

# MACK



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December 7, 2011

Via Federal Express

Mr. Tom M. Ragsdale  
601 N. Marienfeld, Suite 300  
Midland, Texas 79701

RECEIVED DEC 08 2011

RE: Operating Agreement  
Cockburn A State and State CD Wells  
Section 32, T17S-R33E  
Lea County, New Mexico

Dear Mr. Ragsdale:

Please find enclosed an Operating Agreement (OA) and extra signature page covering the acreage for the Cockburn A State and State CD wells. This OA is being provided pursuant to your pre-hearing statement faxed to James Bruce on November 23, 2011, in response to our compulsory pooling application. We would like to resolve this matter and avoid going to hearing.

If this OA meets with your approval please have the extra signature pages executed and return to my attention at your earliest convenience. A copy of the fully executed signature pages will be furnished as soon as they are complete.

If you have any questions please don't hesitate to call. Your assistance is greatly appreciated.

Sincerely,

**Mack Energy Corporation**

Staci Sanders  
Land Department

/ss

Enclosures

NMOCD CASE #14763  
September 13, 2012  
SIANA EX. 8

MODEL FORM OPERATING AGREEMENT

**COPY**

OPERATING AGREEMENT

DATED

November 1 , 2011 ,  
Year

OPERATOR MACK ENERGY CORPORATION

CONTRACT AREA Township 17 South, Range 33 East

Section 32: SE/4NW/4, NW/4NE/4, SW/4NE/4, NE/4SW/4

COUNTY OR PARISH OF Lea , STATE OF New Mexico

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

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

Oil Conservation Division

Case No. 11

Exhibit No. 11

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## OPERATING AGREEMENT

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

## WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

## ARTICLE I

## DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## ARTICLE II

## EXHIBITS

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

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

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

3 ARTICLE III  
4 INTERESTS OF PARTIES

5 ~~A. Oil and Gas Interests:~~

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

9 B. Interests of Parties In Costs and Production:

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

14 Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other  
15 burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or  
16 cause to be paid or delivered, all burdens on its share of the production from the Contract Area up to, but not in excess of,  
17 \_\_\_\_\_ and shall indemnify, defend and hold the other parties free from any liability therefor.

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

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

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

32 C. Subsequently Created Interests:

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

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

50 ARTICLE IV.  
51 TITLES

52 A. Title Examination:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

64 3. Other Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles  
65 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  
66 Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because  
67 express or implied covenants have not been performed (other than performance which requires only the payment of money),  
68 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  
69 readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.

70 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  
71 Lease or Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety  
72 (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  
73 or was lost shall be offered at cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B.  
74 shall not apply to such acquisition.

ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

MACK ENERGY CORPORATION 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

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

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

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

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

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

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

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

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

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

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

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

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

51 **A. Initial Well**

52 On or before the \_\_\_\_\_ day of \_\_\_\_\_, Operator shall commence the drilling of the Initial  
53 Well at the following location:

54 \_\_\_\_\_  
55 \_\_\_\_\_

56 \_\_\_\_\_  
57 \_\_\_\_\_  
58 \_\_\_\_\_

59 and shall thereafter continue the drilling of the well with due diligence to  
60 \_\_\_\_\_  
61 \_\_\_\_\_  
62 \_\_\_\_\_  
63 \_\_\_\_\_  
64 \_\_\_\_\_  
65 \_\_\_\_\_  
66 \_\_\_\_\_

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

69 **B. Subsequent Operations:**

70 1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or  
71 if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of  
72 producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under  
73 this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written  
74 notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone

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

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

26 2. Operations by Less Than All Parties.

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

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

58 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be  
 59 borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding  
 60 paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and  
 61 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results  
 62 in a dry hole, then subject to Articles VLB.6. and VLB.3., the Consenting Parties shall plug and abandon the well and restore  
 63 the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that  
 64 participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate  
 65 shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not  
 66 increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened,  
 67 Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in  
 68 paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the  
 69 well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the  
 70 expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking,  
 71 Sidetracking, ReCompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the  
 72 provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the  
 73 Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-  
 74 Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking,

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

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

14 (ii) 300 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening,  
 15 Plugging Back, testing, Completing, and Re-completing, after deducting any cash contributions received under Article VIII.C.,  
 16 and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections),  
 17 which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

27 (c) Reworking, Re-completing or Plugging Back. An election not to participate in the drilling, Sidetracking or  
 28 Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in  
 29 such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full  
 30 recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to  
 31 participate in the Completing or Re-completing of a well shall be deemed an election not to participate in any Reworking  
 32 operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at  
 33 any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such  
 34 Reworking, Re-completing or Plugging Back operation conducted during the recoupment period shall be deemed part of the  
 35 cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties 300 % of  
 36 that portion of the costs of the Reworking, Re-completing or Plugging Back operation which would have been chargeable to  
 37 such Non-Consenting Party had it participated therein. If such a Reworking, Re-completing or Plugging Back operation is  
 38 proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting  
 39 Parties in said well.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

51 **D. Other Operations:**

52 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \_\_\_\_\_  
 53 FIFTY THOUSAND Dollars (\$50,000.00) except in connection with the  
 54 drilling, Sidetracking, Reworking, Deepening, Completing, ReCompleting or Plugging Back of a well that has been previously  
 55 authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden  
 56 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion  
 57 are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the  
 58 emergency to the other parties. ~~If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so~~  
 59 ~~requesting an information copy thereof for any single project costing in excess of \_\_\_\_\_ Dollars~~  
 60 ~~(\_\_\_\_\_).~~

61 Any party who has not relinquished its interest in a well shall have the right to propose that  
 62 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as  
 63 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but  
 64 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall  
 65 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the  
 66 amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under  
 67 Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such  
 68 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent  
 69 of any party or parties owning at least 51 % of the interests of the parties entitled to participate in such operation,  
 70 each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated  
 71 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms  
 72 of the proposal.

73 **E. Abandonment of Wells:**

74 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

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

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

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

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

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

#### 58 F. Termination of Operations:

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

#### 65 G. Tailing Production in Kind:

##### 66 Option No. 1: Gas Balancing Agreement Attached

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

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

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

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

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

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

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

27 ~~E) Option No. 2 - No Gas Relinquishing Agreement:~~

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

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

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

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

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

62 **ARTICLE VII.**

63 **EXPENDITURES AND LIABILITY OF PARTIES**

64 **A. Liability of Parties:**

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

## 1 B. Liens and Security Interests:

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

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

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

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

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

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

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

## 60 C. Advances:

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

## 70 D. Defaults and Remedies:

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

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

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

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

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

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

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

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

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

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

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

62 **F. Taxes:**

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

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

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

#### 9 ARTICLE VIII

#### 10 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

##### 11 A. Surrender of Leases:

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

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

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

##### 39 B. Renewal or Extension of Leases:

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

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

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

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

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

##### 65 C. Acreage or Cash Contributions:

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

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

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

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

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

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

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

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

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

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

33 ~~El - (Optional; Check if applicable.)~~

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

46 **ARTICLE IX.**

47 **INTERNAL REVENUE CODE ELECTION**

48 If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the  
 49 parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each  
 50 party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle  
 51 "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and  
 52 the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected  
 53 such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal  
 54 Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by  
 55 Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this  
 56 election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal  
 57 Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action  
 58 inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
 59 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter  
 60 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party  
 61 hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each  
 62 such party states that the income derived by such party from operations hereunder can be adequately determined without the  
 63 computation of partnership taxable income.

