

**Raye P Miller**

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**From:** Levine, Jason <JLevine@chevron.com>  
**Sent:** Monday, October 28, 2013 2:36 PM  
**To:** rmiller@pvtm.net; jack@allarcompany.com  
**Subject:** Attached - JOA and Exhibits for Well Proposal in Section 17, T24S, R34E, Lea County, NM  
**Attachments:** Chevron JOA Section 17.pdf; Exhibit A to JOA.docx; COPAS Exhibit to JOA.docx; Exhibit E to JOA.docx; Exhibit I to JOA.docx; ArtXVI FINAL.docx; EXHIBIT H. Alternative Dispute Resolution (2011).docx  
**Importance:** High

Gentlemen:

I hope you are doing well.

Please find attached Chevron's proposed JOA and attendant Exhibits for its well proposal in Section 17, T24S, R34E, Lea County, New Mexico.

Attached are:

1. JOA
2. Exhibit "A"
3. Exhibit "C"
4. Exhibit "E"
5. Exhibit "I"
6. Article XVI. Other Provisions.
7. Exhibit "H"

Feel free to call if you have any questions.

Sincerely,  
**Jason A. Levine**  
Land Representative  
[jlevine@chevron.com](mailto:jlevine@chevron.com)

Delaware Basin - New Mexico  
**Chevron North America Exploration and Production Company**  
1400 Smith St.  
Houston, TX 77002  
713-372-5313  
Schedule A

Oil Conservation Division  
Case No. 8715043  
Exhibit No. 8

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

**MODEL FORM OPERATING AGREEMENT**

OPERATING AGREEMENT

DATED

October 28 , 2013 ,  
year

OPERATOR Chevron MidContinent, LP

CONTRACT AREA Section 17, Township 24 South, Range 34 East, NMPM

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COUNTY OR PARISH OF Lea , STATE OF New Mexico

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

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

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Chevron MidContinent LP, 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. ~~In the case of horizontal wells, "Deepen" includes a horizontal extension of such well.~~

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. Exhibit "H," Alternative Dispute resolution.

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

1 | \_\_\_\_\_ HL-Other: Memorandum of Agreement  
2 | \_\_\_\_\_ J. Gas Purchase Contract  
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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. If any provision of Exhibit "E" or Exhibit "J" is  
3 inconsistent with any provision contained in the body of this agreement, the provisions of Exhibit "E" and Exhibit "J" shall prevail.

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4 ARTICLE III.  
5 INTERESTS OF PARTIES

6 A. Oil and Gas Interests:

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

10 B. Interests of Parties in Costs and Production:

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

15 Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other  
16 burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or  
17 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,  
18 ~~the lowest royalty burden~~ and shall indemnify, defend and hold the other parties free from any liability therefor.

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

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

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

33 C. Subsequently Created Interests:

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

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

51 ARTICLE IV.  
52 TITLES

53 A. Title Examination:

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

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

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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 ~~The initial~~ <sup>not</sup> 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 by such party, 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.

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ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

Chevron MidContinent, L.P. 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.

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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

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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.

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31 ~~or provide~~  
32 (b) Operator will send to Non-Operators such reports, test results and notices regarding the progress of operations on the well  
33 and which the Operator generates in its normal course of business  
34 as the Non-Operators shall reasonably request, including, but not limited to, daily drilling reports, completion reports, and well logs.

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

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

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

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

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ARTICLE VI.  
DRILLING AND DEVELOPMENT

51 A. Initial Well:

52 On or before the 15 day of July October, 2014, Operator shall commence the drilling of the Initial  
53 Well at the following location: 62422 Section 17 Township 24S Range 34 East, Lea County, NM  
54

55 and shall thereafter continue the drilling of the well with due diligence to  
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60 the Bone Spring formation.  
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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

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

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

26 **2. Operations by Less Than All Parties:**

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

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

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

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

7 (i) 300 % 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 Recompleting, after deducting any cash contributions received under Article VIII.C.,  
16 and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections),  
17 which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

51 **D. Other Operations:**

52 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \_\_\_\_\_

53 one hundred thousand Dollars (\$100,000) 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 one hundred thousand Dollars

60 (\$100,000). Any party who has not relinquished its interest in a well shall have the right to propose that

61 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as

62 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but

63 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall

64 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the

65 amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under

66 Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such

67 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent

68 of any party or parties owning at least 50% of the interests of the parties entitled to participate in such operation,

69 each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated

70 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms

71 of the proposal.

72 **E. Abandonment of Wells:**

73 **1. Abandonment of Dry Holes:** Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has

74 been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

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

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

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

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

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

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 VI.B.1. and the  
64 provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

65 **G. Taking Production in Kind:**

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

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

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

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 Balancing Agreement:~~

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

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

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

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

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

62 ARTICLE VII.

63 EXPENDITURES AND LIABILITY OF PARTIES

64 A. Liability of Parties:

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

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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

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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."

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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 ~~E. 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.~~

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

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

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

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

equipment and production in the Contract Area.

