph B 1, the non-participating party shall automatically forfeit and relinquish to the participating parties the**
68 **entirety of the non-participating party's interest in the well that is drilled or re-entered (or any substitute for same) vertically as to**
69 **all rights in depths from the surface to 100 feet below the deepest depth penetrated in such well and horizontally as to all lands**
70 **included within the regular or irregular proration or spacing unit designated therefor by filing with the applicable governmental**
71 **agency.**

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

1 authority, and shall cease to have further rights under this agreement as to the forfeited and relinquished lands. In the event the
2 proposed operation does not occur, then the non-participating party shall not be deemed to have forfeited or relinquished the
3 interest described in this Article XVI, Paragraph C and it shall be considered as if such proposal had not been made.

4 D. Hearings And Administrative Proceedings:

5 Operator shall act as the representative of all parties hereto in all hearing and proceedings before administrative bodies
6 concerning the Contract Area and, all costs and expenses incurred by Operator directly or by retention of outside personnel in
7 participation in such hearings or proceedings shall be a proper charge against the joint account; provided, however, that nothing
8 herein contained shall prohibit any of the parties other than Operator from participating in any such hearings or proceedings in his
9 or its behalf and at his or its own cost and expense.

11 E. Obligatory Operations:

12 The non-consent provisions of Article VI.B and Article XVI.D shall not be applicable to any well or operation which is
13 necessary to (1) perpetuate all or any part of a lease or leases, or interest therein; or (2) to comply with obligatory terms of lease
14 agreements, including, but not limited to those imposing penalties for failure to drill a well; or (3) to earn a lease or an additional
15 lease or leases, or interest therein, pursuant to any farmout or other agreement, if such well or operation is proposed within the last
16 three months of the termination or expiration date of any right or interest in such lease or agreement, or any extension thereof; or
17 (4) in which over fifty percent (50%) of parties by interest to whom a notice is delivered as provided in Article VI.B. I. or VI.C.I.
18 (Option No. 2) elect to participate (provided that one who has elected initially to go non-consent shall be provided an additional
19 notice after the 50% hurdle is reached and ten (10) days to change its election in light of the "required" status of the proposal). All
20 such wells or operations shall be considered a "required well" or a "required operation". As to any proposed required well or
21 required operation in which a party hereto elects to not participate, the non-participating party shall release and relinquish
22 forever, proportionately to the participating parties, all of non-participating party's interest in and to any such rights, leases or
23 agreements, or interest therein, which would be affected or perpetuated by such required well or required operation, together with
24 any lease, or interest therein pooled therewith to form a pooled or production unit for such well, or in the case of a "required well"
25 or "required operation" pursuant to (4) above, in the spacing unit applicable to the "required well" or "required operation" as
26 assigned for New Mexico Oil Conservation Division spacing and proration purposes. The interest in such leases or rights shall be
27 assigned by the non-participating party to the participating parties with special warranty of title and free of any interest or
28 additional burdens created after the date of this agreement. The interest so assigned shall no longer be subject to this agreement
29 but shall be subject to an agreement identical to this agreement modified to reflect the proper interests in the assigned acreage.
30 Such assignment shall be executed and delivered to the participating parties within thirty (30) days of the completing of the
31 required operations. Nothing herein shall be construed as requiring a relinquishment of such non-participating party's interest in
32 any producing wells or units. In the event of a conflict between the provisions of this Article XVI, Paragraph E and those of Article
33 XVI, Paragraph C above, the provisions of this Article XVI, Paragraph E shall prevail.

37 F. Depth Specific Operations:

38 If a well is drilled to the agreed objective depth and thereafter a proposal is made to either: a) deepen the well to a deeper
39 depth; or b) attempt a completion in any sand or horizon penetrated in such well; or c) subject to Article VI, Paragraph B.8,
40 rework the well as to any sand or horizon after production is established; and any party elects not to participate in such operation,
41 the costs for operations together with the penalty for failure to participate as provided under Article VI, Paragraph B.2 shall be
42 recouped only out of production obtained from the sands or horizons encountered below the original objective depth in any such
43 deepening operation or only from the particular sand or horizon specified in any such completion attempt or only from the sand or
44 horizon specified in any such reworking operations.