64 **ARTICLE X.**

65 **CLAIMS AND LAWSUITS**

66 Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure  
 67 does not exceed Twenty-five thousand Dollars (\$25,000.00) and if the payment is in complete settlement  
 68 of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over  
 69 the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling,  
 70 or otherwise discharging such claim or suit shall be the joint expense of the parties participating in the operation from which the  
 71 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  
 72 hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall  
 73 immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI  
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The term "force majeure," as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, 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.

ARTICLE XII  
NOTICES

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

ARTICLE XIII  
TERM OF AGREEMENT

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

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

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

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

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

ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or

ARTICLE XVI  
OTHER PROVISIONS

- A. No Party shall distribute any information or photographs to the press or other media without the approval of all the Consenting Parties except as required by law or regulation. When all Consenting Parties have reviewed such material, and all Consenting Parties have approved the issuance of the material, the company designated as Operator shall have the principal responsibility for its issuance. The only other exception to the foregoing shall be in the event of an emergency involving extensive property damage, operations failure, loss of human life or other clear emergency, the party designated Operator if authorized to furnish such minimum strictly factual information as shall be necessary to satisfy the legitimate public interest on the part of the press and duly constituted authorities if time does not permit the obtaining of prior approval by the other party or parties; such party shall thereupon promptly advise the other party or parties of the information so furnished.
- B. Each party electing to take in kind or separately dispose of its proportionate share of production from the Contract Area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production.
- C. If the Operator is not successful with its first completion attempt and any Party hereto recommends a completion attempt in another zone, or if less than all parties elect to attempt a completion attempt in another zone, then the previous Non-Consenting Parties shall be entitled to notice and option to participate regardless of their election on a previous completion attempt, however, to have such options such Parties must have participated in all operations leading up to and including the initial completion attempt. This option is a recurring right.
- D. When any well authorized under the provisions of this Agreement and as to which any of the Non-Operators are participants shall have been drilled to objective depth, in the event there is a conflict among the participating parties as to which course of action to pursue, preference shall be given to (1) additional logging, coring, fracturing, testing and evaluating; (2) completing at objective depth before completing at a shallower depth; (3) completing at a shallower depth before deepening; (4) deepening before sidetracking; and (5) sidetracking before plugging and abandonment. A deeper completion shall take precedent over a shallower completion. As used herein, "objective depth" shall mean the deepest formation in the total depth drilled. If more than one productive zone is indicated, which cannot be commingled, priority shall be given to attempting completion in the deepest zone. All decisions shall be controlled by a majority vote of after casing point percentage interests.

ACKNOWLEDGMENTS

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

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

Individual acknowledgment:

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

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

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

This instrument was acknowledged before me on

\_\_\_\_\_ by \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_

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

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

Acknowledgment in representative capacity:

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

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

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

This instrument was acknowledged before me on

\_\_\_\_\_ by \_\_\_\_\_ as

\_\_\_\_\_ of \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_

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

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

## EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated November 1, 2011, between Mack Energy Corporation, as Operator, and Chase Oil Corporation, et al, as Non-Operators.

1. Identification of lands subject to this Agreement:

Section 32, Township 17 South, Range 33 East, Lea County, NM

SE/4 NW/4 – Surface to the base of the Abo formation.

SW/4 NE/4, NE/4 SW/4 – Surface to the base of the San Andres formation.

NW/4 NE/4 – Surface to the base of the Abo formation less the depths from the top of the Grayburg formation to 100 ft. below the top of the San Andres formation.

2. Percentages or fractional interests of the parties to this Agreement:

Mack Energy Corporation, Operator	0%
Chase Oil Corporation	78.75%
Robert C. Chase	5.0%
Ventana Minerals LLC	5.0%
DiaKan Minerals LLC	5.0%
Tom M. Ragsdale	6.25%

3. Oil and Gas Leases subject to this Agreement:

State of New Mexico Oil and Gas Lease E-398-9, dated June 11, 1945 from the State of New Mexico, as Lessor, to Barney Cockburn, as Lessee, insofar as it covers the SE/4 NW/4 of Section 32, T17S, R33E, Lea County, New Mexico.

State of New Mexico Oil and Gas Lease B-5310-20, dated November 12, 1935 from the State of New Mexico, as Lessor, to Roy G. Barton, as Lessee, insofar as it covers the W/2 NE/4, NE/4 SW/4 of Section 32, T17S, R33E, Lea County, New Mexico.

5. Addresses of the parties for notice purposes:

Mack Energy Corporation  
P.O. Box 960  
Artesia, NM 88211

Robert C. Chase  
P.O. Box 297  
Artesia, NM 88211

DiaKan Minerals LLC  
P.O. Box 693  
Artesia, NM 88211

Chase Oil Corporation  
P.O. Box 1767  
Artesia, NM 88211

Ventana Minerals LLC  
P.O. Box 359  
Artesia, NM 88211

Tom M. Ragsdale  
P.O. Box 10303  
Midland, TX 79702

**EXHIBIT "B"**

**THERE IS NO EXHIBIT B TO THIS AGREEMENT.**

EXHIBIT "C"

1 Attached to and made a part of that certain Operating Agreement dated November 1, 2011, by and between Mack  
2 Energy Corporation, as Operator, and Chase Oil Corporation, et al. as Non-Operators.  
3  
4

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

10  
11 **I. GENERAL PROVISIONS**

12  
13  
14 **1. Definitions**

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

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

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

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

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

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

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

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

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

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

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

32  
33  
34 **2. Statement and Billings**

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

39  
40  
41 **3. Advances and Payments by Non-Operators**

42  
43 A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated  
44 cash outlay for the succeeding month's operation within <sup>thirty (30)</sup> ~~thirty (45)~~ days after receipt of the billing or by the first day of the month  
45 for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from  
46 the Non-Operators.

47  
48 B. Each Non-Operator shall pay its proportion of all bills within <sup>thirty (30)</sup> ~~thirty (45)~~ days after receipt. If payment is not made within such time,  
49 the unpaid balance shall bear interest monthly at the prime rate <sup>as published in</sup> ~~in effect at~~ The Wallstreet Journal on the first day of the month  
50 in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which  
51 the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the  
52 collection of unpaid amounts.

