

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

**APPLICATION OF CML EXPLORATION,
LLC FOR APPROVAL OF A WATERFLOOD
FOR APPROVAL OF A PRODUCED WATER
PROJECT, LEA COUNTY, NEW MEXICO**

Case No. 21046

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Application

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11. West to East Cross Section
12. Hydrology Certification
13. Water Analysis Report
14. Updated Reserves Data
15. Economic Analysis as of January 1, 2020

From: Dawson, Scott <sdawson@slo.state.nm.us>
Sent: Thursday, October 31, 2019 2:11 PM
To: Gary Larson <glarson@hinklelawfirm.com>
Subject: RE: CML Exploration Waterflood

Gary,

You are correct – since there is only one lease involved – there is no need for a Unitization agreement. We do not have 2 leases to consolidate.

Please let me know if you may need anything else.

Scott Dawson

*Petroleum Specialist Advanced
Certified Professional Geologist
Units Manager*
(505)827-5791
New Mexico State Land Office
Oil, Gas and Minerals Division
310 Old Santa Fe Trail
Santa Fe, NM 87501
or
P.O. Box 1148
Santa Fe, NM 87504-1148
sdawson@slo.state.nm.us
www.nmstatelands.org

Case No. 21046

CML EXPLORATION
Exhibit #2



OPEN FOR BUSINESS

Agriculture
Land Stewardship
Renewable Energy
Outdoor Recreation
Oil, Gas, and Minerals
Business Development

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From: Gary Larson [<mailto:glarson@hinklelawfirm.com>]
Sent: Tuesday, October 29, 2019 2:21 PM
To: Dawson, Scott <sdawson@slo.state.nm.us>
Cc: Dana Hardy <dhardy@hinklelawfirm.com>
Subject: CML Exploration Waterflood

Scott,

As we just discussed, I'm forwarding the property description and lease information for CML Exploration's proposed Maljamar Cisco Waterflood Project. The waterflood will be comprised of 640 acres, more or less, of the following lands:

Township 17 South, Range 33 East, Lea County, New Mexico

Section 9: NE/4SW/4, N/2SE/4 and SE/4SE/4

Section 10: SW/4 and S/2SE/4

Section 11: SW/4SW/4

Section 15: N/2NW/4, SE/4NW/4 and W/2NE/4

INSOFAR and ONLY INSOFAR as to the Cisco Formation

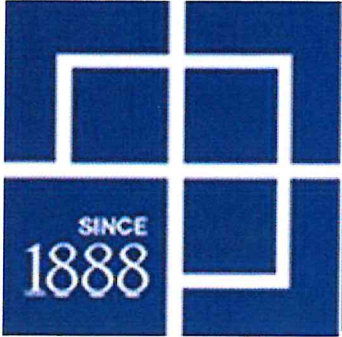
Oil and Gas Lease

State of New Mexico B-2229-1 dated November 10, 1933 from the State of New Mexico to Phillips Petroleum Company

Based on our conversations, it's my understanding that the State Land Office will not require CML to form a state waterflood unit because the proposed waterflood project involves only one state lease.

Thanks for your help in answering my questions. Let me know if you need any additional information.

Gary



Gary W. Larson,
Partner
Hinkle Shanor LLP
218 Montezuma
Santa Fe, New Mexico 87501
(505) 982-4554 telephone
(505) 982-8623 facsimile
glarson@hinklelawfirm.com

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

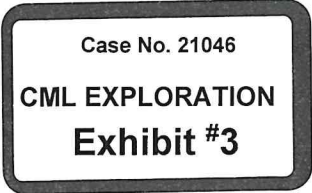
MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED: August 1, 2019

OPERATOR: CML Exploration, LLC
CONTRACT AREA: Maljamar Cisco Waterflood
COUNTY OR PARISH Lea County OF 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



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OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

I. DEFINITIONS

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

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

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.

II. EXHIBITS

Exhibit "A"

Exhibit "B," Form of Lease

1 Exhibit "C," Accounting Procedure

2 Exhibit "D," Insurance

3 ~~Exhibit "E," Gas Balancing Agreement~~

4 Exhibit "F," Non-Discrimination and Certification of Non-Segregate

5 ~~Exhibit "G," Tax Partnership~~

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

7 ~~Other Exhibits~~

8 III. INTERESTS OF PARTIES

9 A. Oil and Gas Interests:

10 If any party owns an Oil and Gas Interest in the Contract Area, that Interest shall be treated for all purposes of this agreement and during
11 the term hereof as if it were covered by ~~in the form of~~ Oil and Gas Lease in a mutually acceptable form with a 1/4th royalty attached hereto
12 as ~~Exhibit "B,"~~ and the owner thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.

13 B. Interests of Parties in Costs and Production:

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

18 Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be payable
19 and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered, all burdens
20 on its share of the production from the Contract Area up to, but not in excess of 12%, and shall indemnify, defend and hold the other parties
21 free from any liability therefor. Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or
22 Interest which is burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts
23 stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend and hold the
24 other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the Drilling Unit for the
25 productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on
26 production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and
27 shall indemnify, defend and hold the other parties free from any liability therefor.

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

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

34 C. Subsequently Created Interests:

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

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

50 IV. TITLES

51 A. Title Examination:

52 Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in
53 interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum
54 anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty
55 and production payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the
56 Drillsite or Drilling Unit, if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title
57 papers and cumulative material in its possession free of charge. All such information not in the possession of or made available to Operator by
58 the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by
59 attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party upon written
60 request. Costs incurred by Operator in procuring abstracts, fees paid outside attorneys for title examination (including preliminary,

supplemental, shut-in royalty opinions and division order title opinions) as well as fees paid to Landmen for preparation of contracts, well locations, title runsheets and acquisition of title curative and other direct charges as provided in Exhibit "C" shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Operator shall be responsible for securing curative matter and pooling amendments or agreements required in connection with Leases or Oil and Gas Interests contributed by each such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings. Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

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

B. Loss or Failure of Title:

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

~~The party credited with contributing the Oil and Gas Lease or Interest affected by the title failure (including, if applicable, a successor in interest to such party) shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have previously paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure; There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the Lease or Interest which has failed, but the interests of the parties contained on Exhibit "A" shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose Lease or Interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the Lease or Interest failed;— If the proportionate interest of the other parties hereto in any producing well previously drilled on the Contract Area is increased by reason of the title failure, the party who bore the costs incurred in connection with such well attributable to the Lease or Interest which has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well attributable to such failed Lease or Interest;— Should any person not a party to this agreement, who is determined to be the owner of any Lease or Interest which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;— Any liability to account to a person not a party to this agreement for prior production of Oil and Gas which arises by reason of title failure shall be borne severally by each party (including a predecessor to a current party) who received production for which such accounting is required based on the amount of such production received, and each such party shall severally indemnify, defend and hold harmless all other parties hereto for any such liability to account;— No charge shall be made to the joint account for legal expenses, fees or salaries in connection with the defense of the Lease or Interest claimed to have failed, but if the party contributing such Lease or Interest hereto elects to defend its title it shall bear all expenses in connection therewith; and If any party is given credit on Exhibit "A" to a Lease or Interest which is limited solely to ownership of an interest in the wellbore of any well or wells and the production therefrom, such party's absence of interest in the remainder of the Contract Area shall be considered a Failure of Title as to such remaining Contract Area unless that absence of interest is reflected on Exhibit "A."~~

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

~~Proceeds of Oil and Gas produced prior to termination of the Lease or Interest, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, previously accrued to the credit of the lost Lease or Interest, on an acreage basis, up to the amount of unrecovered costs; Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination, would be attributable to the lost Lease or Interest on an acreage basis and which as a result of such Lease or Interest termination is credited to other parties, the proceeds of said portion of the Oil and Gas to be contributed by the other parties in proportion to their respective interests reflected on Exhibit "A"; and, Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~

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

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

V. OPERATOR

A. Designation and Responsibilities of Operator:

CML Exploration, LLC 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 except such as may result from gross negligence or willful misconduct.

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

1. ~~Resignation or Removal of Operator:~~ Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, 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 ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

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

to this agreement, during the period of time the operating committee controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest in the Contract Area based on Exhibit "A."

C. Employees and Contractors:

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

D. Rights and Duties of Operator:

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

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

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

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

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

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

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

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

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

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

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

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

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

1 VI. DRILLING AND DEVELOPMENT

2 A. Initial Operation Well:

3 On or before December 31, 2020, Operator shall commence the conversion of the Beams 15 State No. 3 Well to an injection well for the
4 purpose of injecting water into the Cisco Formation, drilling of the Initial Well at the following location:

5 ~~and shall thereafter continue the drilling of the well with due diligence to~~

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

8 B. Subsequent Operations:

9 1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area ~~other than the Initial Well~~, or if
10 any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of
11 producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under
12 this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written
13 notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone under this
14 agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be performed, the
15 location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a notice is delivered
16 shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to
17 participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack,
18 Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours,
19 exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period
20 above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a
21 party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in
22 the manner provided in Article VI.B.6.

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

39 2. Operations by Less Than All Parties:

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

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

70 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the
71 Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties
72 shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or
73 arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and
74 VI.E.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense;
75 provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall
76 remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface
77 location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled,

1 Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of
2 producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole
3 cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated
4 by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking,
5 Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions
6 of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties
7 shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the
8 well and share of production therefrom or, in the case of a Reworking, Sidetracking, Deepening, Recompleting or Plugging Back,
9 or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-Consenting Party's interest in the production obtained
10 from the operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be effective until the
11 proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting applicable
12 ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other interests not excepted by Article III.C.
13 payable out of or measured by the production from such well accruing with respect to such interest until it reverts), shall equal the
14 total of the following:

15 i. 200% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead
16 connections (including but not limited to stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such
17 Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such
18 Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-
19 Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-
20 Consenting Party had it participated in the well from the beginning of the operations; and

21 ii. 400% of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing,
22 Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) that portion of the
23 cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to
24 such Non-Consenting Party if it had participated therein.

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

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

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

50
51 In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening operation, the Consenting Parties shall be
52 permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall
53 remain unchanged; and upon abandonment of a well after such Reworking, Sidetracking, Plugging Back, Recompleting or
54 Deepening, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its
55 proportionate part in kind or in value, less cost of salvage.

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

71
72 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above,
73 the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the first day of the month
74 following the month in day on which such recoupment occurs, and, from and after such reversion, such Non-Consenting Party shall
75 own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-
76 Consenting Party would have been entitled to had it participated in the drilling, Sidetracking, Reworking, Deepening, Recompleting
77 or Plugging Back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of
78 the further costs of the operation of said well, including plugging costs, costs of surface restoration and any damages, in accordance
79 with the terms of this agreement and Exhibit "C" attached hereto.

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

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

9 In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party may
10 request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in Article VI.B.1.
11 within which to respond by paying for all stand-by costs and other costs incurred during such extended response period; Operator
12 may require such party to pay the estimated stand-by time in advance as a condition to extending the response period. If more than
13 one party elects to take such additional time to respond to the notice, standby costs shall be allocated between the parties taking
14 additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the
15 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 pursuant to
17 Article VI.B.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article VI.B.2. shall relate
18 only and be limited to the lesser of (i) the total depth actually drilled or (ii) the objective depth or Zone of which the parties were
19 given notice under Article VI.B.1. ("Initial Objective"). Such well shall not be Deepened beyond the Initial Objective without first
20 complying with this Article to afford the Non-Consenting Parties the opportunity to participate in the Deepening operation.
21

22 In the event any Consenting Party desires to drill or Deepen a Non-Consent Well to a depth below the Initial Objective, such party
23 shall give notice thereof, complying with the requirements of Article VI.B.1., to all parties (including Non-Consenting Parties).
24 Thereupon, Articles VI.B.1. and 2. shall apply and all parties receiving such notice shall have the right to participate or not
25 participate in the Deepening of such well pursuant to said Articles VI.B.1. and 2. If a Deepening operation is approved pursuant to
26 such provisions, and if any Non-Consenting Party elects to participate in the Deepening operation, such Non-Consenting party shall
27 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 quantities,
29 such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) that share of costs and expenses
30 incurred in connection with the drilling of said well from the surface to the Initial Objective which Non-Consenting Party would
31 have paid had such Non-Consenting Party agreed to participate therein, plus the Non-Consenting Party's share of the cost of
32 Deepening and of participating in any further operations on the well in accordance with the other provisions of this Agreement;
33 provided, however, all costs for testing and Completion or attempted Completion of the well incurred by Consenting Parties prior to
34 the point of actual operations to Deepen beyond the Initial Objective shall be for the sole account of Consenting Parties.

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

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

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

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

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

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

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

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

C. Completion of Wells; Reworking and Plugging Back:

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

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

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

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

D. Other Operations:

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \$50,000 except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of \$50,000. Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 51% of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

E. Abandonment of Wells:

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

2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed abandonment shall be deemed an election

to consent to the proposal. If, within sixty (60) days after delivery of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession of such well and plug and abandon the well.

Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's salvageable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby ~~such lease to be on the form attached as Exhibit "B."~~ The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

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

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

F. Termination of Operations:

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

G. Taking Production in Kind:

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

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

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

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

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

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

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

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

7 Each party has the right to take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the Contract
8 Area, exclusive of production which may be used in development and producing operations and in preparing and treating Oil and Gas for
9 marketing purposes and production unavoidably lost with ninety (90) days advance written notice to Operator. Any extra expenditures
10 incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne solely by such
11 party. Any party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's
12 surface facilities which it uses. Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in
13 production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the
14 purchaser thereof for its share of all production.

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

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

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

36 **VII. EXPENDITURES AND LIABILITY OF PARTIES**

37 **A. Liability of Parties:**

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

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

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

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

67 Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties
68 shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons
69 acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or under such party. All parties acquiring
70 an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement, whether by assignment, merger, mortgage, operation

1 of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article VII.B. as to all
2 obligations attributable to such interest hereunder whether or not such obligations arise before or after such interest is acquired.

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

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

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

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

30 C. Advances:

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

39 D. Defaults and Remedies:

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

47 1. Suspension of Rights: Any party may deliver to the party in default a Notice of Default, which shall specify the default,
48 specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one or
49 more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such Notice of
50 Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the default is cured,
51 without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of the defaulting party
52 previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the Non-Operators shall have in
53 addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area after excluding the voting interest of
54 Operator, to appoint a new Operator effective immediately. The rights of a defaulting party that may be suspended hereunder at the
55 election of the non-defaulting parties shall include, without limitation, the right to receive information as to any operation
56 conducted hereunder during the period of such default, the right to elect to participate in an operation proposed under Article VI.B.
57 of this agreement, the right to participate in an operation being conducted under this agreement even if the party has previously
58 elected to participate in such operation, and the right to receive proceeds of production from any well subject to this agreement.

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

63 3. Deemed Non-Consent: The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting
64 party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in which event if the
65 billing is for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has
66 been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to
67 have elected not to participate in the operation and to be a Non-Consenting Party with respect thereto under Article VI.B. or VI.C.,
68 as the case may be, to the extent of the costs unpaid by such party, notwithstanding any election to participate theretofore made. If
69 election is made to proceed under this provision, then the non-defaulting parties may not elect to sue for the unpaid amount
70 pursuant to Article VII.D.2. Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall
71 have the right to cure its default by paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided,
72 however, such payment shall not prejudice the rights of the non-defaulting parties to pursue remedies for damages incurred by the

non-defaulting parties as a result of the default. Any interest relinquished pursuant to this Article VII.D.3. shall be offered to the non-defaulting parties in proportion to their interests, and the non-defaulting parties electing to participate in the ownership of such interest shall be required to contribute their shares of the defaulted amount upon their election to participate therein.

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

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

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

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

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

F. Taxes:

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

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

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

VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

1 bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth,
2 then the interest assigned shall similarly reflect such variances.

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

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

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

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

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

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

30 **C. Acreage or Cash Contributions:**

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

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

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

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

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

49 Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be
50 made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and Gas Lease or Interest
51 shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of the transfer of ownership;
52 provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any
53 purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof
54 in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations
55 previously incurred by such party hereunder with respect to the interest transferred, including without limitation the obligation of a party to
56 pay all costs attributable to an operation conducted hereunder in which such party has agreed to participate prior to making such
57 assignment, and the lien and security interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment
58 of any such obligations. If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its
59 discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures,
60 receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-
61 owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the
62 right to enter into and execute all contracts or agreements for the disposition of their respective shares of the Oil and Gas produced from the
63 Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

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

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

F. Preferential Right to Purchase:

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

IX. INTERNAL REVENUE CODE ELECTION

If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

X. CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed fifty thousand, USD (\$50,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

XI. FORCE MAJEURE

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

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

XII. NOTICES

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

1 **XIII. TERM OF AGREEMENT**

2 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
3 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
4 Oil and Gas Interest contributed by any other party beyond the term of this agreement.

5 ~~o 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~~
6 ~~Contract Area, whether by production, extension, renewal or otherwise.~~

7 o Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement,
8 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
9 force so long as any such well is capable of production, and for an additional period of 365 days thereafter; provided, however, if, prior to
10 the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking,
11 Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until
12 such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the
13 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
14 producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-
15 completing, Plugging Back or Reworking operations are commenced within 365 days from the date of abandonment of said well.
16 "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
17 elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

18 The termination of this agreement shall not relieve any party hereto from any expense, liability or other obligation or any remedy therefor
19 which has accrued or attached prior to the date of such termination. Upon termination of this agreement and the satisfaction of all
20 obligations hereunder, in the event a memorandum of this Operating Agreement has been filed of record, Operator is authorized to file of
21 record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to
22 Operator's interest, upon request of Operator, if Operator has satisfied all its financial obligations.

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

24 **A. Laws, Regulations and Orders**

25 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
26 orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules,
27 regulations and orders.

28 **B. Governing Law:**

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

32 **C. Regulatory Agencies:**

33 Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or
34 obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in
35 reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the
36 Contract Area. With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages,
37 injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or
38 application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor
39 or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each
40 Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other
41 governmental sanction that Operator may be required to pay as a result of such an incorrect interpretation or application, together with
42 interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

43 **XV. MISCELLANEOUS**

44 **A. Execution:**

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

58 **B. Successors and Assigns:**

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

62 **C. Counterparts:**

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

2 **D. Severability:**

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

6 **XVI. OTHER PROVISIONS**

7 **ARTICLE XVI.**

8

9 **OTHER PROVISIONS**

10

11 **A. WELL CONTROL INSURANCE:**

12

13 The interest of each party hereto shall be included in Operator's Control of Well Insurance policy
14 and a proportionate part of the cost of such insurance shall be borne by the respective parties
15 unless Operator is notified otherwise in writing and provided a Certificate of Insurance prior to
16 the spudding of the well or prior to any operations to be performed on a well.

17

18 **B. EXECUTION OF OPERATING AGREEMENT:**

19

20 Failure to execute this agreement by any party for whom a signatory space is provided shall not
21 render it ineffective as to any party hereto which does execute same. Furthermore, if
22 counterparts of this agreement are executed, the signatures and acknowledgements of the parties,
23 as affixed thereto, may be combined by Operator in, and treated and given effect for all purposes,
24 as a single instrument. This agreement may also be ratified by separate instrument referring
25 hereto, each of which shall have the effect of the original agreement and of adopting by reference
26 all of the provisions herein contained.

27

28 **C. FILINGS AND APPLICATIONS:**

29

30 To the extent permitted by law, the Parties to this agreement designate Operator to be their agent
31 in connection with all filings of applications, reports, etc. required by each and every Federal or
32 State regulatory body, commission or agency having regulatory jurisdiction over the oil and/or
33 gas produced from the Contract Area, including but not limited to any filings with F.E.R.C. or
34 other of the Natural Gas Policy Act and other energy legislation or the regulations which may
35 have been issued by any such governmental body pursuant thereto; provided, however, that all
36 Parties agree to indemnify and hold harmless Operator from any loss, risk, cost and expense
37 resulting from Operator's making such filings on their behalf and, in particular, each party agrees
38 to bear and be responsible for its share of any refund obligation which may become due in the
39 event any such governmental body should determine that prices received in the sale of oil or gas
40 exceed the maximum price permitted by law.

41

42 **D. COST ALLOCATION:**

43

1 All costs and expenses for outside title attorneys and/or landmen in the preparation of contracts,
2 locations, title run sheets, examination of title or curing of title defects will be charged to the
3 Joint Account. If the Operator is required hereunder to pay ad valorem taxes based in whole or
4 in part upon separate valuations of each Party's working interest, charges to the Joint Account
5 will be made and paid by the Parties in accordance with the tax generated by each Party's
6 working interest.

7

8 **E. REPRESENTATION:**

9

10 Operator will act as the representative of all parties in all hearings and proceedings before
11 administrative bodies concerning the Contract Area, and costs and expenses incurred by Operator
12 directly or by retention of outside personnel in participating in such hearings or proceedings will
13 be promptly charged against the Joint Account; provided, however, that nothing herein contained
14 will prohibit any Party other than Operator from participating in any such hearing or proceeding
15 on its own behalf and at its own expense.

16

17 **F. RELEASE OF OPERATOR:**

18

19 Non-Operator releases Operator from any and all losses, damages, injuries, claims and causes of
20 action arising out of, incident to or resulting directly or indirectly from Operator's interpretation
21 or application of rules, rulings, regulations or orders of any Federal, State, local or other
22 governmental agency to the extent Operator's interpretation or application of such rules, rulings,
23 regulations or orders were made in good faith. Non-Operator agrees to reimburse Operator for
24 its proportionate share of any amounts Operator may be required to refund, rebate or pay as a
25 result of an incorrect interpretation or application of the above noted rules, rulings, regulations or
26 orders, together with Non-Operator's proportionate part of interest and penalties owing by
27 Operator as a result of such incorrect interpretation or application of such rules, rulings,
28 regulations or orders.

29

30 **G. DELAY RENTALS AND SHUT-IN ROYALTIES RECOMMENDATIONS:**

31

32 Operator is hereby authorized by Non-Operators to unilaterally make all decisions concerning
33 the payment of delay rentals or shut-in royalties under any leases subject hereto, as they may fall
34 due, and Non-Operators shall be deemed to have elected to act in accordance with Operator's
35 recommendation and hereby agrees to pay their proportionate share, as set forth in Exhibit "A"
36 hereto, of such expenditures.

37

38 **H. SALE OR ASSIGNMENT OF INTEREST:**

39

40 Any sale, assignment, transfer or disposition of interest hereunder shall be made subject to and in
41 accordance with the terms and provisions hereof and of the agreements and leases subject
42 hereto. The terms, covenants and conditions of this agreement shall be covenants running with
43 the lands hereby and the leasehold estates therein and with each sale, assignment or transfer of
44 said lands or leasehold estates. A sale, assignment or transfer of interest by any party hereto will
45 not relieve or release such party of its obligations previously incurred hereunder. The assigning
46 shall be and remain liable for the obligations incurred by it prior to the date of the sale,

1 assignment or transfer until all monies due and accounts payable accruing to such party out of
2 the development and operations of the lease(s) subject hereto shall have been paid in full by the
3 party assigning its interest and the parties hereto have been furnished with a certified copy of the
4 recorded instrument evidencing such sale, assignment or transfer.

5

6 **I. PRIORITY OF OPERATIONS:**

7

8 If at any time there is more than one operation proposed in connection with any well subject to
9 this agreement, then, unless all participating parties agree on the sequence of such operations,
10 such proposals shall be considered and disposed of in the following order of priority:

11

- 12 i. Attempt additional logging, coring or testing;
- 13 ii. In the event the majority of the Working Interest Owners desire to complete the
14 well in a zone deeper than the objective zone, then an attempt to complete at the deeper zone will
15 be made;
- 16 iii. Attempt to complete the well at the objective zone;
- 17 iv. Attempt to rework the well in a zone in which there has been a previous completion;
- 18 v. Attempt to plug the well back and complete in a formation above the objective
19 depth;
- 20 vi. Attempt to deepen the well to a new objective depth;
- 21 vii. Attempt to sidetrack the well; or
- 22 viii. Attempt to plug and abandon the well.

23

24 Notwithstanding anything elsewhere in this Agreement to the contrary, if a proposal to conduct
25 further open-hole logging, coring and/or testing is the first operation which will be conducted, in
26 accordance with the foregoing provisions of this Article, the a Non-Consenting Party to such
27 logging, coring and/or testing shall not have any rights to the data obtained by such operation and
28 no Consenting Party shall provide such data to a Non-Consenting Party without unanimous
29 consent of the other Consenting Parties.

30

31 **J. OPERATORS RIGHT TO RECEIVE AND NET OUT REVENUE:**

32

33 In addition to the remedies provided in Article VII.B and D., upon default (i.e. failure to
34 discharge any financial obligation under this Agreement within the time period provided) by any
35 Non-Operator, Operator shall have the right (while said Non-Operator is in default) to receive
36 from all purchasers of production the proceeds attributable to the interest of said defaulting Non-
37 Operator(s), and said Non-Operator(s) hereby agree to authorize and direct the purchaser(s) of
38 production, and do hereby authorize and direct the purchaser(s) under such circumstance, to
39 make direct payment to Operator of their respective shares of all proceeds from the sale of
40 production from defaulting parties interests covered by this agreement. Operator is authorized to
41 deduct each month from the proceeds so received from the purchasers of production all operating
42 costs and charges assessable to said Non-Operator(s) permitted under this agreement, and remit
43 to the Non-Operator(s) their respective net share of proceeds.

1

2 **K. PRODUCTION IN KIND:**

3

4 Each party electing to take in kind or separately dispose of its proportionate share of production
5 from the Contract Area shall keep accurate records of volume, selling price, royalty and taxes
6 relative to its share of production.

7

8 **L. WHICH PARTIES HAVE CONSENT:**

9

10 Whenever the consent of all parties is required under the provisions of this agreement, it means
11 the consent of all parties having a cost interest in the well involved at the time such consent is
12 required of all parties who are participating in an operation which requires consent.

13

14 **M. SEPARATE MEASURE FACILITY:**

15

16 In the event of a transfer, sale, encumbrance or other disposition of interest within the Contract
17 Area which necessitates the separate measurement of production, the party creating the necessity
18 for such measurement shall alone bear the cost of purchase, installation and operation of such
19 facilities.

20

21 **N. BANKRUPTCY:**

22

23 If, following the granting of relief under the Bankruptcy Code to any Party hereto as debtor
24 thereunder, this agreement shall be held to be an executory contract within the meaning of 11
25 U.S.C. S365, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party,
26 shall be entitled to a determination by debtor or any trustee for debtor within thirty (30) days
27 from the date an order for relief is entered under the Bankruptcy Code as to the rejection or
28 assumption of this agreement. In the event of an assumption, Operator or other said party shall
29 be entitled to adequate assurances as to future performance of debtor's obligation hereunder and
30 the protection of the interest of all other parties.

31

32 **O. REWORK, DEEPEN OR PLUG BACK, PRODUCING WELL:**

33

34 No well which is producing in paying quantities shall be reworked, deepened or plugged back
35 without the approval of parties owning at 75% working interest in such well in the aggregate. A
36 party who has elected not to approve of such operations may nonetheless consent to the
37 conducting of such operations after the 75% approval has been obtained.

38

39 **P. SUBSEQUENT OPERATIONS:**

40

1 If at least 75% of the working interest in the well, including but not limited to the existing
2 producing horizon, elect to participate in a recompletion attempt, the provisions of Article VI.B.2
3 shall apply to the operations thereafter conducted by less than all parties; provided, however, that
4 Article VI.B.2 shall apply separately to each recompletion attempt undertaken hereunder; and an
5 election to become a Non-Consenting Party as to one recompletion attempt shall not prevent a
6 party from becoming a Consenting Party in subsequent recompletion attempts regardless of
7 whether the Consenting Parties as to earlier recompletions have recouped their costs pursuant to
8 Article VI.B.2, provided further, that any recoupment of costs by a Consenting Party shall be
9 made solely from the production attributable to the zone in which the recompletion attempt is
10 made. An election by a previous Non-Consenting Party to participate in a subsequent
11 recompletion attempt shall require such a party to pay its proportionate share of the cost of
12 salvageable materials and equipment installed in the well pursuant to the previous completion or
13 recompletion attempt, insofar and only insofar as such materials and equipment benefit the zone
14 in which such party participates in a completion attempt. For the purposes hereof, "zone" is
15 defined as the interval in the wellbore to be perforated. It is understood and agreed that any
16 owner in the well, including but not limited to the producing horizon may propose the
17 subsequent operation contemplated herein.

18

19 **Q. GAS AND OIL MARKETING:**

20

21 Notwithstanding anything to the contrary herein, Operator hereby agrees that in the marketing of
22 its share of the gas and/or oil under this agreement that Non-Operator shall have the option to
23 market its share of the gas and/or oil under the same terms and conditions hereby offered the
24 Operator. Failure by Non-Operator to elect to market its gas and/or oil under a separate contract
25 or arrangement shall serve as an election to market its share of gas and/or oil under the
26 Operator's contract or arrangement.

27

28 **R. CONFLICTS BETWEEN PROVISIONS:**

29

30 In the event of a conflict between the provisions of Article XVI. and other provisions of the
31 Operating Agreement, then the provisions of Article XVI. shall control and prevail.

32

33 **S. PRIOR OPERATING AGREEMENTS:**

34

35 The parties hereto agree that if the Contract Area and depths covered by this Agreement, or any
36 portion thereof, are presently subject to any other operating agreement, this Operating
37 Agreement shall replace, supersede and be in lieu of such other existing operating agreement(s),
38 as between the parties hereto, and as to the Contract Area and depths covered hereby.

39

40

41 **END OF ARTICLE XVI.**

42

43

1

2 IN WITNESS WHEREOF, this agreement shall be effective as of Thursday, August 1, 2019. ~~who has prepared and circulated this form~~
3 ~~for execution, represents and warrants that the form was printed from and, with the exception(s) listed below is identical to the AAPL Form~~
4 ~~610-1489 Model Form Operating Agreement, as published in computerized form by AAPL. No changes, alterations, or modifications, other~~
5 ~~than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles, have been made to the form.~~

ATTEST OR WITNESS:

OPERATOR: CML Exploration, LLC

By



By

Name Kenneth C. Nelson

Title Manager

Date

TaxID

By: _____

6

7

NON-OPERATORS

ATTEST OR WITNESS:

NON-OPERATOR NAME: Patterson Petroleum LLC

By

By

Name

Title

Date

TaxID

By: _____

8

ATTEST OR WITNESS:

NON-OPERATOR NAME: IDC Enterprises, Ltd.

By

By

Name

Title

Date

TaxID

9

ATTEST OR WITNESS:

NON-OPERATOR NAME: JRR Operating, LLC

By

By

Name

Title

Date

TaxID

10

ATTEST OR WITNESS:

NON-OPERATOR NAME: Highland (Texas) Energy Company

1

2

3

4

5

IN WITNESS WHEREOF, this agreement shall be effective as of Thursday, August 1, 2019. ~~who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception(s) listed below is identical to the AAPL Form 610-1989 Model Form Operating Agreement as published in computerized form by AAPL. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles, have been made to the form.~~

ATTEST OR WITNESS:

OPERATOR: CML Exploration, LLC

By

By

Name Kenneth C. Nelson

Title Manager

Date

TaxID

By: _____

6

7

NON-OPERATORS

ATTEST OR WITNESS:

NON-OPERATOR NAME: Patterson Petroleum LLC

By

Kenneth Berns

By

Name Kenneth Berns

Title

President

Date

8/28/19

TaxID

By: _____

8

ATTEST OR WITNESS:

NON-OPERATOR NAME: IDC Enterprises, Ltd.

By

By

Name

Title

Date

TaxID

9

ATTEST OR WITNESS:

NON-OPERATOR NAME: JRR Operating, LLC

By

By

Name

Title

Date

TaxID

10

ATTEST OR WITNESS:

NON-OPERATOR NAME: Highland (Texas) Energy Company

1

2

3

4

5

IN WITNESS WHEREOF, this agreement shall be effective as of Thursday, August 1, 2019. ~~who has prepared and signed this form for execution represents and warrants that the form was prepared and signed with the exceptions, deletions, insertions, and alterations indicated below. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in the text, have been made to the form.~~

ATTEST OR WITNESS:

OPERATOR: CML Exploration, LLC

By

By

Name _____

Title _____

Date

TaxID

By: _____

6

7

NON-OPERATORS

ATTEST OR WITNESS:

NON-OPERATOR NAME: Patterson Petroleum LLC

By

By

Name

Title

Date

TaxID

By: _____

8

ATTEST OR WITNESS:

NON-OPERATOR NAME: DR Enterprises, LLC

By



By

Name C.A. Talbott

Title Partner

Date August 28, 2019

TaxID 75-2720048

9

ATTEST OR WITNESS:

NON-OPERATOR NAME: DRB Operating, LLC

By

By

Name

Title

Date

TaxID

10

ATTEST OR WITNESS:

NON-OPERATOR NAME: Highland Texas Energy Company

1

2

3

4

5

IN WITNESS WHEREOF, this agreement shall be effective as of Thursday, August 1, 2019. I, who have prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below is identical to the AAPL Form 001.000 Model Form Operating Agreement, as published in computerized form by AAPL. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles, have been made to the form.

ATTEST OR WITNESS:

OPERATOR: CML Exploration, LLC

By:

By

Name: Kenneth E. Nielsen

Title: Manager

Date:

TaxID:

By: _____

6

7

NON-OPERATORS

ATTEST OR WITNESS:

NON-OPERATOR NAME: Patterson Petroleum, LLC

By:

By

Name:

Title:

Date:

TaxID:

By: _____

8

ATTEST OR WITNESS:

NON-OPERATOR NAME: HUC Enterprises, Ltd.

By:

By

Name:

Title:

Date:

TaxID:

9

ATTEST OR WITNESS:

NON-OPERATOR NAME: JHR Operating, LLC

By:

By: Way Dunn

Name:

Title:

Date:

TaxID:

Thomas W. Patterson
mgr
8/28/19
82-3015537

10

ATTEST OR WITNESS:

NON-OPERATOR NAME: Bickland (Texas) Energy Company

By
Scott K. Wifly
Jan Maitland

By *Truitt Matthews*
Name *Truitt Matthews*
Title *Vice President*
Date *September 6, 2019*
FaxID

1

ATTEST OR WITNESS:

NON-OPERATOR NAME: Barbe Development, LLC

By

By

Name

Title

Date

FaxID

2

ATTEST OR WITNESS:

NON-OPERATOR NAME: Western Oil Producers, Inc.

By

By

Name

Title

Date

FaxID

3

ATTEST OR WITNESS:

NON-OPERATOR NAME: CERES Resource Partners, L.P.

By

By

Name

Title

Date

FaxID

4

ATTEST OR WITNESS:

NON-OPERATOR NAME: 1307, Ltd.

By

By

Name

Title

Date

FaxID

By _____
Name _____
Title _____
Date _____
TaxID _____

1

ATTEST OR WITNESS:

NON-OPERATOR NAME: Barbo Development, LLC

By KTJ
Name KENNETH BARBER
Title PRESIDENT
Date 8/30/2019
TaxID 26-3975457

2

ATTEST OR WITNESS:

NON-OPERATOR NAME: Western Oil Producers, Inc.

By _____
Name _____
Title _____
Date _____
TaxID _____

3

ATTEST OR WITNESS:

NON-OPERATOR NAME: CERES Resource Partners, L.P.

By _____
Name _____
Title _____
Date _____
TaxID _____

4

ATTEST OR WITNESS:

NON-OPERATOR NAME: 1397, Ltd.

By _____
Name _____
Title _____
Date _____
TaxID _____

By

By

Name

Title

Date

TaxID

1

ATTEST OR WITNESS:

NON-OPERATOR NAME: Barbs Development, LLC

By

By

Name

Title

Date

TaxID

2

ATTEST OR WITNESS:

NON-OPERATOR NAME: Western Oil Producers, Inc.

By

By

Name

Title

Date

TaxID

Kenneth J. Reynolds
Kenneth J Reynolds
President
Sept. 17, 2019
85-0202711

3

ATTEST OR WITNESS:

NON-OPERATOR NAME: CERES Resource Partners, L.P.

By

By

Name

Title

Date

TaxID

4

ATTEST OR WITNESS:

NON-OPERATOR NAME: I307, Ltd.

By

By

Name

Title

Date

TaxID

1

By
Name
Title
Date
TaxID

ATTEST OR WITNESS:

NON-OPERATOR NAME: Barbe Development, LLC

By
Name
Title
Date
TaxID

2

ATTEST OR WITNESS:

NON-OPERATOR NAME: Western Oil Producers, Inc.

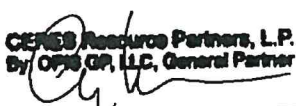
By
Name
Title
Date
TaxID

3

ATTEST OR WITNESS:

NON-OPERATOR NAME: CERES Resource Partners, L.P.

By
Name
Title
Date
TaxID

CERES Resource Partners, L.P.
By: OFPS GP, LLC, General Partner

By: William Casey McManemin, Manager

9.10.2019
75-2775855

4

ATTEST OR WITNESS:

NON-OPERATOR NAME: 1307, Ltd.