47 G. Waiver Of Jury Trial:

48 The parties hereto waive all rights to a trial by jury with respect to disputes or claims between the parties to this Agreement
49 and each: (i) contractually agrees that no jury demand or request will be filed by it and (ii) stipulates and agrees that this provision
50 may be specifically enforced by injunction and that each of the requirements for entry of an injunction enforcing this provision,
51 whether enforcement be negatively or affirmatively, exists, occurs and/or has been met. The parties hereto expressly do not waive
52 their rights to a bench trial with respect to disputes or claims between the parties to this Agreement.

54 H. Royalty Payments:

55 Notwithstanding anything to the contrary contained herein, unless and until otherwise agreed to in writing, Operator shall, for
56 the benefit of the joint account, render and make or cause, to be made timely payment if and when due, of all royalties, overriding
57 royalties or other payments out of production due lessors or others as listed on Exhibit "A" or under an appropriate division order
58 title opinion under the terms of the leases or other agreements affecting or comprising the Contract Area. Provided: (i) each party
59 shall bear and be responsible for its proportionate part of such payments by Operator; (ii) any party who exercises its right to take
60 production in kind under the provisions of this Agreement shall pay or deliver or cause to be paid or delivered all royalties,
61 overriding royalties, or other payments due on its share of production so taken and shall hold the other parties free from any
62 liability therefore and (iii) in no event shall Operator have any liability to the joint account or to third parties predicated in whole
63 or in part hereon, or have any liability to the parties for whom payments are, or were to be, made hereunder for any losses
64 sustained or liabilities incurred, INCLUDING LOSSES CLAIMED, SUSTAINED OR INCURRED AS A CONSEQUENCE OF
65 OPERATOR'S ORDINARY NEGLIGENCE OR AS A CONSEQUENCE OF LIABILITY NOT PREDICATED UPON FAULT
66 (SUCH THAT THIS PROVISION IS STIPULATED AND AGREED TO MEET THE EXPRESS NEGLIGENCE AND
67 CONSPICUOUS REQUIREMENTS APPLICABLE TO WAIVERS OF LIABILITY AND/OR INDEMNITIES), except such as
68 may result from Operator's gross negligence or willful misconduct.

71 I. Delay Rentals, Shut-In Royalties And Relinquishments:

72 A. Operator shall use its best efforts to notify each Non-Operator of its recommendation concerning the payment of
73 delay rentals or shut-in royalties under any leases, as they may fall due, in writing at least forty-five (45) days in advance of the date
74 when such payment is due. Non-Operator shall have fifteen (15) days from the receipt of such notice to respond in writing to such

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

1 recommendation. The failure of Non-Operator to timely respond shall be deemed its election to act in accordance with Operator's
2 recommendation.

3 B. In the event any party having the right to make an election, elects to relinquish its interest in any lease subject hereto
4 or not participate in a delay rental or shut-in royalty payment which one or more of the parties elects to make, and such payment is
5 actually made, then each party electing to so relinquish its interest and/or not participate in such payment ("Relinquishing Party")
6 shall promptly execute and deliver to the parties electing to participate therein and/or who made such payment, an assignment of all
7 the Relinquishing Party's right, title and interest in and to the lease for which such payment was made, Such leases shall no longer
8 be deemed subject to this Agreement, but shall be deemed subject to an agreement identical to this Operating Agreement reflecting
9 the proper owners and interests in such leases. Operator shall not be liable to Non-Operators for failure to timely or properly make
10 any delay rental or shut-in royalty payment.

11 J. Separate Measurement Facility:

12 In the event of a transfer, sale, encumbrance or other disposition of interest within the Contract Area that necessitates the
13 separate measurement of production, the party creating the necessity for such measurement shall alone bear the cost of purchase,
14 installation and operation of such facilities.