53  
54 **4. Adjustments**

55 Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof, provided,  
56 however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to  
57 be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24)  
58 month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable  
59 to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent  
60 adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.  
61  
62  
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1 5. Audits

2  
3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts  
4 and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of  
5 such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and  
6 the adjustments of accounts as provided for in Paragraph 4 of this Section, I. Where there are two or more Non-Operators, the  
7 Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of  
8 inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph  
9 unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of  
10 Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators  
11 approving such audit.

12  
13 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

14  
15 6. Approval By Non-Operators

16  
17 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this  
18 Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard  
19 thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the  
20 Non-Operators shall be controlling on all Non-Operators.

21  
22  
23 **II. DIRECT CHARGES**

24  
25 Operator shall charge the Joint Account with the following items:

26  
27 1. Ecological and Environmental

28  
29 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy  
30 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological  
31 nature and pollution control procedures as required by applicable laws and regulations.

32  
33 2. Rentals and Royalties

34  
35 Lease rentals and royalties paid by Operator for the Joint Operations.

36  
37 3. Labor

- 38  
39 A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.  
40  
41 (2) Salaries of First level Supervisors in the field.  
42  
43 (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from  
44 the overhead rates.  
45  
46 (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the  
47 operation or the Joint Property if such charges are excluded from the overhead rates.  
48  
49 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose  
50 salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B  
51 may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to  
52 the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's  
53 cost experience.  
54  
55 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to  
56 Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.  
57  
58 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A of  
59 this Section II.

60  
61 4. Employee Benefits

62  
63 Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase,  
64 thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs  
65 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of  
66 Petroleum Accountants Societies.  
67  
68  
69  
70

- 1 5. Material  
2  
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall  
4 be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent  
5 with efficient and economical operations. The accumulation of surplus stocks shall be avoided.  
6
- 7 6. Transportation  
8  
9 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:  
10  
11 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the  
12 Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available  
13 or railway receiving point nearest the Joint Property unless agreed to by the Parties.  
14  
15 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a  
16 distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway  
17 receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for  
18 moving Material to other properties belonging to Operator, unless agreed to by the Parties.  
19  
20 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the  
21 actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by  
22 the Council of Petroleum Accountants Societies.  
23
- 24 7. Services  
25  
26 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II  
27 and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel  
28 directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services  
29 or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account  
30 unless previously agreed to by the Parties.  
31
- 32 8. Equipment and Facilities Furnished By Operator  
33  
34 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs  
35 of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes,  
36 depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12 %) ~~10%~~  
37 per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.  
38  
39 B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of  
40 the Joint Property ~~10-20%~~. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor  
41 Transport Association.  
42
- 43 9. Damages and Losses to Joint Property  
44  
45 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by  
46 fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct.  
47 Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has  
48 been received by Operator.  
49
- 50 10. Legal Expense  
51  
52 Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid  
53 for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint  
54 Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless  
55 previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III  
56 unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.  
57
- 58 11. Taxes  
59  
60 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the  
61 production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based  
62 in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein,  
63 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  
64 working interest.  
65  
66  
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- 1 12. Insurance  
2  
3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint  
4 Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability  
5 under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event,  
6 Operator shall include a charge at Operator's cost not to exceed manual rates.  
7  
8 13. Abandonment and Reclamation  
9  
10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.  
11  
12 14. Communications  
13  
14 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave  
15 facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator  
16 owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.  
17  
18 15. Other Expenditures  
19  
20 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct  
21 benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.  
22  
23

24 III. OVERHEAD  
25

- 26 I. Overhead - Drilling and Producing Operations  
27  
28 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and  
29 producing operations on either:  
30  
31 ( X ) Fixed Rate Basis, Paragraph IA, or  
32 ( ) Percentage Basis, Paragraph IB  
33  
34 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages  
35 plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost  
36 and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or  
37 involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph  
38 of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.  
39  
40 ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and  
41 contract services of technical personnel directly employed on the Joint Property:  
42  
43 ( ) shall be covered by the overhead rates, or  
44 ( X ) shall not be covered by the overhead rates.  
45  
46 iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and  
47 contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of  
48 the Joint Property:  
49  
50 ( ) shall be covered by the overhead rates, or  
51 ( X ) shall not be covered by the overhead rates.  
52  
53 A. Overhead - Fixed Rate Basis  
54  
55 (1). Operator shall charge the Joint Account at the following rates per well per month:  
56  
57 Drilling Well Rate \$ 6,500.00  
58 (Prorated for less than a full month)  
59  
60 Producing Well Rate \$ 650.00  
61  
62 (2) Application of Overhead - Fixed Rate Basis shall be as follows:  
63  
64 (a) Drilling Well Rate  
65  
66 (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling  
67 rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no  
68  
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70

- 1 charge shall be made during suspension of drilling or completion operations for fifteen (15) or more  
2 consecutive calendar days.  
3  
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days  
5 or more shall be made at the drilling well rate. Such charges shall be applied for the period from date  
6 workover operations, with rig or other units used in workover, commences through date of rig or other unit  
7 release, except that no charge shall be made during suspension of operations for fifteen (15) or more  
8 consecutive calendar days.  
9  
10 (b) Producing Well Rates  
11  
12 (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well  
13 charge for the entire month.  
14  
15 (2) Each active completion in a multi-completed well in which production is not commingled down hole shall  
16 be considered as a one-well charge providing each completion is considered a separate well by the  
17 governing regulatory authority.  
18  
19 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall  
20 be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.  
21  
22 (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on  
23 any well. This one-well charge shall be made whether or not the well has produced except when drilling well  
24 rate applies.  
25  
26 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease  
27 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.  
28  
29 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which  
30 this Accounting Procedure is attached by the percent increase or decrease published by COPAS.  
31

32 **B. Overhead - Percentage Basis**

33  
34 (1) Operator shall charge the Joint Account at the following rates:

35 (a) Development

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

38 (b) Operating

39 \_\_\_\_\_ Percent (\_\_\_\_%) of the cost of operating the Joint Property exclusive of costs provided  
40 under Paragraphs 3 and 10 of Section II, all salvage credits, the value of injected substances purchased for  
41 secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in  
42 and to the Joint Property.  
43

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

45 For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall  
46 include all costs in connection with drilling, re-drilling, deepening, or any remedial operations on any or all wells involving  
47 the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property, also, preliminary  
48 expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed  
49 as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other  
50 project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All  
51 other costs shall be considered as operating.  
52

53 **2. Overhead - Major Construction**

54 To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and  
55 any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall  
56 either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates  
57 for any Major Construction project in excess of \$ 25,000.00 \_\_\_\_\_:

- 58 A. 5 % of first \$100,000 or total cost if less, plus  
59  
60 B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus  
61  
62 C. 2 % of costs in excess of \$1,000,000.  
63  
64  
65  
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1 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall  
2 not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3  
4 **3. Catastrophe Overhead**

5  
6 To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill,  
7 blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint  
8 Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate  
9 prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- 10  
11 A. 5 % of total costs through \$100,000; plus  
12  
13 B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus  
14  
15 C. 2 % of total costs in excess of \$1,000,000.