By
Name
Title
Date
TaxID

1307 Ltd.
Tax ID No 75-2579374
By: Cabana Management LLC, General Partner

By: William Casey McManemin, Manager

9.10.2019

1

ATTEST OR WITNESS:

NON-OPERATOR NAME: Kenneth C. Nelson

By 

By

Name

Title

Date

TaxID

2

ATTEST OR WITNESS:

NON-OPERATOR NAME: L. Philip Buch

By 

By

Name Philip Buch

Title

Date 8/28/19

TaxID

3

ATTEST OR WITNESS:

NON-OPERATOR NAME: Cactus Energy, Inc.

By

By

Name

Title

Date

TaxID

4

5

6

1

ATTEST OR WITNESS:

NON-OPERATOR NAME: Kenneth C. Nelson

By

By

Name

Title

Date

Exhibit

2

ATTEST OR WITNESS:

NON-OPERATOR NAME: L. Philip Hoch

By

By

Name

Title

Date

Exhibit

3

ATTEST OR WITNESS:

NON-OPERATOR NAME: Cactus Energy, Inc.

By

By

Name

Title

Date

Exhibit

Richard H. Coats
Richard H. Coats
President
9-18-19
75-2495510

4

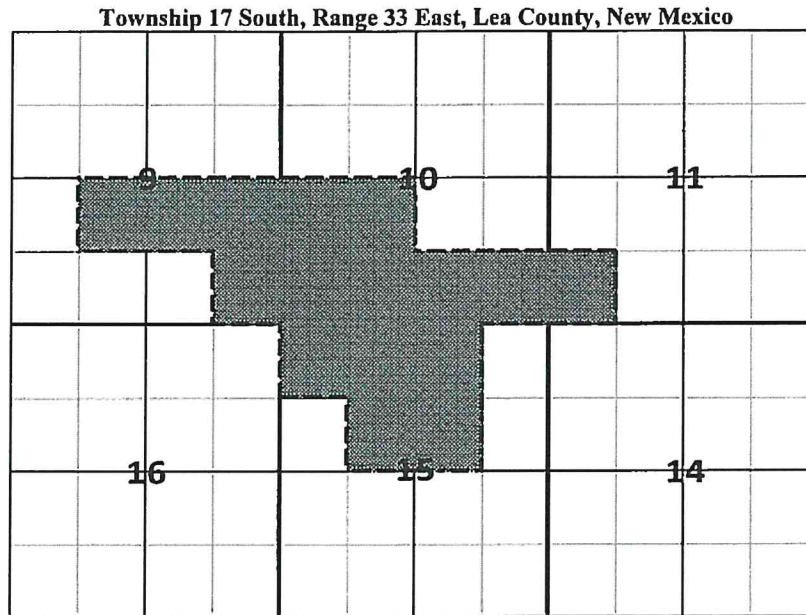
5

6

EXHIBIT "A"

Attached to and made a part of that Operating Agreement dated effective August 1, 2019, by and between CML Exploration, LLC, as Operator, and Patterson Petroleum LLC, et al, as Non-Operators.

I. IDENTIFICATION OF CONTRACT LANDS SUBJECT TO THIS AGREEMENT:



640 acres, more or less, out of Township 17 South, Range 33 East, Lea County, New Mexico, being comprised of the following lands:

Section 9 – 160 acres, more or less, being the NE/4SW/4, the N/2SE/4 and the SE/4SE/4
Section 10 – 240 acres, more or less, being the SW/4 and the S/2SE/4
Section 11 – 40 acres, more or less, being the SW/4SW/4
Section 15 – 200 acres, more or less, being the N/2NW/4, the SE/4NW/4 and the W/2NE/4

II. RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS OR SUBSTANCES:

Limited to the Cisco Formation only, being defined as the subsurface interval commencing at the stratigraphic equivalent of 10,860' and ending at the stratigraphic equivalent of 11,498' as shown on the log of the CML Exploration, LLC – Abenaki 10 State No. 1 Well (API No. 30-025-39737).

III. ADDRESSES AND TELEPHONE NUMBERS OF THE PARTIES FOR NOTICE PURPOSES:

CML Exploration, LLC
Barton Oaks Plaza One, Suite 430
901 South Mopac Expressway
Austin, Texas 78746
kanak@cmlexp.com

Patterson Petroleum LLC
P.O. Box 1416
Snyder, Texas 79550
kberns@remyinvestors.com

IDC Enterprises, Ltd.
P.O. Box 410
Snyder, Texas 79550
talbottc@cmlexp.com

JRR Operating, LLC
9341 Bella Terra Drive
Fort Worth, Texas 76126
roe74@yahoo.com

Highland (Texas) Energy Company
7557 Rambler Road, Suite 918 LB 72
Dallas, Texas 75231
truitt@highlandtxenergy.com

Barbe Development, LLC
P.O. Box 2107
Roswell, New Mexico 88202
ken@manzanoenergy.com

Western Oil Producers, Inc.
P.O. Box 2800
Midland, Texas 79702
jreynolds@rodricdrilling.com

CERES Resource Partners, L.P.
3838 Oak Lawn Avenue, Suite 425
Dallas, Texas 75219
reports@crplp.com

1307, Ltd.
3838 Oak Lawn Avenue, Suite 425
Dallas, Texas 75219
reports@crplp.com

Kenneth C. Nelson
Barton Oaks Plaza One, Suite 430
901 South Mopac Expressway
Austin, Texas 78746
nelsonk@cmlexp.com

I. Philip Buch
Barton Oaks Plaza One, Suite 430
901 South Mopac Expressway
Austin, Texas 78746
buchp@cmlexp.com

Cactus Energy, Inc.
P.O. Box 2412
Midland, Texas 79702
richard@ogxresources.com

IV. PERCENTAGES OR FRACTIONAL INTERESTS OF PARTIES TO THIS AGREEMENT:

	<u>WORKING INTEREST %</u>
CML Exploration, LLC	0.83983
Patterson Petroleum LLC	37.52797
IDC Enterprises, Ltd.	7.76394
JRR Operating, LLC	7.76393
Highland (Texas) Energy Company	12.92827
Barbe Development, LLC	3.15085
Western Oil Producers, Inc.	1.46450
CERES Resource Partners, L.P.	8.34826
1307, Ltd.	1.09362
Kenneth C. Nelson	15.64858
I. Philip Buch	0.85882
Cactus Energy, Inc.	<u>2.61143</u>
	100.00000

V. OIL AND GAS LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THIS AGREEMENT:

State of New Mexico Oil and Gas Lease B-2229-1 dated November 10, 1933 from the State of New Mexico to Phillips Petroleum Company.

VI. BURDENS ON PRODUCTION:

That overriding royalty interest described in Article 5.4 of that unrecorded Geophysical Exploration and Development Agreement dated effective by and between Ventana Exploration, Inc., Patterson Petroleum, Inc., Big Three Energy, L.L.C., CERES Resource Partners, L.P., Kenneth C. Nelson, Glenn Patterson, Richard H. Coats, SSSL, Ltd., C. A. Talbott, I. Philip Buch, Staiger Oil & Gas, Inc., 1307, Ltd., Robert K. Todd, Vista Geophysical, Inc. and Truitt Matthews.



COPAS 2005 ACCOUNTING PROCEDURE

EXHIBIT C

ACCOUNTING PROCEDURE JOINT OPERATIONS

Attached to and made part of that Operating Agreement dated August 1, 2019, between CML Exploration, LLC, as Operator, and Patterson Petroleum LLC, et al, as Non-Operators.

I. GENERAL PROVISIONS – ACCOUNTING PROCEDURE

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

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

I. DEFINITIONS

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

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

"Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting Procedure is attached.

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

"Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest Railway Receiving Point to the property.

"Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.

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

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

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

- 1 • Responsibility for day-to-day direct oversight of construction operations
 - 2 • Coordination of job priorities and approval of work procedures
 - 3 • Responsibility for optimal resource utilization (equipment, Materials, personnel)
 - 4 • Responsibility for meeting production and field operating expense targets
 - 5 • Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an
 - 6 incidental part of the supervisor's operating responsibilities
 - 7 • Responsibility for all emergency responses with field staff
 - 8 • Responsibility for implementing safety and environmental practices
 - 9 • Responsibility for field adherence to company policy
 - 10 • Responsibility for employment decisions and performance appraisals for field personnel
 - 11 • Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may
 - 12 have group or team leaders.
- 13 **"Joint Account"** means the account showing the charges paid and credits received in the conduct of the Joint Operations that are
- 14 to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the
- 15 Agreement.
- 16 **"Joint Operations"** means all operations necessary or proper for the exploration, appraisal, development, production, protection,
- 17 maintenance, repair, abandonment, and restoration of the Joint Property.
- 18 **"Joint Property"** means the real and personal property subject to the Agreement.
- 19 **"Laws"** means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other
- 20 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the
- 21 transactions contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter
- 22 amended, enacted, promulgated or issued.
- 23 **"Material"** means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.
- 24 **"Non-Operators"** means the Parties to the Agreement other than the Operator.
- 25 **"Offshore Facilities"** means platforms, surface and subsea development and production systems, and other support systems such
- 26 as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water
- 27 storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities
- 28 necessary in the conduct of offshore operations, all of which are located offshore.
- 29 **"Off-site"** means any location that is not considered On-site as defined in this Accounting Procedure.
- 30 **"On-site"** means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that
- 31 portion of Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are
- 32 conducted, or other facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned
- 33 by the Joint Account.
- 34 **"Operator"** means the Party designated pursuant to the Agreement to conduct the Joint Operations.
- 35 **"Parties"** means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to
- 36 individually as "Party."
- 37 **"Participating Interest"** means the percentage of the costs and risks of conducting an operation under the Agreement that a
- 38 Party agrees, or is otherwise obligated, to pay and bear.
- 39 **"Participating Party"** means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear
- 40 a share of the costs and risks of conducting an operation under the Agreement.
- 41 **"Personal Expenses"** means reimbursed costs for travel and temporary living expenses.
- 42 **"Railway Receiving Point"** means the railhead nearest the Joint Property for which freight rates are published, even though an
- 43 actual railhead may not exist.

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

4 "Supply Store" means a recognized source or common stock point for a given Material item.

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

10 2. STATEMENTS AND BILLINGS

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

17 The Operator may make available to Non-Operators any statements and bills required under Section 1.2 and/or Section
18 1.3.A (*Advances and Payments by the Parties*) via email, electronic data interchange, internet websites or other
19 equivalent electronic media in lieu of paper copies. The Operator shall provide the Non-Operators instructions and
20 any necessary information to access and receive the statements and bills within the timeframes specified herein. A
21 statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of weekends and holidays) after
22 the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via email or
23 electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and
24 billings electronically, if available from the Operator, or request paper copies. Such election may be changed upon
25 thirty (30) days prior written notice to the Operator.

26 3. ADVANCES AND PAYMENTS BY THE PARTIES

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

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

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

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

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

54 (4) charges outside the adjustment period, as provided in Section 1.4 (Adjustments).

1 **4. ADJUSTMENTS**

- 2 A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof;
3 however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively
4 be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end
5 of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a
6 claim for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an
7 audit report, within the time periods prescribed in Section 1.5 (*Expenditure Audits*).
- 8 B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section 1.4.B, are
9 limited to the twenty-four (24) month period following the end of the calendar year in which the original charge
10 appeared or should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that
11 may be made beyond the twenty-four (24) month period are limited to adjustments resulting from the following:
- 12 (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable*
13 *Material*), or
- 14 (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception
15 granted by the Operator relating to another property, or
- 16 (3) a government/regulatory audit, or
- 17 (4) a working interest ownership or Participating Interest adjustment.

18 **5. EXPENDITURE AUDITS**

- 19 A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the
20 Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the
21 end of such calendar year in which such bill was rendered; however, conducting an audit shall not extend the time for
22 the taking of written exception to and the adjustment of accounts as provided for in Section 1.4 (*Adjustments*). Any
23 Party that is subject to payout accounting under the Agreement shall have the right to audit the accounts and records of
24 the Party responsible for preparing the payout statements, or of the Party furnishing information to the Party
25 responsible for preparing payout statements. Audits of payout accounts may include the volumes of hydrocarbons
26 produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting required under
27 the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the
28 twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

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

34 The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90)
35 days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the
36 twenty-four (24) month requirement for taking specific detailed written exception as required in Section 1.4.A
37 (*Adjustments*) above. All claims shall be supported with sufficient documentation.

38 A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall,
39 with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against
40 such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims
41 for so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this
42 Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section 1.5.B or 1.5.C, the
43 Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-
44 Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations; provided that such
45 waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section 1.5.B or 1.5.C.

- 46 B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days
47 after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the
48 Operator fails to provide substantive response to an exception within this one hundred eighty (180) day period, the
49 Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit
50 report. Interest shall be calculated using the rate set forth in Section 1.3.B (*Advances and Payments by the Parties*).

- 51 C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and
52 the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided,
53 however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's
54 position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in
55 Section 1.5.E, if the Operator fails to provide substantive response to an exception within this ninety (90) day period,

1 the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the
2 audit report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the*
3 *Parties*).

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

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

26 E. *Forfeiture Penalties*

27
28 *If the Non-Operators fail to meet the deadline in Section I.5.C, any unresolved exceptions that were not addressed*
29 *by the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be*
30 *deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section I.5.B*
31 *or I.5.C, any unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of*
32 *the audit report or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed*
33 *to have been granted by the Operator and adjustments shall be made, without interest, to the Joint Account.*

34 6. APPROVAL BY PARTIES

35 A. General Matters

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

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

43 B. Amendments

44 If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto,
45 this Accounting Procedure can be amended by an affirmative vote of two (2) or more Parties, one of which is the
46 Operator, having a combined working interest of at least 51%, which approval shall be binding on all Parties,
47 provided, however, approval of at least one (1) Non-Operator shall be required.

48 C. Affiliates

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

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

4 II. DIRECT CHARGES

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

6 1. RENTALS AND ROYALTIES

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

8 2. LABOR

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

- 11 (1) Operator's field employees directly employed On-site in the conduct of Joint Operations,
- 12 (2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving
13 the Joint Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by*
14 *Operator*) or are not a function covered under Section III (*Overhead*),
- 15 (3) Operator's employees providing First Level Supervision,
- 16 (4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded
17 from the overhead rates in Section III (*Overhead*),
- 18 (5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded
19 from the overhead rates in Section III (*Overhead*).

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

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

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

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

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

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

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

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

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

3 **3. MATERIAL**

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

8 **4. TRANSPORTATION**

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

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

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

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

22 **5. SERVICES**

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

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

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

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

32 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not
33 limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate
34 with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices
35 provide direct service to personnel who are chargeable pursuant to Section II.2.A (Labor). Such rates may include
36 labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation
37 method, and interest on gross investment less accumulated depreciation not to exceed 12% per annum; provided,
38 however, depreciation shall not be charged when the equipment and facilities investment have been fully depreciated.
39 The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates
40 shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.

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

47 **7. AFFILIATES**

48 A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the
49 Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate
50 goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such
51 Affiliate's goods and services billed to such individual project do not exceed \$100,000. If the total costs for an

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

4 B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-
5 Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section
6 I.6.A (*General Matters*), if the charges exceed \$100,000 in a given calendar year.

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

18 8. DAMAGES AND LOSSES TO JOINT PROPERTY

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

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

24 9. LEGAL EXPENSE

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

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

33 10. TAXES AND PERMITS

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

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

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

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

49 11. INSURANCE

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

12. COMMUNICATIONS

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

13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

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

14. ABANDONMENT AND RECLAMATION

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

15. OTHER EXPENDITURES

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

III. OVERHEAD

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

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

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

- 1 • management
 - 2 • supervision not directly charged under Section II.2 (*Labor*)
 - 3 • legal services not directly chargeable under Section II.9 (*Legal Expense*)
 - 4 • taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
 - 5 • preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings
 - 6 with governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site
 - 7 inspections; reviewing, interpreting, or submitting comments on or lobbying with respect to Laws or proposed
 - 8 Laws.
- 9 Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses
- 10 of personnel performing overhead functions, as well as office and other related expenses of overhead functions.

11 1. DRILLING AND PRODUCING OPERATIONS

12 As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other

13 provisions of this Section III, the Operator shall charge on either: *Fixed Rate Basis, Section III.1.B*

14 A. Technical Services

- 15 (1) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2
- 16 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A
- 17 (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for On-site
- 18 Technical Services, including third party Technical Services: shall be charged direct to the Joint Account.
- 19 (2) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2
- 20 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A
- 21 (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for Off-site
- 22 Technical Services, including third party Technical Services: shall be charged direct to the Joint Account.

23 Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are

24 subject to limitations set forth in Section II.7 (Affiliates). Charges for Technical personnel performing non-technical

25 work shall not be governed by this Section III.1.A, but instead governed by other provisions of this Accounting

26 Procedure relating to the type of work being performed.

27 B. Fixed Rate Basis

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

29 Drilling Well Rate per month 9,000 (prorated for less than a full month)

30 Producing Well Rate per month \$900

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

- 32 (a) Charges for onshore drilling wells shall begin on the spud date and terminate on the date the drilling and/or
- 33 completion equipment used on the well is released, whichever occurs later. Charges for offshore and
- 34 inland waters drilling wells shall begin on the date the drilling or completion equipment arrives on location
- 35 and terminate on the date the drilling or completion equipment moves off location, or is released,
- 36 whichever occurs first. No charge shall be made during suspension of drilling and/or completion
- 37 operations for fifteen (15) or more consecutive calendar days.

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

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

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

- 47 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each
- 48 completion is considered a separate well by the governing regulatory authority.

- 1 (c) A one well charge shall be made for the month in which plugging and abandonment operations are
2 completed on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b).
3 This one well charge shall be made whether or not the well has produced.
- 4 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to
5 take production shall be considered as a one-well charge provided the gas well is directly connected to a
6 permanent sales outlet.
- 7 (e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a
8 producing overhead charge.
- 9 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement;
10 provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting
11 under a farmout agreement, the rates shall be adjusted on the first day of April each year following the effective
12 date of such farmout agreement. The adjustment shall be computed by applying the adjustment factor most
13 recently published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties
14 increased or decreased by the adjustment factor described herein, for each year from the effective date of such
15 rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").

16 C. **Percentage Basis**

- 17 (1) ~~Operator shall charge the Joint Account at the following rates:~~
- 18 (a) ~~Development Rate of the cost of development of the Joint Property, exclusive of costs provided under~~
19 ~~Section II.9 (Legal Expense) and all Material salvage credits;~~
- 20 (b) ~~Operating Rate of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1~~
21 ~~(Rentals and Royalties) and II.9 (Legal Expense); all Material salvage credits; the value of substances~~
22 ~~purchased for enhanced recovery; all property and ad-valorem taxes, and any other taxes and assessments~~
23 ~~that are levied, assessed, and paid upon the mineral interest in and to the Joint Property;~~
- 24 (2) ~~Application of Overhead—Percentage Basis shall be as follows:~~
- 25 (a) ~~The Development Rate shall be applied to all costs in connection with:~~
- 26 i. ~~drilling, redrilling, sidetracking, or deepening of a well~~
- 27 ii. ~~a well undergoing plugback or workover operations for a period of five (5) or more consecutive~~
28 ~~work days~~
- 29 iii. ~~preliminary expenditures necessary in preparation for drilling~~
- 30 iv. ~~expenditures incurred in abandoning when the well is not completed as a producer~~
- 31 v. ~~construction or installation of fixed assets, the expansion of fixed assets and any other project clearly~~
32 ~~discernible as a fixed asset, other than Major Construction or Catastrophe as defined in Section III.2~~
33 ~~(Overhead Major Construction and Catastrophe);~~
- 34 (b) ~~The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those~~
35 ~~subject to Section III.2 (Overhead Major Construction and Catastrophe);~~

36 2. **MAJOR CONSTRUCTION AND CATASTROPHE**

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

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

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

- 1 A. If the Operator absorbs the engineering, design and drafting costs related to the project:
- 2 (1) 5% of total costs if such costs are less than \$100,000; plus
- 3 (2) 3% of total costs in excess of \$100,000 but less than \$1,000,000; plus
- 4 (3) 2% of total costs in excess of \$1,000,000.
- 5 B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:
- 6 (1) 5% of total costs if such costs are less than \$100,000; plus
- 7 (2) 3% of total costs in excess of \$100,000 but less than \$1,000,000; plus
- 8 (3) 2% of total costs in excess of \$1,000,000.

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

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

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

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

20 3. AMENDMENT OF OVERHEAD RATES

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

23 IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

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

29 1. DIRECT PURCHASES

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

40 2. TRANSFERS

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

1 **A. PRICING**

2 The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of
3 physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators
4 sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are
5 used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well
6 design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties
7 pursuant to Section 1.6.A (*General Matters*). Transfers of new Material will be priced using one of the following
8 pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between
9 methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

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

23 **B. FREIGHT**

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

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

42 **C. TAXES**

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

47 **D. CONDITION**

- 48 (1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred
49 percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C
50 (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged
51 without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a

1 direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the
2 vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the
3 price originally charged to the Joint Account provided such price is approved by the Parties owning such
4 Material, pursuant to Section I.6.A (*General Matters*). All refurbishing costs required or necessary to return the
5 Material to original condition or to correct handling, transportation, or other damages will be borne by the
6 divesting property. The Joint Account is responsible for Material preparation, handling, and transportation costs
7 for new and unused Material charged to the Joint Property either through a direct purchase or transfer. Any
8 preparation costs incurred, including any internal or external coating and wrapping, will be credited on new
9 Material provided these services were not repeated for such Material for the receiving property.

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

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

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

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

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

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

- 25 (4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other
26 purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other
27 applications as a substitute for items with different specifications, is considered Condition "D" Material. Casing,
28 tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and
29 weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing,
30 tubing, or drill pipe used as higher pressure service lines than standard line pipe, e.g., power oil lines, shall be
31 priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a
32 non-upset basis. For other items, the price used should result in the Joint Account being charged or credited with
33 the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section I.6.A
34 (*General Matters*).

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

36 E. OTHER PRICING PROVISIONS

37 (1) Preparation Costs

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

46 (2) Loading and Unloading Costs

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

49 3. DISPOSITION OF SURPLUS

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

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

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

- 10 • The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale
11 value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this
12 Accounting Procedure is attached without the prior approval of the Parties owning such Material.
- 13 • If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such
14 Material.
- 15 • Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material,
16 based on the pricing methods set forth in Section IV.2 (Transfers).
- 17 • Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value
18 of the Materials, based on the pricing methods set forth in Section IV.2 (Transfers), is less than or equal to the
19 Operator's expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting
20 the classification of the Material as Condition C.
- 21 • Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior
22 approval of the Parties owning such Material.

23 4. SPECIAL PRICING PROVISIONS

24 A. PREMIUM PRICING

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

31 B. SHOP-MADE ITEMS

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

37 C. MILL REJECTS

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

41 V. INVENTORIES OF CONTROLLABLE MATERIAL

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

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

1 **1. DIRECTED INVENTORIES**

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

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

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

18 **2. NON-DIRECTED INVENTORIES**

19 **A. OPERATOR INVENTORIES**

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

23 **B. NON-OPERATOR INVENTORIES**

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

28 **C. SPECIAL INVENTORIES**

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

EXHIBIT "D"

Attached to a made a part of that Operating Agreement dated effective August 1, 2019, by and between CML Exploration, LLC, as Operator, and Patterson Petroleum LLC, et al, as Non-Operators.

SCHEDULE OF INSURANCE TO BE CARRIED

At all times while operations are conducted under this Agreement, Operator shall maintain insurance for the benefit of all parties hereto of the types and in the maximum amounts as follows. Premiums for such insurance shall be charged to the Joint Account.

All such insurance shall be carried in an acceptable company or companies; shall be maintained in full force and effect during the term of this Agreement; and shall not be cancelled, altered or amended without thirty (30) days prior written notice. If so required, Operator agrees to have its insurance carrier furnish certificates of insurance evidencing such insurance coverages.

Non-Operating working interest owners agree that the limits and coverage carried by Operator are adequate and shall hold Operator harmless if any claim exceeds such limit or is not covered by such policy. Such coverages and limits may change or be unavailable from time to time and Operator does not guarantee their continuance but will use its best efforts to provide such coverages and limits at reasonable costs.

- a. Workers' Compensation Insurance in full compliance with all applicable State and Federal laws and regulations.
- b. Employer's Liability Insurance in the limits of \$500,000 per accident covering injury or death to any employee who may be outside the scope of the Workers' Compensation statute of the state in which the work is performed.
- c. Comprehensive General Liability Insurance with combined single limits per occurrence of \$1,000,000 for Bodily Injury and Property Damage, including Property Damage by Blowout and Cratering, Completed Operations, and Broad Form Contractual Liability as respects any contract into which the Operator may enter under the terms of this Agreement.
- d. Automobile Liability Insurance covering owned, non-owned and hired automotive equipment with limits for Bodily Injury and Property Damage of \$1,000,000.
- e. Excess Liability/Umbrella Insurance in the amount of \$5,000,000.
- f. Operator shall carry Operators Extra Expense Insurance covering the costs of controlling a Blowout, the expenses involved in redrilling the well, certain other related costs such as Seepage and Pollution Liability on all wells (these are descriptive terms only and exact coverage can be found only in the policy). Notwithstanding anything contained herein to the contrary, non-operating working interest owners not wishing to be covered under this policy must notify operator prior to spud date and by such refusal of coverage each non-operating working interest owner agrees to be responsible for his proportionate share of such loss.

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

[Note: This exhibit is used for purposes of complying with federal antidiscrimination laws applicable to certain government contractors and subcontractors. Whether any particular party to a JOA will constitute a government "contractor" or "subcontractor" subject to these requirements, and therefore be required to include this Exhibit F, in whole or in part, requires a detailed legal analysis based on specific facts and generally requires federal leases to be included in the Contract Area. Before including this Exhibit F, the parties to the Agreement should consult with legal counsel to determine potential obligations as federal contractors or subcontractors.]

EXHIBIT "F"

Attached to and made a part of the Operating Agreement between CML Exploration, LLC, Operator, and Patterson Petroleum LLC, et al., as Non-Operators, dated August 1, 2019 .

NON-DISCRIMINATION AND CERTIFICATE OF NON-SEGREGATED FACILITIES

EXECUTIVE ORDER 11246 AS AMENDED BY EXECUTIVE ORDER 11375 NON-DISCRIMINATION IN EMPLOYMENT

Except as to contracts exempted in accordance with Section 204 of this Executive Order 11246 as amended, during the performance of this contract, the Contractor (meaning and referring separately to each party hereto) agrees as follows:

The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex, sexual orientation, gender identity, or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, sexual orientation, gender identity, or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

The Contractor will, in all solicitations or advancements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, sexual orientation, gender identity, or national origin.

The Contractor will not discharge or in any other manner discriminate against any employee or applicant for employment because such employee or applicant has inquired about, discussed, or disclosed the compensation of the employee or applicant or another employee or applicant. This provision shall not apply to instances in which an employee who has access to the compensation information of other employees or applicants as a part of such employee's essential job functions discloses the compensation of such other employees or applicants to individuals who do not otherwise have access to such information, unless such disclosure is in response to a formal complaint or charge, in furtherance of an investigation, proceeding, hearing, or action, including an investigation conducted by the employer, or is consistent with the Contractor's legal duty to furnish information.

The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advising the labor union or workers' representative of the Contractor's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

The Contractor will comply with all provisions of Executive Order No. 11246 of Sept. 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

In the event of the Contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated, or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of Sept. 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

The Contractor will include the provisions of paragraphs (1) through (8) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as may be directed by the Secretary of Labor as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event that Contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

Contractor acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission, and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246 as amended by Executive Order 11375.

Contractor further acknowledges that it may be required to develop a written affirmative action compliance program, as required by the

1 rules and regulations approved by the Secretary of Labor under authority of Executive Order 11246 as amended by Executive Order 11375,
2 and supply the other party hereto with a copy of such program if such party so requests.

3 The provisions hereof are subject to the exemptions, qualifications and limitations contained in and which Contractor may claim under 41
4 CFR Chapter 60, and such provisions are qualified to the extent and so that Contractor shall have the full benefit thereof. The terms used
5 herein shall have the meanings specified in 41 CFR Section 112.802.

6 AFFIRMATIVE ACTION FOR HANDICAPPED WORKERS

7 The regulations issued under the Rehabilitation Act of 1973 in Title 41, Chapter 60, Part 60-741 of the Code of Federal Regulations are
8 incorporated herein by reference unless this Agreement is exempted by Federal law, rules, regulations or orders of the Secretary of Labor
9 issued pursuant to said Rehabilitation Act of 1973.

10 AFFIRMATIVE ACTION FOR DISABLED VETERANS AND VETERANS OF THE VIETNAM ERA

11 The regulations issued under the Vietnam Era Veterans Readjustment Assistance Act of 1971 in Title 41, Chapter 60, Part 60-300 of the
12 Code of Federal Regulations are incorporated herein by reference unless this Agreement is exempted by Federal law, rules, regulations or
13 orders of the Secretary of Labor issued pursuant to said Vietnam Era Readjustment Assistance Act of 1974.

14 CERTIFICATE OF NON-SEGREGATED FACILITIES

15 Each of the parties to the Agreement of which this Certificate is attached as an exhibit do hereby assure the other(s) (the "assured") that it
16 does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and
17 will not permit its employees to perform their service at any location, under his or its control, where segregated facilities are maintained.
18 For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race,
19 color, religion, or national origin, because of habit, local custom, or otherwise. It is further understood and agreed that maintaining or
20 provided segregated facilities for its employees or permitting its employees to perform their services at any location under its control,
21 where segregated facilities are maintained, is a violation of the equal opportunity clause required by Executed Order 11246 of September
22 24, 1965.

23 Each of the parties further understands and agrees that a breach of the assurance herein contained is subject to the provisions of the Order at
24 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in
25 contracts between the United States of America and the assured.

26 Whoever knowingly and willfully makes any false, fictitious, or fraudulent representation may be liable to criminal prosecution under 18
27 U.S.C. § 1001.

28 Each of the parties reserves to itself the benefit of all exemptions, qualifications and limitations contained in and which it may claim under
29 41 CFR Chapter 60, and this Certification is qualified to the extent and so that the undersigned shall have the full benefit thereof.

30

TOTAL UNIT INTEREST
Maljamar Cisco Waterflood
Lea County, New Mexico

OWNER	FUTURE PRIMARY ADJUSTED WI	CISCO 1 FLOODABLE VOL ADJUSTED WI	CISCO LOWER FLOODABLE VOL ADJUSTED WI	USABLE WELLS ADJUSTED WI	TOTAL UNIT WI
Patterson Petroleum LLC	0.2635833	0.0465288	0.0464330	0.0187346	0.3752797
IDC Enterprises, Ltd.	0.0572457	0.0083174	0.0083978	0.0036785	0.0776394
JRR Operating, LLC	0.0572456	0.0083174	0.0083978	0.0036785	0.0776393
Highland (Texas) Energy Company	0.0901429	0.0162259	0.0163943	0.0065196	0.1292827
Barbe Development, LLC	0.0202242	0.0048298	0.0047074	0.0017471	0.0315085
Western Oil Producers, Inc.	0.0061842	0.0037571	0.0039650	0.0007387	0.0146450
CERES Resource Partners L.P.	0.0543722	0.0124533	0.0120054	0.0046517	0.0834826
1307 Ltd.	0.0078212	0.0012910	0.0012813	0.0005427	0.0109362
CML Exploration, LLC	0.0057237	0.0008292	0.0008388	0.0003672	0.0077589
Kenneth C. Nelson	0.1152382	0.0168077	0.0170143	0.0074256	0.1564858
I. Philip Buch	0.0051482	0.0014882	0.0014629	0.0004889	0.0085882
Staiger Oil & Gas, Inc.	0.0000000	0.0002957	0.0003437	0.0000000	0.0006394
Cactus Energy, Inc.	0.0170706	0.0038585	0.0037583	0.0014269	0.0261143
TOTALS	0.7000000	0.1250000	0.1250000	0.0500000	1.0000000

Per the recommendation of Stephens Engineering, the participation formula used to calculate unit interests for this project was based on 5% credit for number of usable wells, 25% credit for floodable reservoir volume and 70% credit for future primary reserves.