~~In the event a party sells, encumbers, transfers or otherwise disposes of a portion of its interests in the oil and gas leaseholds or oil and gas interests subject to this agreement in violation of this Article VIII.D, it shall pay liquidated damages of one hundred thousand Dollars (\$100,000.00) to the Operator, who shall credit such sum to the joint account except for the violating party.~~

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

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the Oil and Gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof. ~~If said trustee or agent is not appointed within thirty (30) days after written notice from Operator to said parties, Operator shall have the right to appoint such trustee or agent from such group of parties and such appointment shall be binding upon all of said parties.~~

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

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

**F. Preferential Right to Purchase:**

(Optional; Check if applicable.)

~~Should any party desire to sell <sup>or farmout</sup> all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase price, a legal description sufficient to identify the property, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after the notice is delivered, to purchase for the stated consideration on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to transfer title to its interests to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests, or to dispose of its interests by merger, reorganization, consolidation, or by sale of all or substantially all of its Oil and Gas assets to any party, or by transfer of its interests to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which such party owns a majority of the stock. ~~If any proposed sale subject to this Article VIII.F includes property not subject to this agreement, the property subject to this agreement shall be separately appraised by an independent appraiser and offered to the other parties in accordance with this Article VIII.F.~~~~

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**ARTICLE IX.**

**INTERNAL REVENUE CODE ELECTION**

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

**ARTICLE X.**

**CLAIMS AND LAWSUITS**

~~Operator may settle any single uninsured third party damage claim or suit arising from <sup>or multiple claims or suits if arising from a single occurrence</sup> operations hereunder if the expenditure does not exceed one hundred thousand Dollars (\$100,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be a the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations~~

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1 hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall  
2 *immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.*  
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ARTICLE XI.  
FORCE MAJEURE

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

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

ARTICLE XII.  
NOTICES

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

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ARTICLE XIII.  
TERM OF AGREEMENT

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

- Option No. 1: So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.
- Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of \_\_\_\_\_ days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within \_\_\_\_\_ days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

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

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

ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

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

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

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

13 **A. Execution:**

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

29 **B. Successors and Assigns:**

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

33 **C. Counterparts:**

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

36 **D. Severability:**

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

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

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1 IN WITNESS WHEREOF, this agreement shall be effective as of the \_\_\_\_\_ day of \_\_\_\_\_,  
2 \_\_\_\_\_.

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

8 ATTEST OR WITNESS:

9 OPERATOR

10 Chevron MidContinent, LP

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11 By \_\_\_\_\_

12 \_\_\_\_\_  
13 Type or print name

14 Title \_\_\_\_\_

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15 Date \_\_\_\_\_

16 Tax ID or S.S. No. \_\_\_\_\_

17 NON-OPERATORS

18 Regeneration Energy Corp.

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19 By \_\_\_\_\_

20 \_\_\_\_\_  
21 Type or print name

22 Title Attorney-in-Fact

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23 Date \_\_\_\_\_

24 Tax ID or S.S. No. \_\_\_\_\_

25 The Allar Co.

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26 By \_\_\_\_\_

27 \_\_\_\_\_  
28 Type or print name

29 Title Attorney-in-Fact

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30 Date \_\_\_\_\_

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ACKNOWLEDGMENTS

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

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

Individual acknowledgment:

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

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

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

This instrument was acknowledged before me on

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

(Seal, if any) \_\_\_\_\_

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

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

Individual acknowledgment:

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

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

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

This instrument was acknowledged before me on

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

(Seal, if any) \_\_\_\_\_

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

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

Individual acknowledgment:

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

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

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

This instrument was acknowledged before me on

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

(Seal, if any) \_\_\_\_\_

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

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

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1 | **Acknowledgment in representative capacity:**

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

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

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

5 This instrument was acknowledged before me on

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

7 \_\_\_\_\_ of \_\_\_\_\_

8 (Seal, if any) \_\_\_\_\_

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

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

11 Acknowledgment in representative capacity:

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

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

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

15 This instrument was acknowledged before me on

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

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18 (Seal, if any) \_\_\_\_\_

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

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

22 Acknowledgment in representative capacity:

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

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

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

26 This instrument was acknowledged before me on

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

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29 (Seal, if any) \_\_\_\_\_

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

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

32 Acknowledgment in representative capacity:

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

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

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

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

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4 \_\_\_\_\_ Title (and Rank) \_\_\_\_\_  
5 \_\_\_\_\_ My commission expires: \_\_\_\_\_  
6 **Acknowledgment in representative capacity:**  
7 State of \_\_\_\_\_ )  
8 \_\_\_\_\_ ) ss.  
9 County of \_\_\_\_\_ )  
10 This instrument was acknowledged before me on \_\_\_\_\_  
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14 \_\_\_\_\_ Title (and Rank) \_\_\_\_\_  
15 \_\_\_\_\_ My commission expires: \_\_\_\_\_  
16 **Acknowledgment in representative capacity:**  
17 State of \_\_\_\_\_ )  
18 \_\_\_\_\_ ) ss.  
19 County of \_\_\_\_\_ )  
20 This instrument was acknowledged before me on \_\_\_\_\_  
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## **EXHIBIT "A"**

Attached to and made a part of that certain Joint Operating Agreement dated October 28, 2013 by and among Chevron Midcontinent, LP, as Operator, and Regeneration Energy Corp. and The Allar Company, as Non-Operators.