15 K. Confidentiality:

16 Any seismic data and other data or information with respect to the Contract Area, including, but not limited to, electric logs,
17 downhole surveys, core analyses and tests obtained by a party or the parties to this Agreement ("Confidential Information") shall
18 be held confidential and the parties shall take all appropriate measures to prevent the publication, dissemination or disclosure of
19 any Confidential Information, and reports or copies thereof, to any third party whomsoever until the termination of this Agreement
20 (hereafter any party may sell or trade the Confidential Information for its own benefit without any obligation to any other party
21 hereto); provided, however, that nothing herein shall prevent any party from disclosing any Confidential Information: (a) to any
22 institutional entity which lends or proposes to lend funds to a party hereto; (b) upon the order of any court or administrative or
23 regulatory agency; (c) which is in, or may hereafter enter, the public domain without breach of this Agreement; (d) which has been
24 obtained from any person or entity that is not a party hereto or an affiliate of any party hereto as long as such party is not
25 prohibited from disclosing such information; (e) in connection with the exercise of any right or remedy hereunder; (f) to any
26 independent geological, geophysical or reservoir consultants working under contract to any party hereto, as long as such
27 consultants agree to be bound by the confidentiality provisions hereof; or (g) for evaluation purposes to bona fide prospective
28 purchasers or prospective owners of equity interests in a party to this Agreement or to prospective farmoutees or participants in the
29 Contract Area, as long as such parties agree to be bound by the confidentiality provisions hereof.

30 L. Selling Of Production:

31 At and during such time or times as any Non-Operator is exercising the right to take in kind or separately dispose of its
32 proportionate share of the production as set forth in Article VI, Paragraph G hereof, such Non-Operator shall pay or arrange for
33 the payment of all production, severance, gathering, sales or similar taxes imposed upon such production. At and during such time
34 or times as Operator is purchasing or selling Non-Operator's proportionate part of the production, as set forth in Article VI,
35 Paragraph G hereof, Operator shall pay or arrange for the payment of all such production, severance, gathering, sales or similar
36 taxes imposed upon such production. In the event a party to this Agreement, including Operator, executes a contract for the
37 purchase of its gas produced hereunder, it shall use reasonable efforts to see that all other parties to this Agreement shall have the
38 right, but not the obligation, to become a party to such contract for the sale of its gas produced hereunder.

39 M. Bankruptcy:

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

46 N. Charges:

47 If the Operator under the Operating Agreement at any time subcontracts operations to a third party at rates or prices less than
48 the overhead rates prescribed by the Operating Agreement, then such overhead rates shall automatically reduce to the applicable
49 subcontracted rates for the duration of the subcontract of operations. It is contemplated that Operator, in the performance of its
50 duties as Operator under the captioned operating agreement, will retain the services of independent contractors on behalf of the
51 Joint Account. It is also contemplated that, to retain the services of such contractors, Operator will in some instances be required to
52 release and indemnify such contractors, and possibly their subcontractors, and their respective employees, agents and invitees, from
53 liability, INCLUDING WITHOUT LIMITATION, FROM LIABILITY FOR THE CONSEQUENCES OF SAID INDEMNITEES'
54 OWN NEGLIGENCE.

55 It is not the intention of the parties to this operating agreement that, where Operator has granted releases and indemnifications
56 to retain goods and services for the Joint Account, Operator should incur disproportionate, individual liability.

57 Therefore, to the extent of any and all indemnities granted by Operator, as Operator, to contractors, and possibly their
58 subcontractors, and their respective employees, agents and invitees, in connection with goods to be provided and services to be
59 performed for the Joint Account, it is agreed: (1) Non-Operators release Operator's indemnitees just as if the said Non-Operators
60 had ratified, approved and adopted the release provisions of Operator's contracts with said indemnitees relative to the Non-
61 Operators' losses, and (2) Non-Operators agree that losses to third parties arising out of indemnities granted by Operator shall be
62 obligations of the Joint Account, and be borne by all parties to the operating agreement in the same proportion as other expenses
63 are shared.