FUTURE PRIMARY RESERVES
Maljamar Cisco Waterflood
Lea County, New Mexico

	ABENAKI 10-1		ABENAKI 10-2		ABENAKI 10-3		BEAMS 15-1		BEAMS 15-2		BEAMS 15-3		BEAMS 15-4		RAIDER 9-1		RAIDER 9-3		
OWNER	Future Primary Res = 4.3192%		Future Primary Res = 2.4617%		Future Primary Res = 20.1366%		Future Primary Res = 11.2636%		Future Primary Res = 3.4460%		Future Primary Res = 0.8441%		Future Primary Res = 8.7215%		Future Primary Res = 21.6581%		Future Primary Res = 27.1492%		TOTAL
	Well Interest	Fut Prim Adj WI	Well Interest	Fut Prim Adj WI	Well Interest	Fut Prim Adj WI	Well Interest	Fut Prim Adj WI	Well Interest	Fut Prim Adj WI	Well Interest	Fut Prim Adj WI	Well Interest	Fut Prim Adj WI	Well Interest	Fut Prim Adj WI	Well Interest	Fut Prim Adj WI	Fut Prim Adj WI
Patterson Petroleum LLC	0.3682523	0.0111339	0.3645460	0.0062819	0.3649225	0.0514381	0.3594080	0.0283376	0.3827124	0.0092318	0.3808795	0.0022504	0.3809075	0.0232547	0.3853491	0.0584215	0.3853491	0.0732334	0.2635833
IDC Enterprises, Ltd.	0.0631402	0.0019091	0.0722699	0.0012453	0.0752325	0.0106045	0.0660835	0.0052104	0.0655720	0.0015817	0.0652902	0.0003858	0.0653202	0.0039878	0.0946024	0.0143424	0.0946024	0.0179787	0.0572457
JRR Operating, LLC	0.0631402	0.0019090	0.0722699	0.0012453	0.0752325	0.0106045	0.0660835	0.0052104	0.0655720	0.0015817	0.0652902	0.0003858	0.0653202	0.0039878	0.0946024	0.0143424	0.0946024	0.0179787	0.0572456
Highland (Texas) Energy Company	0.1508597	0.0045612	0.1223869	0.0021090	0.1225092	0.0172684	0.1311096	0.0103374	0.1300948	0.0031381	0.1292984	0.0007639	0.1293084	0.0078943	0.1289932	0.0195562	0.1289932	0.0245144	0.0901429
Barbe Development, LLC	0.0394975	0.0011942	0.0389034	0.0006704	0.0389436	0.0054893	0.0388042	0.0030595	0.0410353	0.0009899	0.0408152	0.0002412	0.0408182	0.0024920	0.0178186	0.0027014	0.0178186	0.0033863	0.0202242
Western Oil Producers, Inc.	0.0221650	0.0006701	0.0000000	0.0000000	0.0000000	0.0000000	0.0443300	0.0034952	0.0221650	0.0005347	0.0221650	0.0001310	0.0221650	0.0013532	0.0000000	0.0000000	0.0000000	0.0000000	0.0061842
CERES Resource Partners L.P.	0.1000000	0.0030234	0.1253222	0.0021595	0.1057451	0.0149054	0.1000000	0.0078845	0.1000000	0.0024122	0.1030786	0.0006091	0.1031216	0.0062956	0.0500000	0.0075803	0.0500000	0.0095022	0.0543722
1307 Ltd.	0.0100000	0.0003023	0.0125322	0.0002160	0.0105745	0.0014905	0.0100000	0.0007885	0.0100000	0.0002412	0.0103079	0.0000609	0.0103122	0.0006296	0.0119779	0.0018159	0.0119779	0.0022763	0.0078212
CML Exploration, LLC	0.0063140	0.0001909	0.0072271	0.0001245	0.0075233	0.0010605	0.0066083	0.0005210	0.0065572	0.0001582	0.0063844	0.0000377	0.0065320	0.0003988	0.0094603	0.0014342	0.0094603	0.0017979	0.0057237
Kenneth C. Nelson	0.1326843	0.0040116	0.1452624	0.0025032	0.1512173	0.0213151	0.1328276	0.0104727	0.1317997	0.0031793	0.1312332	0.0007754	0.1312935	0.0080155	0.1901511	0.0288282	0.1901511	0.0361372	0.1152382
I. Philip Buch	0.0126281	0.0003818	0.0063104	0.0001087	0.0150466	0.0021209	0.0132168	0.0010421	0.0131144	0.0003163	0.0130580	0.0000772	0.0127015	0.0007754	0.0009535	0.0001446	0.0009535	0.0001812	0.0051482
Cactus Energy, Inc.	0.0313189	0.0009469	0.0329697	0.0005681	0.0330529	0.0046590	0.0315285	0.0024859	0.0313772	0.0007569	0.0321996	0.0001903	0.0321998	0.0019658	0.0160915	0.0024396	0.0160915	0.0030581	0.0170706
	1.0000000	0.0302344	1.0000000	0.0172319	1.0000000	0.1409562	1.0000000	0.0788452	1.0000000	0.0241220	1.0000000	0.0059087	1.0000000	0.0610505	1.0000000	0.1516067	1.0000000	0.1900444	0.7000000

CISCO LOWER FLOODABLE VOLUME
Maljamar Cisco Waterflood
Lea County, New Mexico

	ABENAKI 10-1			ABENAKI 10-2			ABENAKI 10-3			BEAMS 15-1			BEAMS 15-2			BEAMS 15-3			BEAMS 15-4			RAIDER 9-1			RAIDER 9-3			UNDEVELOPED			
	Floodable Vol = 18.6235%			Floodable Vol = 0.8372%			Floodable Vol = 4.7781%			Floodable Vol = 2.9853%			Floodable Vol = 2.4897%			Floodable Vol = 5.5307%			Floodable Vol = 0.4990%			Floodable Vol = 0.9438%			Floodable Vol = 8.3147%			Floodable Vol = 54.9980%			TOTAL
OWNER	Well Interest	Fl Vol Adj	WI	Well Interest	Fl Vol Adj	WI	Well Interest	Fl Vol Adj	WI	Well Interest	Fl Vol Adj	WI	Well Interest	Fl Vol Adj	WI	Well Interest	Fl Vol Adj	WI	Well Interest	Fl Vol Adj	WI	Well Interest	Fl Vol Adj	WI	Well Interest	Fl Vol Adj	WI	Well Interest	Fl Vol Adj	WI	
Patterson Petroleum LLC	0.3682523	0.0085726		0.3645460	0.0003816		0.3649225	0.0021795		0.3594080	0.0013411		0.3827124	0.0011910		0.3808795	0.0026331		0.3809075	0.0002377		0.3853491	0.0004547		0.3853491	0.0040052		0.3699989	0.0254365		0.0464330
IDC Enterprises, Ltd.	0.0631402	0.0014699		0.0722699	0.0000756		0.0752325	0.0004493		0.0660835	0.0002466		0.0655720	0.0002041		0.0652902	0.0004514		0.0653202	0.0000407		0.0946024	0.0001116		0.0946024	0.0009832		0.0634998	0.0043654		0.0083978
JRR Operating, LLC	0.0631402	0.0014699		0.0722699	0.0000756		0.0752325	0.0004493		0.0660835	0.0002466		0.0655720	0.0002041		0.0652902	0.0004514		0.0653202	0.0000407		0.0946024	0.0001116		0.0946024	0.0009832		0.0634998	0.0043654		0.0083978
Highland (Texas) Energy Company	0.1508597	0.0035118		0.1223869	0.0001281		0.1225092	0.0007317		0.1311096	0.0004892		0.1300948	0.0004049		0.1292984	0.0008939		0.1293084	0.0000807		0.1289932	0.0001522		0.1289932	0.0013407		0.1259836	0.0086611		0.0163943
Barbe Development, LLC	0.0394975	0.0009195		0.0389034	0.0000407		0.0389436	0.0002326		0.0388042	0.0001448		0.0410353	0.0001277		0.0408152	0.0002822		0.0408182	0.0000255		0.0178186	0.0000210		0.0178186	0.0001852		0.0396848	0.0027282		0.0047074
Western Oil Producers, Inc.	0.0221650	0.0005160		0.0000000	0.0000000		0.0000000	0.0000000		0.0443300	0.0001654		0.0221650	0.0000690		0.0221650	0.0001532		0.0221650	0.0000138		0.0000000	0.0000000		0.0000000	0.0000000		0.0443300	0.0030476		0.0039650
CERES Resource Partners L.P.	0.1000000	0.0023279		0.1253222	0.0001311		0.1057451	0.0006316		0.1000000	0.0003732		0.1000000	0.0003112		0.1030786	0.0007126		0.1031216	0.0000643		0.0500000	0.0000590		0.0500000	0.0005197		0.1000000	0.0068748		0.0120054
1307 Ltd.	0.0100000	0.0002328		0.0125322	0.0000131		0.0105745	0.0000632		0.0100000	0.0000373		0.0100000	0.0000311		0.0103079	0.0000713		0.0103122	0.0000064		0.0119779	0.0000141		0.0119779	0.0001245		0.0100000	0.0006875		0.0012813
CML Exploration, LLC	0.0063140	0.0001470		0.0072271	0.0000076		0.0075233	0.0000449		0.0066083	0.0000247		0.0065572	0.0000204		0.0063844	0.0000441		0.0065320	0.0000041		0.0094603	0.0000112		0.0094603	0.0000983		0.0063499	0.0004365		0.0008388
Kenneth C. Nelson	0.1326843	0.0030888		0.1452624	0.0001520		0.1512173	0.0009032		0.1328276	0.0004957		0.1317997	0.0004102		0.1312332	0.0009073		0.1312935	0.0000819		0.1901511	0.0002243		0.1901511	0.0019763		0.1276345	0.0087746		0.0170143
I. Philip Buch	0.0126281	0.0002940		0.0063104	0.0000066		0.0150466	0.0000899		0.0132168	0.0000493		0.0131144	0.0000408		0.0130580	0.0000903		0.0127015	0.0000079		0.0009535	0.0000011		0.0009535	0.0000099		0.0127000	0.0008731		0.0014629
Staiger Oil & Gas, Inc.	0.0000000	0.0000000		0.0000000	0.0000000		0.0000000	0.0000000		0.0000000	0.0000000		0.0000000	0.0000000		0.0000000	0.0000000		0.0000000	0.0000000		0.0000000	0.0000000		0.0000000	0.0000000		0.0050000	0.0003437		0.0003437
Cactus Energy, Inc.	0.0313189	0.0007291		0.0329697	0.0000345		0.0330529	0.0001974		0.0315285	0.0001177		0.0313772	0.0000976		0.0321996	0.0002226		0.0321998	0.0000201		0.0160915	0.0000190		0.0160915	0.0001672		0.0313189	0.0021531		0.0037583
	1.0000000	0.0232793		1.0000000	0.0010465		1.0000000	0.0059726		1.0000000	0.0037316		1.0000000	0.0031121		1.0000000	0.0069134		1.0000000	0.0006238		1.0000000	0.0011798		1.0000000	0.0103934		1.0000000	0.0687475		0.1250000

USABLE WELLS
Maljamar Cisco Waterflood
Lea County, New Mexico

	ABENAKI 10-1		ABENAKI 10-2		ABENAKI 10-3		BEAMS 15-1		BEAMS 15-2		BEAMS 15-3		BEAMS 15-4		RAIDER 9-1		RAIDER 9-3		
OWNER	Well Interest	Us Well Adj WI	Well Interest	Us Well Adj WI	Well Interest	Us Well Adj WI	Well Interest	Us Well Adj WI	Well Interest	Us Well Adj WI	Well Interest	Us Well Adj WI	Well Interest	Us Well Adj WI	Well Interest	Us Well Adj WI	Well Interest	Us Well Adj WI	FI Vol Adj WI
Patterson Petroleum LLC	0.3682523	0.0020458	0.3645460	0.0020252	0.3649225	0.0020273	0.3594080	0.0019967	0.3827124	0.0021262	0.3808795	0.0021159	0.3809075	0.0021161	0.3853491	0.0021407	0.3853491	0.0021407	0.0187346
IDC Enterprises, Ltd.	0.0631402	0.0003508	0.0722699	0.0004015	0.0752325	0.0004180	0.0660835	0.0003671	0.0655720	0.0003643	0.0652902	0.0003627	0.0653202	0.0003629	0.0946024	0.0005256	0.0946024	0.0005256	0.0036785
JRR Operating, LLC	0.0631402	0.0003508	0.0722699	0.0004015	0.0752325	0.0004180	0.0660835	0.0003671	0.0655720	0.0003643	0.0652902	0.0003627	0.0653202	0.0003629	0.0946024	0.0005256	0.0946024	0.0005256	0.0036785
Highland (Texas) Energy Company	0.1508597	0.0008381	0.1223869	0.0006799	0.1225092	0.0006806	0.1311096	0.0007284	0.1300948	0.0007227	0.1292984	0.0007183	0.1293084	0.0007184	0.1289932	0.0007166	0.1289932	0.0007166	0.0065196
Barbe Development, LLC	0.0394975	0.0002194	0.0389034	0.0002161	0.0389436	0.0002164	0.0388042	0.0002156	0.0410353	0.0002280	0.0408152	0.0002268	0.0408182	0.0002268	0.0178186	0.0000990	0.0178186	0.0000990	0.0017471
Western Oil Producers, Inc.	0.0221650	0.0001231	0.0000000	0.0000000	0.0000000	0.0000000	0.0443300	0.0002463	0.0221650	0.0001231	0.0221650	0.0001231	0.0221650	0.0001231	0.0000000	0.0000000	0.0000000	0.0000000	0.0007387
CERES Resource Partners L.P.	0.1000000	0.0005556	0.1253222	0.0006962	0.1057451	0.0005875	0.1000000	0.0005556	0.1000000	0.0005556	0.1030786	0.0005727	0.1031216	0.0005729	0.0500000	0.0002778	0.0500000	0.0002778	0.0046517
1307 Ltd.	0.0100000	0.0000556	0.0125322	0.0000696	0.0105745	0.0000587	0.0100000	0.0000556	0.0100000	0.0000556	0.0103079	0.0000573	0.0103122	0.0000573	0.0119779	0.0000665	0.0119779	0.0000665	0.0005427
CML Exploration, LLC	0.0063140	0.0000351	0.0072271	0.0000402	0.0075233	0.0000418	0.0066083	0.0000367	0.0065572	0.0000364	0.0063844	0.0000355	0.0065320	0.0000363	0.0094603	0.0000526	0.0094603	0.0000526	0.0003672
Kenneth C. Nelson	0.1326843	0.0007371	0.1452624	0.0008070	0.1512173	0.0008401	0.1328276	0.0007379	0.1317997	0.0007322	0.1312332	0.0007291	0.1312935	0.0007294	0.1901511	0.0010564	0.1901511	0.0010564	0.0074256
I. Philip Buch	0.0126281	0.0000702	0.0063104	0.0000351	0.0150466	0.0000836	0.0132168	0.0000734	0.0131144	0.0000729	0.0130580	0.0000725	0.0127015	0.0000706	0.0009535	0.0000053	0.0009535	0.0000053	0.0004889
Cactus Energy, Inc.	0.0313189	0.0001740	0.0329697	0.0001832	0.0330529	0.0001836	0.0315285	0.0001752	0.0313772	0.0001743	0.0321996	0.0001789	0.0321998	0.0001789	0.0160915	0.0000894	0.0160915	0.0000894	0.0014269
	1.0000000	0.0055556	1.0000000	0.0055555	1.0000000	0.0055556	1.0000000	0.0055556	1.0000000	0.0055556	1.0000000	0.0055555	1.0000000	0.0055556	1.0000000	0.0055555	1.0000000	0.0055555	0.0500000

CML Exploration, LLC

Buckeye Area

Sanmal Field

Lea County, New Mexico

Tract	Cisco Lower Floodable Area (Acres)	Cisco Lower Floodable Volume (Ac-Ft)	Cisco 1 Floodable Area (Acres)	Cisco 1 Floodable Volume (Ac-Ft)
Raider 9 St No. 1	4.4	55.8	3.3	59.3
Raider 9 St No. 3	28.2	491.6	21.7	265.5
Raider 9 St Un-Developed	51.7	793.6	30.3	443.5
Abenaki 10 State No. 1	37.7	1101.1	37.3	765.7
Abenaki 10 State No. 2	7.0	49.5	25.6	341.2
Abenaki 10 State No. 3	14.4	282.5	13.5	251.7
Abenaki 10 State Un-Develpoed	68.2	1440.8	66.6	1443.9
Martin 11 St No. 1	0.0	0.0	10.0	188.4
Beams 15 St No. 1	7.2	176.5	8.2	193.0
Beams 15 St No. 2	14.6	147.2	13.1	139.6
Beams 15 St No. 3	21.0	327.0	34.4	874.2
Beams 15 St No. 4	1.5	29.5	7.3	183.2
Beams 15 St Un-Developed	40.0	1017.3	40.0	1041.2
Total Unitized Floodable Volume	295.9	5912.4	311.3	6190.4
Non-Unitized Floodable Volume		39.6		319.6
Total Floodable Volume		5952.0		6510.0

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL
RESOURCES DEPARTMENT

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

Case No. 21046
CML EXPLORATION
Exhibit #5

APPLICATION FOR AUTHORIZATION TO INJECT

- I. PURPOSE: ☒ Secondary Recovery ☐ Pressure Maintenance ☐ Disposal ☐ Storage
Application qualifies for administrative approval? ☒ Yes ☐ No
- II. OPERATOR: CML Exploration, LLC
ADDRESS: P.O. Box 890, Snyder, Texas 79550
CONTACT PARTY: Nolan von Roeder PHONE: 325-574-6295
- III. WELL DATA: Complete the data required on the reverse side of this form for each well proposed for injection.
Additional sheets may be attached if necessary.
- IV. Is this an expansion of an existing project? ☐ Yes ☒ No
If yes, give the Division order number authorizing the project: _____
- V. Attach a map that identifies all wells and leases within two miles of any proposed injection well with a one-half mile radius circle drawn around each proposed injection well. This circle identifies the well's area of review.
- VI. Attach a tabulation of data on all wells of public record within the area of review which penetrate the proposed injection zone. Such data shall include a description of each well's type, construction, date drilled, location, depth, record of completion, and a schematic of any plugged well illustrating all plugging detail.
- VII. Attach data on the proposed operation, including:
1. Proposed average and maximum daily rate and volume of fluids to be injected;
 2. Whether the system is open or closed;
 3. Proposed average and maximum injection pressure;
 4. Sources and an appropriate analysis of injection fluid and compatibility with the receiving formation if other than reinjected produced water; and,
 5. If injection is for disposal purposes into a zone not productive of oil or gas at or within one mile of the proposed well, attach a chemical analysis of the disposal zone formation water (may be measured or inferred from existing literature, studies, nearby wells, etc.).
- *VIII. Attach appropriate geologic data on the injection zone including appropriate lithologic detail, geologic name, thickness, and depth. Give the geologic name, and depth to bottom of all underground sources of drinking water (aquifers containing waters with total dissolved solids concentrations of 10,000 mg/l or less) overlying the proposed injection zone as well as any such sources known to be immediately underlying the injection interval.
- IX. Describe the proposed stimulation program, if any.
- *X. Attach appropriate logging and test data on the well. (If well logs have been filed with the Division, they need not be resubmitted).
- *XI. Attach a chemical analysis of fresh water from two or more fresh water wells (if available and producing) within one mile of any injection or disposal well showing location of wells and dates samples were taken.
- XII. Applicants for disposal wells must make an affirmative statement that they have examined available geologic and engineering data and find no evidence of open faults or any other hydrologic connection between the disposal zone and any underground sources of drinking water.
- XIII. Applicants must complete the "Proof of Notice" section on the reverse side of this form.
- XIV. Certification: I hereby certify that the information submitted with this application is true and correct to the best of my knowledge and belief.
- NAME: Nolan von Roeder TITLE: Engineer
SIGNATURE: [Signature] DATE: 5/1/19
E-MAIL ADDRESS: vonroedern@cmlexp.com
- * If the information required under Sections VI, VIII, X, and XI above has been previously submitted, it need not be resubmitted.
Please show the date and circumstances of the earlier submittal: ☒ X - 1/10/2014 upon Initial Completion _____

DISTRIBUTION: Original and one copy to Santa Fe with one copy to the appropriate District Office

III. WELL DATA

A. The following well data must be submitted for each injection well covered by this application. The data must be both in tabular and schematic form and shall include:

- (1) Lease name; Well No.; Location by Section, Township and Range; and footage location within the section.
- (2) Each casing string used with its size, setting depth, sacks of cement used, hole size, top of cement, and how such top was determined.
- (3) A description of the tubing to be used including its size, lining material, and setting depth.
- (4) The name, model, and setting depth of the packer used or a description of any other seal system or assembly used.

Division District Offices have supplies of Well Data Sheets which may be used or which may be used as models for this purpose. Applicants for several identical wells may submit a "typical data sheet" rather than submitting the data for each well.

B. The following must be submitted for each injection well covered by this application. All items must be addressed for the initial well. Responses for additional wells need be shown only when different. Information shown on schematics need not be repeated.

- (1) The name of the injection formation and, if applicable, the field or pool name.
- (2) The injection interval and whether it is perforated or open-hole.
- (3) State if the well was drilled for injection or, if not, the original purpose of the well.
- (4) Give the depths of any other perforated intervals and detail on the sacks of cement or bridge plugs used to seal off such perforations.
- (5) Give the depth to and the name of the next higher and next lower oil or gas zone in the area of the well, if any.

XIV. PROOF OF NOTICE

All applicants must furnish proof that a copy of the application has been furnished, by certified or registered mail, to the owner of the surface of the land on which the well is to be located and to each leasehold operator within one-half mile of the well location.

Where an application is subject to administrative approval, a proof of publication must be submitted. Such proof shall consist of a copy of the legal advertisement which was published in the county in which the well is located. The contents of such advertisement must include:

- (1) The name, address, phone number, and contact party for the applicant;
- (2) The intended purpose of the injection well; with the exact location of single wells or the Section, Township, and Range location of multiple wells;
- (3) The formation name and depth with expected maximum injection rates and pressures; and,
- (4) A notation that interested parties must file objections or requests for hearing with the Oil Conservation Division, 1220 South St. Francis Dr., Santa Fe, New Mexico 87505, within 15 days.

NO ACTION WILL BE TAKEN ON THE APPLICATION UNTIL PROPER PROOF OF NOTICE HAS BEEN SUBMITTED.

NOTICE: Surface owners or offset operators must file any objections or requests for hearing of administrative applications within 15 days from the date this application was mailed to them.

INJECTION WELL DATA SHEET

OPERATOR: CML EXPLORATION, LLC

WELL NAME & NUMBER: BEAMS 15 STATE NO. 3

WELL LOCATION: 352' FNL & 2094' FEL
FOOTAGE LOCATION UNIT LETTER SECTION TOWNSHIP RANGE
B 15 17S 33EWELLBORE SCHEMATIC - AttachedWELL CONSTRUCTION DATASurface Casing

Hole Size: 17½" Casing Size: 13 3/8"
 Cemented with: 1250 sx. or ft³
 Top of Cement: Surface Method Determined: Observed

Intermediate Casing

Hole Size: 12¼" Casing Size: 9 5/8"
 Cemented with: 1500 sx. or ft³
 Top of Cement: Surface Method Determined: Observed

Production Casing

Hole Size: 7 7/8" Casing Size: 5½"
 Cemented with: 1910 sx. or ft³
 Top of Cement: 3170' Method Determined: CBL
 Total Depth: 13,130'

Injection Interval

11,029' feet to 11,127' Perforated

(Perforated or Open Hole; indicate which)

INJECTION WELL DATA SHEET

Tubing Size: 2 7/8" Lining Material: Fiberglass
 Type of Packer: Arrowset 1X 10K w/ stainless steel mandrel
 Packer Setting Depth: 10,950'
 Other Type of Tubing/Casing Seal (if applicable):

Additional Data

1. Is this a new well drilled for injection? No
 If no, for what purpose was the well originally drilled? Oil producer
2. Name of the Injection Formation: Cisco lime
3. Name of Field or Pool (if applicable): Maljamar; Cisco
4. Has the well ever been perforated in any other zone(s)? List all such perforated intervals and give plugging detail, i.e. sacks of cement or plug(s) used. None
5. Give the name and depths of any oil or gas zones underlying or overlying the proposed injection zone in this area: Morrow (gas) ± 13,600', Wolfcamp (oil) (10, 100' – 10,900')
Abo (oil) 8800', Yeso (oil) 6100', Grayburg/San Andres (oil) 4100'

CML EXPLORATION, LLC

Updated: 03/14/19

RKB 4175'
GL 4158'

Lease & Well No.: **Beams 15 State # 3**

Well Category:
Area: **New Mexico**
Subarea: **Buckeye**
Legal Description: **API #30-025-41407**
B, 352' FNL, 2094' FEL, Sec 15, T-17-S, R-33-E
Lea County, NM

1557'

17 1/2" hole
13 3/8" 54.5# J55
set @ 1557'

Spudded: 10/7/2013
TD: 11/04/13
Completed: 11/26/2013

1250 sx cement Stimulation: 11/26/13 Cisco- 5200 gals 15% NEFE HCL

+ 200 ball sealers

5/5/16 - 2500 gals 15% HCL + 100 BS

Propose: 6000 gals of 15% HCL acid

12 1/2" hole
9 5/8" 40# J-55 & L-80
set @ 4615'
1500 sx cement.
TOC = SURF

4615'

PRESSURE DATA

12/2/13 80 HR BHP= 1194 psi

5 1/2" TOC = 3170' CBL

DV tool @ 7519'
Cml'd 2nd Stage w/ 750 sks

Proposed Injection Tbg

± 344- jts 2 7/8" 6.5# N80 tubing w/ fiberglass liner

1- On-Off tool receiver Stainless Steel

1- 1.87" F profile nipple SS

1 - 5 1/2" Arrowset IX 10K SS injection PKR

End of PKR @ ± 10,950'

Cisco Perfs

(11,029-44') 4 spf, 90°

(11,046-60') 4spf, 90°

(11,062-72') 4spf, 90°

(11,076-85') 4spf, 90°

(11,089- 11,101') 4spf, 90°

(11,122-27') 4spf, 90°

CIBP @ 11,260' + 35' cement ** Proposed

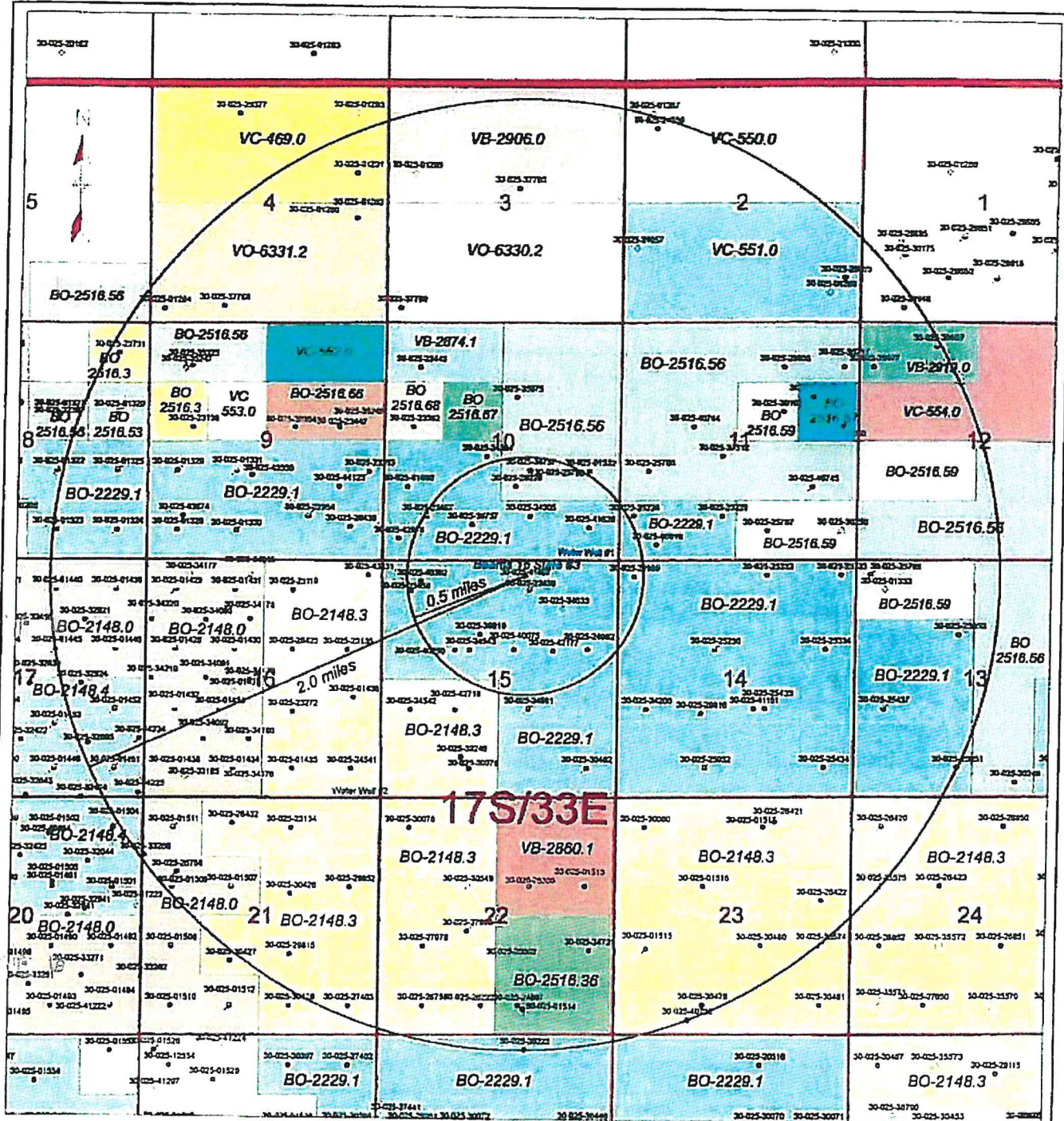
CIBP @ 11,960' + 35' cement ** Proposed

5 1/2" 17# N80& P110 @ 13,110'

Cml'd 1st Stage w/ 1160 sks

PBTD: 12,950'
TD: 13,130'

V.



- Oil, Active
- Oil, Plugged
- Oil-Gas, Abandoned
- Dry & Abandoned
- Oil Converted to Injection
- Oil Converted to Injection, Plugged
- Salt Water Disposal, Plugged
- Abandoned Location

NMSLO Oil and Gas Leases
Highlighted with Lease Number Noted



Beams 15 State #3 Injection Application
Lea County, New Mexico
Wells and Leases within 2 miles of Proposed
Injection Well with 1/2 mile Area of Review
as of 3-14-2019

VI. Well Records

Wells within 1/2 mile Area of Review penetrating proposed injection interval

BEAMS 15 STATE # 1

CML EXPLORATION, LLC

API 30-025-39919

Location F, 1650' FNL 2180' FWL, S:15, T:17S, R:33E

Well Type: Oil Well (Active)

TD: 13,100'

TD on: 11/29/2010

Completion Depth: 11,045' - 11,138'

	Csg Size	Depth Set	Cmt Record	TOC
Surface Casing	13 3/8" 54.5# J55	1522'	1450 sx	Surface
Intermediate Casing	8 5/8" 32# J-55	4611'	1800 sx	Surface
Production Casing	5 1/2" 17# N80& P110	13,074'	1350 sx	4250' (CBL)

BEAMS 15 STATE # 2

CML EXPLORATION, LLC

API 30-025-40392

Location D, 450' FNL, 885' FWL, S:15, T17S, R33E

Well Type: Oil Well (Active)

TD: 11,600

TD on: 2/21/2012

Completion Depth: 11,057' - 11,143'

	Csg Size	Depth Set	Cmt Record	TOC
Surface Casing	13 3/8" 54.5# J55	1565'	1250 sx	Surface
Intermediate Casing	8 5/8" 32# J-55	4514'	1950 sx	1285' (TS)
Production Casing	5 1/2" 17# N80& P110	11,567'	1150 sx	4500' EST

BEAMS 15 STATE # 4

CML EXPLORATION, LLC

API 30-025-42177

Location G, 2105' FNL, 1450' FEL, S:15, T17S, R33E

Well Type: Oil Well (Active)

TD: 13,075

TD on: 1/8/2015

Completion Depth: 10,194' - 11,396'

	Csg Size	Depth Set	Cmt Record	TOC
Surface Casing	13 3/8" 54.5# J55	1557'	1150 sx	Surface
Intermediate Casing	8 5/8" 32# J-55	4598'	1800 sx	Surface
Production Casing	5 1/2" 17# P110	13,075'	1198 sx	4190' (CBL)

VI. Well Records

Wells within 1/2 mile Area of Review penetrating proposed injection interval

page 2

ABENAKI 10 STATE # 1

CML EXPLORATION, LLC

API 30-025-39737

Location N, 800' FSL, 1980' FWL, S:10, T17S, R33E

Well Type: Oil Well (Active)

TD: 11,610

TD on: 6/25/2010

Completion Depth: 11,038 - 11,136'

	Csg Size	Depth Set	Cmt Record	TOC
Surface Casing	13 3/8" 54.5# J55	1508'	1825 sx	Surface
Intermediate Casing	8 5/8" 32# J-55	4610'	1950 sx	Surface
Production Casing	5 1/2" 17# N80& P110	11,606'	1475 sx	3950' (CBL)

ABENAKI 10 STATE # 2

CML EXPLORATION, LLC

API 30-025-41626

Location P, 730' FSL, 680' FEL, S:10, T17S, R33E

Well Type: Oil Well (Active)

TD: 13,020

TD on: 3/29/2014

Completion Depth: 11,030 - 11,050'

	Csg Size	Depth Set	Cmt Record	TOC
Surface Casing	13 3/8" 54.5# J55	1553'	1250 sx	Surface
Intermediate Casing	8 5/8" 32# J-55 & L80	4630'	1770 sx	Surface
Production Casing	5 1/2" 17# P110	13,020'	1110 sx	4350' (CBL)

ARROWHEAD STATE 15 # 1

PATTERSON PETROLEUM, LP

API 30-025-34633

Location A, 1087' FNL, 1235' FEL, S:15, T17S, R33E

Well Type: Dryhole

TD: 13,826

TD on: 7/12/1999

Completion Depth: -----

	Csg Size	Depth Set	Cmt Record	TOC
Surface Casing	13 3/8" 48# H40	405'	400 sx	Surface
Intermediate Casing	8 5/8" 32# J-55 & HCK55	4799'	1900 sx	Surface
Production Casing	None	-----	-----	-----

VI. Well Records

Wells within 1/2 mile Area of Review penetrating proposed injection interval

page 3

STINGRAY STATE 10 # 1

COG OPERATING, LLC

API 30-025-34757

Location J, 2000' FSL, 2000' FEL, S:10, T17S, R33E

Well Type: Plugged & Abandoned oil well

TD: 11,748

TD on: 1/13/2000

Completion Depth: 10,505 - 11,089'

	Csg Size	Depth Set	Cmt Record	TOC
Surface Casing	13 3/8" 48# H40	445'	525 sx	Surface
Intermediate Casing	9 5/8" 36/40# J-55	4596'	1950 sx	Surface
Production Casing	5 1/2" 17/20# L-80	11240'	430 sx	9790'

VI.

**AFTER PLUGGING
WELLBORE DIAGRAM**

P&A DATE: 7/16/1999

RKB 3970'
GL 3990'

Operator : Patterson Petroleum, LP
Lease & Well No.: Arrowhead State 15 # 1

Well Category:
Area: New Mexico
Subarea: Morrow
Legal Description: API #30-025-34633
A, 1087' FNL, 1235' FEL, Sec 15, T-17-S, R-33-E
Lea County, New Mexico

Spudded: 06/01/1999
TD: 07/12/1999

Completed:

Stimulation: None

405'

17 1/2" hole
13 3/8" 48# H40
set @ 405'
400 sx cement
TOC = surface

4799'

11" hole
8 5/8" 32# J-55 & HCK-55
set @ 4799'
1900sx cement, TOC = surface'

10 sx "C" cement @ surface

30 sx "C" cement 450' - 350'

30 sx "C" cement 1,670' - 1,570'

50 sx "C" cement 4,850' - 4,655'

30 sx "C" cement 6,110' - 6,010'

30 sx "H" cement 8,110' - 8,010'

30 sx "H" cement 9,520' - 9,420'

30 sx "H" cement 12,410' - 12,310'

30 sx "H" cement @ 13,820' - 13,720'

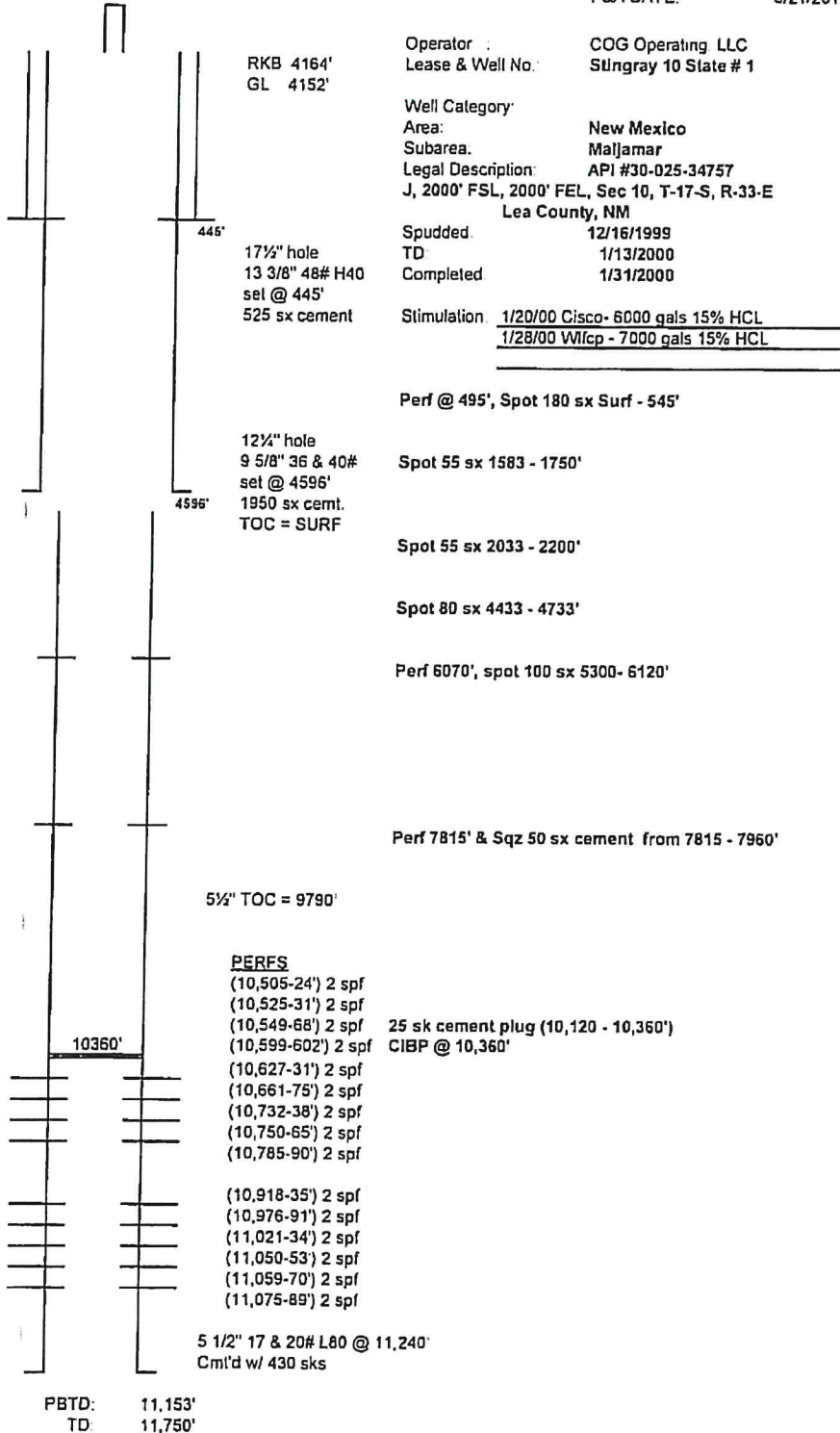
PBTD:

TD: 13,826' 7 7/8" Hole

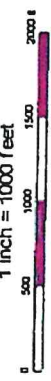
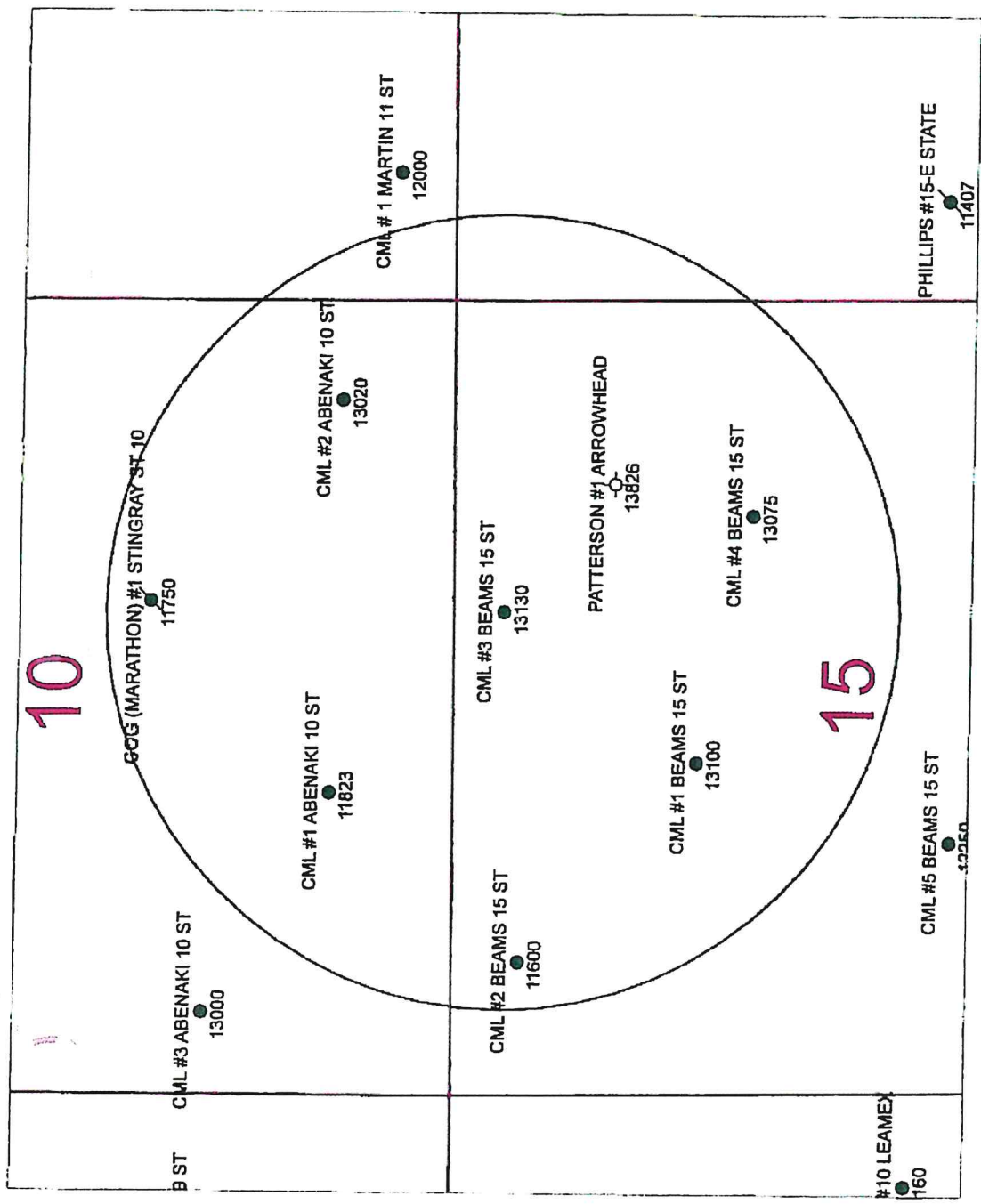
VI.