### **I. CONTRACT AREA**

- All of Section 17, T24S, R34E, Lea County, New Mexico

### **II. NAME, WORKING INTEREST PERCENTAGES, AND ADDRESSES OF THE PARTIES FOR NOTICE PURPOSES**

- Chevron Midcontinent, LP = 75% Working Interest
  - 1400 Smith Street, Houston, Texas 77002
- The Allar Company = 12.50% Working Interest
  - PO Box 1567, Graham, Texas 76450
- Regeneration Energy, Corp. = 12.50% Working Interest
  - PO Box 210, Artesia, NM 88211-0210

### **III. OIL AND GAS LEASE SUBJECT TO AGREEMENT**

- Federal Lease Number – NM113418
- Lease Date – March 1, 2005
- Lessor – United States of America
- Lessee – The Allar Company

## Exhibit " C "

# ACCOUNTING PROCEDURE JOINT OPERATIONS

1 Attached to and made part of The Joint Operating Agreement dated October 28, 2013 by and among Chevron MidContinent, LP, as Operator,  
2 and Regeneration Energy Corp and The Atlar Company, as Non-Operators.

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### I. GENERAL PROVISIONS

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

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

#### 1. DEFINITIONS

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

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

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

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

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

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

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

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

- 45 • Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance,  
46 construction, well remedial work, equipment movement and drilling
- 47 • Responsibility for day-to-day direct oversight of rig operations
- 48 • Responsibility for day-to-day direct oversight of construction operations
- 49 • Coordination of job priorities and approval of work procedures
- 50 • Responsibility for optimal resource utilization (equipment, Materials, personnel)
- 51 • Responsibility for meeting production and field operating expense targets
- 52 • Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental  
53 part of the supervisor's operating responsibilities
- 54 • Responsibility for all emergency responses with field staff
- 55 • Responsibility for implementing safety and environmental practices
- 56 • Responsibility for field adherence to company policy
- 57 • Responsibility for employment decisions and performance appraisals for field personnel
- 58 • Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group  
59 or team leaders.

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

64 "Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection,  
65 maintenance, repair, abandonment, and restoration of the Joint Property.

1 "Joint Property" means the real and personal property subject to the Agreement.  
2

3 "Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other  
4 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions  
5 contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted,  
6 promulgated or issued.  
7

8 "Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.  
9

10 "Non-Operators" means the Parties to the Agreement other than the Operator.  
11

12 "Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and  
13 gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping,  
14 heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of  
15 offshore operations, all of which are located offshore.  
16

17 "Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.  
18

19 "On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of  
20 Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other  
21 facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.  
22

23 "Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.  
24

25 "Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as  
26 "Party."  
27

28 "Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees,  
29 or is otherwise obligated, to pay and bear.  
30

31 "Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of  
32 the costs and risks of conducting an operation under the Agreement.  
33

34 "Personal Expenses" means reimbursed costs for travel and temporary living expenses.  
35

36 "Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual  
37 railhead may not exist.  
38

39 "Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a  
40 receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication,  
41 scheduling and dispatching center; and other associated functions serving the Joint Property.  
42

43 "Supply Store" means a recognized source or common stock point for a given Material item.  
44

45 "Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by  
46 engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint  
47 Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second  
48 paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-  
49 Operator, Non-Operator Affiliates, and/or third parties.  
50

## 51 2. STATEMENTS AND BILLINGS 52

53 The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the  
54 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all  
55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified  
56 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.  
57 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.  
58

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

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3. **ADVANCES AND PAYMENTS BY THE PARTIES**

- A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of the estimated cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.
- B. Except as provided below, each Party shall pay its proportionate share of all bills in full within fifteen (15) days of receipt date. If payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the Operator at the time payment is made, to the extent such reduction is caused by:
- (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working interest or Participating Interest, as applicable; or
  - (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved or is not otherwise obligated to pay under the Agreement; or
  - (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty (30) day period following the Operator's receipt of such written notice; or
  - (4) charges outside the adjustment period, as provided in Section I.4 (*Adjustments*).

4. **ADJUSTMENTS**

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

5. **EXPENDITURE AUDITS**

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

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

1 those Non-Operators approving such audit.