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

1 O. Deemed Non-Consent:

2 Should a party who has elected to participate in a subsequent operation proposed hereunder fail to pay the AFE costs
3 submitted with that proposed operation within thirty (30) days of the due date of same hereunder, Operator may (but shall never be
4 required to) elect to deem said party as having elected not to participate at the time of said non-paying parties' original election,
5 whereupon the party so deemed (retroactively) to have not elected to participate shall be subject to all of the provisions hereof just
6 as if said non-paying party had originally and expressly elected not to participate in said operation. Should Operator elect
7 hereunder to retroactively deem a non-paying party to have elected not to participate, Operator shall have the duty to offer that
8 interest to the other participating parties in accordance with the terms hereof applicable to other elections not to participate and
9 shall take such interest as the other participating parties do not elect to take.
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11 P. Limitation On Implementation Of Proposals For Drilling Of New Wells:

12 It is the intention of the parties hereto that, without the consent of all of said parties, no more than one (1) drilling rig shall be
13 drilling on the Contract Area, drilling or completing new wells, at any one time. Therefore, a proposal to drill a new well that
14 overlaps with the drilling and/or completion of a new well under a prior proposal shall be deemed to propose the drilling of said
15 new well immediately upon the completion of the drilling and completion (or abandonment) of the prior new well, it being the
16 intention of the parties hereto that a party may propose a subsequent well to be commenced immediately upon the cessation of the
17 drilling and completion of a prior new well (whether or not the same rig be utilized) and that the Operator shall not schedule more
18 than one (1) drilling rig on the Contract Area, drilling and/or completing new wells, at any one time.
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20 Q. Reversionary Working Interest:

21 The After Payout Reversionary Working Interest shall become automatically effective at 8:00 a.m., of the first day following
22 payout of the initial well. "Payout" shall mean that point in time when the Party's accrued Net Proceeds from production
23 attributable to the Party's Before Payout Interest in the initial well drilled by AMTEX ENERGY, INC., equals the Party's share of
24 actual costs incurred in drilling, testing, completing, equipping and operating such well, but shall not include any charges not
25 authorized under the terms and conditions of the Operating Agreement. The term "Net Proceeds" shall mean gross proceeds
26 from the sale of production from the initial well less: i) royalties, existing overriding royalties (including the Reserved
27 Override) and other Lease burdens existing on the Effective Date hereof not to exceed 31/150ths, and ii) taxes levied or assessed
28 against production.
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30 R. Conflict Between Provisions:

31 In the event of a conflict between the provision of this Article XVI and other provisions of this agreement, the provisions of
32 Article XVI shall control and prevail.
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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of April,
2 2011.

3 ~~_____ who has prepared and circulated this form for execution, represents and warrants~~
4 ~~that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form~~
5 ~~Operating Agreement, as published in computerized form by Forms On A Disk, Inc. No changes, alterations, or~~
6 ~~modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in~~
7 ~~Articles _____, have been made to the form.~~

6 ATTEST OR WITNESS:

OPERATOR

7 _____
8 _____
9 _____
10 _____

AMTEX ENERGY, INC.

8 _____ By _____

9 _____
10 _____
11 _____

William J. Savage
Type or print name

11 _____

Title President

12 _____

Date _____

13 _____

Tax ID or S.S. No. 76-0212911

14

15 NON-OPERATORS

16

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18 _____

CHAP EXPLORATION, LLC

19 _____

WILLIAM J. SAVAGE, Member

20

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ENDEAVOR ENERGY RESOURCES, L.P.
By: ENDEAVOR PETROLEUM, LLC
Its General Partner

23

24 _____

25

AUTRY C. STEPHENS
Sole Member

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28

DAVID C. COTNER

29

30 _____ By _____

31 _____
32 _____
Type or print name

33 _____
Title _____

34 _____
Date _____

35 _____
Tax ID or S.S. No. _____

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37 _____
By _____

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

1 _____
 2 _____ Type or print name
 3 _____ Title _____
 4 _____ Date _____
 5 _____ Tax ID or S.S. No. _____
 6 _____
 7 _____
 8 _____ By _____
 9 _____ Type or print name
 10 _____
 11 _____ Title _____
 12 _____ Date _____
 13 _____ Tax ID or S.S. No. _____
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6 modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in
7 Articles _____, have been made to the form.