**AFTER PLUGGING
WELLBORE DIAGRAM**

P&A DATE: 5/21/2018



VI.



Beams 15 State #3 Injection Application
 Lea County, New Mexico
 Area of Review as of 3-14-2019
 0.5 Mile Radius Map

- Oil, Active
- ◌/ Oil, Plugged
- ◌+ Dry & Abandoned

VII. Proposed Injection Operational Parameters

Beams 15 State # 3

Injection Rate

Average: 600 BBL/Day

Maximum: 1000 BBL/Day

Injection Pressure

Average: 1200 psig

Maximum: 3000 psig

Closed or Open Loop?

CLOSED

Water Sources

Formations: Yeso (Paddock) & Abo

The following three pages are chemical analysis' done on two of the wells to be contributing water for injection and a chemical analysis of a 50/50 mixture of the two wells to check for compatibility issues and to simulate the composition of the water expected to be injected into the Beams 15 State # 3.

VII.



Martin Water Laboratories, Inc.

Analysts & Consultants since 1953
Bacterial & Chemical Analysis

TO:	Jordan Owens	LABORATORY NO.	16-10-207 Page 3
ADDRESS:	P.O. Box 890 Snyder, TX 79550	SAMPLE RECEIVED:	10/20/16
COMPANY:	CML Exploration, LCC	RESULTS REPORTED:	10/26/16
LEASE:		COUNTY, STATE:	
FORMATION:		FIELD OR POOL	

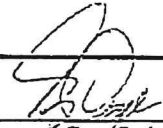
DESCRIPTION OF SAMPLES

No. 1 Submitted water sample - taken 10/20/16 from AB Pad 10 State #1

Chemical and Physical Properties (milligrams per liter)	No. 1		
Specific Gravity @ 60°F.	1.1645		
pH When Sampled			
pH When Received	6.1		
Bicarbonate as HCO ₃	102		
Total Hardness, as CaCO ₃	87.000		
Calcium, as Ca	26.800		
Magnesium, as Mg	4.860		
Sodium and/or Potassium	69.890		
Sulfate, as SO ₄	505		
Chloride, as Cl	169.025		
Iron, as Fe	7.9		
Barium, as Ba	0		
Total Dissolved Solids, Calculated	271.183		
Carbon Dioxide, Calculated	133		
Hydrogen Sulfide	0.0		
Resistivity, ohms/m @ 77°F.	0.049		
Corrosiveness	Severe		
Barium Sulfate Scaling Tendency	None		
Calcium Carbonate S.I. @ 77° F. (Stiff-Davis)*	1.90		
Calcium Carbonate S.I. @ 122° F. (Stiff-Davis)*	3.01		
Calcium Sulfate Scaling Tendency	None		

* Calcium Carbonate S.I. - A positive fig. signifies a scaling potential proportionate to the magnitude of the number, and a negative fig. signifies no scaling potential.

REMARKS: The undersigned certifies the above to be true and correct to the best of his knowledge and belief.

By:  Greg Ogden, B.S.

(432) 683-4521 * 709 W. Indiana, Midland, Texas 79701 * (fax) 682-8819

Remit to Address: P.O. Box 98, Midland, Texas 79702

" " " " " 14 " " "

VII.



Martin Water Laboratories, Inc.

Analysts & Consultants since 1953
Bacterial & Chemical Analysis

TO: Jordan Owens
ADDRESS: P.O. Box 890 Snyder, TX 79550
COMPANY: CML Exploration, LCC
LEASE: _____
FORMATION: _____

LABORATORY NO. 16-10-207 Page 4
SAMPLE RECEIVED: 10/20/16
RESULTS REPORTED: 10/26/16
COUNTY, STATE: _____
FIELD OR POOL: _____

DESCRIPTION OF SAMPLES

No. 1 Submitted water sample - taken 10/20/16 from Cameron 22 State #1

Chemical and Physical Properties (milligrams per liter)	No. 1		
Specific Gravity @ 60°F.	1.1285		
pH When Sampled			
pH When Received	6.6		
Bicarbonate as HCO ₃	107		
Total Hardness, as CaCO ₃	31,500		
Calcium, as Ca	8,600		
Magnesium, as Mg	2,430		
Sodium and/or Potassium	74,510		
Sulfate, as SO ₄	1,084		
Chloride, as Cl	136,356		
Iron, as Fe	27		
Barium, as Ba	0		
Total Dissolved Solids, Calculated	223,089		
Carbon Dioxide, Calculated	44		
Hydrogen Sulfide	0.0		
Resistivity, ohms/m @ 77°F.	0.053		
Corrosiveness	Moderate		
Barium Sulfate Scaling Tendency	None		
Calcium Carbonate S.I. @ 77° F. (Stiff-Davis)*	0.66		
Calcium Carbonate S.I. @ 122° F. (Stiff-Davis)*	1.48		
Calcium Sulfate Scaling Tendency	None		

* Calcium Carbonate S.I. - A positive fig. signifies a scaling potential proportionate to the magnitude of the number, and a negative fig. signifies no scaling potential.

REMARKS: The undersigned certifies the above to be true and correct to the best of his knowledge and belief.

By: Greg Ogden, B.S.

(432) 683-4521 * 709 W. Indiana, Midland, Texas 79701 * (fax) 682-8819

Remit to Address: P.O. Box 98, Midland, Texas 79702

E-mail: martinwaterlab@midlandtx.com

VII.



Martin Water Laboratories, Inc.

Analysts & Consultants since 1953
Bacterial & Chemical Analysis

TO: Jordan Owens LABORATORY NO. 16-10-207 Page 5
 ADDRESS: P.O. Box 890 Snyder, TX 79550 SAMPLE RECEIVED: 10/20/16
 COMPANY: CML Exploration, LCC RESULTS REPORTED: 10/26/16
 LEASE: _____ COUNTY, STATE: _____
 FORMATION: _____ FIELD OR POOL: _____

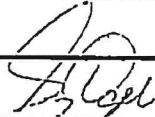
DESCRIPTION OF SAMPLES

No. 1 Submitted water sample - taken 10/20/16 from 50/50 mixture of AB Pad 10 State #1 and Cameron 22 Sta

Chemical and Physical Properties (milligrams per liter)	No. 1		
Specific Gravity @ 60°F.	1.1480		
pH When Sampled			
pH When Received	6.2		
Bicarbonate as HCO ₃	122		
Total Hardness, as CaCO ₃	67.000		
Calcium, as Ca	21.600		
Magnesium, as Mg	3.159		
Sodium and/or Potassium	62.644		
Sulfate, as SO ₄	775		
Chloride, as Cl	143.458		
Iron, as Fe	7.4		
Barium, as Ba	0		
Total Dissolved Solids, Calculated	231.759		
Carbon Dioxide, Calculated	134		
Hydrogen Sulfide	0.0		
Resistivity, ohms/m @ 77°F.	0.052		
Corrosiveness	Severe		
Barium Sulfate Scaling Tendency	None		
Calcium Carbonate S.I. @ 77°F. (Stiff-Davis)*	1.03		
Calcium Carbonate S.I. @ 122°F. (Stiff-Davis)*	2.03		
Calcium Sulfate Scaling Tendency	None		

* Calcium Carbonate S.I. - A positive fig. signifies a scaling potential proportionate to the magnitude of the number, and a negative fig. signifies no scaling potential.

REMARKS: These results show that a combination of these two produced waters does not reveal any significant incompatibilities that would increase scale or precipitation beyond what already may exist in each water individually.

By:  Greg Ogden, B.S.

(432) 683-4521 * 709 W. Indiana, Midland, Texas 79701 * (fax) 682-8819

Remit to Address: P.O. Box 98, Midland, Texas 79702

16

VIII.

Beams 15 State #3
Lea County, New Mexico
Geologic Data

The Beams 15 State #3 is currently producing from the Upper Pennsylvanian Cisco Formation at a depth of 11,029 feet as shown on the Halliburton Dual Laterolog and Dual Spaced Neutron Spectral Density logs dated 11/03/2013. The predominately limestone interval has a gross thickness of approximately 98 feet and has been described by side wall core data as gray to tan limestone, slightly silty with scattered small vugs. Porosity obtained from the side wall core data ranges between 4.4% and 11.6% with permeabilities between 0.047 mD and 5.253 mD. The Beams 15 State #3 has produced 29,534 BO and 142,798 MCF through January 2019 with an average daily rate of 6 BOPD and 16 MCFPD. The injection interval proposed will be the same as the currently producing interval.

Underground sources of drinking water near the Beams 15 State #3 were reviewed utilizing the USGS National Water Information System website. Groundwater sites within two miles of the Beams 15 State #3 were shown to be completed in the Ogallala Formation at depths of less than 300 feet. Water analysis for two of these wells is included in this packet.

VIII.

30025414070000

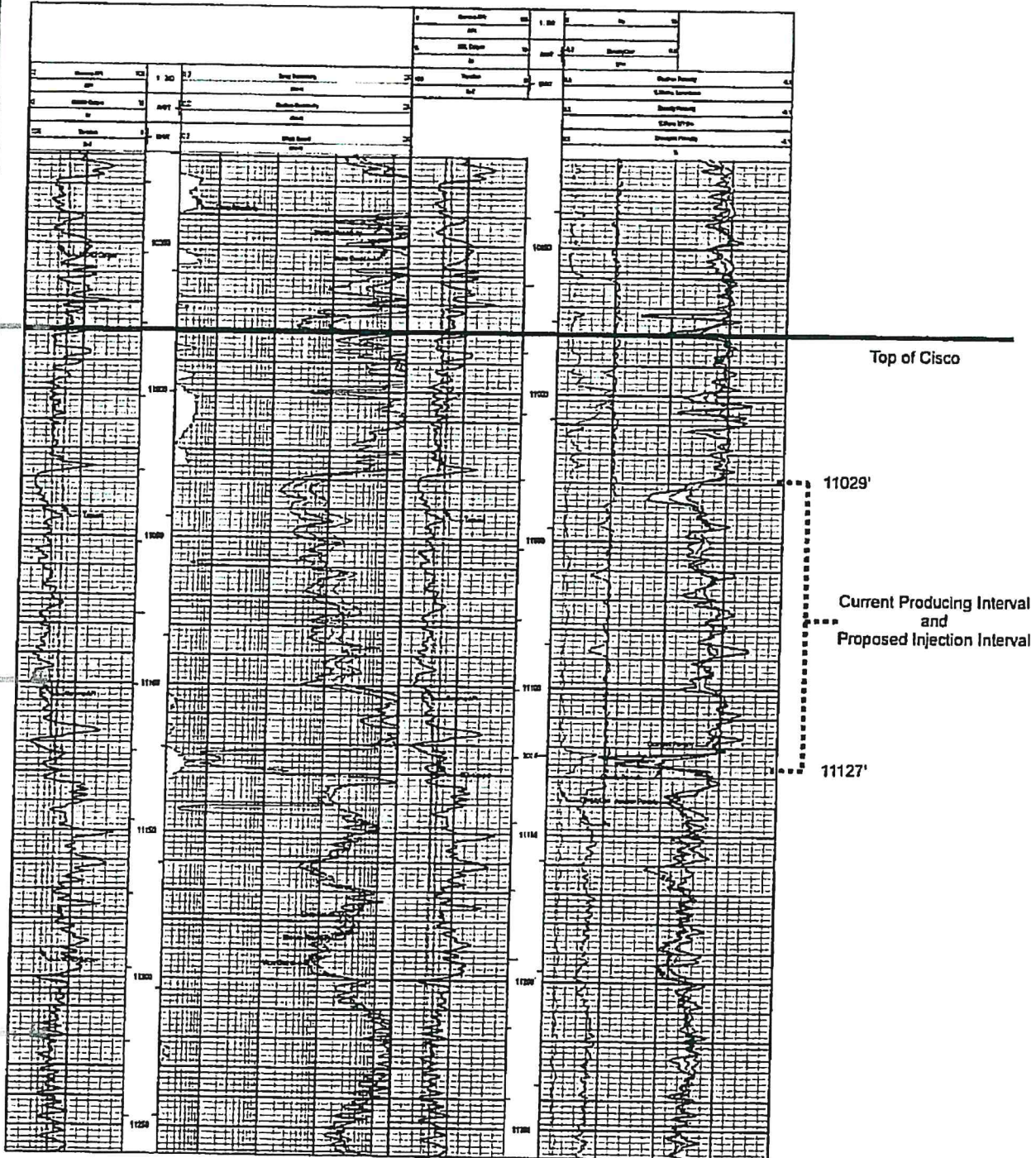
CML

BEAMS 15 ST 3

352FNL/2094FEL

TWP: 17 S - Range: 33 E - Sec. 15

KB: 4176.00



TD=13130.00

BEAMS 15 STATE # 3

IX. Proposed Stimulation Program – Operator proposes to treat the injection perforations with 6,000 gals of 15% HCL acid to clean out any existing scale or other debris. Then perform a step-rate injection test.

X. Logging and test data are already on file with the NMOCD.

Analysts & Consultants since 1953
Bacterial & Chemical Analysis

DESCRIPTION OF SAMPLES

Chemical and Physical Properties (milligrams per liter)

No. 1

1.0028

7.60

185

160

50

9

29

25

33

0.15

01

331

0.00

26.150

By: Greg Ogden, B.S.

Analysts & Consultants since 1953
Bacterial & Chemical Analysis

DESCRIPTION OF SAMPLES			
No. 1	Submitted water sample - taken 10/20/16 from Fresh Water Well #2		
Location- Lat: 32.827940 deg, Long: -103.663124 deg NAD83			
Chemical and Physical Properties (milligrams per liter)	No. 1		
Specific Gravity @ 60°F.	1.0028		
pH When Received	7.60		
Bicarbonate as HCO ₃	185		
Total Hardness, as CaCO ₃	192		
Calcium, as Ca	54		
Magnesium, as Mg	14		
Sodium and/or Potassium	78		
Sulfate, as SO ₄	146		
Chloride, as Cl	41		
Iron, as Fe	0.15		
Barium, as Ba	0		
Total Dissolved Solids, Calculated	518		
Hydrogen Sulfide	0.00		
Resistivity, ohms/m @ 77°F.	15.660		

[Handwritten signature]

25

XIII.

Affidavit of Publication

STATE OF NEW MEXICO
COUNTY OF LEA

I, Daniel Russell, Publisher of the Hobbs News-Sun, a newspaper published at Hobbs, New Mexico, solemnly swear that the clipping attached hereto was published in the regular and entire issue of said newspaper, and not a supplement thereof for a period of 1 issue(s).

Beginning with the issue dated
March 22, 2019
and ending with the issue dated
March 22, 2019.


LEGAL NOTICE MARCH 22, 2019

CML Exploration, LLC, P.O. Box 890, Snyder, TX 79550
Contact: Nolan von Roeder
(325) 573-0750 is seeking
administrative approval from
the New Mexico Oil
Conservation Division to
convert the Beams' 15 State
NO. 3 (API #30-025-41407)
352' FNL and 2094' FEL,
Sec. 15, Township 17S,
Range 33E, Lea County, NM
from oil production to
injection for secondary
recovery in the Maljamar,
Cisco Pool (43270).

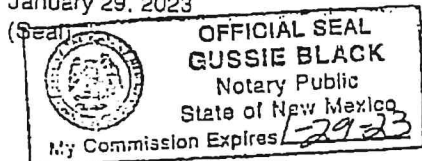
The proposed injection
interval will be from 11,029' -
11,127' which includes the
Cisco formation. The
maximum injection rate will
be 1000 barrels of produced
water per day. Maximum
injection pressure will be
3000 psi at the surface.
Interested parties must file
objections, or a request for
hearing with the New Mexico
Oil Conservation Division,
1220 South Saint Francis
Drive, Santa Fe, NM 87504
within 15 days of this notice.
#33935


Publisher

Sworn and subscribed to before me this
22nd day of March 2019.


Business Manager

My commission expires
January 29, 2023



This newspaper is duly qualified to publish
legal notices or advertisements within the
meaning of Section 3, Chapter 167, Laws of
1937 and payment of fees for said

02108842

00226217

JANIS KEY
CML EXPLORATION
P.O. BOX 890
SNYDER, TX 79550

*mailed
3/22/19
JB*

XIII. Proof of Notice - Interested Parties

I, Kyle Kawa, do hereby certify that a complete copy of the "Application for Authorization to Inject" for CML Exploration LLC's – Beams 15 State No. 3 well was sent to the parties listed below via US Certified Mail on the 1st day of October, 2019.

Signed: [Signature]

Representing: CML Exploration, LLC

Land Owner

State of New Mexico
Commissioner of Public Lands
P.O. Box 1148
Santa Fe, New Mexico 87504-1148

Land Tennant

Angell 2 Family Limited Partnership
P.O. Box 190
Lovington, New Mexico 88260

Offset Operator

ConocoPhillips Company
600 N. Dairy Ashford
Houston, Texas 77079
Attn: Stewart O'Neal



P.O. Box 890
Snyder, Texas 79550-0890

Ofc (325) 573-0750 ▪ Fax (325) 573-0749

May 1, 2019

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

State of New Mexico
Commissioner of Public Lands
P.O. Box 1148
Santa Fe, NM 87504-1148

APPLICATION FOR AUTHORIZATION TO INJECT FOR THE BEAMS 15 STATE NO. 3

CML Exploration, LLC is seeking administrative approval from the New Mexico Oil Conservation Division to inject produced water into the above mentioned well in the Maljamar; Cisco formation for secondary recovery.

You are receiving this package because you have been identified as having, past or current, interest in the acreage near the vicinity of our proposed well.

The Beams 15 State No. 3 is located 352' FNL and 2094' FEL of Section 15, Township 17S, Range 33E, Lea County, NM.

According to Rule 701C the State of New Mexico, Oil Conservation Division, Engineering Bureau (1220 South Saint Francis Drive, Santa Fe, NM 87505) can make a decision on our application after 15 days, if no objection is received.

If you have any questions regarding the enclosed application, I can be reached at the address above, phone number (325) 573-0750, or email vonroedern@cmlexp.com.

Sincerely,

Nolan von Roeder
Area Engineer



P.O. Box 890
Snyder, Texas 79550-0890

Ofc (325) 573-0750 ▪ Fax (325) 573-0749

May 1, 2019

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Angell 2 Family Limited Partnership
P.O. Box 190
Lovington, NM 88260

APPLICATION FOR AUTHORIZATION TO INJECT FOR THE BEAMS 15 STATE NO. 3

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Sincerely,

Nolan von Roeder
Area Engineer



P.O. Box 890
Snyder, Texas 79550-0890

Office: (325) 573-0750 • Fax: (325) 573-0749

May 1, 2019

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

ConocoPhillips Company
Attention Stewart O'Neal
600 N. Dairy Ashford
Houston, TX 77079

APPLICATION FOR AUTHORIZATION TO INJECT FOR THE BEAMS 15 STATE NO. 3

CML Exploration, LLC is seeking administrative approval from the New Mexico Oil Conservation Division to inject produced water into the above mentioned well in the Maljamar; Cisco formation for secondary recovery.

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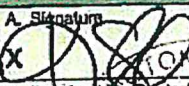
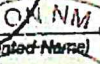

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Sincerely,

Nolan von Roeder
Area Engineer

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<input checked="" type="checkbox"/> Complete items 1, 2, and 3. <input checked="" type="checkbox"/> Print your name and address on the reverse so that we can return the card to you. <input checked="" type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.		A. Signature  <input type="checkbox"/> Agent <input type="checkbox"/> Addressee	
1. Article Addressed to: <i>State of New Mexico</i> <i>Commissioner of Public Lands</i> <i>PO Box 1148</i> <i>Santa Fe, NM 87504-1148</i>		B. Received by (Printed Name) 	C. Date of Delivery <i>10/4/15</i>
2. Article Number (Transfer from service label) 7014 1820 0001 3113 2194		D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No	
 9590 9402 2304 6225 1752 83		3. Service Type <input checked="" type="checkbox"/> Adult Signature <input type="checkbox"/> Adult Signature Restricted Delivery <input type="checkbox"/> Certified Mail® <input type="checkbox"/> Certified Mail Restricted Delivery <input type="checkbox"/> Collect on Delivery <input type="checkbox"/> Collect on Delivery Restricted Delivery <input type="checkbox"/> Add Restricted Delivery	
		<input type="checkbox"/> Priority Mail Express® <input type="checkbox"/> Registered Mail™ <input type="checkbox"/> Registered Mail Restricted Delivery <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Signature Confirmation™ <input type="checkbox"/> Signature Confirmation Restricted Delivery	

PS Form 3811, July 2015 PSN 7530-02-000-9053 Domestic Return Receipt

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<input checked="" type="checkbox"/> Complete items 1, 2, and 3. <input checked="" type="checkbox"/> Print your name and address on the reverse so that we can return the card to you. <input checked="" type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.		A. Signature  <input type="checkbox"/> Agent <input type="checkbox"/> Addressee	
1. Article Addressed to: <i>Angell 2 Family LP</i> <i>PO Box 190</i> <i>Lovington, NM 88240</i>		B. Received by (Printed Name) 	C. Date of Delivery <i>OCT - 3 2015</i>
2. Article Number (Transfer from service label) 7014 1820 0001 3113 2200		D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No	
 9590 9402 2304 6225 1752 45		3. Service Type <input checked="" type="checkbox"/> Adult Signature <input type="checkbox"/> Adult Signature Restricted Delivery <input type="checkbox"/> Certified Mail® <input type="checkbox"/> Certified Mail Restricted Delivery <input type="checkbox"/> Collect on Delivery <input type="checkbox"/> Collect on Delivery Restricted Delivery	
		<input type="checkbox"/> Priority Mail Express® <input type="checkbox"/> Registered Mail™ <input type="checkbox"/> Registered Mail Restricted Delivery <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Signature Confirmation™ <input type="checkbox"/> Signature Confirmation Restricted Delivery	

PS Form 3811, July 2015 PSN 7530-02-000-9053 Domestic Return Receipt



INKLE SHANOR LLP

ATTORNEYS AT LAW

PO BOX 2068

SANTA FE, NEW MEXICO 87504

505-982-4554 (FAX) 505-982-8623

WRITER:

Dana S. Hardy, Partner
dhardy@hinklelawfirm.com

January 10, 2020

VIA CERTIFIED MAIL

Angell 2 Family Limited Partnership
P.O. Box 190
Lovington, NM 88260

Re: CML Exploration, LLC

Dear Sir or Madam:

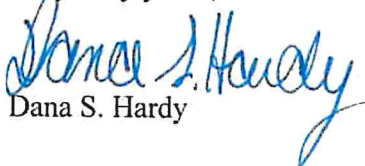
Enclosed is a copy of an application that CML Exploration, LLC ("CML") has filed with the New Mexico Oil Conservation Division ("the Division"). CML's application requests authorization to implement a waterflood project within the Cisco formation to inject produced water through its Beams 15 State #3 well, which will be the initial injection well in the waterflood project. The Beams 15 State #3 well is located in Unit B in Section 15, Township 17 South, Range 33 East in Lea County.

This matter (Division Case No. 21046) is scheduled for hearing at 8:15 a.m. on Thursday, February 6, 2020 in Porter Hall at the Division's offices located at 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. The Angell 2 Family Limited Partnership ("Angell") is not required to attend this hearing, but as an owner of an interest that may be affected by CML's application, it may appear at the hearing and present testimony. If Angell does not appear at that time and become a party of record, it will be precluded from contesting the matter at a later date.

A party appearing in a Division case is required by the Division's Rules to file a Pre-Hearing Statement, which in this matter must be filed no later than Thursday, January 30, 2020. The Pre-Hearing Statement must be filed with the Division's Santa Fe office at the address above, and should include: the name of the party and the party's attorney; a concise statement of the case; the name(s) of the witness(es) the party will call to testify at the hearing; the approximate amount of time the party will need to present the party's case; and an identification of any procedural matters that need to be resolved prior to the hearing. The Pre-Hearing Statement must also be provided to me.

Thank you for your attention to this matter.

Very truly yours,


Dana S. Hardy

Case No. 21046

CML EXPLORATION
Exhibit #6

Enclosure

PO BOX 10
ROSWELL, NEW MEXICO 88202
575-622-6510
(FAX) 575-623-9332

PO BOX 1720
ARTESIA, NEW MEXICO 88211
575-622-6510
(FAX) 575-746-6316

PO BOX 2068
SANTA FE, NEW MEXICO 87504
505-982-4554
(FAX) 505-982-8623

7601 JEFFERSON ST NE • SUITE 180
ALBUQUERQUE, NEW MEXICO 87109
505-858-8320
(FAX) 505-858-8321



HINKLE SHANOR LLP

ATTORNEYS AT LAW

PO BOX 2068

SANTA FE, NEW MEXICO 87504

505-982-4554 (FAX) 505-982-8623

WRITER:

Dana S. Hardy, Partner
dhardy@hinklelawfirm.com

January 10, 2020

VIA CERTIFIED MAIL

ConocoPhillips Company
600 N. Dairy Ashford
Houston, TX 77079
Attn: Stewart O'Neal

Re: CML Exploration, LLC

Dear Mr. O'Neal:

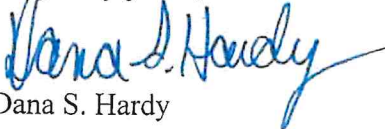
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Dana S. Hardy

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ALBUQUERQUE, NEW MEXICO 87109
505-858-8320
(FAX) 505-858-8321



HINKLE SHANOR LLP

ATTORNEYS AT LAW

PO BOX 2068

SANTA FE, NEW MEXICO 87504

505-982-4554 (FAX) 505-982-8623

WRITER:

Dana S. Hardy, Partner
dhardy@hinklelawfirm.com

January 10, 2020

VIA CERTIFIED MAIL

State of New Mexico
Commissioner of Public Lands
P.O. Box 1148
Santa Fe, NM 87504-1148

Re: CML Exploration, LLC

Dear Sir or Madam:

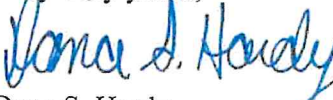
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Very truly yours,


Dana S. Hardy

Enclosure

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ALBUQUERQUE, NEW MEXICO 87109
505-858-8320
(FAX) 505-858-8321

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<p>■ Complete items 1, 2, and 3.</p> <p>■ Print your name and address on the reverse so that we can return the card to you.</p> <p>■ Attach this card to the back of the mailpiece, or on the front if space permits.</p> <p>1. Article Addressed to:</p> <p style="margin-left: 40px;">Angell 2 Family Ltd Partnership P.O. Box 190 Lovington, NM 88260</p>	<p>A. Signature <input type="checkbox"/> Agent <input checked="" type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) _____ C. Date of Delivery _____</p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p>
<p style="text-align: center;"></p> <p style="text-align: center;">9590 9402 4582 8278 6076 12</p>	<p>3. Service Type</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <input type="checkbox"/> Adult Signature <input type="checkbox"/> Adult Signature Restricted Delivery <input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Certified Mail Restricted Delivery <input type="checkbox"/> Collect on Delivery <input type="checkbox"/> Collect on Delivery Restricted Delivery </div> <div style="width: 45%;"> <input type="checkbox"/> Priority Mail Express® <input type="checkbox"/> Registered Mail™ <input type="checkbox"/> Registered Mail Restricted Delivery <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Signature Confirmation™ <input type="checkbox"/> Signature Confirmation Restricted Delivery </div> </div>
<p>2. Article Number (Transfer from service label)</p> <p style="text-align: center;">7018 2290 0000 3428 1614</p>	<p style="text-align: center; font-size: 2em; color: red;">LOVINGTON JUL 17 2020 USPS</p>
<p>PS Form 3811, July 2015 PSN 7530-02-000-9053 Domestic Return Receipt</p>	

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<p>■ Complete items 1, 2, and 3.</p> <p>■ Print your name and address on the reverse so that we can return the card to you.</p> <p>■ Attach this card to the back of the mailpiece, or on the front if space permits.</p> <p>1. Article Addressed to:</p> <p style="margin-left: 40px;">ConocoPhillips Company 600 N. Dairy Ashford Houston, TX 77079 Attn: Stewart O'Neal</p>	<p>A. Signature <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) <u>Jackie Turner</u> C. Date of Delivery <u>7/14</u></p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p>
<p style="text-align: center;"></p> <p style="text-align: center;">9590 9402 4582 8278 6076 29</p>	<p>3. Service Type</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <input type="checkbox"/> Adult Signature <input type="checkbox"/> Adult Signature Restricted Delivery <input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Certified Mail Restricted Delivery <input type="checkbox"/> Collect on Delivery <input type="checkbox"/> Collect on Delivery Restricted Delivery </div> <div style="width: 45%;"> <input type="checkbox"/> Priority Mail Express® <input type="checkbox"/> Registered Mail™ <input type="checkbox"/> Registered Mail Restricted Delivery <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Signature Confirmation™ <input type="checkbox"/> Signature Confirmation Restricted Delivery </div> </div>
<p>2. Article Number (Transfer from service label)</p> <p style="text-align: center;">7018 2290 0000 3428 1621</p>	<p style="text-align: center;">Restricted Delivery</p>
<p>PS Form 3811, July 2015 PSN 7530-02-000-9053 Domestic Return Receipt</p>	

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<p>■ Complete items 1, 2, and 3.</p> <p>■ Print your name and address on the reverse so that we can return the card to you.</p> <p>■ Attach this card to the back of the mailpiece, or on the front if space permits.</p> <p>1. Article Addressed to:</p> <p style="margin-left: 40px;">State of New Mexico Commissioner of Public Lands P.O. Box 1148 Santa Fe, NM 87504-1148</p>	<p>A. Signature <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) _____ C. Date of Delivery _____</p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p>
<p style="text-align: center;"></p> <p style="text-align: center;">9590 9402 4582 8278 6076 36</p>	<p>3. Service Type</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <input type="checkbox"/> Adult Signature <input type="checkbox"/> Adult Signature Restricted Delivery <input type="checkbox"/> Certified Mail® <input type="checkbox"/> Certified Mail Restricted Delivery <input type="checkbox"/> Collect on Delivery <input type="checkbox"/> Collect on Delivery Restricted Delivery </div> <div style="width: 45%;"> <input type="checkbox"/> Priority Mail Express® <input type="checkbox"/> Registered Mail™ <input type="checkbox"/> Registered Mail Restricted Delivery <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Signature Confirmation™ <input type="checkbox"/> Signature Confirmation Restricted Delivery </div> </div>
<p>2. Article Number (Transfer from service label)</p> <p style="text-align: center;">7018 2290 0000 3428 1638</p>	<p style="text-align: center;">Restricted Delivery (over \$500)</p>
<p>PS Form 3811, July 2015 PSN 7530-02-000-9053 Domestic Return Receipt</p>	

Affidavit of Publication

STATE OF NEW MEXICO
COUNTY OF LEA


I, Daniel Russell, Publisher of the Hobbs News-Sun, a newspaper published at Hobbs, New Mexico, solemnly swear that the clipping attached hereto was published in the regular and entire issue of said newspaper, and not a supplement thereof for a period of 1 issue(s).

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January 11, 2020
and ending with the issue dated
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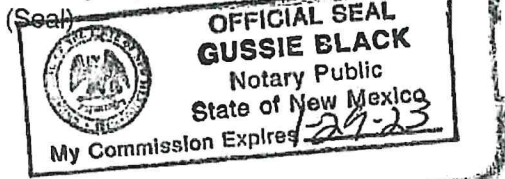
Publisher

Sworn and subscribed to before me this
11th day of January 2020.



Business Manager

My commission expires
January 29, 2023



This newspaper is duly qualified to publish legal notices or advertisements within the meaning of Section 3, Chapter 167, Laws of 1937 and payment of fees for said

LEGAL

LEGAL

LEGAL NOTICE JANUARY 11, 2020

This is to notify all interested parties, including the State of New Mexico, Angell 2 Family Limited Partnership, ConocoPhillips Company and their successors and assigns, that the New Mexico Oil Conservation Division will conduct a hearing on an application submitted by CML Exploration, LLC (Case No. 21046) at 8:15 a.m. on February 6, 2020 in Porter Hall at 1220 South St. Francis Drive, Santa Fe, New Mexico. Applicant seeks authorization to implement the Mallamar Cisco Waterflood Project by the injection of produced water into the Sanmal Penn Pool within the Cisco formation. The proposed Mallamar Cisco Waterflood Project area will be comprised of 640 acres, more or less, of the following State lands located in Township 17 South, Range 33 East in Lea County: Section 9: NE/4 SW/4, N/2 SE/4, and SE/4 SE/4; Section 10: SW/4 and S/2 SE/4; Section 11: SW/4 SW/4; and Section 15: N/2 NW/4, SE/4 NW/4, and W/2 NE/4. Applicant proposes to inject produced water into the Beams 15 State No. 3 well (API No. 30-025-41407), which will be the initial injection well in the waterflood project. The Beams 15 State No. 3 well is located 352' FNL and 2094' FEL in Unit B in Section 15, Township 17 South, Range 33 East in Lea County. The proposed injection interval is located in the Cisco formation at a depth of 11,029 to 11,127 feet, and the proposed maximum injection rate is 1,000 barrels per day at a maximum injection pressure of 3,000 psig. The unit acreage is located approximately 5 miles east-southeast of Mallamar, New Mexico.
#35066

02107475

00238273

HINKLE, HENSLEY, SHANOR & MARTIN, LLP
PO BOX 2068
SANTA FE, NM 87504

Case No. 21046

CML EXPLORATION
Exhibit #7

Preliminary Waterflood Survey
CML Exploration, LLC
Buckeye Area
Sanmal Field
Lea County, New Mexico
As of January 1, 2018

Case No. 21046

CML EXPLORATION

Exhibit #8

March 7, 2018

CML Exploration, LLC
P. O. Box 890
Snyder, TX 79550

Re: Preliminary Waterflood Survey
CML Exploration, LLC
Buckeye Area
Sanmal Field
Lea County, New Mexico
As of January 1, 2018

Gentlemen:

We have studied the Cisco Lime reservoir underlying the Buckeye Area which includes the Abenaki 10 State, Beam 15 State, Martin 11 State and Raider 9 State leases in the Sanmal Field in Lea County, New Mexico, as you requested. The Preliminary Waterflood Survey study as of January 1, 2018 is included herewith.

We have examined all available data pertinent to the Cisco Lime reservoir. The primary producing mechanism and the primary recovery from the Cisco Lime reservoir has been determined, the potentialities of obtaining additional recoverable oil by waterflooding this reservoir have been estimated, and the investment cost to be incurred and net profit to be realized from a waterflooding program have been estimated.

Following are the conclusions and recommendations determined from this study:

1. The Cisco Lime underlying the Buckeye Area is producing from two porosity intervals within the reservoir. These porosity intervals are known as the Cisco 1 and Cisco Lower. Although separate of each other, the intervals are present in all wells within the study and therefore will be treated as one reservoir for this study.