2 The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after  
3 completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month  
4 requirement for taking specific detailed written exception as required in Section 1.4.A (*Adjustments*) above. All claims shall be  
5 supported with sufficient documentation.  
6

7 A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to  
8 the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator  
9 hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to  
10 comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with  
11 the additional deadlines in Section 1.5.B or 1.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against  
12 the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations,  
13 provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section 1.5.B or  
14 1.5.C.  
15

16 B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator  
17 receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive  
18 response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion  
19 thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section  
20 1.3.B (*Advances and Payments by the Parties*).  
21

22 C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator  
23 shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator  
24 shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not  
25 adequately fulfilling its duties. Unless otherwise provided for in Section 1.5.E, if the Operator fails to provide substantive response  
26 to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately  
27 granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (*Advances and  
28 Payments by the Parties*).  
29

30 D. If any Party fails to meet the deadlines in Sections 1.5.B or 1.5.C or if any audit issues are outstanding fifteen (15) months after  
31 Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution  
32 meeting, as set forth in this Section 1.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable.  
33 *The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting*  
34 *shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with*  
35 *authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution*  
36 *reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the*  
37 *Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself.*  
38 *Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information*  
39 *supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may*  
40 *be discussed at subsequent meetings until each such issue is resolved.*  
41

42 If the Agreement contains no dispute resolution procedures and the audit issues cannot be resolved by negotiation, the dispute shall  
43 be submitted to mediation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute  
44 shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties shall each have present  
45 at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to  
46 ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any  
47 Party may file a lawsuit or complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60)  
48 days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other  
49 provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or  
50 to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.  
51

52 E.  (*Optional Provision – Forfeiture Penalties*)

53 *If the Non-Operators fail to meet the deadline in Section 1.5.C, any unresolved exceptions that were not addressed by the Non-*  
54 *Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been*  
55 *withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section 1.5.B or 1.5.C, any unresolved exceptions that*  
56 *were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response*  
57 *of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made,*  
58 *without interest, to the Joint Account.*  
59

60 **6. APPROVAL BY PARTIES**

61 **A. GENERAL MATTERS**

62 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of this Accounting  
63 Procedure and if the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the  
64  
65  
66

1 Operator shall notify all Non-Operators of the Operator's proposal and the agreement or approval of a majority in interest of the  
2 Non-Operators shall be controlling on all Non-Operators.

3  
4 This Section 1.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for charges from  
5 that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure, which are  
6 covered by Section 1.6.B.

7  
8 **B. AMENDMENTS**

9  
10 If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting  
11 Procedure can be amended by an affirmative vote of two (2) or more Parties, one of which is the Operator,  
12 having a combined working interest of at least fifty percent (50 %), which approval shall be binding on all Parties,  
13 provided, however, approval of at least one (1) Non-Operator shall be required.

14  
15 **C. AFFILIATES**

16  
17 For the purpose of administering the voting procedures of Sections 1.6.A and 1.6.B, if Parties to this Agreement are Affiliates of each  
18 other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating  
19 Interest of such Affiliates.

20  
21 For the purposes of administering the voting procedures in Section 1.6.A, if a Non-Operator is an Affiliate of the Operator, votes  
22 under Section 1.6.A shall require the majority in interest of the Non-Operator(s) after excluding the interest of the Operator's  
23 Affiliate.

24  
25 **II. DIRECT CHARGES**

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

27  
28 **1. RENTALS AND ROYALTIES**

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

30  
31  
32 **2. LABOR**

33  
34 **A. Salaries and wages, including incentive compensation programs as set forth in COPAS MFI-37 ("Chargeability of Incentive  
35 Compensation Programs"), for:**

- 36  
37 (1) Operator's field employees directly employed On-site in the conduct of Joint Operations,  
38  
39 (2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving the Joint  
40 Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by Operator*) or are not a  
41 function covered under Section III (*Overhead*),  
42  
43 (3) Operator's employees providing First Level Supervision,  
44  
45 (4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded from the  
46 overhead rates in Section III (*Overhead*),  
47  
48 (5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded from the  
49 overhead rates in Section III (*Overhead*).  
50

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

53  
54 Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid  
55 to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties pursuant to Section  
56 1.6.A (*General Matters*).

57  
58 **B. Operator's cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to employees whose  
59 salaries and wages are chargeable to the Joint Account under Section II.2.A, excluding severance payments or other termination  
60 allowances. Such costs under this Section II.2.B may be charged on a "when and as-paid basis" or by "percentage assessment" on the  
61 amount of salaries and wages chargeable to the Joint Account under Section II.2.A. If percentage assessment is used, the rate shall  
62 be based on the Operator's cost experience.**

63  
64 **C. Expenditures or contributions made pursuant to assessments imposed by governmental authority that are applicable to costs  
65 chargeable to the Joint Account under Sections II.2.A and B.**  
66

- 1 D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the  
2 expenses are incurred in connection with directly chargeable activities.
- 3 E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the  
4 Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a  
5 Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation  
6 costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the  
7 Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).
- 8 F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and  
9 wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal  
10 Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly  
11 benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are  
12 available.
- 13 G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable  
14 to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account  
15 under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most  
16 recently recommended by COPAS.
- 17 H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose  
18 salaries and wages are chargeable under Section II.2.A.

19  
20  
21  
22  
23 **3. MATERIAL**

24  
25 Material purchased or furnished by the Operator for use on the Joint Property in the conduct of Joint Operations as provided under Section  
26 IV (*Material Purchases, Transfers, and Dispositions*). Only such Material shall be purchased for or transferred to the Joint Property as  
27 may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The accumulation  
28 of surplus stocks shall be avoided.