8 ATTEST OR WITNESS:

OPERATOR

9 _____
10 _____

11 AMTEX ENERGY, INC.
12 By William J. Savage
13 William J. Savage
14 Type or print name

15 Title President

16 Date 5-5-2011

17 Tax ID or S.S. No. 76-0212911

18 NON-OPERATORS

19 _____
20 _____

CHAP EXPLORATION, LLC

21 William J. Savage
22 WILLIAM J. SAVAGE, Member

23 _____
24 _____

ENDEAVOR ENERGY RESOURCES, L.P.

By: ENDEAVOR PETROLEUM, LLC
Its General Partner

25 Autry C. Stephens
26 AUTRY C. STEPHENS
27 Sole Member

28 _____
29 _____

30 David Cotner
31 DAVID C. COTNER

32 _____

By _____

33 _____

Type or print name

34 _____

Title

35 _____

Date

36 _____

Tax ID or S.S. No.

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By _____

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

ACKNOWLEDGMENTS

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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.

Individual acknowledgment:

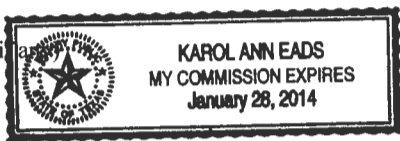
State of TEXAS)

) ss.

County of MIDLAND)

This instrument was acknowledged before me on

the 20th day of June, 2011 by DAVID C. COTNER.



Karol Ann Eads
Title (and Rank) Notary Public, state of Texas
My commission expires: 1/28/14

Acknowledgment in representative capacity:

State of TEXAS)

) ss.

County of MIDLAND)

This instrument was acknowledged before me on

the 5th day of May, 2011 by WILLIAM J. SAVAGE as

President of AMTEX ENERGY, INC., a Texas corporation, on behalf of said corporation.

(Seal, if any)

Karol Ann Eads
Title (and Rank) Notary Public, state of Texas
My commission expires: 1/28/14

Acknowledgement in representative capacity.

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on the 5th day of May, 2011, by William J. Savage, a member of CHAP EXPLORATION, LLC, a Texas limited liability company, on behalf of said company.

Karol Ann Eads
Notary Public, State of Texas

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

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Acknowledgement in representative capacity.

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on the 5th day of May April, 2011, by AUTRY C. STEPHENS, Sole Member of Endeavor Petroleum, L.L.C., a Texas limited liability company, in its capacity as General Partner of ENDEAVOR ENERGY RESOURCES, L.P., a Texas limited partnership, on behalf of said limited partnership.



Karol Ann Eads
Notary Public, State of Texas

EXHIBIT "A"

CONTRACT AREA:

"Teapot Lease"

LEASE:

Lease No.: V-928
Lessor: State of New Mexico
Lessee: AMTEX ENERGY, INC.
Owner/Agent: William J. Savage/Amtex Energy, Inc.
Date: 12/01/83
Legal Description: T18S, R34E, LEA COUNTY, NEW MEXICO,
Sec. 34: NW/4NE/4, S/2NE/4, SE/4,
280 acres, more or less.

LEASE:

Lease No.: V-7632
Lessor: State of New Mexico
Lessee: AMTEX ENERGY, INC.
Owner/Agent: William J. Savage/Amtex Energy, Inc.
Date: 11/01/05
Legal Description: T18S, R34E, LEA COUNTY, NEW MEXICO,
Sec. 34: NE/4NE/4
40 acres, more or less.

**INSOFAR, BUT ONLY INSOFAR, AS SAID LEASES COVER AND INCLUDE
THE LANDS DESCRIBED (the "ASSIGNED PREMISES").**

WORKING INTERESTS OF THE PARTIES**Teapot Well No. 2H**

	Owners	Costs Before Payout	Costs After Payout
1.	Chap Exploration, LLC P.O. Box 3445 Midland, Texas 79702 (817) 421-2534	.31	.47
2.	Endeavor Energy Resources, L.P. 110 N. Marienfeld, Suite 200 Midland, Texas 79701 (432) 687-1575	.64	.48
3.	David C. Cotner P.O. Box 2236 Midland, Texas 79702 (432) 559-0005	.05	.05

Teapot Well No. 1

	Owners	Costs Before Payout	Costs After Payout
1.	Chap Exploration, LLC P.O. Box 3445 Midland, Texas 79702 (817) 421-2534	.47	.47
2.	Endeavor Energy Resources, L.P. 110 N. Marienfeld, Suite 200 Midland, Texas 79701 (432) 687-1575	.48	.48
3.	David C. Cotner P.O. Box 2236 Midland, Texas 79702 (432) 559-0005	.05	.05



September 14, 2023

Sent via USPS: 7021-1970-0002-1732-6138

ENDEAVOR ENERGY RESOURCES, L.P.