2. The Cisco Lime reservoir has produced 886,507 barrels of primary oil as of January 1, 2018. The Cisco Lime reservoir has a future estimated primary oil reserve of 759,236 barrels as of January 1, 2018 indicating an estimated ultimate primary recovery of 1,645,743 barrels.
3. The reservoir has produced under a solution gas drive mechanism. The original reservoir pressure of 2,872 psig was found in the discovery well Abenaki 10 State No. 1. The original saturation pressure for the reservoir was found to be the same as the original reservoir pressure of 2,872 psig based on PVT analysis from a recombined oil sample. The original formation factor was found to be 1.589 RB/STB while the average porosity for the reservoir was calculated to be 8.0 percent. The average water saturation was calculated to be 23.0 percent of pore space.
4. Since the Cisco Lime reservoir is producing under a solution gas drive mechanism, there should be sufficient oil saturation remaining in the reservoir to support a profitable waterflood. The oil saturation was calculated to be 43.1 percent of the pore space within the reservoir at primary depletion.
5. It will be necessary to unitize all working interest and royalty interest owners to protect equities and to permit the installation of the most efficient waterflooding program. By unitizing the reservoir, it will be possible to install the random/line drive waterflood pattern recommended herein and to waterflood the reservoir without the need to drill a substantial number of additional wells. It has been recommended that the Beam 15 State No. 3 be converted to water injection service on or about January 1, 2019. This well was selected since it is almost at primary depletion and has five offsetting wells which could respond to the injection.
6. As of January 1, 2018, the remaining estimated future primary reserves for the Cisco Lime reservoir was estimated to be 759,236 barrels of oil with potential additional secondary reserves of 594,456 barrels of oil if the reservoir is unitized and waterflooded. The total primary and secondary reserves for the reservoir is estimated to be 2,240,199 barrels. The secondary to primary ratio for the reservoir is estimated to be 0.36 barrel of secondary oil to 1.0 barrel of primary oil.

7. It is anticipated that the Cisco Lime reservoir can be successfully waterflooded within a period of 35 years by injecting an average rate of 605 barrels of water per day. Due to uncertainties and risks with waterflooding, it is recommended that the waterflood be installed at various stages and only converting proposed injections wells close to their primary oil depletion.
8. It is believed that sufficient water supply is available for the waterflood from existing Yeso Paddock wells within the area at no cost.
9. An economic analysis of the anticipated and recommended waterflood project indicates that this waterflood should derive a net profit before federal income taxes to the working interest of \$42,591,552 from an initial investment of \$275,000. This economic analysis assumes a constant oil price of \$55.00 per barrel throughout the entire program. The total present worth value of the anticipated future net income from this project is \$23,656,342 using a present worth discount factor of 8 percent compounded annually. This compares to a net profit of \$27,758,446 if the reservoir was not waterflooded and only allowed to produce under a solution gas drive mechanism to economic limit. Overall the waterflood would contribute an additional \$14,833,106 net profit for a very small investment.
10. The Unit Agreement and Unit Operating Agreement should be prepared for the reservoir utilizing a formula which have been agreed to by all working interest owners. The Unit Agreement should be approved and signed by all working interest owners and signed by them prior to submitting the Unit Agreement to the various royalty and overriding royalty owners. After all participants have signed the Unit Agreement, it will be necessary to have a Hearing before the New Mexico OCD to have the Unit approved. Also, it will be necessary to obtain water injection permits from the New Mexico OCD for each of the individual water injection wells to be utilized in the program.

Recommendations

1. The suggested Unit participation formula presented herein for the Buckeye Area should be reviewed and approved by the working interest owners at a meeting of these owners. It is recommended that a Unit Agreement be prepared utilizing the suggested participation formula approved by the working interest owners. The primary oil production

numbers should be brought as up to date as possible at the time the agreement is prepared. The Unit Agreement should be signed by all working interest owners and then presented to all royalty and overriding royalty interest owners for their signatures. The Unit Operating Agreement should be signed by all working interest owners. A hearing for unitization will need to be filed with the New Mexico OCD upon the Unit Agreement approval by all the owners.

2. After unitization approval, it is recommended that the Beam 15 State No. 3 be converted to injection. It will be necessary to file for an injection permit with the New Mexico OCD. It is suggested that a step rate test be ran on the well before the application to secure the maximum allowed injection pressure for the well.
3. It is recommended that a water injection plant be built close to the Beam 15 State No. 3 well and have supply water be brought into the plant from the existing Yeso Pad-dock producing wells within the project area.
4. The existing tank batteries of the leases can be utilized for the Unit. Return produced water lines should be installed from each tank battery to the water plant.

This report contains all pertinent data and methods used in arriving at these conclusions and recommendations.

We will be pleased to discuss this report with you at your convenience.

Yours very truly,

STEPHENS ENGINEERING
F-2125

Bob Gilmore

Jeff Ritchie

James Tart

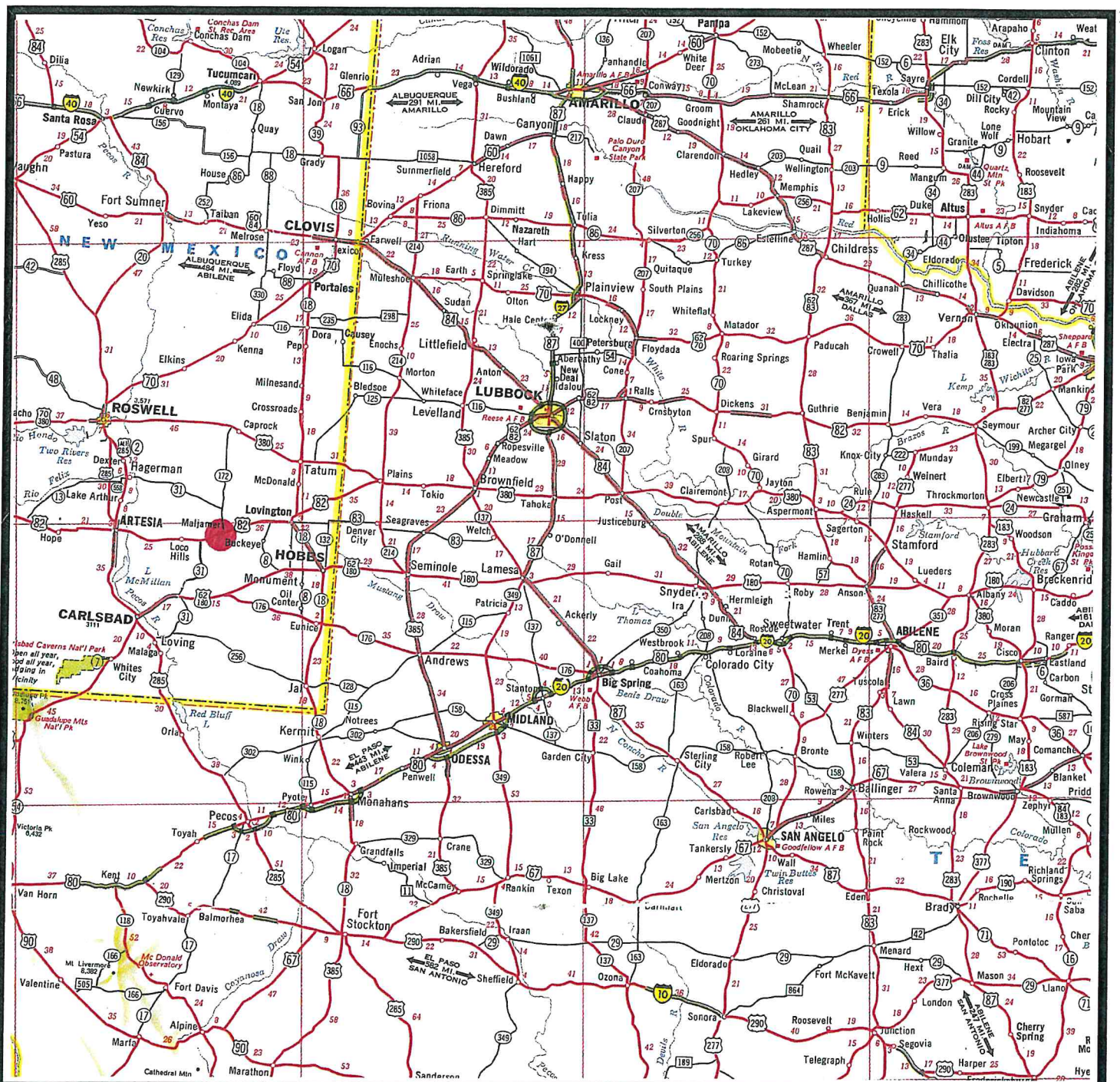
PRELIMINARY WATERFLOOD SURVEY
CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

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GENERAL LOCATION MAP

CML EXPLORATION, LLC

BUCKEYE AREA

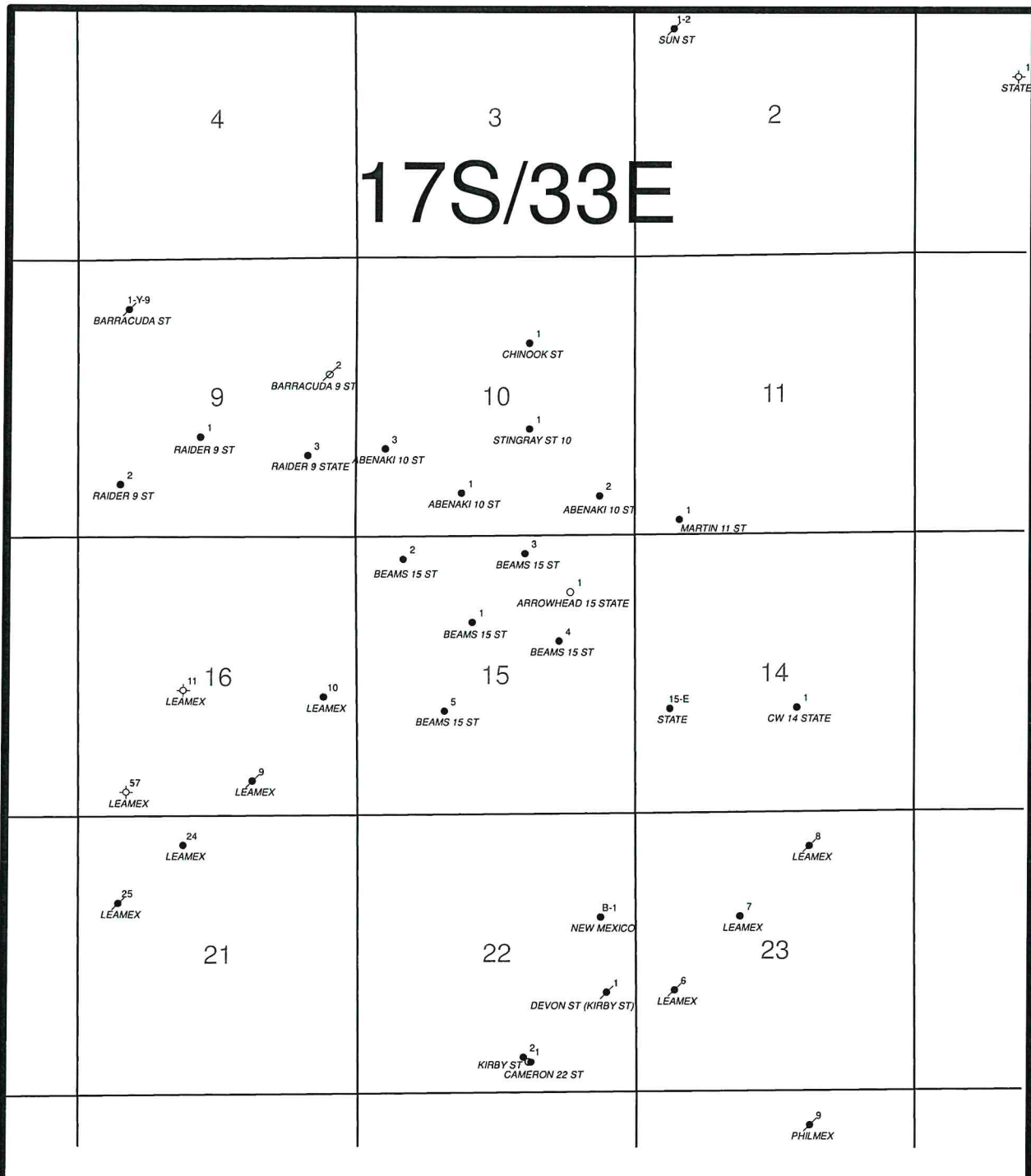
SANMAL FIELD

LEA COUNTY, NEW MEXICO

0 mi

49 mi





PRELIMINARY WATERFLOOD SURVEY

CML EXPLORATION, LLC
BUCKEYE AREA
 SANMAL FIELD
 LEA COUNTY, NEW MEXICO

SURVEY AREA MAP

- LEGEND -

- Abandoned Location
- Abandoned Oil Well
- Dry & Abandoned
- Oil Well



PRELIMINARY WATERFLOOD SURVEY
CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

PURPOSE AND SCOPE

The purpose of this study is to determine the feasibility of a waterflood program in the Cisco Lime reservoir underlying the Abenaki 10 State, Beam 15 State, Martin 11 State and Raider 9 State leases in the Sanmal Field in Lea County, New Mexico. These leases will be referred to as the Buckeye Area in this report.

The scope of this report includes a comprehensive geological and engineering appraisal of the Cisco Lime reservoir, a determination of the primary producing mechanism and the ultimate primary oil, an estimate of the potential secondary recoverable oil reserves which may be obtained by waterflooding this reservoir, a plan for unitization of the various leases prior to initiating water injection in order to protect equities, and estimates of the cost and net profit which may be realized from waterflooding the Cisco Lime reservoir.

PRELIMINARY WATERFLOOD SURVEY
CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

HISTORY AND DEVELOPMENT

The Cisco Lime reservoir underlying the Buckeye Area in the Sanmal Field was discovered with the drilling of the Abenaki 10 State well No. 1 which was completed on August 18, 2010 at a total depth of 11,610' with 5 1/2" casing cemented at 11,606'. This well showed an initial potential of 152 barrels of oil per day and 204 MCF of gas per day with no water in the perforated interval from 11,038' to 11,110'. The well was treated with 1,500 gals 15% acid and 5,000 gals 15% foamed acid. A bottomhole pressure of 2,872 psig was found in the well after running a pressure buildup on the well after completion.

The Beam 15 State well No. 1 was drilled and completed in January 2011 producing at a rate of 187 barrels of oil per day and 224 MCF of gas per day from perforations of 11,045-11,138'. The well was treated with 3,500 gals 15% acid. A bottomhole pressure of 2,803 psig was found in the well. The Beam 15 State well No. 2 was completed in March 2012 with an initial producing rate of 179 barrels of oil per day and 268 MCF of gas per day from perforations of 11,057-11,143'. The well was treated with 5,000 gals 15% acid during completion and a bottomhole pressure

HISTORY AND DEVELOPMENT (Cont'd)

of 2,140 psig was found in the well by running a pressure buildup on the well at initial completion.

In the year 2013 the Martin 11 Sate well No. 1 was drilled and completed with perforations at 10,994-11,067'. The initial production for the well was 590 barrels of oil per day and 560 MCF of gas per day after treating the well with 6,000 gals of 15% acid. A bottomhole pressure of 2,647 psig was found at the well.

Three additional wells were drilled in the field in the year of 2014. The Beam 15 State well No. 3 was drilled and completed in January with an initial producing rate of 88 barrels of oil per day and 82 MCF of gas per day. The well had perforations of 11,029-11,127' and was stimulated with 5,200 gals of 15% acid. A bottomhole pressure of 1,194 psig was found at the well upon initial completion. The Abenaki 10 State well No. 2 was completed in July producing at an initial rate of 66 barrels of oil per day and 145 MCF of gas per day from perforations of 11,030-11,050'. The bottomhole pressure for the well was found to be 1,734 psig. The Abenaki 10 State well No. 3 was the third well completed in the year with an initial producing rate of 106 barrels of oil per day and 180 MCF of gas per day from 10,984-11,068' perforations. A bottomhole pressure of 2,174 was found for the well.

HISTORY AND DEVELOPMENT (Cont'd)

The Beam 15 State well No. 4 was drilled in May 2015 but failed to make a commercial producer in the Cisco Lime formation. The well was later completed in the Wolfcamp formation. The following year the Beam 15 State well No. 5 was drilled and also failed to be commercial in the Cisco Lime. The well was completed in the Wolfcamp formation.

The Raider 9 State well No. 1 and Raider 9 State well No. 2 were drilled and completed in 2017. The No. 1 was completed in May with perforations of 10,907-10,969' and had an initial production rate of 137 barrels of oil per day and 223 MCF of gas per day. The well was acidized with 4,000 gals 15% acid and had a bottomhole pressure reading of 2,486 psig. The No. 2 well was completed in September with an initial production rate of 56 barrels of oil per day and 101 MCF of gas per day. The bottomhole pressure for the No. 2 was found to be 2,016 psig.

The Raider 9 State well No. 3 was completed in January 2018 with perforations of 10,943-11,016' with an initial production rate of 122 barrels of oil per day and 134 MCF of gas per day. The well was stimulated with 6,000 gals 15% acid and a bottomhole pressure of 2,317 psig was found in the well.

Currently the reservoir has nine producing wells averaging approximately 340 barrels of oil per day. The cumulative oil production was calculated to be 886,507 barrels as of January 1,

HISTORY AND DEVELOPMENT (Cont'd)

2018. The nine wells are at varying stages of primary depletion because of the development over a seven-year period and large spacing between the wells.

Bottomhole pressures were ran on every well in the field at initial completion with some wells showing depletion in pressure from offset wells while others showed higher than expected pressures. It is believed that some of these higher pressures may be function of spacing between wells and possibly finding undrained formation within the reservoir. All the bottomhole pressures were found to be less than the original bottomhole pressure of 2,872 psig found in the discovery well Abenaki 10 State well No. 1.

PRELIMINARY WATERFLOOD SURVEY
CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

GEOLOGICAL AND RESERVOIR DATA

The Cisco Lime reservoir underlying the leases within the Buckeye Area in the Sanmal Field is Pennsylvanian age and is located on the northern edge of the Delaware Basin. The Sanmal Field wells within the Buckeye Area produce from two porosity intervals within the Cisco Lime reservoir. These two porosity intervals are known as the Cisco 1 and Cisco Lower. Both intervals are present in all the producing wells within the field. For this reason, the two producing intervals will be treated as one reservoir for this study.

The net oil column in the Cisco Lime reservoir was determined by performing log calculations on the various wells. Utilizing these net oil sand picks, isopachous maps were prepared for two intervals within the Cisco Lime reservoir.

The Cisco Lime reservoir was first found to be productive in the project area in the Abenaki 10 State No. 1 well. The reservoir produces from multiple porosity streaks within the two producing intervals. No apparent oil/water contact was found in the reservoir. The reservoir is defined to the north, south and west by dry holes or with wells which had insufficient porosity to produce economically.

GEOLOGICAL AND RESERVOIR DATA (Cont'd)

The original reservoir pressure for the Cisco Lime reservoir was found to be 2,872 psi from running a pressure buildup test in the Abenaki 10 State No. 1 well at initial completion. After running PVT analysis from a combined oil sample from the Abenaki 10 State No. 1 well, the saturation pressure for the reservoir was found to be the same as the original reservoir pressure of 2,872 psi. The average porosity for the reservoir was calculated to be 8.0 percent from open hole logs from all the wells within the project area. The water saturation for the reservoir was calculated to be 23.0 percent from open hole logs.

The following tabulation shows the reservoir and reservoir fluid characteristics which are believed to be applicable to the Cisco Lime reservoir underlying the project area in the Sanmal Field. These data have been determined from known data and from empirical relationships using known data.

Average Depth, Ft.	11,050
Est. Original Reservoir Pressure, Psig	2,872
Est. Original Saturation Pressure, Psig	2,872
Est. Original Reservoir Temperature, °F	148
Oil Gravity, °API	41.0
Est. Original Solution Gas-Oil Ratio, Cu-Ft/Bbl.	1,120
Est. Original Oil Viscosity, cp	1.4
Est. Original Formation Volume Factor, RB/STB	1.589
Est. Formation Volume Factor at Primary Depletion, RB/STB	1.154
Average Porosity, Percent	8.0
Average Connate Water Saturation, Percent of Pore Space	23.0

GEOLOGICAL AND RESERVOIR DATA (Cont'd)

All available data were studied and used in constructing the isopachous maps for the Cisco 1 and Cisco Lower intervals within the Cisco Lime reservoir. These maps are included herein along with well records, geological data tabulations, oil and gas production history data, and reservoir performance curves.

PRELIMINARY WATERFLOOD SURVEY
CML EXPLORATION, LLC
BUCKEYE AREA
SANNAL FIELD
LEA COUNTY, NEW MEXICO

WELL RECORDS

Operator Lease	Well No.	Compl. Date	Datum RKB Elev. Ft.	Casing Record		Compl. Interval, Ft.	Total Depth, Ft.	Initial Potential		Remarks
				Size, In.	Depth, Ft.			BOPD	MCFPD	
CML Exploration Abenaki 10 State Lease	1	08/18/10	4183'	5 1/2"	11,606'	11,038-11,055' 11,058-11,062' 11,068-11,076' 11,080-11,098' 11,102-11,110'	11,610'	152	204	0 1,500 gals 15% HCL, 5000 gals 15% NEFE NCL 50 N2 foamed acid
	2	07/17/14	4163'	5 1/2"	13,020'	11,030-11,036' 11,044-11,050'	13020'	66	145	11 3000 gals 15% HCL
	3	09/27/14	9/29/2014	5 1/2"	12,994'	10,984-10,988' 10,994-11,008' 11,022-11,048' 11,057-11,060' 11,065-11,068'	13,000'	106	180	22 5000 gals 15% HCL
	1	01/09/11	4195'	5 1/2"	13,074'	11,045-11,053' 11,060-11,076' 11,084-11,090' 11,104-11,138'	13,100'	187	224	11 3500 gals 15% HCL
Beam 15 State Lease	2	03/13/12	4192'	5 1/2"	11,567'	11,057-11,102' 11,109-11,112' 11,120-11,143'	11,600'	179	268	3 5000 gals 15% HCL
	3	01/02/14	4176'	5 1/2"	13,110'	11,029-11,044' 11,046-11,060' 11,062-11,072' 11,076-11,085' 11,089-11,101' 11,122-11,127'	13,130'	88	82	0 5200 gals 15% NEFE HCL
	4	05/21/15	4177'	5 1/2"	13,075'	10,194-10,203' 10,495-10,505' 10,539-10,552' 10,767-10,771' 10,782-10,787' 10,933-10,961' 10,966-10,984' 10,988-11,018' 11,062-11,082' 11,098-11,102' 11,104-11,108' 11,375-11,396'	13,075'	30	57	10 Wolfcamp and Cisco open, Cisco treated w/18,000 gals 15% HCL, Frac w/290 sx, Wolfcamp treated w/8000 gals 15% HCL

Operator Lease	Well No.	Compl. Date	Datum RXB Elev. Ft.	Casing Record		Compl. Interval, Ft.	Total Depth, Ft.	Initial Potential			Remarks
				Size, In.	Depth, Ft.			BOFP	MCFPD	BWPD	
	5	05/01/16	4191'	5 1/2"	12,200'	10,234-10,240' 10,289-10,296' 10,685-10,695' 10,718-10,722'	12,250'	5	2	2	Wolfcamp completion, tried Cisco @ 10,825-11,149', CIBP set @ 10,790'
Martin 11 State	1	03/08/13	4145'	5 1/2"	12,000'	10,994-11,007' 11,015-11,030' 11,034-11,067'	12,000'	590	560	0	6000 gals 15% HCL
Raider 9 State Lease	1	05/04/17	4210'	5 1/2"	11,876'	10,907-10,911' 10,915-10,928' 10,955-10,961' 10,963-10,969'	11,900'	137	223	16	4000 gals 15% HCL
	2	09/01/17	4201'	5 1/2"	11,100'	10,910-10,913' 10,915-10,931' 10,938-10,941' 10,945-10,953' 10,969-10,982' 10,998-11,004'	11,100'	56	101	52	6000 gals 15% HCL
	3	01/02/18	4201'	5 1/2"	11,180'	10,943-10,948' 10,951-10,959' 10,965-10,996' 11,006-11,016'	11,200'	122	134	14	6000 gals 15% HCL
COG OPERATING LLC Chinook State	1	11/07/01	4175'	5 1/2"	11,882'	11,738-11,758'	11,882'	5	40	0	Wolfcamp producer
Stingray State 10	1	02/09/00	4164'	5 1/2"	11,240'	10,505-10,790' 10,918-11,089'	11,748'	170	148	332	Wolfcamp producer
Mack Energy Corporation Barracuda State	1Y	02/05/02	4199'	5 1/2"	11,816'	10,435-10,552'	11,816'	30	36	127	Wolfcamp producer
Patterson Petroleum LP Arrowhead State 15	1	07/12/99	4177'	8 5/8"	4977'	-	13,826'	-	-	-	Dry hole

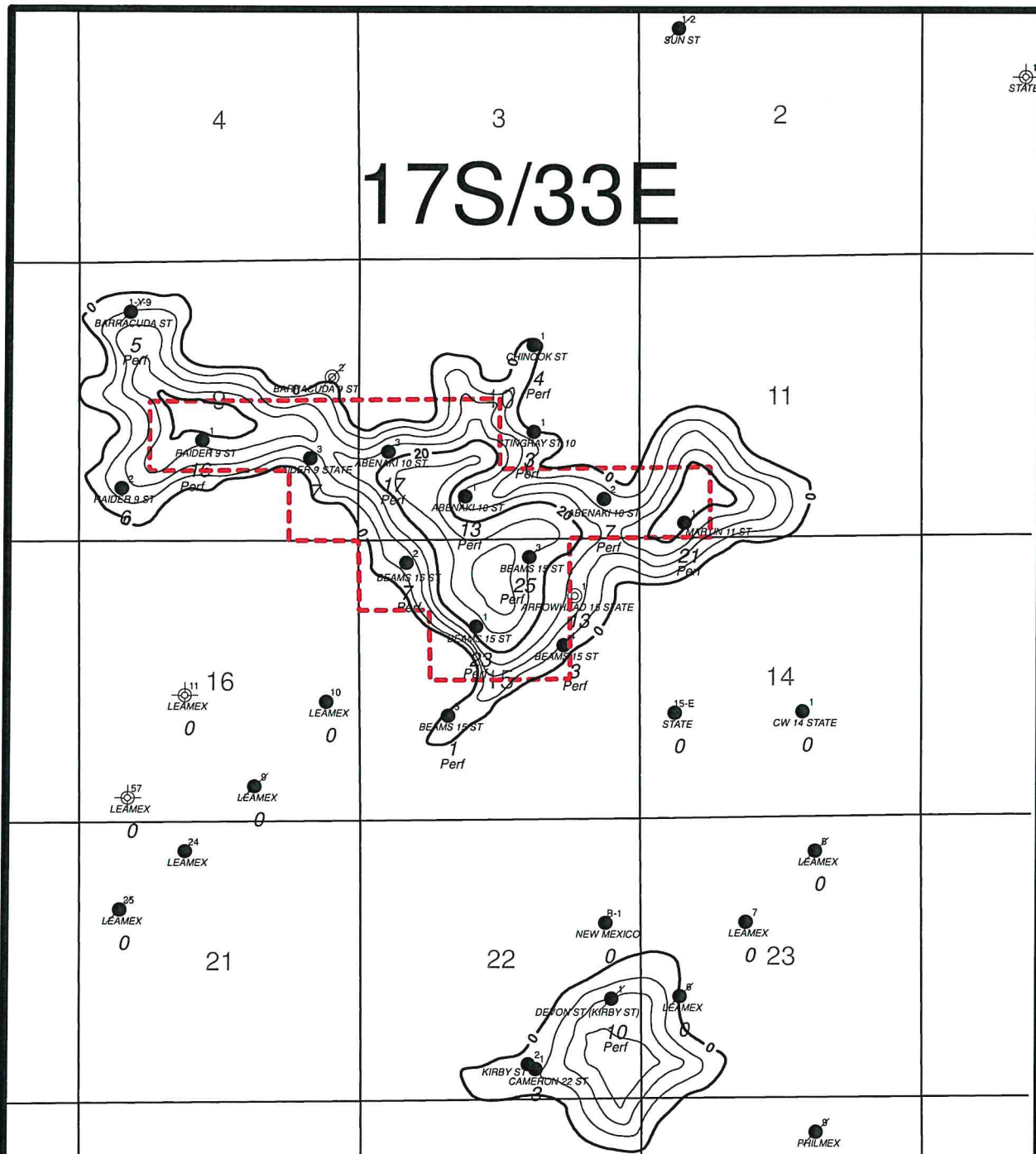
PRELIMINARY WATERFLOOD SURVEY
CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

GEOLOGICAL DATA

<u>Operator</u> <u>Lease</u>	<u>Well</u> <u>No.</u>	<u>Cisco 1</u> <u>Net Pay, Ft.</u>	<u>Cisco Lower</u> <u>Net Pay, Ft.</u>	<u>Total Cisco</u> <u>Net Pay, Ft.</u>	<u>Remarks</u>
<u>CML Exploration</u> Abenaki 10 State Lease	1	13'	29'	42'	
	2	7'	1'	8'	
	3	17'	18'	35'	
Beam 15 State Lease	1	23'	26'	49'	
	2	7'	7'	14'	
	3	25'	13'	38'	
	4	3'	2'	5'	
	5	1'	1'	2'	
Martin 11 State Lease	1	21'	3'	24'	
Raider 9 State Lease	1	16'	13'	29'	
	2	6'	15'	21'	
	3	7'	26'	33'	
<u>COG Operating LLC</u> Chinook State	1	4'	0'	4'	

GEOLOGICAL DATA

<u>Operator</u> <u>Lease</u>	<u>Well</u> <u>No.</u>	<u>Cisco 1</u> <u>Net Pay, Ft.</u>	<u>Cisco Lower</u> <u>Net Pay, Ft.</u>	<u>Total Cisco</u> <u>Net Pay, Ft.</u>	<u>Remarks</u>
Stingray State 10	1	3'	3'	6'	
<u>Mack Energy Corporation</u> Barracuda State	1Y	5'	2'	7'	
<u>Patterson Petroleum LP</u> Arrowhead State 15	1	13'	4'	17'	



PRELIMINARY WATERFLOOD SURVEY

CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

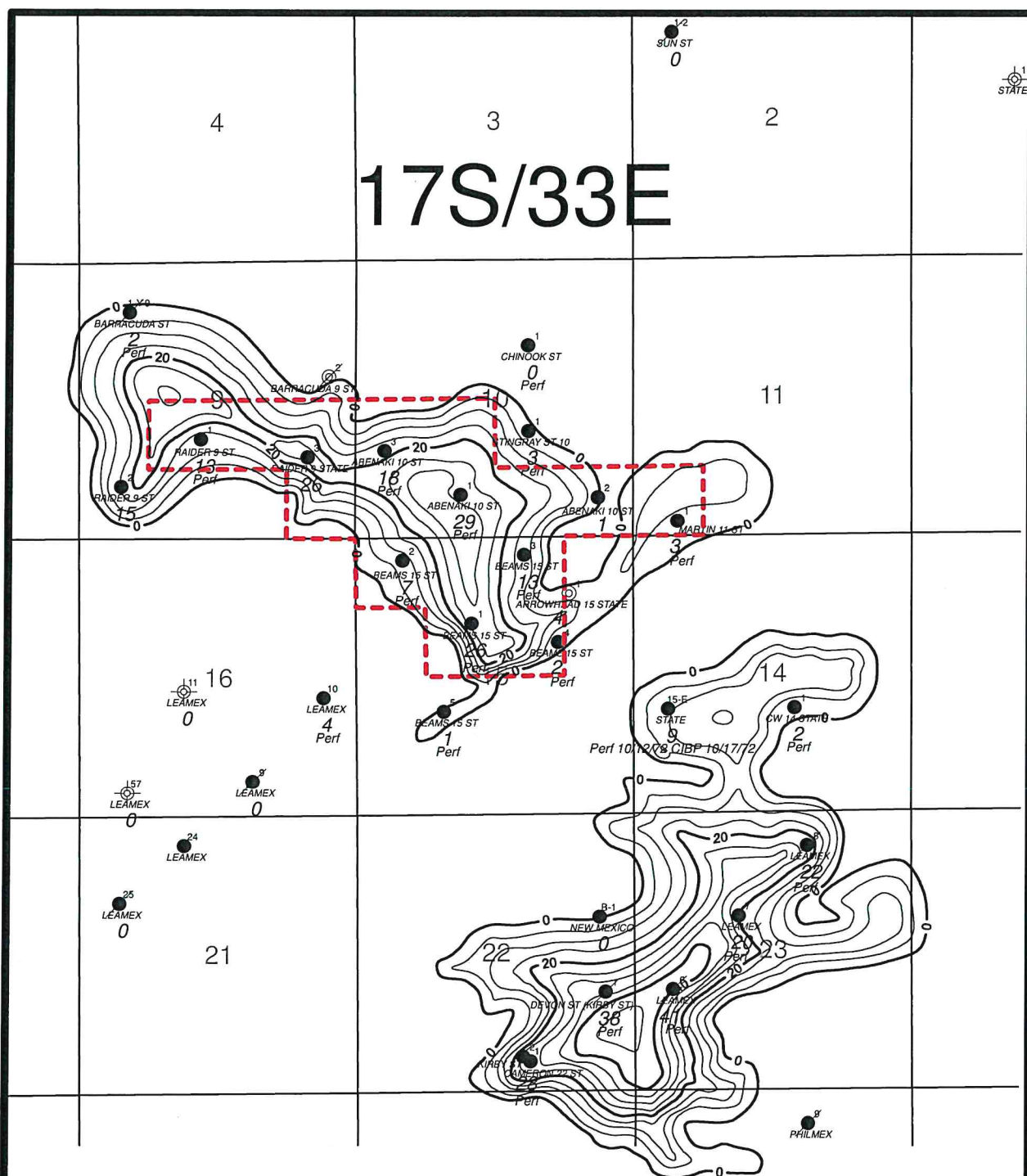
ISOPACHOUS MAP

CISCO 1
CONTOUR INTERVAL – 5 FEET

- LEGEND -

- Abandoned Location
- Abandoned Oil Well
- Dry & Abandoned
- Oil Well
- Proposed Unit Boundary