29  
30 **4. TRANSPORTATION**

- 31  
32 A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.
- 33  
34 B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point  
35 to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material  
36 from the Joint Property to the Operator's warehouse or other storage point shall be paid for by the Joint Property using one of the  
37 methods listed below:
- 38  
39 (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a  
40 theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per  
41 hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall  
42 consistently apply the selected alternative.
- 43  
44 (2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial  
45 charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged  
46 directly to the Joint Property and shall not be included when calculating the Equalized Freight.

47  
48 **5. SERVICES**

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

53  
54 The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).

55  
56 **6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR**

57  
58 In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:

- 59  
60 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to  
61 production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership  
62 and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who  
63 are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense,  
64 insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation  
65 not to exceed ten percent (10%) per annum; provided, however, depreciation shall not be charged when the  
66

1 equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for  
2 abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the  
3 immediate area of the Joint Property.

- 4  
5 B. In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the immediate area  
6 of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this Section II.6.B, the Operator shall  
7 adequately document and support commercial rates and shall periodically review and update the rate and the supporting  
8 documentation. For automotive equipment, the Operator may elect to use rates published by the Petroleum Motor Transport  
9 Association (PMTA) or such other organization recognized by COPAS as the official source of rates.

10 **7. AFFILIATES**

- 11  
12 A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators  
13 may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are  
14 specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed  
15 to such individual project do not exceed \$ 100,000. If the total costs for an Affiliate's goods and services charged to such  
16 individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such  
17 Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).  
18  
19 B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators,  
20 charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*), if the  
21 charges exceed \$ 100,000 in a given calendar year.  
22  
23 C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property,  
24 unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support  
25 commercial rates and shall periodically review and update the rate and the supporting documentation; provided, however,  
26 documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or  
27 charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing, direct charges for  
28 Affiliate-owned communication facilities or systems shall be made pursuant to Section II.12 (*Communications*).  
29

30  
31 If the Parties fail to designate an amount in Sections II.7.A or II.7.B, in each instance the amount deemed adopted by the Parties as a  
32 result of such omission shall be the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement  
33 does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be  
34 zero dollars (\$ 0.00).

35 **8. DAMAGES AND LOSSES TO JOINT PROPERTY**

36  
37 All costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred, except to the  
38 extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties  
39 shall be solely liable.

40  
41 The Operator shall furnish the Non-Operator written notice of damages or losses incurred as soon as practicable after a report has been  
42 received by the Operator.  
43

44 **9. LEGAL EXPENSE**

45  
46 Recording fees and costs of handling, settling, or otherwise discharging litigation, claims, and liens incurred in or resulting from  
47 operations under the Agreement, or necessary to protect or recover the Joint Property, to the extent permitted under the Agreement. Costs  
48 of the Operator's or Affiliate's legal staff or outside attorneys, including fees and expenses, are not chargeable unless approved by the  
49 Parties pursuant to Section I.6.A (*General Matters*) or otherwise provided for in the Agreement.  
50

51  
52 Notwithstanding the foregoing paragraph, costs for procuring abstracts, fees paid to outside attorneys for title examinations (including  
53 preliminary, supplemental, shut-in royalty opinions, division order title opinions), and curative work shall be chargeable to the extent  
54 permitted as a direct charge in the Agreement.  
55

56 **10. TAXES AND PERMITS**

57  
58 All taxes and permitting fees of every kind and nature, assessed or levied upon or in connection with the Joint Property, or the production  
59 therefrom, and which have been paid by the Operator for the benefit of the Parties, including penalties and interest, except to the extent the  
60 penalties and interest result from the Operator's gross negligence or willful misconduct.  
61

62  
63 If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of each Party's working interest, then  
64 notwithstanding any contrary provisions, the charges to the Parties will be made in accordance with the tax value generated by each Party's  
65 working interest.  
66

1 Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other  
2 tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section 1.6.A (*General Matters*).

3  
4 Charges to the Joint Account resulting from sales/use tax audits, including extrapolated amounts and penalties and interest, are permitted,  
5 provided the Non-Operator shall be allowed to review the invoices and other underlying source documents which served as the basis for  
6 tax charges and to determine that the correct amount of taxes were charged to the Joint Account. If the Non-Operator is not permitted to  
7 review such documentation, the sales/use tax amount shall not be directly charged unless the Operator can conclusively document the  
8 amount owed by the Joint Account.

9  
10 **11. INSURANCE**

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

17  
18 **12. COMMUNICATIONS**

19  
20 Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems, including satellite, radio  
21 and microwave facilities, between the Joint Property and the Operator's office(s) directly responsible for field operations in accordance  
22 with the provisions of COPAS MFI-44 ("Field Computer and Communication Systems"). If the communications facilities or systems  
23 serving the Joint Property are Operator-owned, charges to the Joint Account shall be made as provided in Section II.6 (*Equipment and*  
24 *Facilities Furnished by Operator*). If the communication facilities or systems serving the Joint Property are owned by the Operator's  
25 Affiliate, charges to the Joint Account shall not exceed average commercial rates prevailing in the area of the Joint Property. The Operator  
26 shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting  
27 documentation.