16  
17 Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this  
18 Section III shall apply.

19  
20 **4. Amendment of Rates**

21  
22 The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto  
23 if, in practice, the rates are found to be insufficient or excessive.

24  
25  
26 **IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS**

27  
28 Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the  
29 Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied  
30 by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to  
31 Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest  
32 of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed  
33 to by the Parties.

34  
35 **1. Purchases**

36  
37 Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found  
38 to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received  
39 by the Operator.

40  
41 **2. Transfers and Dispositions**

42  
43 Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless  
44 otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

45  
46 **A. New Material (Condition A)**

47  
48 **(1) Tubular Goods Other than Line Pipe**

- 49  
50 (a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload  
51 base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis  
52 to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the  
53 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges  
54 for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.  
55  
56 (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation  
57 cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a).  
58 For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate  
59 truck rate shall be used.  
60  
61 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas,  
62 plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving  
63 point nearest the Joint Property.  
64  
65 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the  
66 supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of  
67 tubing transferred, to the railway receiving point nearest the Joint Property.  
68  
69  
70

- 1 (2) Line Pipe  
2  
3 (a) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{1}{4}$  inch and over) 30,000 pounds or more  
4 shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges  
5 shall be calculated from Lorain, Ohio.  
6  
7 (b) Line Pipe movements (except size 24 inch OD and larger with walls  $\frac{1}{4}$  inch and over) less than 30,000 pounds  
8 shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus the percent most  
9 recently recommended by COPAS, plus transportation costs based on freight rates as set forth under provisions of  
10 tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.  
11  
12 (c) Line pipe 24 inch OD and over and  $\frac{1}{4}$  inch wall and larger shall be priced f.o.b. the point of manufacture at current  
13 new published prices plus transportation cost to the railway receiving point nearest the Joint Property.  
14  
15 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at  
16 quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.  
17  
18 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store  
19 nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point  
20 nearest the Joint Property.  
21  
22 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect  
23 on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus  
24 transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be  
25 priced as provided above in Paragraph 2.A.(1) and (2).  
26  
27 B. Good Used Material (Condition B)  
28  
29 Material in sound and serviceable condition and suitable for reuse without reconditioning:  
30  
31 (1) Material moved to the Joint Property  
32  
33 At seventy-five percent (75%) of current new price, as determined by Paragraph A.  
34  
35 (2) Material used on and moved from the Joint Property  
36  
37 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally  
38 charged to the Joint Account as new Material or  
39  
40 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged  
41 to the Joint Account as used Material  
42  
43 (3) Material not used on and moved from the Joint Property  
44  
45 At seventy-five percent (75%) of current new price as determined by Paragraph A.  
46  
47 The cost of reconditioning, if any, shall be absorbed by the transferring property.  
48  
49 C. Other Used Material  
50  
51 (1) Condition C  
52  
53 Material which is not in sound and serviceable condition and not suitable for its original function until after  
54 reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost  
55 of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning  
56 does not exceed Condition B value.  
57  
58 (2) Condition D  
59  
60 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced  
61 on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally  
62 used by Operator without prior approval of Non-Operators.  
63  
64 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable  
65 size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.  
66  
67 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall  
68 be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced  
69 on a non upset basis.  
70

- 1 (3) Condition E  
2  
3 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally  
4 utilized by Operator without prior approval of Non-Operators.  
5  
6 D. Obsolete Material  
7  
8 Material which is serviceable and usable for its original function but condition and/or value of such Material is not  
9 equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such  
10 price should result in the Joint Account being charged with the value of the service rendered by such Material.  
11  
12 E. Pricing Conditions  
13  
14 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred  
15 weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point.  
16 The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same  
17 percentage increase or decrease used to adjust overhead rates in Section III, Paragraph I.A.(3). Each year, the  
18 rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year.  
19 Such rate shall be published each year by the Council of Petroleum Accountants Societies.  
20  
21 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of  
22 new Material.  
23  
24 3. Premium Prices  
25  
26 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual  
27 causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's  
28 actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property, provided  
29 notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each  
30 Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish  
31 in kind all or part of his share of such Material suitable for use and acceptable to Operator.  
32  
33 4. Warranty of Material Furnished By Operator  
34  
35 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account  
36 until adjustment has been received by Operator from the manufacturers or their agents.  
37  
38  
39 V. INVENTORIES  
40  
41 The Operator shall maintain detailed records of Controllable Material.  
42  
43 1. Periodic Inventories, Notice and Representation  
44  
45 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to  
46 take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be  
47 represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept  
48 the inventory taken by Operator.  
49  
50 2. Reconciliation and Adjustment of Inventories  
51  
52 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following  
53 the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but  
54 Operator shall be held accountable only for shortages due to lack of reasonable diligence.  
55  
56 3. Special Inventories  
57  
58 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be  
59 the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both  
60 the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed  
61 by such inventory.  
62  
63 4. Expense of Conducting Inventories  
64  
65 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.  
66  
67 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories  
68 required due to change of Operator shall be charged to the Joint Account.  
69  
70

## EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated November 1, 2011, by and between Mack Energy Corporation, as Operator, and Chase Oil Corporation, et al, as Non-Operators.

### INSURANCE PROVISIONS

1. At all times during the conduct of operations hereunder, Mack Energy Corporation (Operator) shall maintain in force the following minimum limits of insurance at the expense of, and for the benefit of the joint account.
  - A. Workers' Compensation Insurance in accordance with the laws of the states in which operations are conducted under this Agreement, and Employers' Liability Insurance with a limit of \$1,000,000.00 each accident, \$1,000,000.00, each employee (disease) and \$1,000,000.00 each policy limit (disease)
  - B. General Liability Insurance with a limit of \$1,000,000.00 per occurrence, \$2,000,000.00 aggregate.
  - C. Automobile Liability Insurance covering owned, non-owned, and hired automobiles with a combined single limit of \$1,000,000.00.
2. No other insurance shall be carried by Operator for the benefit of the joint account.
3. Any party may at its own expense acquire such other insurance as it deems necessary to protect itself against any claims, losses, damages or destruction arising out of operations of the joint property. In lieu of obtaining an insurance policy, a party may elect to self-insure.
4. In the event of a loss not covered by the insurance provided for in Number 1 above, such loss shall be charged to the joint account and be borne by the parties in proportion to their respective interest in the joint property.
5. Operator shall require all contractors and sub-contractors working or performing services hereunder to carry workers' compensation, employers' liability, auto liability and general liability insurance, as Operator deems necessary.