Attn: Land Department

110 N. Marienfeld, Ste 200

Midland, Texas 79701

RE: **Horizontal New Drill Well Proposal – Teapot 34 #701H**

SHL: 1980' FEL X 150' FSL

W/2E/2 of Section 34, Township 18 South, Range 34 East, N.M.P.M., Lea County, New Mexico

Horizontal New Drill Well Proposal – Teapot 34 #702H

SHL: 660' FEL X 150' FSL

E/2E/2 of Section 34, Township 18 South, Range 34 East, N.M.P.M., Lea County, New Mexico

Dear Co-Owner:

Amtex Energy, Inc. (“Amtex”) hereby proposes the drilling and completion of two new wells:

- 1.) the **Teapot 34 #701H**, to a depth sufficient to adequately test the Wolfcamp A formation. The horizontal target depth will be approximately 10,970' +/- . This well shall be drilled horizontally from the South to the North on the W2E2 of Section 34, T-18S, R-34E, and drilled and completed with a total measured depth of 16,140' +/- . Included herewith is our Authority for Expenditure (“AFE”) in the total gross amount of \$10,773,632 being the total estimated cost to deepen and complete said formations.
- 2.) the **Teapot 34 #702H**, to a depth sufficient to adequately test the Wolfcamp A formation. The horizontal target depth will be approximately 10,970' +/- . This well shall be drilled horizontally from the South to the North on the E2E2 of Section 34, T-18S, R-34E, and drilled and completed with a total measured depth of 16,140' +/- . Included herewith is our Authority for Expenditure (“AFE”) in the total gross amount of \$10,773,632 being the total estimated cost to deepen and complete said formations.

Amtex is proposing these wells under the terms of that certain Operating Agreement dated 4/1/2011, covering the lands (“JOA”). If you elect to consent to participation in these proposed operations, please indicate as such on this ballot letter and sign and return the ballot letter and one copy of the AFE within 30 days of receipt of this notice. You may also email your response to ngraham@amtexenergy.com.

If you elect not to participate in the proposed wells, you shall be subject to the non-consent penalties of 500% surface equipment and 500% of the drilling, completion and well equipment, under Article VI.B.2(b) and further provisions under Article XVI.C of the JOA.

Should you have any questions, please do not hesitate to contact me at 817-720-5225.

Sincerely,

Nate Graham, CPL
Senior Landman



Teapot 34 WCA Well Proposals
September 14, 2023
Page 2

I/WE hereby elect to participate in the proposed operations of the Teapot 34 #701H.

I/WE hereby elect **NOT** to participate in the proposed operations of the Teapot 34 #701H

I/WE hereby elect to participate in the proposed operations of the Teapot 34 #702H

I/WE hereby elect **NOT** to participate in the proposed operations of the Teapot 34 #702H

By:  _____

Name: Eric Erickson _____

Title: VP of Corporate Planning & Strategy _____

Date: 10/10/2023 _____



AMTEX
ENERGY, INC.

Authorization for Expenditure

AFE #
Date: 9/14/2023
Prepared by: Riley T. Swanston

Lease: Teapot 34
Well No: 701H
County: Lea
State: NM
SHL: 1,980' FEL & 150' FSL
Legal: Section 34, T18S, R34E

Target: Wolfcamp A
Projected MD/TVD: 16,140' / 10,970'
Spud to TD: 21
Lateral Length: 4,900'
Stages: 40
Proppant/ft: 2,700

Project Description:

The proposed AFE is for a well to target the Wolfcamp A in Section 34 in Lea County, NM. 20" conductor pipe will be set at 120' and cemented in place. The surface section will be drilled with a 17.5" bit to 1,600', with 13-3/8" casing set and cemented to surface. The intermediate section will be drilled with a 12-1/4" bit to 4,500', with 9-5/8" casing set and cemented to surface. The curve and lateral will be drilled with a 8-1/2" bit to 16,014'. 5-1/2" casing will be run from surface to total depth. The well will be stimulated with 12.3MMlbs of sand over 40 stages. The plugs will be drilled out with a coil tubing unit. A subsurface pump will be ran and production will then commence. It is estimated that it will take 15 days to drill, and 7 days to stimulate.