28  
29 **13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY**

30  
31 Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or standards recommended by  
32 Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All other labor and functions incurred for  
33 ecological, environmental and safety matters, including management, administration, and permitting, shall be covered by Sections II.2  
34 (*Labor*), II.5 (*Services*), or Section III (*Overhead*), as applicable.

35  
36 Costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting  
37 responsibilities of oil and other spills as well as discharges from permitted outfalls as required by applicable Laws, or other pollution  
38 containment and removal equipment deemed appropriate by the Operator for prudent operations, are directly chargeable.

39  
40 **14. ABANDONMENT AND RECLAMATION**

41  
42 Costs incurred for abandonment and reclamation of the Joint Property, including costs required by lease agreements or by Laws.

43  
44 **15. OTHER EXPENDITURES**

45  
46 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III  
47 (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the  
48 Joint Operations. Charges made under this Section II.15 shall require approval of the Parties, pursuant to Section 1.6.A (*General Matters*).

49  
50  
51 **III. OVERHEAD**

52  
53 As compensation for costs not specifically identified as chargeable to the Joint Account pursuant to Section II (*Direct Charges*), the Operator  
54 shall charge the Joint Account in accordance with this Section III.

55  
56 Functions included in the overhead rates regardless of whether performed by the Operator, Operator's Affiliates or third parties and regardless  
57 of location, shall include, but not be limited to, costs and expenses of:

- 58  
59
- 60 • warehousing, other than for warehouses that are jointly owned under this Agreement
  - 61 • design and drafting (except when allowed as a direct charge under Sections II.13, III.1.A(ii), and III.2, Option B)
  - 62 • inventory costs not chargeable under Section V (*Inventories of Controllable Material*)
  - 63 • procurement
  - 64 • administration
  - 65 • accounting and auditing
  - 66 • gas dispatching and gas chart integration

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

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

11  
12 **1. OVERHEAD—DRILLING AND PRODUCING OPERATIONS**

13  
14 As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other provisions of this  
15 Section III, the Operator shall charge on either:

- 16  
17  (Alternative 1) Fixed Rate Basis, Section III.1.B.  
18  (Alternative 2) Percentage Basis, Section III.1.C.

19  
20 **A. TECHNICAL SERVICES**

- 21  
22 (i) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major*  
23 *Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages,  
24 related payroll burdens and benefits, and Personal Expenses for **On-site** Technical Services, including third party Technical  
25 Services:

26  
27  (Alternative 1 – **Direct**) shall be charged direct to the Joint Account.

28  
29  (Alternative 2 – **Overhead**) shall be covered by the overhead rates.

- 30  
31 (ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major*  
32 *Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages,  
33 related payroll burdens and benefits, and Personal Expenses for **Off-site** Technical Services, including third party Technical  
34 Services:

35  
36  (Alternative 1 – **All Overhead**) shall be covered by the overhead rates.

37  
38  (Alternative 2 – **All Direct**) shall be charged direct to the Joint Account.

39  
40  (Alternative 3 – **Drilling Direct**) shall be charged direct to the Joint Account, only to the extent such Technical Services  
41 are directly attributable to drilling, re-drilling, deepening, or sidetracking operations, through completion, temporary  
42 abandonment, or abandonment if a dry hole. Off-site Technical Services for all other operations, including workover,  
43 recompletion, abandonment of producing wells, and the construction or expansion of fixed assets not covered by Section  
44 III.2 (*Overhead – Major Construction and Catastrophe*) shall be covered by the overhead rates.

45  
46 Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are subject to limitations  
47 set forth in Section II.7 (*Affiliates*). Charges for Technical personnel performing non-technical work shall not be governed by this Section  
48 III.1.A, but instead governed by other provisions of this Accounting Procedure relating to the type of work being performed.

49  
50 **B. OVERHEAD—FIXED RATE BASIS**

- 51  
52 (1) The Operator shall charge the Joint Account at the following rates per well per month:

53  
54 Drilling Well Rate per month \$ 6,500.00 (prorated for less than a full month)

55  
56 Producing Well Rate per month \$ 650.00

- 57  
58 (2) Application of Overhead—Drilling Well Rate shall be as follows:

- 59  
60 (a) Charges for onshore drilling wells shall begin on the spud date and terminate on the date the drilling and/or completion  
61 equipment used on the well is released, whichever occurs later. Charges for offshore and inland waters drilling wells shall  
62 begin on the date the drilling or completion equipment arrives on location and terminate on the date the drilling or completion  
63 equipment moves off location, or is released, whichever occurs first. No charge shall be made during suspension of drilling  
64 and/or completion operations for fifteen (15) or more consecutive calendar days.

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

5  
6 (3) Application of Overhead—Producing Well Rate shall be as follows:

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

9  
10 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is  
11 considered a separate well by the governing regulatory authority.

12  
13 (c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well,  
14 unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one-well charge shall be made whether  
15 or not the well has produced.

16  
17 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall  
18 be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.

19  
20 (e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a producing overhead  
21 charge.

22  
23 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement; provided,  
24 however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the  
25 rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment  
26 shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or  
27 amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the  
28 effective date of such rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").