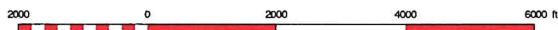
PRELIMINARY WATERFLOOD SURVEY

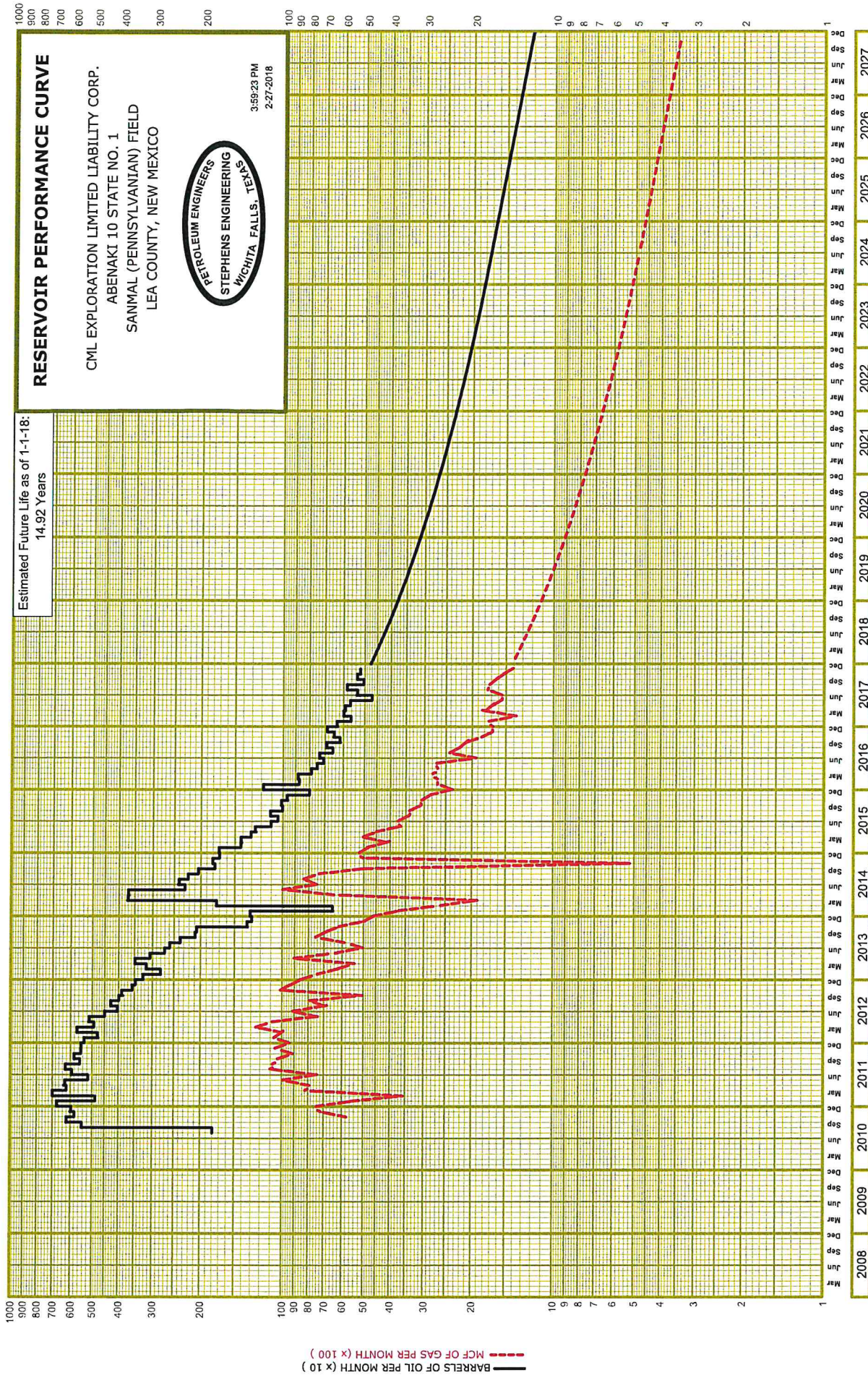
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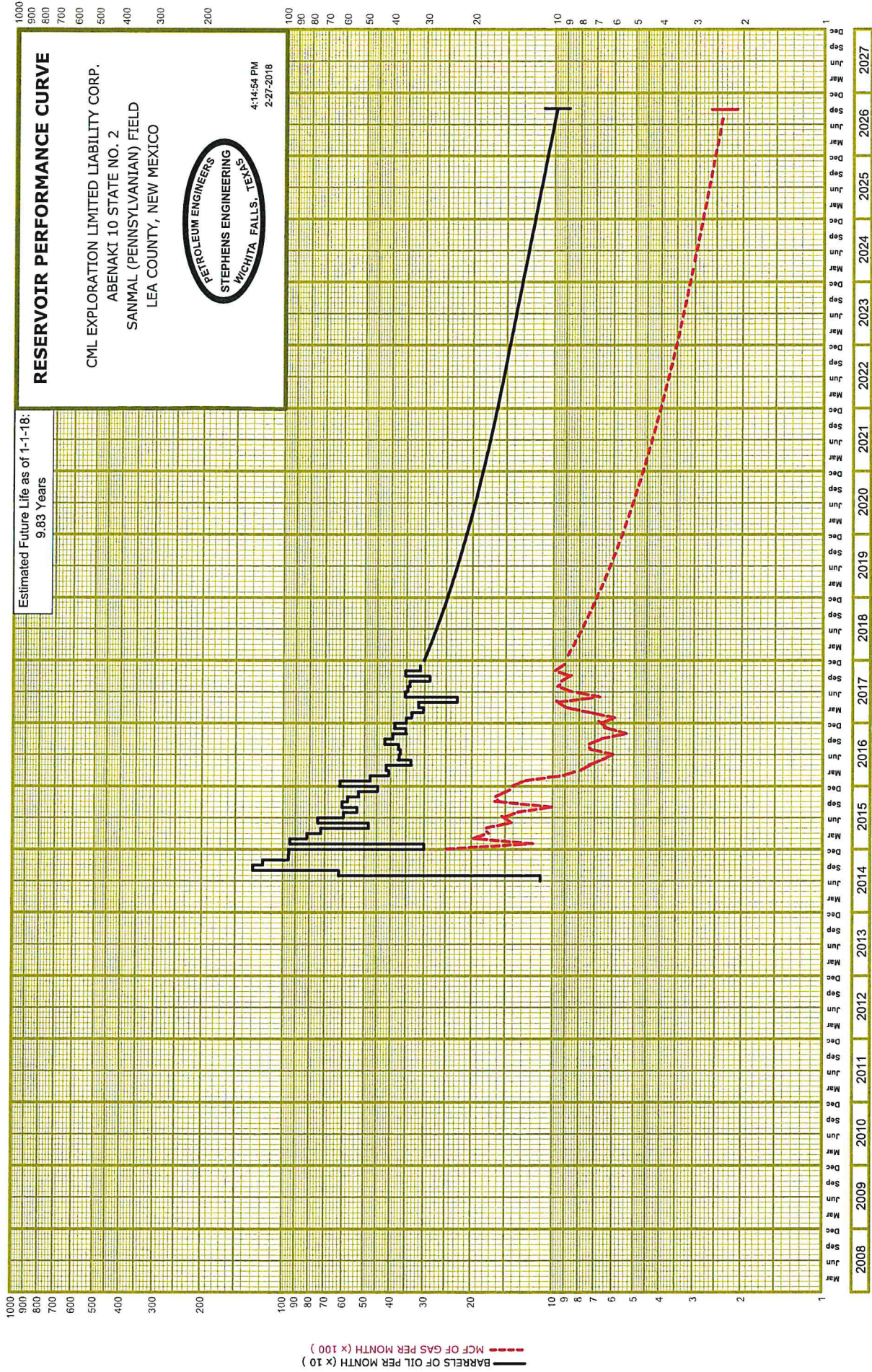
- Abandoned Location
- Abandoned Oil Well
- Dry & Abandoned
- Oil Well
- Proposed Unit Boundary

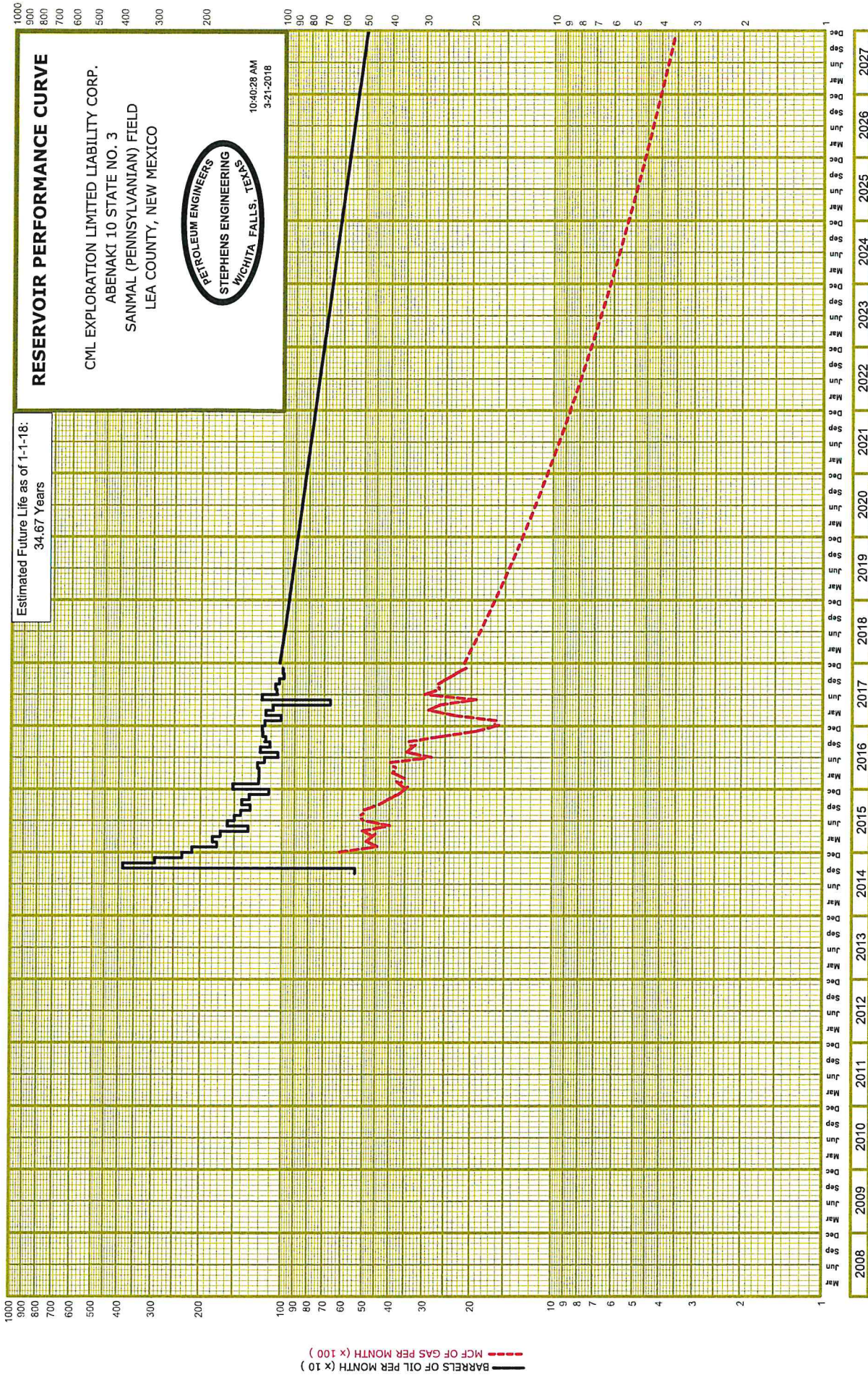
CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

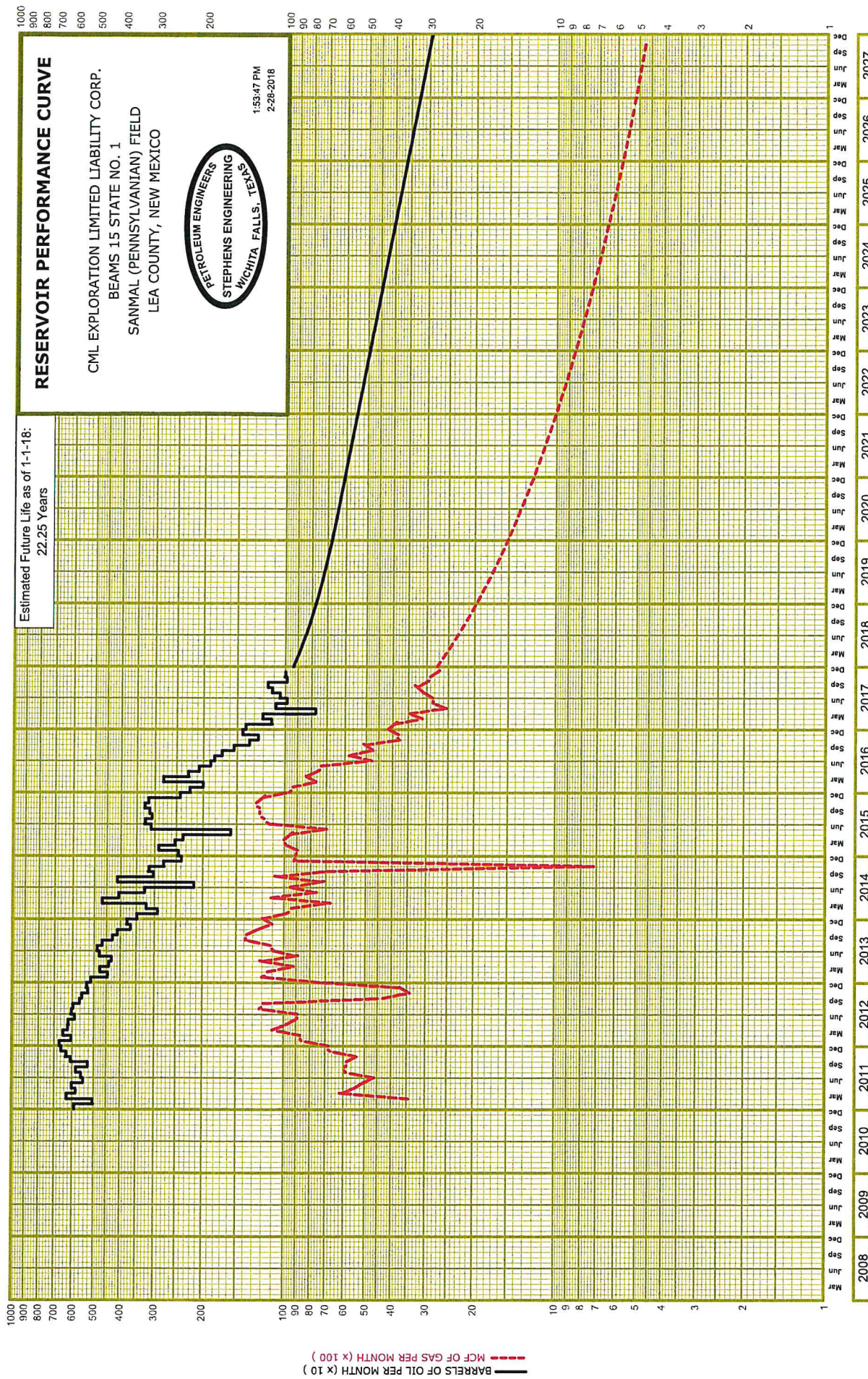
ISOPACHOUS MAP
CISCO LOWER
CONTOUR INTERVAL - 5 FEET

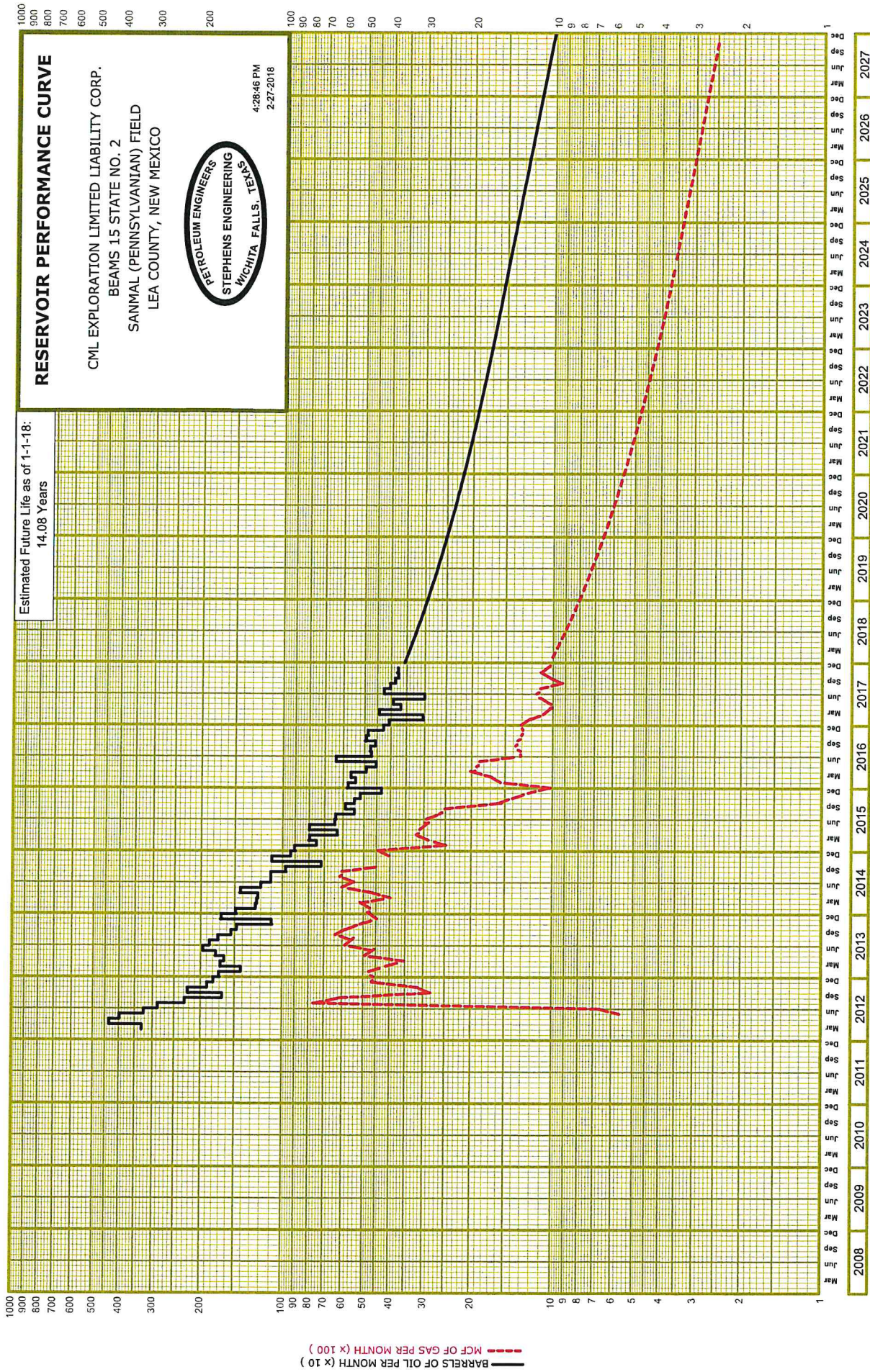


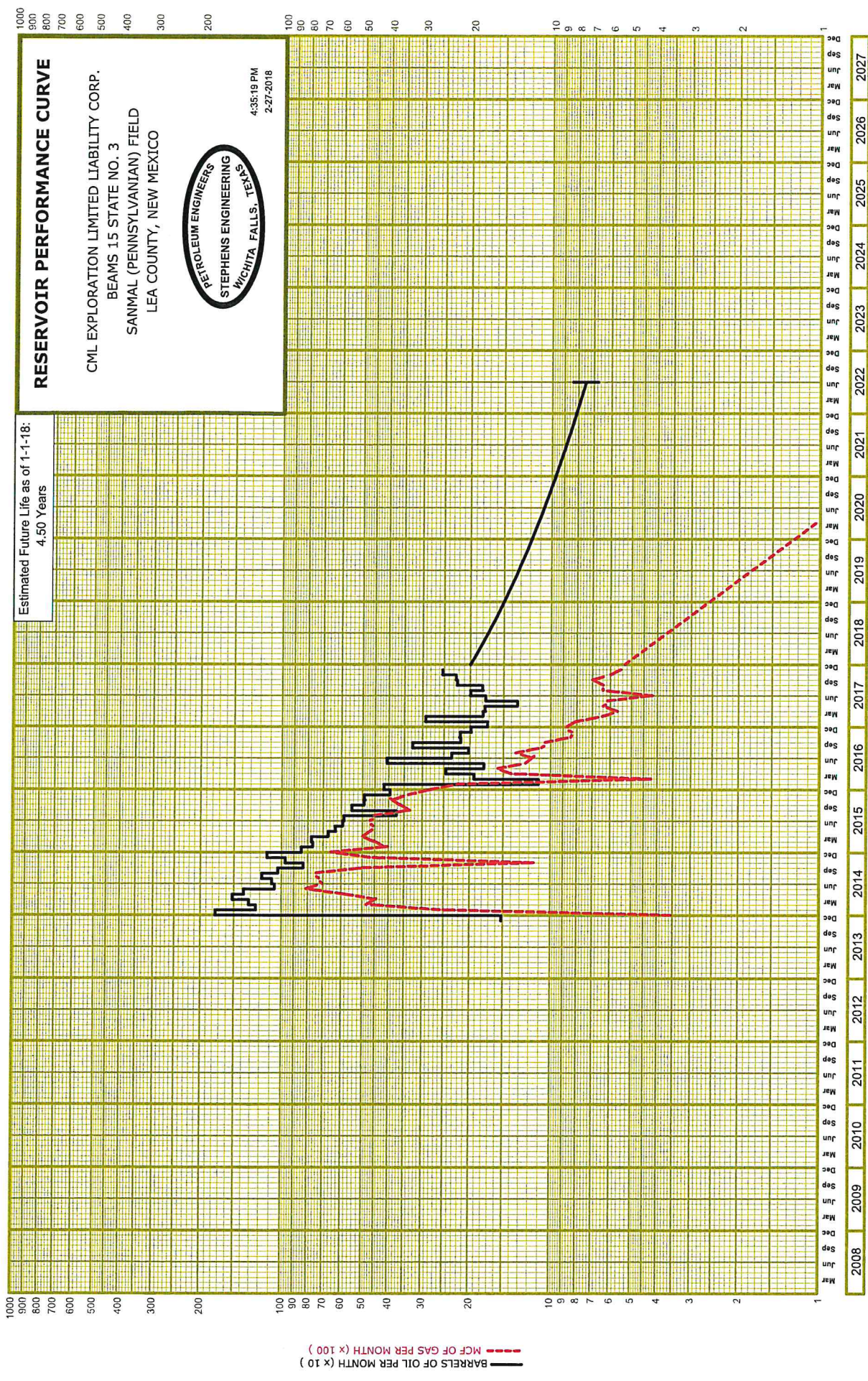


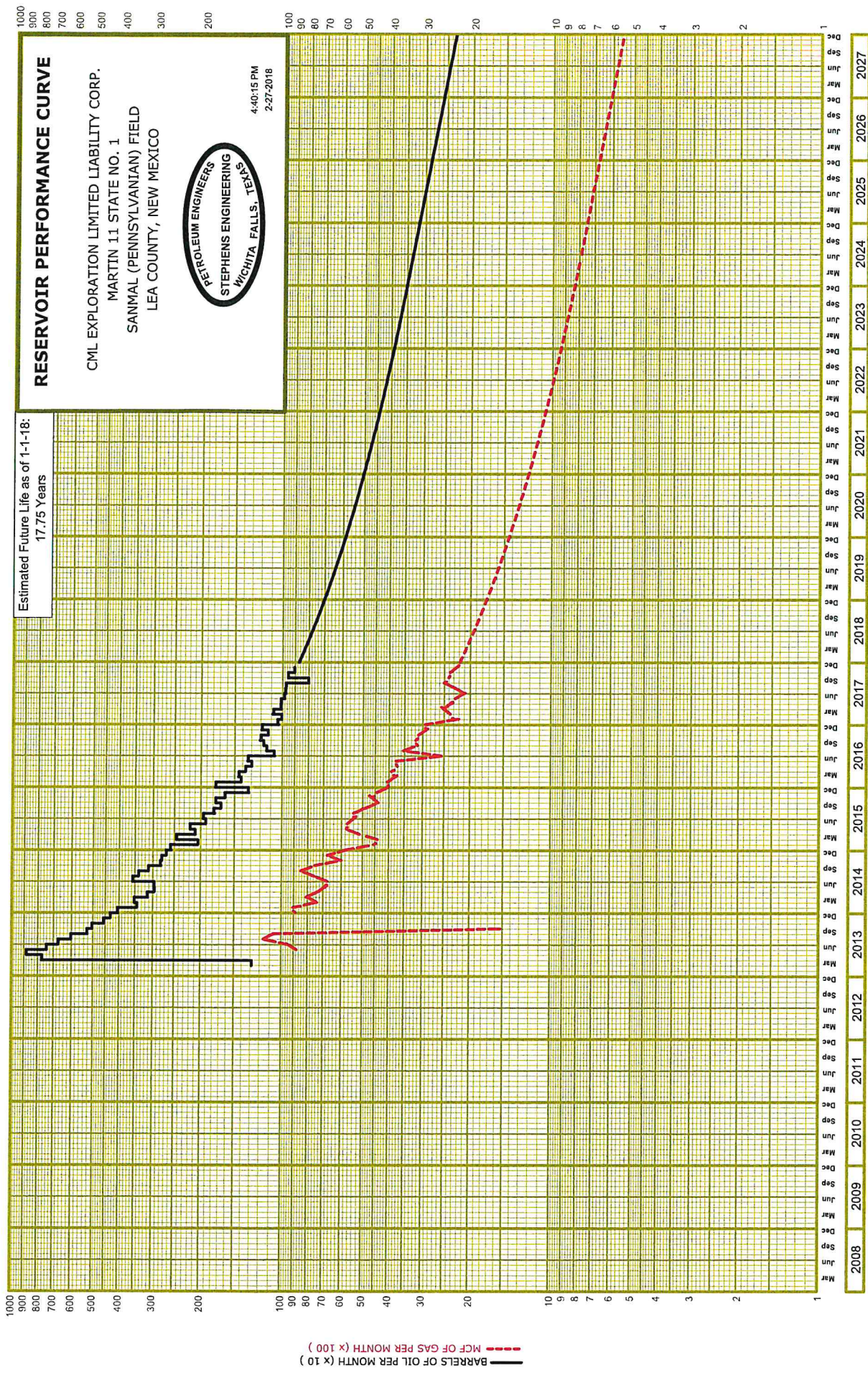


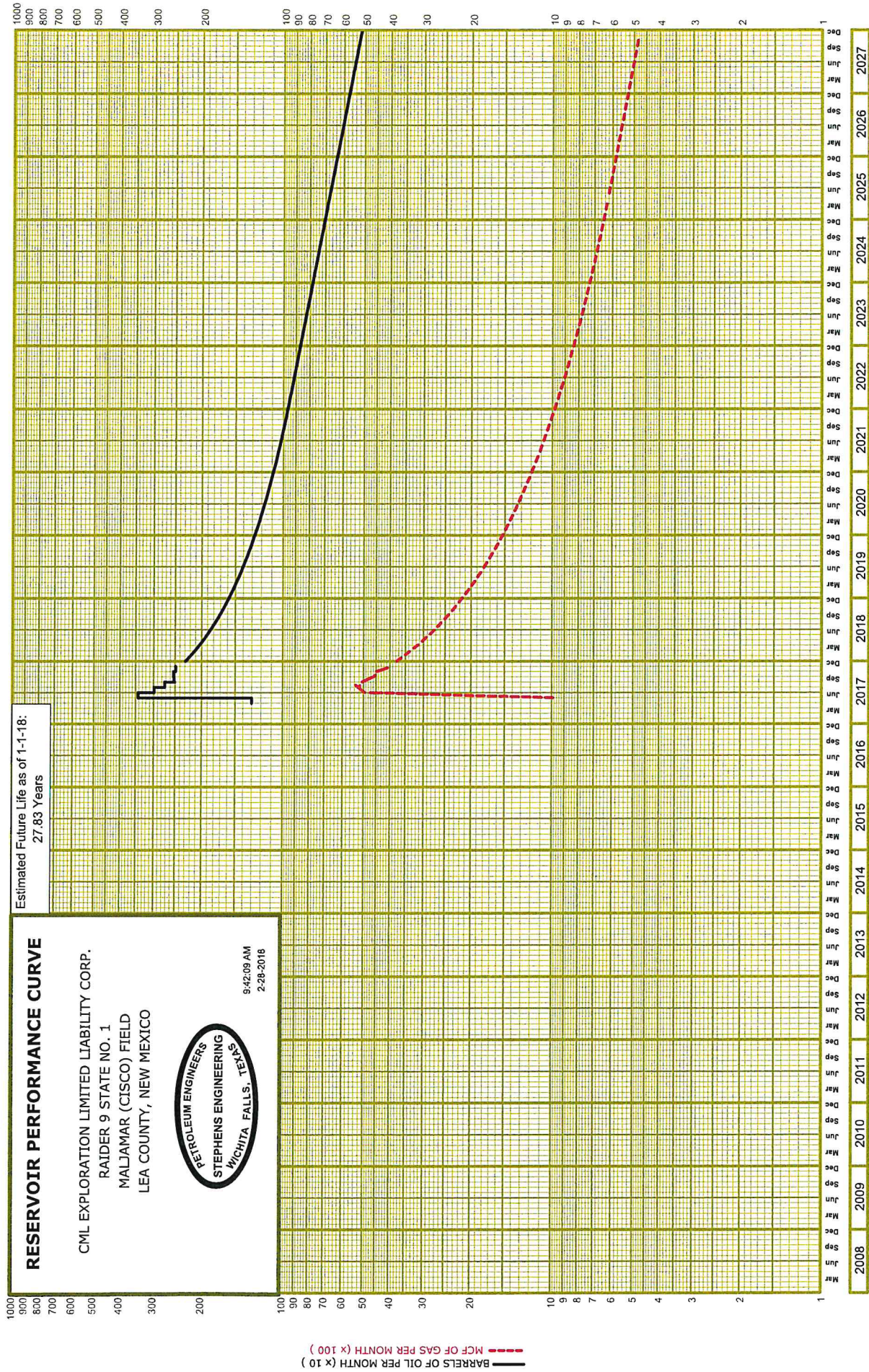


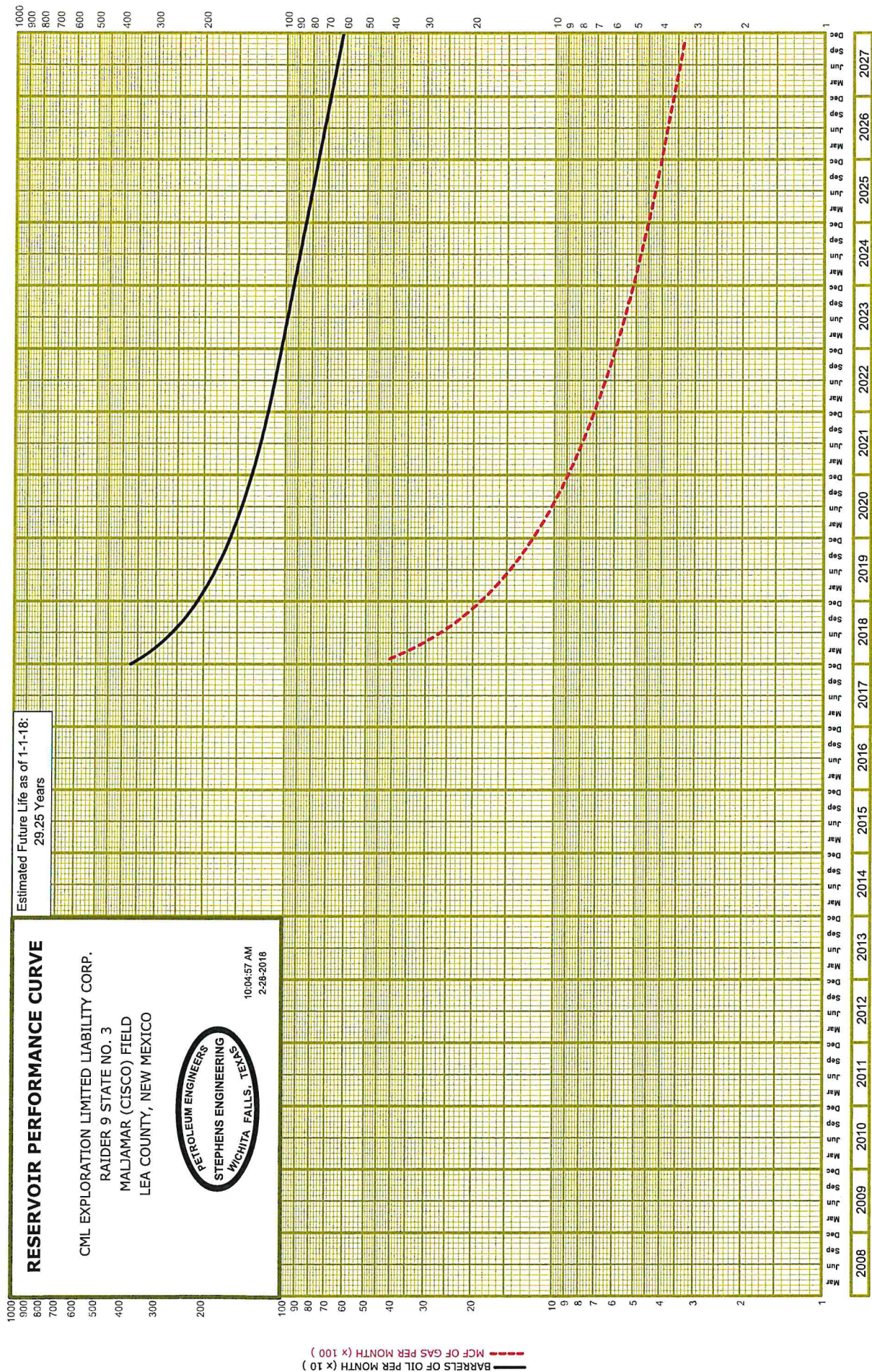












VALUATION OF
100 PERCENT WORKING INTEREST
CML EXPLORATION, LLC
ABENAKI 10 STATE NO.3
SANMAL FIELD
LEA COUNTY,NM

DATE : 03/08/18
TIME : 17:44:13

ESTIMATED RATE OF WITHDRAWAL AND VALUATION TABULATION
AS OF DATE: 1/18

TOT YRLY --END-- MO-YR	OIL PROD GROSS BBLs	TOT YRLY GAS PROD GROSS MCF	WI NET OIL BBLs	WI NET GAS MCF	OIL PRICE \$/BBL	GROSS WI INCOME FROM OIL, \$	GAS PRICE \$/MCF	GROSS WI INCOME FROM GAS, \$	EST YRLY OPERATING EXP, \$	TOT NET INVEST & SALV, \$	EST TOT NET WI INCOME, \$	CUM OF NET INCOME, \$	CUM PW AT 8.0%, \$
12-18	11662.	22125.	9650.	18308.	51.15	493616.	4.28	78322.	42240.	0.	529698.	529698.	509702.
12-19	10826.	17258.	8959.	14281.	51.15	458233.	4.28	61095.	42240.	0.	477088.	1006786.	934774.
12-20	10068.	13810.	8332.	11428.	51.15	426157.	4.28	48887.	42240.	0.	432803.	1439589.	1291826.
12-21	9364.	11282.	7748.	9335.	51.15	396326.	4.28	39937.	42240.	0.	394023.	1833612.	1592806.
12-22	8708.	9376.	7206.	7759.	51.15	368583.	4.28	33192.	42240.	0.	359534.	2193146.	1847099.
12-23	8098.	7906.	6702.	6542.	51.15	342782.	4.28	27988.	42240.	0.	328530.	2521676.	2062250.
12-24	7532.	6750.	6232.	5585.	51.15	318787.	4.28	23894.	42240.	0.	300441.	2822118.	2244432.
12-25	7004.	5824.	5796.	4820.	51.15	296472.	4.28	20618.	42240.	0.	274851.	3096969.	2398751.
12-26	6514.	5073.	5390.	4198.	51.15	275719.	4.28	17959.	42240.	0.	251438.	3348407.	2529467.
12-27	6058.	4455.	5013.	3687.	51.15	256419.	4.28	15772.	42240.	0.	229951.	3578358.	2640158.
12-28	5634.	3941.	4662.	3261.	51.15	238470.	4.28	13952.	42240.	0.	210182.	3788540.	2733837.
12-29	5240.	3509.	4336.	2904.	51.15	221777.	4.28	12424.	42240.	0.	191960.	3980500.	2813058.
12-30	4873.	3143.	4032.	2601.	51.15	206252.	4.28	11128.	42240.	0.	175140.	4155640.	2879983.
12-31	4532.	2827.	3750.	2340.	51.15	191815.	4.28	10009.	42240.	0.	159583.	4315223.	2936446.
12-32	4215.	2545.	3488.	2106.	51.15	178388.	4.28	9008.	42240.	0.	145155.	4460378.	2984000.
S TOT	110328.	119824.	91296.	99155.	51.15	4669794.	4.28	424184.	633600.	0.	4460378.	4460378.	2984000.
AFTER	42556.	20017.	35215.	16564.	51.15	1801266.	4.28	70861.	830720.	0.	1041408.	5501786.	3206642.
TOTAL	152884.	139842.	126511.	115719.	51.15	6471061.	4.28	495045.	1464320.	0.	5501786.	5501786.	3206642.
CUM	54794.	126205.											
ULT	207678.	266047.											

FUTURE LIFE : 34.67 YRS SALVAGE VALUE = \$ 0.

INTEREST FACTORS

INITIAL	DISC RATE	CUM PW, \$
EXPENSE 1.0000	10.00 PERCENT	2902856.
REVENUE	15.00 PERCENT	2354769.
OIL 0.8275	20.00 PERCENT	1990898.
GAS 0.8275	25.00 PERCENT	1732621.
	30.00 PERCENT	1539949.