Tangible Costs					
Code	Item	Drilling	Completion	Facility	
9301	20" Conductor	\$ 34,000			
9302	13.375" Casing 2,500 ft \$73.88/ft	\$ 118,208			
9303	9.625" Casing 10,780 ft \$59.27/ft	\$ 266,715			
9305	5.5" Casing 23,000 ft \$34.87/ft	\$ 558,408			
9306	2.875" Tubing 10,800 ft \$11/ft	\$ 75,790			
9307	Drilling Head	\$ 25,000			
9308	Tubing Head & Upper Sect	\$ 20,000			
9311	Artificial Lift Systems		\$ 287,000		
9313	Surface Pumps & Prime Movers			\$ 15,000	
9314	Tanks - Steel			\$ 80,000	
9315	Well Equipment-Other			\$ 18,750	
9316	Separation Equipment			\$ 70,000	
9318	Heater Treaters & Line Heaters			\$ 45,000	
9319	Metering Equipment			\$ 12,500	
9320	Line Pipe - Gas Gath & Transp			\$ 30,000	
9321	Misc/Fittings/Valves/Line Pipe			\$ 100,000	
9323	Electrical Installations			\$ 150,000	
9324	Production Equip. Installation			\$ 234,654	
9328	Flowlines			\$ 15,000	
Sub Total				\$ 2,156,025	
Intangible Costs					
9101	IDC-BCP - Permits And Surveys	\$ 5,000			
9102	IDC-BCP - Roads/Pits/Site Prep	\$ 200,000			
9104	IDC-BCP - Day Work,Turnkey Drill	\$ 465,000			
9105	IDC-BCP - Fuel	\$ 187,800			
9106	IDC-BCP - Mud	\$ 386,000			
9107	IDC-BCP - Chemicals & Additives	\$ 4,000			
9109	IDC-BCP - Log,Wireline & Coring	\$ -			
9110	IDC-BCP - Csg,Tubing & Snubbing				
9111	IDC-BCP - Mud Logging	\$ 15,215			
9112	IDC-BCP - Professional Fees				
9114	IDC-BCP - Water & Other	\$ 50,000			
9115	IDC-BCP - Bits	\$ 45,000			
9116	IDC-BCP - Inspect & Repair Svcs	\$ 40,000			
9118	IDC-BCP - Testing	\$ 16,000			
9120	IDC-BCP - Rig Mobilization	\$ 75,000			
9121	IDC-BCP - Trucking/Transport	\$ 50,000			
9122	IDC-BCP - Welding & Construct	\$ 10,000			
9123	IDC-BCP - Eng & Contract Supervi	\$ 5,000			
9124	IDC-BCP - Directional Services	\$ 225,000			
9125	IDC-BCP - Equip & Fish Rental	\$ 66,000			
9130	IDC-BCP - Pipeline,Electr Row				
9132	IDC-BCP - Company Supervision	\$ 60,000			
9136	IDC-BCP - Cemented Surf Casing	\$ 60,000			
9137	IDC-BCP - Cmtd Intermed Casing	\$ 70,000			
9138	IDC-BCP - Cmtd Production Casing	\$ 120,000			
9139	IDC-BCP - Technical Services	\$ 18,000			
9140	IDC-BCP - Csg Equipment	\$ 88,500			
9141	IDC-BCP - Miscellaneous	\$ 100,000			
9144	IDC-BCP - Environmental Safety	\$ 5,000			
9145	IDC-BCP - Mancamp	\$ 30,000			
9180	IDC-BCP - Contract Labor	\$ 54,000			
9207	IDC-ACP - Chemical & Additives		\$ 190,000		
9209	IDC-ACP - Log,Wireline,Cor,Perf		\$ 220,000		
9211	IDC-ACP - Professional Fees		\$ 5,000		
9212	IDC-ACP - Stimulation Services		\$ 4,300,000		
9213	IDC-ACP - Stim Rentals & Other		\$ 150,000		
9214	IDC-ACP - Fuel,Power,Water&Other		\$ 148,730		
9215	IDC-ACP - Bits		\$ 4,000		
9216	IDC-ACP - Inspect & Repair Svcs		\$ 12,000		
9219	IDC-ACP - Complet/Workover Rig		\$ 195,000		
9221	IDC-ACP - Trucking/Transport		\$ 40,000		
9222	IDC-ACP - Welding & Construction		\$ 2,000		
9223	IDC-ACP - Eng & Contract Supervi		\$ 40,000		
9224	IDC-ACP - Directional Services		\$ 60,000		
9236	IDC-ACP - Technical Services		\$ 4,000		
9241	IDC-ACP - Miscellaneous		\$ 50,000		
9244	IDC-ACP - Envir & Safety Cost		\$ 4,000		
9246	IDC-ACP - Packers,Plugs&Access		\$ 26,000		
9247	IDC-ACP - Coil Tubing Unit		\$ 150,000		
9250	IDC-ACP - Flowback Testing		\$ 70,000		
9251	IDC-ACP - Mancamp		\$ 25,000		
9252	IDC-ACP - Rental Equip Surface		\$ 56,000		
9254	IDC-ACP - Consulting Services		\$ 5,000		
9235	IDC-ACP - Contingency	\$ 122,526	\$ 287,837		
Sub Total				\$ 8,617,607	
Total Project Costs (less contingency) >>>		\$ 3,548,636	\$ 6,043,730	\$ 770,904	\$ 10,363,270
		Dry Hole	Completion	Facility	Total
Contingency (5% Intangible)		\$ 122,525.75	\$ 287,836.50	Total (with contingency)	\$ 10,773,632