1 **NOTE:** Instructions For Use of Gas Balancing  
2 Agreement **MUST** be reviewed before finalizing  
3 this document.  
4  
5  
6

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

10 OPERATING AGREEMENT DATED November 1, 2011  
11 BY AND BETWEEN Mack Energy Corporation, as Operator  
12 AND Chase Oil Corporation, et al, as Non-Operators ("OPERATING AGREEMENT")  
13 RELATING TO THE \_\_\_\_\_ AREA,  
14 \_\_\_\_\_  
15 \_\_\_\_\_  
16 \_\_\_\_\_  
17 \_\_\_\_\_  
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29 \_\_\_\_\_  
30 \_\_\_\_\_

31 1. DEFINITIONS

32 The following definitions shall apply to this Agreement:  
33 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales  
34 agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are  
35 representative of prices and delivery conditions existing under other similar agreements in the area between  
36 unaffiliated parties at the same time for natural gas of comparable quality and quantity.  
37 1.02 "Balancing Area" shall mean (select one):  
38  each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a  
39 single well is completed in two or more producing intervals, each producing interval from which the Gas  
40 production is not commingled in the wellbore shall be considered a separate well.  
41  all of the acreage and depth subject to the Operating Agreement.  
42 \_\_\_\_\_  
43 \_\_\_\_\_  
44 \_\_\_\_\_  
45 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced  
46 from the Balancing Area during each month.  
47 1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified  
48 as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made  
49 available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by  
50 field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel,  
51 recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.  
52 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full  
53 Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.  
54 1.06 "McF" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic  
55 foot of space at a standard pressure base and at a standard temperature base.  
56 1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat  
57 required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a  
58 constant pressure of 14.73 pounds per square inch absolute.  
59 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the  
60 event this Agreement is not employed in connection with an operating agreement, the individual or entity  
61 designated as the operator of the well(s) located in the Balancing Area.  
62 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than  
63 the Percentage interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.  
64 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in  
65 the cumulative quantity of all Gas produced from the Balancing Area.  
66 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors,  
67 transferees and assigns.  
68 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the  
69 Balancing Area pursuant to the Operating Agreement covering the Balancing Area.  
70 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding  
71 royalties, production payments or similar interests.  
72 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than  
73 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.  
74 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its  
75 Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.  
76 1.16  ~~(Optional) "Winter Period" shall mean the month(s) of \_\_\_\_\_ in one~~  
77 ~~calendar year and the month(s) of \_\_\_\_\_ in the succeeding calendar year.~~

78 2. BALANCING AREA

79 2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered  
80 by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area  
81 measured in (Alternative 1)  Mcfs or (Alternative 2)  MMBtus.  
82 2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more  
83 maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area  
84 and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

85 3. RIGHT OF PARTIES TO TAKE GAS

86 3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes  
87 nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating  
88 to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other

1 requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the  
2 transporting pipeline in accordance with the terms of this Agreement.

3 3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the  
4 extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to  
5 preserve correlative rights, or to maintain oil production.

6 3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the  
7 right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any  
8 Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced  
9 Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all  
10 Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not  
11 taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the  
12 Balancing Area bear to the total Percentage Interests of such Parties.

13 3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is  
14 underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking  
15 Party.

16 3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any  
17 Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum  
18 Monthly Availability; provided, however, that this limitation shall not apply to the extent that it would preclude production  
19 that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative  
20 rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of  
21 production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum  
22 efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency,  
23 mode of operation, production facility capabilities and pipeline pressures.

24 3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be  
25 produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or  
26 to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails  
27 to take for the account of such Party and tender to such Party, on a current basis, the full proceeds of the sale, less any  
28 reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of  
29 such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain  
30 such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its  
31 markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent  
32 with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one  
33 year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall  
34 be deemed to be Gas taken for the account of such Party.

#### 35 4. IN-KIND BALANCING

36 4.1 Effective the first day of any calendar month following at least thirty (30) days' prior  
37 written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current  
38 Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined  
39 by multiplying twenty-five percent (25 %) of the Full Shares of Current Production of all Overproduced Parties by  
40 a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which  
41 is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an  
42 Overproduced Party be required to provide more than twenty-five percent (25 %) of its Full Share of Current  
43 Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced  
44 Party to begin taking Makeup Gas.

45 ~~4.2  (Optional Seasonal Limitation on Makeup Option 1) Notwithstanding the provisions of Section 4.1, the~~  
46 ~~average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1~~  
47 ~~shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the~~  
48 ~~( ) months immediately preceding the Winter Period.~~

49 ~~4.2  (Optional Seasonal Limitation on Makeup Option 2) Notwithstanding the provisions of Section 4.1, no~~  
50 ~~Overproduced Party will be required to provide more than \_\_\_\_\_ percent ( \_\_\_\_\_ %) of its Full Share~~  
51 ~~of Current Production for Makeup Gas during the Winter Period.~~

52 4.3  (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or  
53 (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced  
54 Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may  
55 be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to  
56 one hundred percent (100 %) of such Overproduced Party's Full Share of Current Production.

#### 57 5. STATEMENT OF GAS BALANCES

58 5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each  
59 Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within ~~forty-two (42)~~ <sup>thirty (30)</sup> days  
60 after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of  
61 Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between  
62 the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or  
63 Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum  
64 Accountants Societies Bulletin No.24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to  
65 the Operator any data required by the Operator for preparation of the statements required hereunder.

66 5.2 If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or  
67 where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation  
68 volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and  
69 during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit  
70 will be charged to the account of the Party failing to provide the required data.

#### 71 6. PAYMENTS ON PRODUCTION

72 6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas  
73 actually taken by such Party.

74 ~~6.2  (Alternative 1 Entitlements) Each Party shall pay or cause to be paid all Royalty due with respect to Royalty~~

1 owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of  
2 Current Production.

3 ~~6.2.1 E (Optional - For use only with Section 6.2 Alternative 1 - Entitlement) Upon written request of a Party~~  
4 ~~taking less than its Full Share of Current Production in a given month ("Current Underproducer"), any Party taking more than~~  
5 ~~its Full Share of Current Production in such month ("Current Overproducer") will pay to such Current Underproducer an~~  
6 ~~amount each month equal to the Royalty percentage of the proceeds received by the Current Overproducer for that portion of~~  
7 ~~the Current Underproducer's Full Share of Current Production taken by the Current Overproducer, provided, however, that~~  
8 ~~such payment will not exceed the Royalty percentage that is common to all Royalty burdens in the Balancing Area. Payments~~  
9 ~~made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners for purposes of~~  
10 ~~Section 7.5.~~

11 6.2  (Alternative 2 - Sales) Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to  
12 whom it is accountable based on the volume of Gas actually taken for its account.