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31 C. OVERHEAD—PERCENTAGE BASIS

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

33 (a) Development Rate \_\_\_\_\_ percent (\_\_\_\_\_) % of the cost of development of the Joint Property, exclusive of costs  
34 provided under Section II.9 (*Legal Expense*) and all Material salvage credits.

35  
36 (b) Operating Rate \_\_\_\_\_ percent (\_\_\_\_\_) % of the cost of operating the Joint Property, exclusive of costs  
37 provided under Sections II.1 (*Rentals and Royalties*) and II.9 (*Legal Expense*); all Material salvage credits; the value  
38 of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that  
39 are levied, assessed, and paid upon the mineral interest in and to the Joint Property.

40  
41 (2) Application of Overhead—Percentage Basis shall be as follows:

42 (a) The Development Rate shall be applied to all costs in connection with:

- 43 [i] drilling, re-drilling, sidetracking, or deepening of a well
- 44 [ii] a well undergoing plugback or workover operations for a period of five (5) or more consecutive work-days
- 45 [iii] preliminary expenditures necessary in preparation for drilling
- 46 [iv] expenditures incurred in abandoning when the well is not completed as a producer
- 47 [v] construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a  
48 fixed asset, other than Major Construction or Catastrophe as defined in Section III.2 (*Overhead-Major Construction  
49 and Catastrophe*).

50  
51 (b) The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those subject to Section III.2  
52 (*Overhead-Major Construction and Catastrophe*).

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57 2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE

58 To compensate the Operator for overhead costs incurred in connection with a Major Construction project or Catastrophe, the Operator  
59 shall either negotiate a rate prior to the beginning of the project, or shall charge the Joint Account for overhead based on the following  
60 rates for any Major Construction project in excess of the Operator's expenditure limit under the Agreement, or for any Catastrophe  
61 regardless of the amount. If the Agreement to which this Accounting Procedure is attached does not contain an expenditure limit, Major  
62 Construction Overhead shall be assessed for any single Major Construction project costing in excess of \$100,000 gross.  
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1 Major Construction shall mean the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly  
2 discernible as a fixed asset required for the development and operation of the Joint Property, or in the dismantlement, abandonment,  
3 removal, and restoration of platforms, production equipment, and other operating facilities.

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

7  
8 A. If the Operator absorbs the engineering, design and drafting costs related to the project:

9  
10 (1) 5 % of total costs if such costs are less than \$100,000; plus

11  
12 (2) 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus

13  
14 (3) 2 % of total costs in excess of \$1,000,000.

15  
16 B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:

17  
18 (1) 5 % of total costs if such costs are less than \$100,000; plus

19  
20 (2) 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus

21  
22 (3) 2 % of total costs in excess of \$1,000,000.

23  
24 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single Major  
25 Construction project shall not be treated separately, and the cost of drilling and workover wells and purchasing and installing pumping  
26 units and downhole artificial lift equipment shall be excluded. For Catastrophes, the rates shall be applied to all costs associated with each  
27 single occurrence or event.

28  
29 On each project, the Operator shall advise the Non-Operator(s) in advance which of the above options shall apply.

30  
31 For the purposes of calculating Catastrophe Overhead, the cost of drilling relief wells, substitute wells, or conducting other well operations  
32 directly resulting from the catastrophic event shall be included. Expenditures to which these rates apply shall not be reduced by salvage or  
33 insurance recoveries. Expenditures that qualify for Major Construction or Catastrophe Overhead shall not qualify for overhead under any  
34 other overhead provisions.

35  
36 In the event of any conflict between the provisions of this Section III.2 and the provisions of Sections II.2 (*Labor*), II.5 (*Services*), or II.7  
37 (*Affiliates*), the provisions of this Section III.2 shall govern.

38  
39 **3. AMENDMENT OF OVERHEAD RATES**

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

43  
44  
45 **IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS**

46  
47 The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and  
48 dispositions. The Operator shall provide all Material for use in the conduct of Joint Operations; however, Material may be supplied by the Non-  
49 Operators, at the Operator's option. Material furnished by any Party shall be furnished without any express or implied warranties as to quality,  
50 fitness for use, or any other matter.

51  
52 **1. DIRECT PURCHASES**

53  
54 Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. The  
55 Operator shall make good faith efforts to take discounts offered by suppliers, but shall not be liable for failure to take discounts except to  
56 the extent such failure was the result of the Operator's gross negligence or willful misconduct. A direct purchase shall be deemed to occur  
57 when an agreement is made between an Operator and a third party for the acquisition of Material for a specific well site or location.  
58 Material provided by the Operator under "vendor stocking programs," where the initial use is for a Joint Property and title of the Material  
59 does not pass from the manufacturer, distributor, or agent until usage, is considered a direct purchase. If Material is found to be defective  
60 or is returned to the manufacturer, distributor, or agent for any other reason, credit shall be passed to the Joint Account within sixty (60)  
61 days after the Operator has received adjustment from the manufacturer, distributor, or agent.