INITIAL PRICE	GROSS
OIL, \$/BBL \$ 55.0000	
GAS, \$/MCF \$ 4.6000	
NET	
OIL, \$/BBL \$ 51.1500	
GAS, \$/MCF \$ 4.2780	

VALUATION OF
100 PERCENT WORKING INTEREST
CML EXPLORATION, LLC
BEAMS 15 STATE NO.1
SANMAL FIELD
LEA COUNTY, NM

DATE : 03/08/18
TIME : 17:44:13

ESTIMATED RATE OF WITHDRAWAL AND VALUATION TABULATION
AS OF DATE: 1/18

	TOT YRLY	OIL PROD	GAS PROD	WI NET OIL	WI NET GAS	OIL PRICE	GROSS WI INCOME	GAS PRICE	GROSS WI INCOME	EST YRLY	TOT NET	EST TOT	CUM OF	CUM PW
-END- MO-YR	GROSS BBL	GAS BBL	GROSS MCF	BBL	MCF	\$/BBL	FROM OIL, \$	\$/MCF	FROM GAS, \$	EXP, \$	& SALV, \$	NET WI INCOME, \$	NET INCOME, \$	AT 8.0%, \$
12-18	10017.		27543.	8289.	22792.	51.15	424006.	4.28	97504.	45576.	0.	475934.	475934.	457967.
12-19	8548.		20464.	7073.	16934.	51.15	361788.	4.28	72444.	45576.	0.	388656.	864589.	804249.
12-20	7596.		16074.	6286.	13301.	51.15	321518.	4.28	56902.	45576.	0.	332844.	1197434.	1078837.
12-21	6835.		13114.	5656.	10852.	51.15	289296.	4.28	46424.	45576.	0.	290144.	1487577.	1300468.
12-22	6151.		10998.	5090.	9101.	51.15	260366.	4.28	38935.	45576.	0.	253725.	1741302.	1479923.
12-23	5536.		9420.	4581.	7795.	51.15	234329.	4.28	33346.	45576.	0.	222100.	1963402.	1625374.
12-24	4983.		8202.	4123.	6787.	51.15	210896.	4.28	29035.	45576.	0.	194355.	2157757.	1743228.
12-25	4484.		7237.	3711.	5989.	51.15	189807.	4.28	25619.	45576.	0.	169850.	2327608.	1838593.
12-26	4036.		6456.	3340.	5343.	51.15	170826.	4.28	22855.	45576.	0.	148106.	2475713.	1915589.
12-27	3632.		5803.	3006.	4802.	51.15	153744.	4.28	20545.	45576.	0.	128712.	2604425.	1977546.
12-28	3269.		5223.	2705.	4322.	51.15	138369.	4.28	18490.	45576.	0.	111283.	2715708.	2027146.
12-29	2942.		4701.	2435.	3890.	51.15	124532.	4.28	15641.	45576.	0.	95597.	2811306.	2066599.
12-30	2648.		4231.	2191.	3501.	51.15	112079.	4.28	14977.	45576.	0.	81480.	2892786.	2097734.
12-31	2383.		3808.	1972.	3151.	51.15	100871.	4.28	13479.	45576.	0.	68774.	2961560.	2122068.
12-32	2145.		3427.	1775.	2836.	51.15	90784.	4.28	12131.	45576.	0.	57339.	3018900.	2140852.
S TOT	75206.		146701.	62233.	121395.	51.15	3183211.	4.28	519329.	683640.	0.	3018900.	3018900.	2140852.
AFTER	10311.		16474.	8532.	13632.	51.15	436420.	4.28	58318.	330426.	0.	164312.	3183212.	2184670.
TOTAL	85517.		163175.	70765.	135027.	51.15	3619631.	4.28	577647.	1014066.	0.	3183212.	3183212.	2184670.
CUM	301992.		634442.											
ULT	387509.		797617.											
FUTURE LIFE : 22.25 YRS SALVAGE VALUE = \$ 0.														
INTEREST FACTORS														
INITIAL														
EXPENSE	1.0000													
REVENUE														
OIL	0.8275													
GAS	0.8275													
INITIAL PRICE														
OIL, \$/BBL														
GAS, \$/MCF														
GROSS														
OIL, \$/BBL														
GAS, \$/MCF														
NET														
OIL, \$/BBL														
GAS, \$/MCF														

DISC RATE	CUM PW, \$
10.00 PERCENT	2026182.
15.00 PERCENT	1719018.
20.00 PERCENT	1498273.
25.00 PERCENT	1332721.
30.00 PERCENT	1204214.

VALUATION OF
100 PERCENT WORKING INTEREST
CML EXPLORATION, LLC
BEAMS 15 STATE NO.3
SANMAY FIELD
LEA COUNTY, NM

DATE : 03/08/18
TIME : 17:44:13

ESTIMATED RATE OF WITHDRAWAL AND VALUATION TABULATION
AS OF DATE: 1/18

	TOT YRLY	TOT YRLY	WI	WI	GROSS	GAS	GROSS	EST YRLY	TOT NET	EST TOT	CUM OF	CUM PW
-END- MO-YR	OIL GROSS	PROD BBL	NET OIL BBL	NET GAS MCF	WI INCOME FROM OIL, \$	PRICE \$/BBL	WI INCOME FROM GAS, \$	EXP, \$	INVEST & SALV, \$	NET WI INCOME, \$	NET INCOME, \$	AT 8.0%, \$
12-18	2044.	4482.	1692.	3709.	86520.	51.15	15868.	38772.	0.	63616.	63616.	61215.
12-19	1579.	2172.	1306.	1797.	66827.	51.15	7688.	38772.	0.	35744.	99360.	93061.
12-20	1270.	1052.	1051.	871.	53760.	51.15	3725.	38772.	0.	18713.	118073.	108499.
12-21	1052.	510.	871.	422.	44545.	51.15	1805.	38772.	0.	7578.	125651.	114288.
12-22	463.	146.	383.	121.	19609.	51.15	516.	19386.	0.	738.	126389.	114820.

12-23
12-24
12-25
12-26
12-27

12-28
12-29
12-30
12-31
12-32

S TOT	6409.	8362.	5303.	6920.	271261.	51.15	29602.	174474.	0.	126389.	126389.	114820.
AFTER	0.	0.	0.	0.	0.	0.00	0.	0.	0.	0.	126389.	114820.
TOTAL	6409.	8362.	5303.	6920.	271261.	51.15	29602.	174474.	0.	126389.	126389.	114820.
CUM	27147.	136050.										
ULT	33556.	144412.										

FUTURE LIFE : 4.50 YRS SALVAGE VALUE = \$ 0.

INTEREST FACTORS

	INITIAL	DISC RATE	CUM PW, \$
EXPENSE	1.0000	10.00 PERCENT	112304.
REVENUE		15.00 PERCENT	106555.
OIL	0.8275	20.00 PERCENT	101471.
GAS	0.8275	25.00 PERCENT	96944.
		30.00 PERCENT	92889.

INITIAL PRICE	GROSS
OIL, \$/BBL	\$ 55.0000
GAS, \$/MCF	\$ 4.6000
	NET
OIL, \$/BBL	\$ 51.1500
GAS, \$/MCF	\$ 4.2780

VALUATION OF
100 PERCENT WORKING INTEREST
CML EXPLORATION, LLC
MARTIN 11 STATE NO.1
SANMAL FIELD
LEA COUNTY, NM

DATE : 03/08/18
TIME : 17:44:13

ESTIMATED RATE OF WITHDRAWAL AND VALUATION TABULATION
AS OF DATE: 1/18

-END- MO-YR	TOT YRLY OIL PROD GROSS BBLs	TOT YRLY GAS PROD GROSS MCF	WI NET OIL BBLs	WI NET GAS MCF	OIL PRICE \$/BBL	GROSS WI INCOME FROM OIL, \$	GAS PRICE \$/MCF	GROSS WI INCOME FROM GAS, \$	EST YRLY OPERATING EXP, \$	TOT NET INVEST & SALV, \$	EST TOT NET WI INCOME, \$	CUM OF NET INCOME, \$	CUM PW AT 8.0%, \$
12-18	9248.	23173.	7653.	19176.	51.15	391457.	4.28	82033.	61416.	0.	412075.	412075.	396519.
12-19	7609.	18816.	6296.	15570.	51.15	322047.	4.28	66610.	61416.	0.	327241.	739316.	688082.
12-20	6448.	15767.	5335.	13047.	51.15	272909.	4.28	55815.	61416.	0.	267308.	1006624.	908604.
12-21	5584.	13521.	4621.	11189.	51.15	236361.	4.28	47865.	61416.	0.	222810.	1229434.	1078801.
12-22	4918.	11803.	4069.	9767.	51.15	208154.	4.28	41784.	61416.	0.	188523.	1417956.	1212140.
12-23	4388.	10450.	3631.	8647.	51.15	185747.	4.28	36993.	61416.	0.	161325.	1579281.	1317790.
12-24	3947.	9356.	3266.	7742.	51.15	167044.	4.28	33121.	61416.	0.	138749.	1718030.	1401925.
12-25	3552.	8419.	2939.	6967.	51.15	150340.	4.28	29804.	61416.	0.	118727.	1836758.	1468586.
12-26	3197.	7577.	2645.	6270.	51.15	135306.	4.28	26823.	61416.	0.	100713.	1937471.	1520944.
12-27	2877.	6819.	2381.	5643.	51.15	121775.	4.28	24141.	61416.	0.	84500.	2021971.	1561619.
12-28	2589.	6137.	2143.	5079.	51.15	109598.	4.28	21727.	61416.	0.	69908.	2091879.	1592778.
12-29	2330.	5524.	1928.	4571.	51.15	98638.	4.28	19554.	61416.	0.	56776.	2148655.	1616209.
12-30	2097.	4971.	1736.	4114.	51.15	88774.	4.28	17599.	61416.	0.	44957.	2193612.	1633388.
12-31	1888.	4474.	1562.	3702.	51.15	79897.	4.28	15839.	61416.	0.	34320.	2227932.	1645531.
12-32	1699.	4027.	1406.	3332.	51.15	71907.	4.28	14255.	61416.	0.	24746.	2252678.	1653638.
S TOT	62371.	150835.	51612.	124816.	51.15	2639955.	4.28	533963.	921240.	0.	2252678.	2252678.	1653638.
AFTER	3846.	9116.	3183.	7544.	51.15	162789.	4.28	32272.	168894.	0.	26167.	2278844.	1661320.
TOTAL	66217.	159951.	54795.	132360.	51.15	2802744.	4.28	566234.	1090134.	0.	2278844.	2278844.	1661320.

FUTURE LIFE : 17.75 YRS SALVAGE VALUE = \$ 0.

INTEREST FACTORS

INITIAL	DISC RATE	CUM PW, \$
EXPENSE 1.0000	10.00 PERCENT	1556559.
REVENUE	15.00 PERCENT	1347293.
OIL 0.8275	20.00 PERCENT	1191463.
GAS 0.8275	25.00 PERCENT	1071438.
	30.00 PERCENT	976353.

INITIAL PRICE	GROSS
OIL, \$/BBL	\$ 55.0000
GAS, \$/MCF	\$ 4.6000
	NET
OIL, \$/BBL	\$ 51.1500
GAS, \$/MCF	\$ 4.2780

VALUATION OF
100 PERCENT WORKING INTEREST
CML EXPLORATION, LLC
RAIDER 9 STATE NO.1
MALJAMAR FIELD
LEA COUNTY,NM

DATE : 03/08/18
TIME : 17:44:12

ESTIMATED RATE OF WITHDRAWAL AND VALUATION TABULATION
AS OF DATE: 1/18

MO-YR	TOT YRLY GROSS	OIL PROD BBL	GAS PROD MCF	WI NET OIL BBL	WI NET GAS MCF	OIL PRICE \$/BBL	GROSS WI INCOME FROM OIL, \$	GAS PRICE \$/MCF	GROSS WI INCOME FROM GAS, \$	EST YRLY OPERATING EXP, \$	TOT NET & SALV, \$	EST TOT NET WI INCOME, \$	CUM OF NET INCOME, \$	CUM PW AT 8.0%, \$
12-18	22255.	33342.		18416.	27591.	51.15	941992.	4.28	118034.	42240.	0.	1017786.	1017786.	979365.
12-19	16745.	21465.		13856.	17762.	51.15	708749.	4.28	75987.	42240.	0.	742496.	1760282.	1640909.
12-20	13906.	16013.		11507.	13250.	51.15	588588.	4.28	56686.	42240.	0.	603034.	2363316.	2138396.
12-21	12106.	12842.		10018.	10627.	51.15	512397.	4.28	45461.	42240.	0.	515619.	2878934.	2532260.
12-22	10821.	10756.		8954.	8901.	51.15	458023.	4.28	38078.	42240.	0.	453861.	3332795.	2853268.
12-23	9739.	9275.		8059.	7675.	51.15	412207.	4.28	32835.	42240.	0.	402802.	3735597.	3117059.
12-24	8765.	8166.		7253.	6758.	51.15	370987.	4.28	28909.	42240.	0.	357656.	4093253.	3333935.
12-25	7888.	7301.		6528.	6042.	51.15	333888.	4.28	25847.	42240.	0.	317495.	4410748.	3512197.
12-26	7100.	6570.		5875.	5437.	51.15	300499.	4.28	23258.	42240.	0.	281517.	4692265.	3658550.
12-27	6390.	5913.		5287.	4893.	51.15	270449.	4.28	20932.	42240.	0.	249141.	4941406.	3778478.
12-28	5751.	5322.		4759.	4404.	51.15	243404.	4.28	18839.	42240.	0.	220003.	5161410.	3876535.
12-29	5176.	4789.		4283.	3963.	51.15	219064.	4.28	15955.	42240.	0.	193779.	5355188.	3956506.
12-30	4658.	4311.		3854.	3567.	51.15	197158.	4.28	15259.	42240.	0.	170177.	5525366.	4021535.
12-31	4192.	3879.		3469.	3210.	51.15	177442.	4.28	13734.	42240.	0.	148935.	5674301.	4074231.
12-32	3773.	3492.		3122.	2889.	51.15	159698.	4.28	12360.	42240.	0.	129818.	5804119.	4116760.
S TOT	139263.	153437.		115240.	126969.	51.15	5894546.	4.28	543174.	633600.	0.	5804119.	5804119.	4116760.
AFTER	25173.	23295.		20830.	19276.	51.15	1065469.	4.28	82465.	542080.	0.	605854.	6409972.	4262892.
TOTAL	164436.	176732.		136071.	146246.	51.15	6960015.	4.28	625639.	1175680.	0.	6409973.	6409972.	4262892.
CUM	20274.	33132.												
ULT	184710.	209864.												
FUTURE LIFE : 27.83 YRS SALVAGE VALUE = \$ 0.														
INTEREST FACTORS														
INITIAL														
EXPENSE	1.0000													
REVENUE														
OIL	0.8275													
GAS	0.8275													
INITIAL PRICE														
OIL, \$/BBL		\$ 55.0000												
GAS, \$/MCF		\$ 4.6000												
NET														
OIL, \$/BBL		\$ 51.1500												
GAS, \$/MCF		\$ 4.2780												
DISC RATE														
CUM PW, \$														
10.00 PERCENT														
15.00 PERCENT														
20.00 PERCENT														
25.00 PERCENT														
30.00 PERCENT														

VALUATION OF
100 PERCENT WORKING INTEREST
CML EXPLORATION, LLC
RAIDER 9 STATE NO.3
MALJAMAR FIELD
LEA COUNTY, NM

DATE : 03/08/18
TIME : 17:44:12

ESTIMATED RATE OF WITHDRAWAL AND VALUATION TABULATION
AS OF DATE: 1/18

TOT YRLY -END- OIL PROD MO-YR GROSS BBLs	TOT YRLY GAS PROD GROSS MCF	WI NET OIL BBLs	WI NET GAS MCF	OIL PRICE \$/BBL	GROSS WI INCOME FROM OIL, \$	GAS PRICE \$/MCF	GROSS WI INCOME FROM GAS, \$	EST YRLY OPERATING EXP, \$	TOT NET INVEST & SALV, \$	EST TOT NET WI INCOME, \$	CUM OF NET INCOME, \$	CUM PW AT 8.0%, \$
12-18	31972.	30986.	26457.	25641.	51.15	1353285.	4.28	109691.	42240.	0.	1420736.	1367104.
12-19	21554.	17052.	17836.	14111.	51.15	912290.	4.28	60366.	42240.	0.	930415.	2351152.
12-20	17222.	12000.	14251.	9930.	51.15	728932.	4.28	42482.	42240.	0.	729173.	3080325.
12-21	14594.	9330.	12159.	7721.	51.15	621956.	4.28	33030.	42240.	0.	612746.	3693071.
12-22	12991.	7666.	10750.	6343.	51.15	549879.	4.28	27137.	42240.	0.	534776.	4227847.
12-23	11677.	6523.	9662.	5398.	51.15	494232.	4.28	23093.	42240.	0.	475084.	3955050.
12-24	10509.	5688.	8696.	4707.	51.15	444809.	4.28	20137.	42240.	0.	422706.	32511370.
12-25	9458.	5050.	7827.	4179.	51.15	400328.	4.28	17878.	42240.	0.	375966.	2501603.
12-26	8512.	4536.	7044.	3754.	51.15	360295.	4.28	16059.	42240.	0.	334114.	1835718.
12-27	7661.	4083.	6340.	3379.	51.15	324266.	4.28	14453.	42240.	0.	296479.	6132196.
12-28	6895.	3675.	5706.	3041.	51.15	291839.	4.28	13008.	42240.	0.	262607.	4394804.
12-29	6205.	3307.	5135.	2737.	51.15	262655.	4.28	11707.	42240.	0.	232122.	3626926.
12-30	5585.	2976.	4621.	2463.	51.15	236390.	4.28	10537.	42240.	0.	204686.	2831612.
12-31	5026.	2679.	4159.	2217.	51.15	212751.	4.28	9483.	42240.	0.	179994.	2011606.
12-32	4524.	2411.	3743.	1995.	51.15	191476.	4.28	8535.	42240.	0.	157770.	1619376.
S TOT	174485.	117963.	144387.	97615.	51.15	7385380.	4.28	417595.	633600.	0.	7169376.	5145302.
AFTER	31642.	16863.	26184.	13954.	51.15	1339298.	4.28	59696.	601920.	0.	797074.	7966450.
TOTAL	206127.	134826.	170570.	111569.	51.15	8724678.	4.28	477291.	1235520.	0.	7966450.	7966450.
CUM	0.	0.										
ULT	206127.	134826.										

FUTURE LIFE : 29.25 YRS SALVAGE VALUE = \$ 0.

INTEREST FACTORS

EXPENSE	INITIAL	DISC RATE	CUM PW, \$
1.0000	10.00 PERCENT		4943944.
	15.00 PERCENT		4207934.
	20.00 PERCENT		3691634.
	25.00 PERCENT		3309392.
	30.00 PERCENT		3014466.

INITIAL PRICE	GROSS
OIL, \$/BBL	\$ 55.0000
GAS, \$/MCF	\$ 4.6000
	NET
OIL, \$/BBL	\$ 51.1500
GAS, \$/MCF	\$ 4.2780

PRELIMINARY WATERFLOOD SURVEY
CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

ESTIMATE OF RECOVERABLE OIL

The estimate of recoverable oil and gas from a producing property can normally be made by two methods, the direct method and the indirect method. The direct method involves the projection of such established trends as oil and gas production rate of decline, reservoir pressure decline, increasing water-oil ratios or gas-oil ratios, or other reservoir performance data into the future. This method is usually more reliable than the indirect method which is a volumetric analysis based on reservoir characteristics, reservoir volumes, and calculated recovery factors. When using the indirect method it is desirable to have complete core analysis data, induction electric and porosity logs, reservoir fluid analysis, drill stem test information, and other data from which to accurately predict reservoir performance and estimate the anticipated recovery. The indirect method necessarily assumes proper operation of the property. The direct method was utilized herein to determine the ultimate primary oil from the Cisco Lime reservoir, and the indirect method was necessarily utilized to determine the secondary oil reserves to be recovered by waterflooding the reservoir.

ESTIMATE OF RECOVERABLE OIL (Cont'd)Primary Recovery

For the purpose of this section, the Cisco 1 and Cisco Lower intervals within the reservoir are treated as one common reservoir. An analysis was made of the primary recovery from the Cisco Lime reservoir within the Buckeye Area in the Sanmal Field. Log calculations indicated an average porosity in the reservoir of 8.0 percent and an average connate water saturation of 23.0 percent of the pore space. The net pay for each well and each Cisco interval were determined from log calculations, and the previously mentioned isopachous maps were prepared utilizing these net pay picks. The isopachous maps were planimetered which indicated a total reservoir volume of 23,902 acre-feet. The original formation volume factor in this reservoir was determined to be 1.589 reservoir barrels per stock tank barrel with the undersaturated crude oil. Utilizing the porosity, connate water saturation and original formation volume factor, the original oil in place in the Cisco Lime reservoir was calculated to be 301 barrels per acre-foot.

An analysis was made of the primary oil production from each well in the reservoir to determine their ultimate primary oil recovery based on the cumulative oil production to January 1, 2018, and the extrapolation of the future reserves as of that date.

ESTIMATE OF RECOVERABLE OIL (Cont'd)

These wells are in various stages of depletion because of the development of the reservoir occurring over an approximate seven-year period.

The following tabulation shows the cumulative primary oil production to January 1, 2018, the estimated future primary oil reserves as of January 1, 2018 based on extrapolation of the oil production decline curves to an estimated economic limit and the estimated ultimate primary oil recovery.

<u>Lease</u>	<u>Cumulative Primary Oil Pro- duction to 1-1-18 Bbls.</u>	<u>Estimated Future Primary Oil Reserves as of 1-1-18 Bbls.</u>	<u>Estimated Ultimate Primary Oil Recovery, Bbls.</u>
Abenaki 10 State No. 1	234,941	32,793	267,734
Abenaki 10 State No. 2	21,126	18,690	39,816
Abenaki 10 State No. 3	54,794	152,884	207,678
Beam 15 State No. 1	301,992	85,517	387,509
Beam 15 State No. 2	79,291	26,163	105,454
Beam 15 State No. 3	27,147	6,409	33,556
Martin 11 State No. 1	145,996	66,217	212,213
Raider 9 State No. 1	20,274	164,436	184,710
Raider 9 State No. 2	946	0	946
Raider 9 State No. 3	0	206,127	206,127
Totals	886,507	759,236	1,645,743

The tabulation of ultimate primary oil recovery indicates the Cisco Lime reservoir to be from 0 percent depleted on the Raider 9 State No. 3 which was completed in January, 2018 to 88 percent depleted on the Abenaki 10 State No. 1. Based on the ultimate primary oil determination and the total reservoir volume of 23,902 acre-feet, the overall total recovery was calculated to be 68.9

ESTIMATE OF RECOVERABLE OIL (Cont'd)

barrels of oil per acre-foot or 22.9 percent of the original oil in place.

Additional Recoverable Oil by Waterflooding

The Cisco Lime reservoir has produced under a solution gas drive, or depletion type drive mechanism, and there should be sufficient oil saturation remaining in the reservoir to support a commercial waterflood. The additional oil that will be recovered by a water injection program may be calculated after considering the effects of the pattern and sectional sweep efficiency on the estimated oil saturation available to a waterflooding project at its inception. The average oil saturation in the reservoir at any time may be calculated by the following formula:

$$S_o = (1 - N/OIP) (FV_{Fo}/FV_{Fn}) (1 - S_w)$$

Where: N = Cumulative oil production at that time,
Bbl/Ac-Ft.

OIP = Original stock tank oil in place,
Bbl/Ac-Ft.

FV_{Fn} = Formation volume factor at that time

FV_{Fo} = Formation volume factor at original
conditions

S_w = Connate water saturation, percent of
pore space

The oil saturation in these Cisco Lime reservoir was calculated to be 43.1 percent at primary depletion which is sufficiently high to support a commercial waterflooding program, if begun at primary depletion. Since the wells in the reservoir are in various stages of primary depletion along with hazards associated

ESTIMATE OF RECOVERABLE OIL (Cont'd)

with waterflooding it is recommended that the waterflood begin in various stages by only converting wells to injection that are close to total depletion. It is suggested that the waterflood begin with the conversion of Beam 15 State well No. 3 which is currently at 80.9 percent of primary depletion and has only 6,409 barrels of primary oil left for recovery.

To determine the amount of oil that may be recovered by waterflooding this reservoir, it was necessary to determine the mobile oil remaining in the reservoirs at the time the waterflooding program would be installed. The mobile oil within a reservoir may be calculated by deducting the primary recovery at the time of water injection initiation and the residual oil after waterflood depletion from the original oil in place. The residual oil in the Cisco Lime reservoir is believed to be approximately 25 percent of the pore space. Utilizing the residual oil saturation of 25 percent of the pore space, the residual oil remaining in the reservoir following waterflooding was calculated by the following formula:

$$\text{Residual Oil} \quad \frac{7758(\emptyset)(S_{or})}{FVF_n} = \frac{7758(0.08)(0.25)}{1.154} = 135 \text{ Bbl/AC-FT}$$

Where: \emptyset = Porosity, percent of bulk volume

S_{or} = Residual oil saturation, percent of the
pore space

FVF_n = Formation volume factor at that time

ESTIMATE OF RECOVERABLE OIL (Cont'd)

Based on the above factors the mobile oil at the inception of this project would be:

$$\begin{aligned}\text{Mobile Oil} &= \text{OIP} - \text{Primary Recovery} - \text{Residual Oil} \\ \text{Mobile Oil} &= 301 - 69 - 135 = 97 \text{ Bbl/Ac-Ft.}\end{aligned}$$

The mobile oil in these reservoirs is the oil which could be recovered with a 100 percent efficient waterflood. The efficiency of a waterflood is dependent upon the reservoir properties, the injection pattern employed, the permeability distribution, the reservoir fluid characteristics, and the method of operations and hazards that would be involved. The Cisco Lime reservoir appears to be continuous throughout the reservoir, and although it is lenticular and variations exist in porosity and connate water saturations, it is believed that the reservoir and reservoir fluid saturations will be reasonably uniform. Due to the shape of the existing reservoir and wide spacing of the wells, it is recommended that a random/line drive pattern be implemented for the project. This pattern should result in maintaining a balance in the various flood fronts so that the flood fronts can be centered up at existing producing wells to drain the reservoirs of secondary oil reserves.

Based on the reservoir characteristics, a recovery efficiency factor of 49 percent of the mobile oil is believed to be applica-

ESTIMATE OF RECOVERABLE OIL (Cont'd)

ble to the Cisco Lime reservoir based on an aerial efficiency factor of approximately 70 percent and a vertical conformance factor of approximately 70 percent. Based on this efficiency factor, the oil anticipated to be recovered by waterflooding as of primary depletion was calculated to be 48 barrels per acre-foot by applying the recovery efficiency factor to the mobile oil of 97 barrels per acre-foot.

A floodable limit was determined and was drawn on the isopachous maps for both the Cisco 1 and Cisco Lower intervals within the reservoir based on the water injection pattern selected. The isopachous maps were then planimetered within the floodable limit by interval to determine the overall floodable reservoir volume.

Floodable Reservoir	
<u>Interval</u>	<u>Volume, Ac-Ft.</u>
Cisco 1	6,510
Cisco Lower	<u>5,952</u>
Total	12,462

The estimated future remaining primary and secondary oil reserves for the Cisco Lime were calculated to be 1,353,692 barrels by adding the remaining estimated primary barrels with the estimated secondary oil calculated by multiplying the floodable reservoir volume of 12,462 acre-feet by the estimated waterflood recovery of 48 barrels per acre-foot. As of January 1, 2018, the remaining estimated future primary reserves for the Cisco Lime reservoir within the project area was estimated to be 759,236 barrels

ESTIMATE OF RECOVERABLE OIL (Cont'd)

of oil and the ultimate secondary oil reserves would be an estimated 594,456 barrels. The total primary and secondary ultimate reserves would be 2,240,199 barrels which calculates to be 31.16% of original oil in place. Furthermore, the secondary to primary ratio for the reservoir is calculated at 0.36 barrel of secondary oil to 1.0 barrel of primary oil.





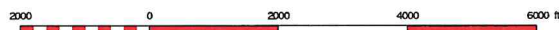
PRELIMINARY WATERFLOOD SURVEY

CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

ISOPACHOUS MAP with FLOODABLE LIMIT
CISCO LOWER
CONTOUR INTERVAL – 5 FEET

- LEGEND -

- Abandoned Location
- Abandoned Oil Well
- Dry & Abandoned
- Oil Well
- Proposed Unit Boundary
- Proposed Injection Well



PRELIMINARY WATERFLOOD SURVEY
CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

RECOMMENDED WATER INJECTION PROGRAM

The Cisco Lime reservoir underlying the Buckeye Area possesses characteristics that are both favorable and unfavorable to waterflooding. The reservoir has the advantages of having a relatively high oil saturation at the time the waterflooding program will be installed. The viscosity of the reservoir oil is relatively low which should provide a favorable mobility ratio for waterflooding. Water-oil ratios are very low. An abundant water supply is available within the area from the Yeso age wells for no extra expense. The reservoir has disadvantages of low porosity, low permeabilities, large well spacings and overall depth of the reservoir. All of these factors contribute to the feasibility of injecting sufficient volumes of water into the reservoir under reasonable conditions.

Most reservoirs have conditions which may prove hazardous to waterflooding. These hazards may include wide ranges in permeability, ununiform saturations of gas, oil and water in various areas of the reservoir, the potential inability of injection wells to take the recommended injection rates and the lenticular nature of the reservoir. Hazards exist in all waterflooding pro-

RECOMMENDED WATER INJECTION PROGRAM (Cont'd)

grams, and it has been found that with proper installation, operation and supervision, these hazards can either be eliminated or minimized resulting in a successful program.

Water Requirements

The water requirements necessary to waterflood the Cisco Lime reservoir was calculated to be 7,734,415 barrels. This water requirement is based on a 1.0 pore volume throughput for the total floodable reservoir volume. It is also equivalent to 5.7 to 1 water-oil ratio for the future primary and secondary reserves at the time the injection program is begun.

Based on this water requirement, an average injection rate into the reservoir of 605 barrels of water per day should result in flooding out this reservoir within a period of 35 years.

Water Supply

The first requirement for a waterflood is the source of water for injection. This source should have the ability to supply water at an adequate daily rate for the life of the project.

It is believed that sufficient supply water is readily available from the existing Yeso Paddock producing wells within the area for no extra cost to the waterflood.

Injection Pattern

The proposed injection pattern is basically a random/line drive pattern. This pattern was selected to provide the maximum

RECOMMENDED WATER INJECTION PROGRAM (Cont'd)

sweep of the reservoir and the various lenses in the reservoirs and to maintain balanced flood fronts utilizing the existing wells.

Due to the size and shape of the reservoir with the existing wells, it is proposed that the Beam 15 State No. 3 be converted to injection initially. This well was selected since it has very little primary reserves left to be recovered and has 25 feet of net pay in the Cisco 1 interval and 13 feet of net pay in the Cisco Lower interval. Utilizing this well as an injector could lead to waterflood response in five offsetting wells within the project area.

It is proposed to convert the Abenaki 10 State No. 2 and the Beam 15 State No. 2 wells later once most of their primary production has been produced. These wells would be delayed if they receive waterflood response from the Beam 15 State No. 3 well. Eventually either the Raider 9 State No. 1 or Raider 9 State No. 3 will be needed to be converted to recover all the estimated secondary reserves from the reservoir.

Water Injection Facilities

The proposed water plant as shown on the injection facilities map should be equipped with two injection pumps each rated at 1,000 barrels of water per day at 3,500 psig, electric motors, two 400 barrel fiberglass operating water tanks, and one 400 bar-

RECOMMENDED WATER INJECTION PROGRAM (Cont'd)

rel fiberglass overflow tank. The plant should be designed so that water from the water supply source and the produced water from the field will both enter the operating water tanks. Water from these tanks will gravity to the pumps. The high-pressure outlets of the pumps should be connected by high pressure hoses to the discharge manifold. The water plant should be equipped with automatic controls including liquid level controls to start and stop the water supply pump as needed and to control the injection pump by shutting it down in the event of low water level and restarting it at high water level. Also, the plant should be equipped with high-low pressure monitoring for the injection pumps.

Well Work/Injection Wells

It is recommended that the Beam 15 State No. 3 be converted to water injection status by cleaning out the well and equipping it with Rice fiberglass lined tubing, nickel plated packer and the necessary wellhead equipment. The casing in the well should be tested with the packer set for the mechanical integrity test required by the New Mexico Oil Conservation Division. After the packers have been run and before they are set, the wells should be loaded with corrosion treated salt water. The packers should be set approximately 50-100 feet above the Cisco Lime in the well so that tracer logs can be run later, if necessary. A step-rate

RECOMMENDED WATER INJECTION PROGRAM (Cont'd)

test will be needed on the well to ensure that formation fracture pressure isn't exceeded from the injection. The OCD will more than likely require this procedure done in advance to approving a sufficient injection pressure for the well.

Well Work/Producing Wells

The remaining wells in the Sanmal Field will be utilized as producing wells in the water injection program. It is recommended that these wells be cleaned out in the future as the progress of the waterflood program dictates. Therefore, this work can be delayed from several months to possibly several years in the future. Cleanouts and monitoring downhole equipment are necessary to ensure that entry of oil into the wellbores will not be restricted.

The present pumping units on most of the wells will be adequate during the early waterflood response. After significant flood response has occurred, it may be necessary to install larger pumping units or ESP's on certain wells to properly handle the anticipated fluid production.

Producing Facilities

A continuation of the well testing program in this Field will be needed to provide a well test on each well at least once a month to analyze the progress of the waterflood and to determine the effects of the injection program. The success of any

RECOMMENDED WATER INJECTION PROGRAM (Cont'd)

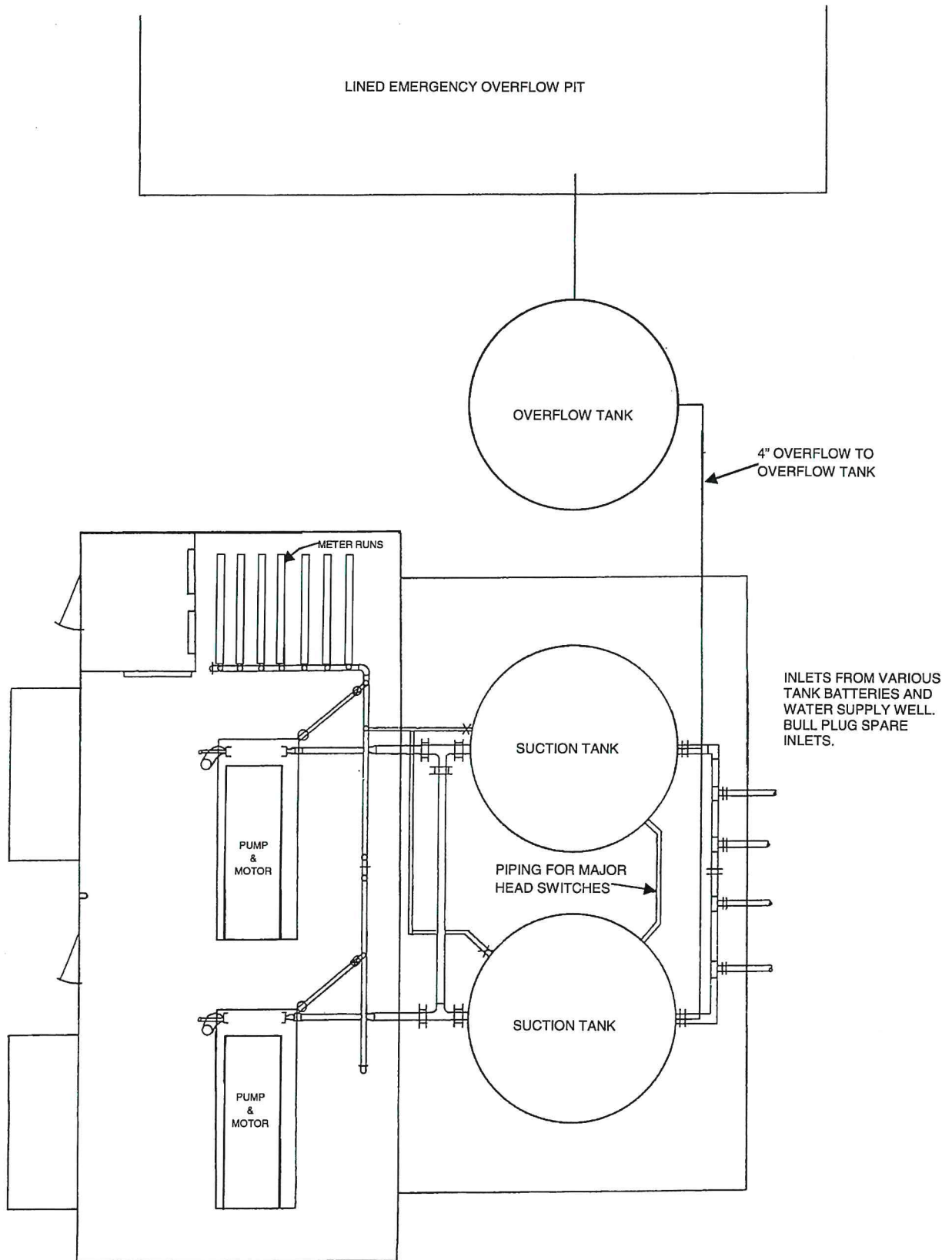
waterflood program is largely dependent upon periodic accurate individual well tests.

Produced water will be combined with the water from the water supply source, if the two waters prove to be compatible. If these waters are not compatible, a successful chemical treatment program will be needed.

Operation

It will be of utmost importance that the operation of this project be carefully watched to uniformly sweep out the reservoir and to obtain maximum oil recovery. Close supervision will be necessary to balance the flood fronts as they sweep oil into various center out points in the reservoir. Complete records of water injection rates and pressures should be maintained, and the individual well tests taken each month should be recorded.

It is recommended that water injection be started at a low rate initially to determine the ability of each injection well to take water. After a short time, the water injection will gradually be increased to the recommended rate. The final injection rate into each well will depend primarily on the net effective thickness at the wellbore, the injection pressure experienced at the well and the relative location of that well with respect to producing wells and to other injection wells.

**WATER PLANT LAYOUT**

PRELIMINARY WATERFLOOD SURVEY
CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

SUGGESTED ORGANIZATION PLAN

The Cisco Lime reservoir has been studied herein and it has been recommended that a unitized water injection program be installed. It will be necessary to unitize the field in order to protect equity and to allow for the most efficient waterflooding program to be installed.