13 6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that  
14 provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date  
15 required by such governmental authority, and the method provided for herein shall be thereby superseded.

16 7. CASH SETTLEMENTS

17 7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination  
18 of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken  
19 from the Balancing Area for a period of ~~twelve (12)~~ <sup>thirty-six (36)</sup> consecutive months, any Party may give written notice calling for cash  
20 settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

21 7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each  
22 Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each  
23 Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology  
24 set out in Section 7.4.

25 7.3  (Alternative 1 - Direct Party-to-Party Settlement) Within sixty (60) days after receipt of the Final Gas Settlement  
26 Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash  
27 settlement, accompanied by appropriate accounting detail. At the time of payment, the Overproduced Party will notify the  
28 Operator of the Gas imbalance settled by the Overproduced Party's payment.

29 ~~7.3 B (Alternative 2 - Settlement Through Operator) Within sixty (60) days after receipt of the Final Gas Settlement~~  
30 ~~Statement, each Overproduced Party will send its cash settlement, accompanied by appropriate accounting detail, to the~~  
31 ~~Operator. The Operator will distribute the monies so received, along with any settlement owed by the Operator as an~~  
32 ~~Overproduced Party, to each Underproduced Party to whom settlement is due within ninety (90) days after issuance of the~~  
33 ~~Final Gas Settlement Statement. In the event that any Overproduced Party fails to pay any settlement due hereunder, the~~  
34 ~~Operator may turn over responsibility for the collection of such settlement to the Party to whom it is owed, and the Operator~~  
35 ~~will have no further responsibility with regard to such settlement.~~

36 ~~7.3.1 E (Optional - For use only with Section 7.3, Alternative 2 - Settlement Through Operator) Any Party shall have~~  
37 ~~the right at any time upon thirty (30) days' prior written notice to all other Parties to demand that any settlements due such~~  
38 ~~Party for Overproduction be paid directly to such Party by the Overproduced Party, rather than being paid through the~~  
39 ~~Operator. In the event that an Overproduced Party pays the Operator any sums due to an Underproduced Party at any time~~  
40 ~~after thirty (30) days following the receipt of the notice provided for herein, the Overproduced Party will continue to be liable~~  
41 ~~to such Underproduced Party for any sums so paid, until payment is actually received by the Underproduced Party.~~

42 7.4  (Alternative 1 - Historical Sales Basis) The amount of the cash settlement will be based on the proceeds  
43 received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the  
44 Overproduced Party in excess of the Overproduced Party's Full Share of Current Production. Any Makeup Gas taken by the  
45 Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the  
46 order of accrual.

47 7.4  (Alternative 2 - Most Recent Sales Basis) The amount of the cash settlement will be based on the proceeds  
48 received by the Overproduced Party under an Arm's Length Agreement for the volume of Gas that constituted Overproduction  
49 by the Overproduced Party from the Balancing Area. For the purpose of implementing the cash settlement provision of the  
50 Section 7, an Overproduced Party will not be considered to have produced any of an Underproduced Party's share of Gas until  
51 the Overproduced Party has produced cumulatively all of its Percentage Interest share of the Gas ultimately produced from the  
52 Balancing Area.

53 7.5 The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the  
54 Gas by the Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any  
55 Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments  
56 amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression,  
57 treating, gathering or transportation costs incurred directly in connection with the sale of the Overproduction.

58 7.5.1  (Optional - For Valuation Under Percentage of Proceeds Contracts) For Overproduction sold under a gas  
59 purchase contract providing for payment based on a percentage of the proceeds obtained by the purchaser upon resale of  
60 residue gas and liquid hydrocarbons extracted at a gas processing plant, the values used for calculating cash settlement will  
61 include proceeds received by the Overproduced Party for both the liquid hydrocarbons and the residue gas attributable to the  
62 Overproduction.

63 ~~7.5.2 E (Optional - Valuation for Processed Gas - Option 1) For Overproduction processed for the account of the~~  
64 ~~Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the full quantity of the Overproduction~~  
65 ~~will be valued for purposes of cash settlement at the prices received by the Overproduced Party for the sale of the residue gas~~  
66 ~~attributable to the Overproduction without regard to proceeds attributable to liquid hydrocarbons which may have been~~  
67 ~~extracted from the Overproduction.~~

68 7.5.2  (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the  
69 Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash  
70 settlement will include the proceeds received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from  
71 the Overproduction, less the actual reasonable costs incurred by the Overproduced Party to process the Overproduction and to  
72 transport, fractionate and handle the liquid hydrocarbons extracted therefrom prior to sale.

73 7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash  
74 settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the

1 Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event  
2 that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be  
3 based on the spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing  
4 bulletin.

5 7.7 Interest compounded at the rate of twelve percent (12 %) per annum or the maximum lawful  
6 rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1 beginning  
7 the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any  
8 Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3  
9 contributed to the accrual of the interest.

10 7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party  
11 an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the  
12 Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be  
13 furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by  
14 agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an  
15 in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties  
16 fail to reach agreement on an in-kind settlement.

17 7.9  (Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an  
18 Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or  
19 other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such  
20 governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced  
21 Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental  
22 authority.

23 ~~7.10  (Optional - Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party~~  
24 ~~may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas~~  
25 ~~imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative~~  
26 ~~imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once~~  
27 ~~every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash~~  
28 ~~settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30)~~  
29 ~~days after the settlement is made.~~

#### 30 8. TESTING

31 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to  
32 produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s)  
33 required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to  
34 conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only  
35 after thirty (30) days' prior written notice to the Operator and shall last no longer than  
36 seventy-two (72) hours.

#### 37 9. OPERATING COSTS

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

#### 42 10. LIQUIDS

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

#### 45 11. AUDIT RIGHTS

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

#### 58 12. MISCELLANEOUS

59 12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of  
60 any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the  
61 Operating Agreement, the provisions of this Agreement shall govern.

62 12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for  
63 any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such  
64 indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under  
65 the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages  
66 sustained and costs incurred in connection therewith.

67 12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this  
68 Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in  
69 connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or  
70 willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party, (other  
71 than Operator) to pay any amounts owed pursuant to the terms hereof.

72 12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and  
73 effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to  
74 the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives

1 and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of  
 2 any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of  
 3 any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

4 12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the  
 5 singular, and the neuter gender includes the masculine and the feminine.

6 12.6 In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a  
 7 typed, printed or handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be  
 8 made concerning the intent of the Parties in such event. In the event that any "Alternative" provision of this Agreement is not  
 9 so adopted by the Parties, Alternative 1 in each such instance shall be deemed to have been adopted by the Parties as a result  
 10 of any such omission. In those cases where it is indicated that an Optional provision may be used only if a specific Alternative  
 11 is selected: (i) an election to include said Optional provision shall not be effective unless the Alternative in question is selected;  
 12 and (ii) the election to include said Optional provision must be expressly indicated hereon, it being understood that the  
 13 selection of an Alternative either expressly or by default as provided herein shall not, in and of itself, constitute an election to  
 14 include an associated Optional provision.