*This Authorization for Expenditure is based on cost estimates. Billing will reflect your proportionate share of the actual invoice costs.



Authorization for Expenditure

AFE #
Date: 9/14/2023
Prepared by: Riley T. Swanston

Lease: Teapot 34
Well No: 702H
County: Lea
State: NM
SHL: 660' FEL & 150' FSL
Legal: Section 34, T18S, R34E

Target: Wolfcamp A
Projected MD/TVD: 16,140' / 10,970'
Spud to TD: 21
Lateral Length: 4,900'
Stages: 40
Proppant/ft: 2,700

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*This Authorization for Expenditure is based on cost estimates. Billing will reflect your proportionate share of the actual invoice costs.

Signature: _____

Date: 9/14/2023

Prepared by: Riley T. Swanston

Title: Drilling & Completions Engineer

Operator: Amtex Energy, Inc.

WI Owner: Endeavor Energy Resources

Date: 10/10/2023

Approved By:  _____

Title: VP of Corporate Planning & Strategy

Printed Name: Eric Erickson

District I
 1625 N. French Dr., Hobbs, NM 88240
 Phone:(575) 393-6161 Fax:(575) 393-0720

District II
 811 S. First St., Artesia, NM 88210
 Phone:(575) 748-1283 Fax:(575) 748-9720

District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 Phone:(505) 334-6178 Fax:(505) 334-6170

District IV
 1220 S. St Francis Dr., Santa Fe, NM 87505
 Phone:(505) 476-3470 Fax:(505) 476-3462

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

QUESTIONS
 Action 290084

QUESTIONS

Operator: Earthstone Operating, LLC 300 N. Marienfeld St Ste 1000 Midland, TX 79701	OGRID: 331165
	Action Number: 290084
	Action Type: [HEAR] Prehearing Statement (PREHEARING)

QUESTIONS

Testimony	
<i>Please assist us by provide the following information about your testimony.</i>	
Number of witnesses	1
Testimony time (in minutes)	<i>Not answered.</i>