The formation of a Unit in this Field can be accomplished either using a single phase formula or by utilizing a split formula with a Phase 1 participation formula to be effective until the future primary oil has been obtained and then a Phase 2 participation formula would be placed in effect based on the waterflooding program. Since the reservoir will be installed at primary depletion on proposed injection wells as of the anticipated unitization date of January 1, 2019, it is believed that a single phase formula for Unitization would be fair and equitable program.

It is suggested that the Unitization participation formula be based on 5 percent credit for number of useable wells, 25 percent credit for floodable reservoir volume, and 70 percent credit for ultimate primary. This formula would give each lease

SUGGESTED ORGANIZATION PLAN (Cont'd)

or tract the needed credits for their share of the waterflooding program.

The suggested unitization participation formula presented herein is intended to be a suggested plan only and can be modified or changed to correspond with the desires of the working interest owners. This plan and others should be discussed with the working interest owners at a meeting of all owners.

A Unit Agreement should be prepared for the reservoir utilizing a unit participation formula of which has been agreed to by all working interest owners. The Unit Agreement should be approved by the working interest owners and signed by them prior to submitting the Unit Agreement to the various royalty and overriding royalty owners. After all participants have signed the Unit Agreement, it will be necessary to have a Hearing before the New Mexico Oil Conservation Division to have the Unit approved.

It will be necessary to obtain water injection permits from the New Mexico Oil Conservation Division for each of the individual water injection wells to be utilized in the program.

A Unit Operating Agreement should be prepared naming the Unit Operator and setting out the duties and responsibilities of the Unit Operator. The Unit Operating Agreement should be signed by all working interest owners.

PRELIMINARY WATERFLOOD SURVEY
CML EXPLORATION, LLC
BUCKEYE AREA
SANMAL FIELD
LEA COUNTY, NEW MEXICO

COST ESTIMATE

I. INSTALLATION COST

A. Water Supply Sources

There is sufficient water supply from existing Yeso Paddock production within the area at no cost.

\$0

B. Water Plant

Based on total water requirement of 605 barrels per day at a pressure of 3,500 psig. Recommend that plant be installed near the Beam 15 State well No. 3. Plant should contain of two 400 barrel fiberglass operating tanks, one 400 barrel fiberglass overflow tank, and two triplex plunger pumps powered by electric motors. Automatic controls should be installed to control the water supply wells and provide high-low liquid levels and high-low pressure control for the injection pumps. Alarms are suggested to be installed on the battery to alert high levels when problems exist. It is also suggested that high levels kill switches be installed for the water supply wells.

\$225,000

C. Water Distribution System

It is suggested that 3,500 psi fiberglass lines be laid to the Beam 15 State No. 3 well from the proposed water plant.

\$0

COST ESTIMATED. Injection Well Work

Based on running Rice lined 2 7/8" tubing in the Beam 15 State No. 3 well. It is anticipated that the salvageable equipment (pumping unit, tubing and rods) of the well would be more than the new Rice lined tubing cost.

\$0

E. Producing Well Work

No work is anticipated on existing wells.

\$0

F. Producing Facilities

Based on laying trunk lines and water lines from existing batteries.

\$50,000

G. Operating Expenses

Total operating expenses including operation of producing wells, injection wells, water supply wells and water plant. Estimated at \$37,576 per month based on actual existing cost.

PRELIMINARY WATERFLOOD SURVEY
 CML EXPLORATION, LLC
 BUCKEYE AREA
 SANMAL FIELD
 LEA COUNTY, NEW MEXICO

ECONOMIC ANALYSIS

The Cisco Lime reservoir underlying the Buckeye Area in the Sanmal Field has been studied and recommendations have been made for the installation of a unitized waterflooding program. The following tabulation shows an economic analysis based on the estimated future primary and secondary oil reserves to be recovered under the proposed waterflood program starting on or about January 1, 2019. The installation costs and operating expenses are only general estimates. The actual costs will depend upon the prevailing prices at the time the project is installed, the exact type and size of equipment used, and other details not available for consideration at this time.

Economic Analysis as of January 1, 2018

Gross Oil Reserves, Bbl.	1,353,682
Working Interests Net Oil, Bbl.	1,120,172
Gross Oil Income to W.I. @ \$51.15/Bbl.	\$57,296,784
Gross Gas Reserves, MCF	381,829
Working Interest Net Gas, MCF	315,963
Gross Gas Income to W.I @ \$4.28/MCF	\$1,351,691
Installation Costs	
Initial	\$275,000
Operating Expenses - Operations, maintenance, overhead, and engineering supervision	\$15,781,920
Net Profit to Working Interests before Federal Income Tax	\$42,591,552

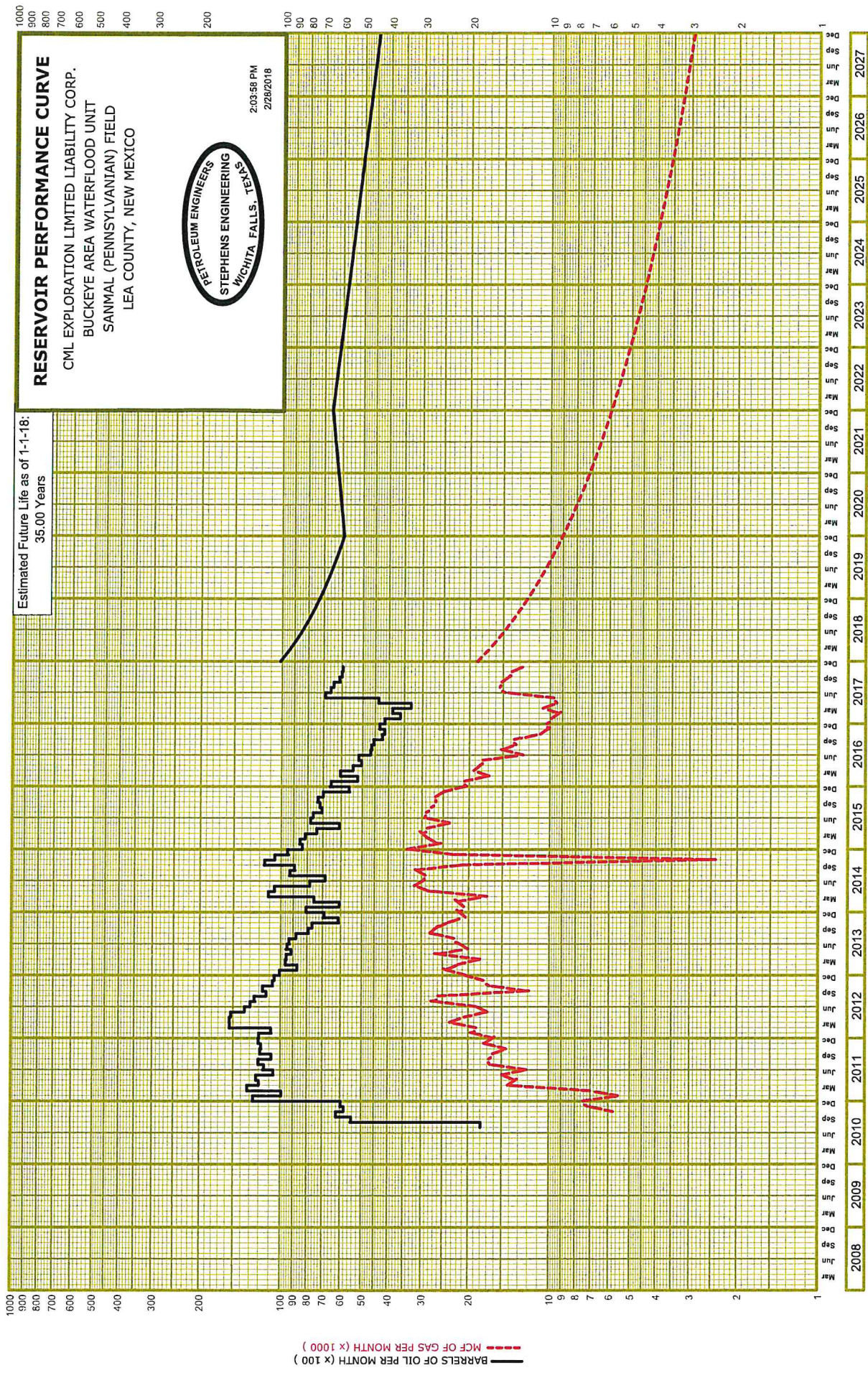
ECONOMIC ANALYSIS (Cont'd)

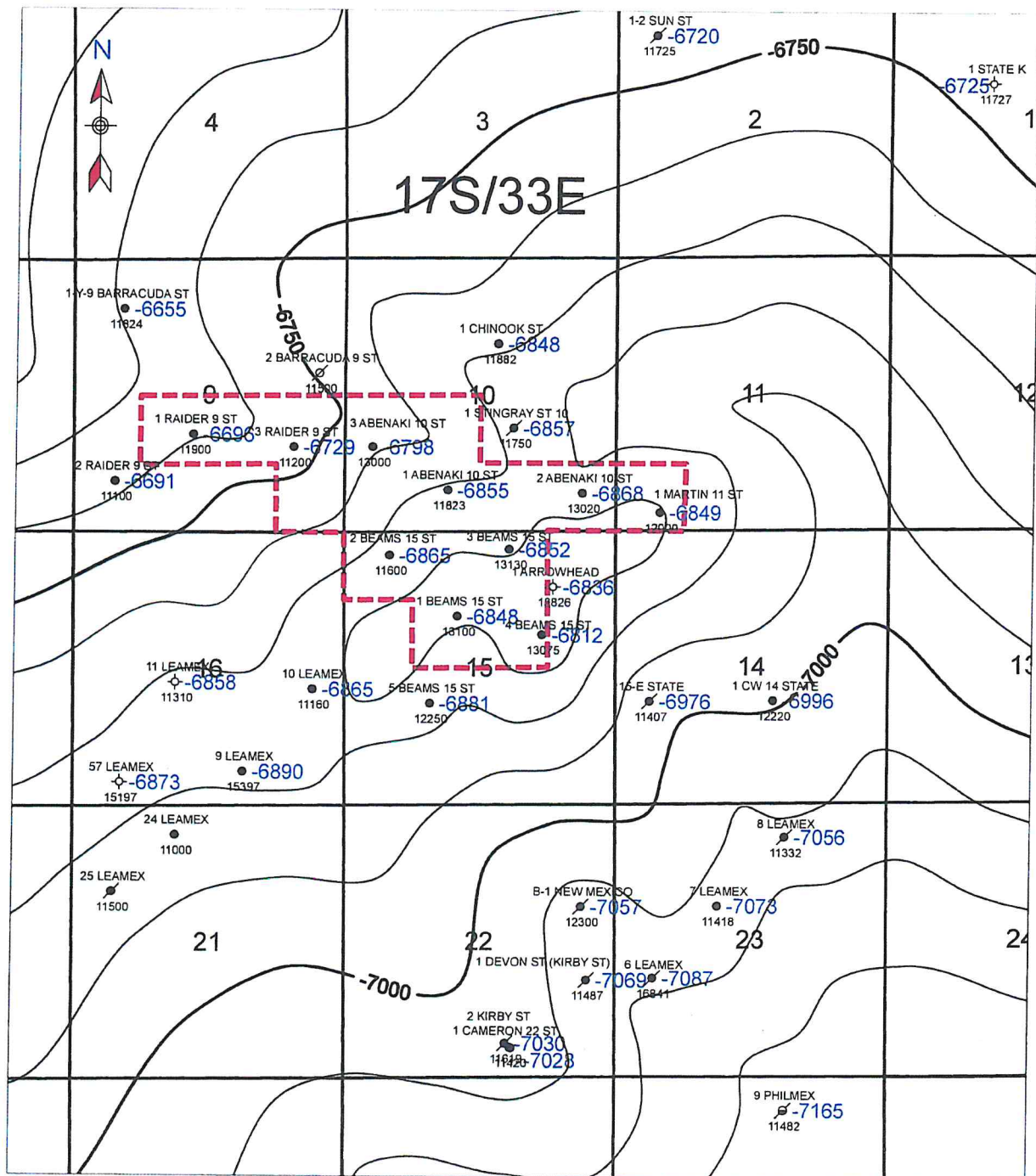
In preparing the Economic Analysis, the estimated future primary oil reserves, the estimated future secondary oil reserves and estimated gas reserves were projected into the future. A gross oil price of \$55.00 per barrel of oil, a gross gas price of \$4.60 per MCF of gas and operating expenses were held constant into the future. State severance taxes have been deducted. With an investment of \$275,000 to initiate the waterflood, the net profit to the working interest owners is estimated to be \$42,591,552. This net income is prior to the deduction of state and federal income taxes.

Included in this section of the report is an Estimated Rate of Future Withdrawal curve indicating the anticipated performance of the waterflood program in the Cisco Lime reservoir. It is anticipated that the waterflooding program will start on or about January 1, 2019. It is anticipated that the production will flatten out after one year of the initial injection and increase very slightly for two years before declining off at a slower rate to an economic limit. It is anticipated that the flood will last 35 years.

Following the Estimated Rate of Future Withdrawal curve is a valuation tabulation showing the estimated future cash flow from the recommended waterflood program. This valuation tabula-

tion shows the estimated future net income of \$42,591,552 and shows the total present worth value of this future net income to be \$23,656,342 using a present worth discount factor of 8 percent compounded annually. The total present worth value should not be construed as the Fair Market Value of the 100 percent working interest.





1 inch = 3000 feet



Wells deeper than 10,000' MD

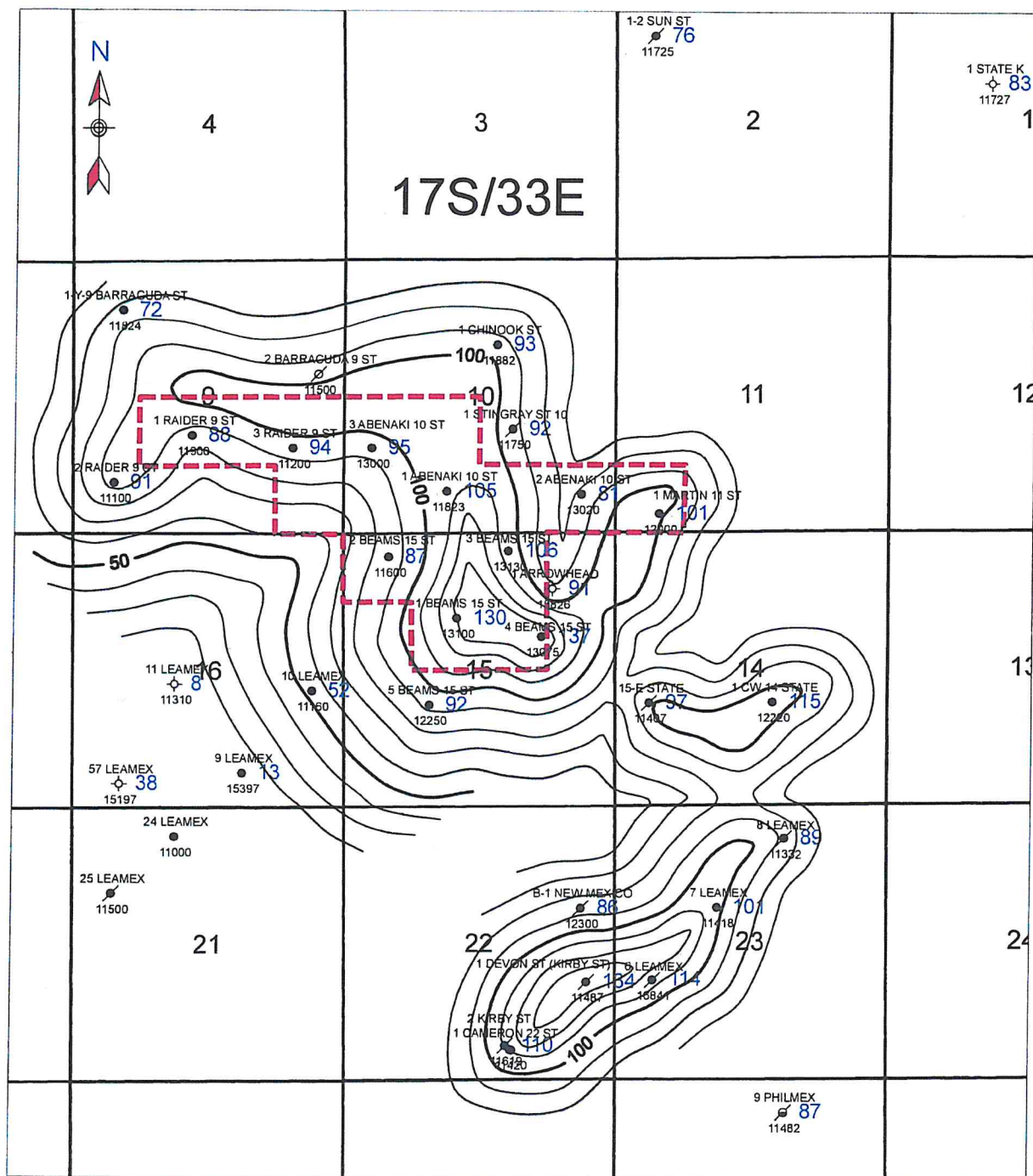
- Oil, Active
- Oil, Plugged
- Dry & Abandoned
- Oil Converted to Injection
- Abandoned Location

Case No. 21046

CML EXPLORATION
Exhibit #9



Beams 15 State #3 Injection Application
Lea County, New Mexico
Structure Map: Top Cisco Injection Interval
Contour Interval = 50 feet



Wells deeper than 10,000' MD

- Oil, Active
- / Oil, Plugged
- Dry & Abandoned
- / Oil Converted to Injection
- / Abandoned Location

Case No. 21046

CML EXPLORATION
Exhibit #10

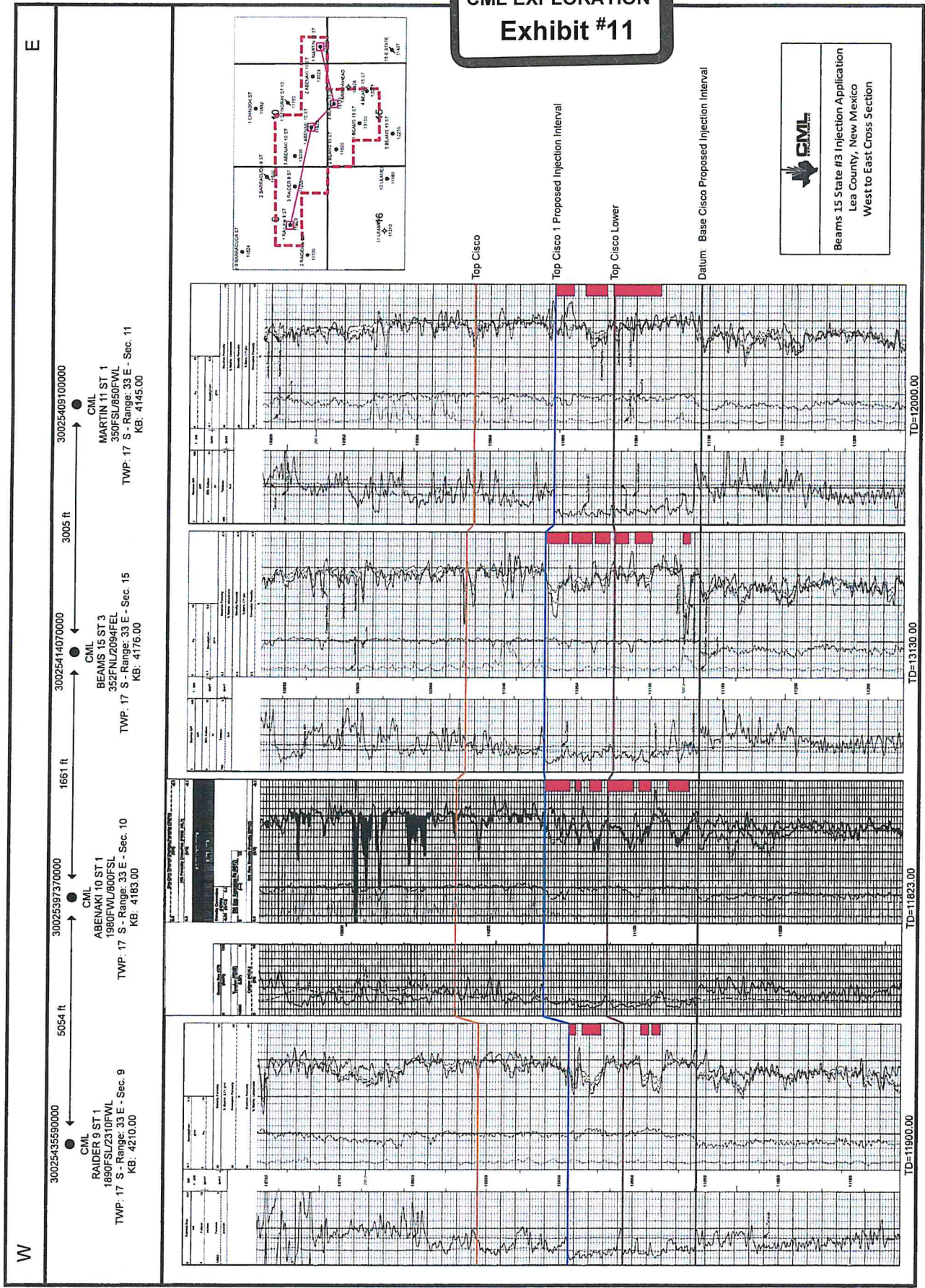


Beams 15 State #3 Injection Application
Lea County, New Mexico
Gross Isopach Map: Cisco Injection Interval
Contour Interval = 10 feet

Case No. 21046

CML EXPLORATION

Exhibit #11





Beams 15 State #3 Injection Application
Lea County, New Mexico
West to East Cross Section

I hereby certify that I have examined geologic and engineering data and find no evidence of open faults or any other hydrologic connection between the injection zone and any underground sources of drinking water.

Darla Spiers
Darla Spiers

2-3-2020
Date

Case No. 21046

CML EXPLORATION

Exhibit #12

Pro-Kem Inc.

WATER ANALYSIS REPORT

SAMPLE

Oil Co. : **CML Exploration LLC**
 Lease : **Cooper SWD Mixed Water**
 Well No.:
 Location:
 Attention:

Date Sampled : **14-November-2019**
 Date Analyzed: **14-November-2019**
 Lab ID Number: **Nov1519.001- 1**
 Salesperson :
 File Name : **Nov1519.001**

ANALYSIS

1. Ph **6.100**
2. Specific Gravity 60/60 F. **1.153**
3. CACO3 Saturation Index

@ 80F
@140F

0.860

Moderate

2.140

Severe

Dissolved Gasses

4. Hydrogen Sulfide
5. Carbon Dioxide
6. Dissolved Oxygen

MG/L.	EQ. WT.	*MEQ/L
Not Present		
80		
Not Determined		

Cations

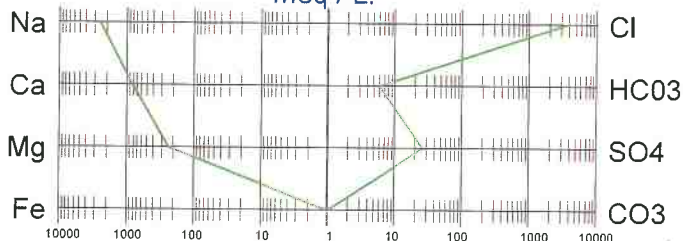
- | | | | |
|------------------------------|----------------|----------|-----------------|
| 7. Calcium (Ca++) | 15,691 | / 20.1 = | 780.65 |
| 8. Magnesium (Mg++) | 2,757 | / 12.2 = | 225.98 |
| 9. Sodium (Na+) (Calculated) | 55,313 | / 23.0 = | 2,404.91 |
| 10. Barium (Ba++) | Not Determined | | |

Anions

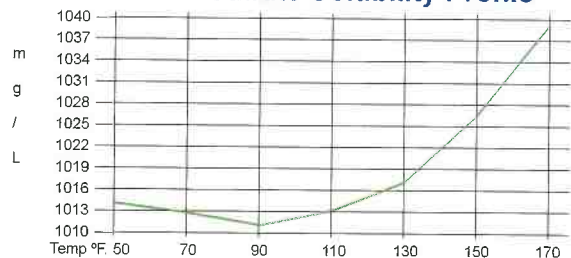
- | | | | |
|--------------------------------------|----------------|--------------|-----------------|
| 11. Hydroxyl (OH-) | 0 | / 17.0 = | 0.00 |
| 12. Carbonate (CO3=) | 0 | / 30.0 = | 0.00 |
| 13. Bicarbonate (HCO3-) | 349 | / 61.1 = | 5.71 |
| 14. Sulfate (SO4=) | 1,250 | / 48.8 = | 25.61 |
| 15. Chloride (Cl-) | 119,973 | / 35.5 = | 3,379.52 |
| 16. Total Dissolved Solids | 195,333 | | |
| 17. Total Iron (Fe) | 0.50 | / 18.2 = | 0.03 |
| 18. Manganese (Mn++) | 1.47 | / 27.5 = | 0.05 |
| 19. Total Hardness as CaCO3 | 50,535 | | |
| 20. Resistivity @ 75 F. (Calculated) | 0.002 | Ohm · meters | |

LOGARITHMIC WATER PATTERN

*meq / L.



Calcium Sulfate Solubility Profile



PROBABLE MINERAL COMPOSITION

COMPOUND	*meq/L	X	EQ. WT.	=	mg/L.
Ca(HCO3)2	5.71		81.04		463
CaSO4	25.61		68.07		1,744
CaCl2	749.32		55.50		41,587
Mg(HCO3)2	0.00		73.17		0
MgSO4	0.00		60.19		0
MgCl2	225.98		47.62		10,761
NaHCO3	0.00		84.00		0
NaSO4	0.00		71.03		0
NaCl	2,404.22		58.46		140,551

* milliequivalents per Liter

Quincy Chavez, Analyst

Case No. 21046

CML EXPLORATION
Exhibit #13

Pro-Kem Inc.

WATER ANALYSIS REPORT

SAMPLE

Oil Co. : **CML Exploration LLC**
 Lease : **Cisco Produced Water**
 Well No.:
 Location:
 Attention:

Date Sampled : **14-November-2019**
 Date Analyzed: **14-November-2019**
 Lab ID Number: **Nov1519.001- 2**
 Salesperson :
 File Name : **Nov1519.001**

ANALYSIS

1. Ph 6.700
2. Specific Gravity 60/60 F. 1.088
3. CACO3 Saturation Index

@ 80F
@140F

0.889
1.779

Moderate
Severe

Dissolved Gasses

- | | MG/L. | EQ. WT. | *MEQ/L |
|---------------------|----------------|---------|--------|
| 4. Hydrogen Sulfide | Not Present | | |
| 5. Carbon Dioxide | 75 | | |
| 6. Dissolved Oxygen | Not Determined | | |

Cations

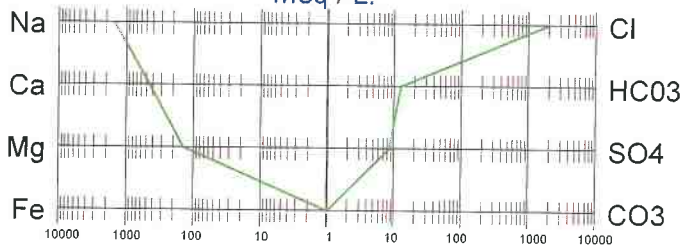
- | | | | | | | |
|--------------|--------------------|----------------|---|------|---|----------|
| 7. Calcium | (Ca++) | 8,657 | / | 20.1 | = | 430.70 |
| 8. Magnesium | (Mg++) | 1,641 | / | 12.2 | = | 134.51 |
| 9. Sodium | (Na+) (Calculated) | 32,818 | / | 23.0 | = | 1,426.87 |
| 10. Barium | (Ba++) | Not Determined | | | | |

Anions

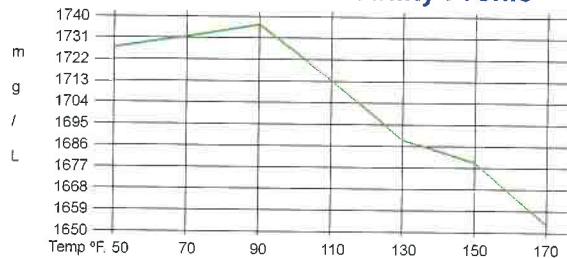
- | | | | | | | |
|--------------------------------------|---------|--------------------|---|------|---|----------|
| 11. Hydroxyl | (OH-) | 0 | / | 17.0 | = | 0.00 |
| 12. Carbonate | (CO3=) | 0 | / | 30.0 | = | 0.00 |
| 13. Bicarbonate | (HCO3-) | 743 | / | 61.1 | = | 12.16 |
| 14. Sulfate | (SO4=) | 400 | / | 48.8 | = | 8.20 |
| 15. Chloride | (Cl-) | 69,984 | / | 35.5 | = | 1,971.38 |
| 16. Total Dissolved Solids | | 114,243 | | | | |
| 17. Total Iron | (Fe) | 1.00 | / | 18.2 | = | 0.05 |
| 18. Manganese | (Mn++) | 22.05 | / | 27.5 | = | 0.80 |
| 19. Total Hardness as CaCO3 | | 28,375 | | | | |
| 20. Resistivity @ 75 F. (Calculated) | | 0.074 Ohm · meters | | | | |

LOGARITHMIC WATER PATTERN

*meq / L.



Calcium Sulfate Solubility Profile



PROBABLE MINERAL COMPOSITION

COMPOUND	*meq/L	X	EQ. WT.	=	mg/L.
Ca(HCO3)2	12.16		81.04		985
CaSO4	8.20		68.07		558
CaCl2	410.34		55.50		22,774
Mg(HCO3)2	0.00		73.17		0
MgSO4	0.00		60.19		0
MgCl2	134.51		47.62		6,405
NaHCO3	0.00		84.00		0
NaSO4	0.00		71.03		0
NaCl	1,426.53		58.46		83,395

* milliequivalents per Liter

Quincy Chavez, Analyst

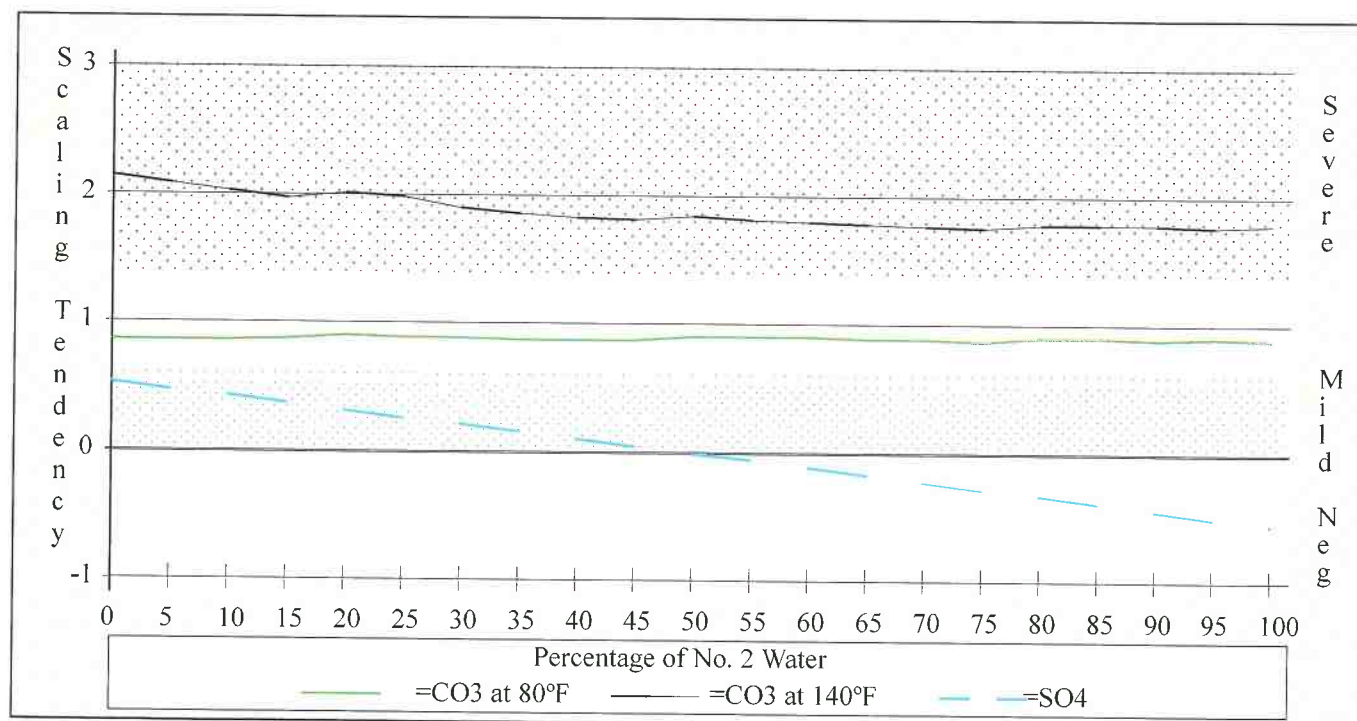
Comparison Between Two Waters

Requested by: Pro-Kem Inc.

Sample No. 1
CML Exploration LLC
Cooper SWD Mixed Water
11-14-2019

Sample No. 2
CML Exploration LLC
Cisco Produced Water
11-14-2019

Percent of #1 & #2	pH	TDS	SpGr	CaCO ₃ Saturation @80°F. @140°F.		Calcium Sulfate Scaling Potential
100 - 00	6.100	195,333	1.153	0.860	2.140	Mild to Moderate
95 - 05	6.130	191,279	1.150	0.864	2.084	Mild to Moderate
90 - 10	6.160	187,224	1.147	0.856	2.026	Mild to Moderate
85 - 15	6.190	183,170	1.143	0.867	1.977	Mild
80 - 20	6.220	179,116	1.140	0.907	2.017	Mild
75 - 25	6.250	175,061	1.137	0.886	1.986	Mild
70 - 30	6.280	171,007	1.134	0.883	1.903	Mild
65 - 35	6.310	166,953	1.130	0.870	1.860	Mild
60 - 40	6.340	162,898	1.127	0.875	1.835	Mild
55 - 45	6.370	158,844	1.124	0.870	1.810	Marginal
50 - 50	6.400	154,790	1.121	0.903	1.843	Marginal
45 - 55	6.430	150,735	1.117	0.896	1.816	Marginal
40 - 60	6.460	146,681	1.114	0.898	1.798	Marginal
35 - 65	6.490	142,626	1.111	0.889	1.789	Marginal
30 - 70	6.520	138,572	1.108	0.889	1.769	Nil
25 - 75	6.550	134,518	1.104	0.878	1.758	Nil
20 - 80	6.580	130,463	1.101	0.906	1.786	Nil
15 - 85	6.610	126,409	1.098	0.893	1.783	Nil
10 - 90	6.640	122,355	1.095	0.889	1.779	Nil
05 - 95	6.670	118,300	1.091	0.895	1.775	Nil
00 - 100	6.700	114,246	1.088	0.889	1.779	Nil



CML EXPLORATION, LLC
MALJAMAR CISCO WATERFLOOD PROJECT

Updated Reserves after Stephens Engineering Study as of 01/01/2018

	Cummulative Oil Prod. to 1/1/2020, Bbls	Estimated Future Primary after 1/1/2020, Bbls	Estimated Ultimate Primary Bbls
Well			
Abenaki 10 St # 1	244090	23644	267734
Abenaki 10 St # 2	26961	12855	39816
Abenaki 10 St # 3	71390	136288	207678
Beams 15 St # 1	319748	67761	387509
Beams 15 St # 2	86700	18754	105454
Beams 15 St # 3	31362	2194	33556
Martin 11 St # 1	164781	47432	212213
Raider 9 St # 1	63113	121597	184710
Raider 9 St # 2	946	0	946
Raider 9 St # 3	44553	161574	206127
	1,053,644	592,099	1,645,743

TOTAL ULTIMATE
RESERVES

2,240,199

REMAINING WITH
WATERFLOOD

1,186,555

REMAINING WITHOUT
WATERFLOOD

592,099

CML EXPLORATION, LLC

MALJAMAR CISCO WATERFLOOD PROJECT

ECONOMIC ANALYSIS as of January 1, 2020 Oil Revenue Only

OPERATOR

Gross Oil Reserves, Bbls	1,186,555
Working Interest Net Oil, Bbls	981,874
Gross Oil Income to W.I. @ \$55/Bbl	\$ 54,003,070
Est. Installation cost, facility & 1 well	\$ (550,000)
Est. Future Operating expenses	\$ (13,860,000)
Est. Oil Severance tax revenue @ 8.7233%	\$ (4,710,850)
Est. Net Profit Oil only	\$ 34,882,220.00
Estimated Life of the Project	33 years

STATE OF NEW MEXICO

Royalty Interest Net Oil, Bbls	148,319
Gross Oil Income to R.I. @ \$55/Bbl	\$ 8,157,545
Est. Oil Severance tax revenue @ 8.7233%	\$ 4,710,850
Est. Total Income Oil only	\$ 12,868,395

Case No. 21046

CML EXPLORATION
Exhibit #15