15 12.7 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed  
 16 or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any  
 17 such person or entity.

18 12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party  
 19 execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and  
 20 submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such  
 21 request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request  
 22 shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the  
 23 Balancing Area.

24 12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all  
 25 Parties, each Party agrees to compute and report income to the Internal Revenue Service (select one)  as if such Party were  
 26 taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same  
 27 relate to entitlement method tax computations; or  based on the quantity of Gas taken for its account in accordance with  
 28 such regulations, insofar as same relate to sales method tax computations.

#### 29 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

30 13.1 Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement  
 31 or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its  
 32 working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other  
 33 act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the  
 34 Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any  
 35 monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall  
 36 thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other  
 37 transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall  
 38 cause its assignee or other transferee to assume its obligations hereunder.

39 13.2  (Optional - Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement (including but not  
 40 limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions  
 41 of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its  
 42 interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are  
 43 Parties hereto in such Balancing Area of such fact at least thirty ( 30 ) days prior to closing the  
 44 transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within  
 45 fifteen ( 15 ) days after receipt of the Overproduced Party's notice, a cash settlement of its  
 46 Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement  
 47 pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash  
 48 settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60)  
 49 days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced  
 50 Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in  
 51 Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days  
 52 after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not  
 53 paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the  
 54 Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the  
 55 Overproduced Party giving notice hereunder, for the satisfaction of such Underproduced Party's Underproduction in accordance  
 56 with the provisions of Section 13.1 hereof.

57 13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its  
 58 interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to  
 59 any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

#### 60 14. OTHER PROVISIONS

61 Section 4.1: The election of an underproduced party to commence taking makeup gas under the provisions of this paragraph shall remain in effect  
 62 until such underproduced party gives Operator thirty (30) days notice of its election to cease taking makeup gas, or until such party's  
 63 Underproduction is eliminated, whichever occurs first. In the event an underproduced party provides notice to Operator of its intent to cease  
 64 taking makeup gas, such underproduced party shall not thereafter be allowed to request makeup gas again until one (1) year from the last day of  
 65 the month in which they last took makeup gas. This section does not apply to permanent overproduction situations. Please see Section 4.3  
 66 Regarding situations where an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area.

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EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated November 1, 2011, by and between Mack Energy Corporation, as Operator, and Chase Oil Corporation, et al, as Non-Operators.

**EQUAL EMPLOYMENT OPPORTUNITY**

During the performance of the contract described above, Contractor agrees to the following additional terms and conditions to the extent they may be applicable to the work to be performed under such contract in accordance with the provisions of the following described Executive Orders, Acts and implementing rules and regulations issued thereunder.

**A. E.O. 11246, as amended by E.O. 11375 (Race, Color, Religion, Sex and National Origin)**

1. If the contract is in excess of \$10,000, the Contractor agrees to comply with the provisions of Section 202 of such Order (the "Equal Opportunity Clause") which clause is incorporated herein by reference pursuant to the regulations promulgated under such Order (41 C.F.R. Sec. 60-1.4(d)).

2. If the contract is in excess of \$10,000 the Contractor certifies that it does not maintain or provide, nor will it maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit nor will it permit its employees to perform their services at any location, under its control, where segregated facilities are maintained.\* Contractor agrees that a breach of this certification is a violation of the Equal Opportunity Clause of Executive Order 11246. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontractors exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files; and that it will forward the prescribed notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods).\*\*

\* As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color or national origin because of habit, local custom or otherwise.

\*\* The form of prescribed notice is as follows: NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certificate of Nonsegregated Facilities, as required by the May 9, 1967 order on Elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually or annually). Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.

3. If the contract is in excess of \$50,000 and the Contractor has more than 50 employees, the Contractor agrees (1) to file annually, on or before March 31 of each year, (or within 30 days after the award of such contract if not filed within 12 months preceding the date of the award), complete and accurate reports on Standard Form 100 (EEO-1) with the appropriate governmental agency, in accordance with the regulations issued by the Secretary of Labor (41 C.F.R. Sec. 60-1.7), and (b) to develop a written affirmative action compliance program for each of its establishments in accordance with the regulations issued by the Secretary of Labor (41 C.F.R. Sec. 60-1.40).

**B. E.O. 11701 (Section 402-Veterans Readjustment Act of 1974)**

If the contract is in excess of \$10,000, the Contractor agrees to comply with the affirmative action clause and regulations promulgated under such Order (41 C.F.R. Part 60-250) which clause is incorporated herein by reference pursuant to Section 60-250.22 of such regulations.

**C. E.O. 11758 (Section 503-Rehabilitation Act of 1973)**

If the contract is in excess of \$2,500, the Contractor agrees to comply with the affirmative action clause and the regulations promulgated under such Order (41 C.F.R. Part 60-741), which clause is incorporated herein by reference pursuant to Section 60-741.22 of such regulations.

**D. E.O. 11625 (Minority Business Enterprises)**

1. If the contract is in excess of \$10,000, the Contractor agrees to use its best efforts to provide minority business enterprises with the maximum practicable opportunity to participate in the performance of such contract to the fullest extent consistent with the efficient performance thereof (41 C.F.R. Sec. 1-1.1310-2(a)).

2. If the contract is in excess of \$500,000, the Contractor agrees to comply with the Minority Business Enterprises Subcontracting Program clause promulgated under such Order (41 C.F.R. Sec. 1-1.1310-2(b)), which clause is incorporated herein by reference.

**E. Section 905-Railroad Revitalization and Regulatory Reform Act of 1976**

1. The contractor agrees to comply with the requirements of Title 49 C.F.R. 265 Subpart B of the regulations promulgated under such Act regarding "Nondiscrimination in Federally assisted Railroad Programs" and the nondiscrimination clauses therein are incorporated herein by reference.

2. If the contract is for \$50,000 or more, the Contractor agrees to comply with and implement the Affirmative Action Program established pursuant to Section 265.11 of 49 C.F.R.

**EXHIBIT "G"**

**THERE IS NO EXHIBIT G TO THIS AGREEMENT.**

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

THIS AGREEMENT, entered into by and between Mack Energy Corporation hereinafter referred to as "Operator", and the signatory party or parties other than Operator, hereinafter referred to individually as "Non-Operator", and collectively as "Non-Operators"

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

WHEREAS, the parties hereto have executed an Operating Agreement dated November 1, 2011 (herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

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

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

1. This agreement supplements the Operating Agreement, which Agreement in its entirety is incorporated herein by reference, and all terms used herein shall have the meaning ascribed to them in the Operating Agreement.

2. The parties do hereby agree that:

A. The Oil and Gas Leases and/or Oil and Gas Interests of the parties comprising the Contract Area shall be subject to and burdened with the terms and provisions of this agreement and the Operating Agreement, and the parties do hereby commit such Leases and Interests to the performance thereof.

B. The exploration and development of the Contract Area for Oil and Gas shall be governed by the terms and provisions of the Operating Agreement, as supplemented by this agreement.

C. All costs and liabilities incurred in operations under this agreement and the Operating Agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties hereto, as provided in the Operating Agreement.

D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on Exhibit "A", all production of Oil and Gas from the Contract Area shall be owned by the parties as provided in the Operating Agreement; provided nothing contained in this agreement shall be deemed an assignment or cross-assignment of interests covered hereby.

E. Each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area as provided in the Operating Agreement.

F. An overriding royalty, production payment, net profits interest or other burden payable out of production hereafter created, assignments of production given as security for the payment of money and those overriding royalties, production payments and other burdens payable out of production heretofore created and defined as Subsequently Created Interests in the Operating Agreement shall be (i) borne solely by the party whose interest is burdened therewith, (ii) subject to suspension if a party is required to assign or relinquish to another party an interest which is subject to such burden, and (iii) subject to the lien and security interest hereinafter provided if the party subject to such burden fails to pay its share of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the times and manner provided by the Operating Agreement.

G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective heirs, devisees, legal representatives, and assigns, and the terms hereof shall be deemed to run with the leases or interests included within the lease Contract Area.

H. The parties shall have the right to acquire an interest in renewal, extension and replacement leases, leases proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.

I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or loss of title, each party's right to propose operations, obligations with respect to participation in operations on the Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial obligations shall be as provided in the Operating Agreement.

J. Each party's interest under this agreement and under the Operating Agreement shall be subject to relinquishment for its failure to participate in subsequent operations and each party's share of production and costs shall be reallocated on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.

K. All other matters with respect to exploration and development of the Contract Area and the ownership and transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of the Operating Agreement.

3. The parties hereby grant reciprocal liens and security interests as follows:

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

1 contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of  
2 the foregoing.

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

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

22 D. If any party fails to pay its share of expense within one hundred-twenty (120) days after rendition of a statement  
23 therefor by Operator the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid  
24 amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid  
25 by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in this  
26 paragraph 3 and in the Operating Agreement, and each paying party may independently pursue any remedy available  
27 under the Operating Agreement or otherwise.

28 E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the  
29 failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this  
30 agreement or the Operating Agreement, to the extent allowed by governing law, the defaulting party waives any  
31 available right of redemption from and after the date of judgment, any required valuation or appraisal of the  
32 mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets  
33 and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each  
34 party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights  
35 granted hereunder or under the Operating Agreement, such power to be exercised in the manner provided by applicable  
36 law or otherwise in a commercially reasonable manner and upon reasonable notice.

37 F. The lien and security interest granted by this paragraph 3 supplements identical rights granted under the  
38 Operating Agreement.

39 G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the  
40 mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment  
41 to Operator of any sum due under this agreement and the Operating Agreement for services performed or materials  
42 supplied by Operator.

43 H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and  
44 this Recording Supplement may be filed in the land records in the County or Parish in which the Contract Area is  
45 located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other  
46 applicable state statutes to perfect the above-described security interest, and any party hereto may file a continuation  
47 statement as necessary under the Uniform Commercial Code, or other state laws.

48 4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of  
49 this agreement and the Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file  
50 of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of  
51 termination as to Operator's interest, upon the request of Operator, if Operator has complied with all of its financial  
52 obligations.

53 5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties  
54 hereto and their respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or  
55 other disposition shall be made by any party of any interest in the Leases or Interests subject hereto except as expressly  
56 permitted under the Operating Agreement and, if permitted, shall be made expressly subject to this agreement and the  
57 Operating Agreement and without prejudice to the rights of the other parties. If the transfer is permitted, the assignee of an  
58 ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the Operating Agreement as to  
59 the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties  
60 shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until  
61 thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing  
62 from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of  
63 obligations previously incurred by such party under this agreement or the Operating Agreement with respect to the interest  
64 transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under  
65 this agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment,  
66 and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden  
67 the interest transferred to secure payment of any such obligations.

68 6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the  
69 Operating Agreement, then, as between the parties, the terms and provisions of the Operating Agreement shall control.

70 7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been  
71 executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of  
72 the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which  
73 own, in fact, an interest in the Contract Area. In the event that any provision herein is illegal or unenforceable, the  
74 remaining provisions shall not be affected, and shall be enforced as if the illegal or unenforceable provision did not appear herein.

8. Other provisions.

IN WITNESS WHEREOF, this agreement shall be effective as of the 1<sup>st</sup> day of November, 2011.

**OPERATOR**

**Mack Energy Corporation**

\_\_\_\_\_  
Travis K. Lanning, Attorney in Fact

**NON-OPERATORS**

**Chase Oil Corporation**

\_\_\_\_\_  
Travis K. Lanning, Attorney in Fact

**Robert C. Chase**

\_\_\_\_\_  
Robert C. Chase

**Ventana Minerals LLC**

\_\_\_\_\_  
  
**Tom M. Ragsdale**  
  
\_\_\_\_\_  
Tom M. Ragsdale

**DiaKan Minerals LLC**

\_\_\_\_\_  
Courtney Lanning, Attorney in Fact

STATE OF NEW MEXICO §  
  §  
COUNTY OF EDDY           §

The foregoing instrument was executed before me this \_\_\_\_ day of December, 2011, by Travis K. Lanning, Attorney in Fact for Mack Energy Corporation, a New Mexico corporation.

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO §  
  §  
COUNTY OF EDDY           §

The foregoing instrument was executed before me this \_\_\_\_ day of December, 2011, by Travis K. Lanning, Attorney in Fact for Chase Oil Corporation, a New Mexico corporation.

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO §  
  §  
COUNTY OF EDDY           §

The foregoing instrument was executed before me this \_\_\_\_ day of December, 2011, by Robert C. Chase.

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO §  
  §  
COUNTY OF EDDY           §

The foregoing instrument was executed before me this \_\_\_\_ day of December, 2011, by Richard L. Chase, Manager for Ventana Minerals LLC, a New Mexico limited liability company.

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO §  
  §  
COUNTY OF EDDY           §

The foregoing instrument was executed before me this \_\_\_\_ day of December, 2011, by Courtney Lanning, Attorney in Fact for DiaKan Minerals LLC, a Texas limited liability company.

\_\_\_\_\_  
Notary Public

STATE OF TEXAS       §  
                              §  
COUNTY OF MIDLAND   §

The foregoing instrument was executed before me this \_\_\_\_ day of December, 2011, by Tom M. Ragsdale.

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public