## 2. TRANSFERS

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

## A. PRICING

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

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

## B. FREIGHT

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

- (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFI-38 ("Material Pricing Manual") and other COPAS MFIs in effect at the time of the transfer.
- (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per weight of tubing transferred to the Railway Receiving Point.
- (3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston, Texas, to the Railway Receiving Point.
- (4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point

Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the Railway Receiving Point to the Joint Property are in addition to the foregoing, and may be charged to the Joint Account based on actual costs incurred. All transportation costs are subject to Equalized Freight as provided in Section II.4 (*Transportation*) of this Accounting Procedure.

## C. TAXES

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

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D. CONDITION

(1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties owning such Material, pursuant to Section I.6.A (*General Matters*). All refurbishing costs required or necessary to return the Material to original condition or to correct handling, transportation, or other damages will be borne by the divesting property. The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material for the receiving property.

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

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

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

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

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

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

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

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

E. OTHER PRICING PROVISIONS

(1) *Preparation Costs*

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

(2) *Loading and Unloading Costs*

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

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### 3. DISPOSITION OF SURPLUS

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

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

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

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

### 4. SPECIAL PRICING PROVISIONS

#### A. PREMIUM PRICING

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

#### B. SHOP-MADE ITEMS

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

#### C. MILL REJECTS

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

### V. INVENTORIES OF CONTROLLABLE MATERIAL

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

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

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1. DIRECTED INVENTORIES

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

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

- A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel performing the inventory or a rate agreed to by the Parties pursuant to Section 1.6.A (*General Matters*). The per diem rate shall also be applied to a reasonable number of days for pre-inventory work and report preparation.
- B. Actual transportation costs and Personal Expenses for the inventory team.
- C. Reasonable charges for report preparation and distribution to the Non-Operators.

2. NON-DIRECTED INVENTORIES

A. OPERATOR INVENTORIES

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

B. NON-OPERATOR INVENTORIES

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

C. SPECIAL INVENTORIES

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

## INSTRUCTIONS FOR USE OF GAS BALANCING AGREEMENT FORM

## GENERAL

This Gas Balancing Agreement form is intended to be used as Exhibit "E" to the 1977, 1982 and 1989 A.A.P.L. Form 610 Model Form Operating Agreements. It is also generally suitable for use with other forms of operating agreements. However, before using this form, both it and the operating agreement in question should be reviewed and revised as required to ensure consistency.

If this form is used as an exhibit to an A.A.P.L. Form 610 Model Form Operating Agreement or other operating agreement, the provisions in Section 15 (Counterparts), the "IN WITNESS WHEREOF" paragraph on page 6 and the signature lines and acknowledgments on page 7 should be omitted.

This Gas Balancing Agreement may also be executed as a separate agreement for properties covered by an existing operating agreement where there is no gas balancing agreement or where the one employed is deemed inadequate. In that event, the properties subject to the form will have to be described, and the provisions of Section 15 (Counterparts), the "IN WITNESS WHEREOF" on page 6 and the signature lines and acknowledgments will have to be employed.

The description of the area covered by the Agreement may be included in the definition of the Balancing Area in Section 1.02. Care should be taken in drafting this description, however, because it may be desirable to cover more than one Balancing Area. Such a definition might, for example, read as follows:

Each well subject to that Operating Agreement dated October 28, 2013, covering Section 17, Township 24S, Range 34East, Lea County, NM that produces gas or is allocated a share of gas production. If a single well is completed in two or more reservoirs, such well shall be considered a separate well with respect to, but only with respect to, each reservoir from which the gas production is not commingled in the wellbore.

This Gas Balancing Agreement contains both "alternative" and "optional" provisions. In the case of alternative provisions, it will generally be necessary to select one alternative in order to make the Gas Balancing Agreement effective. Provisions which are designated as optional (or as Option 1, 2, etc.) may or may not be used. Note that, in order for an Alternative or Option to be selected and effective, it must be checked. If, however, an Alternative is not selected, "Alternative 1" in each instance will be deemed to have been adopted by the Parties, but if an Option is not selected, it will not form a part of the Gas Balancing Agreement. See Section 12.6.

**HEADING** - Indicate the applicable Operating Agreement and other information. If the Gas Balancing Agreement is to be used without an Operating Agreement, the heading on page 1 should be modified appropriately, and the following references to the "Operating Agreement" should be deleted or modified appropriately: Section 1.12; Section 7.1; Section 9; Section 12.4; Section 13.1; and Section 13.2.

**SECTION 1.02** - Select the Balancing Area to be used, or insert a description of the Balancing Area. As a general rule, the use of a mineral lease as a Balancing Area will only be appropriate in certain situations involving offshore wells.

**SECTION 1.16** - This definition should be used only if one of the optional seasonal limitation provisions in Section 4.2 is employed. The specific months during which makeup is to be restricted should be included, e.g., "the months of November, December, and the following January and February."

**SECTION 2.1** - The parties should decide whether the basis of balancing in the Balancing Area will be in Mcfs or MMBtus. One of the two Alternatives stipulated MUST be selected to avoid an automatic election that Alternative 1 applies.

**SECTION 2.2** - Since most gas is now decontrolled, the primary purpose of this provision is to provide for separate application of the form to different price categories in the event that price controls are imposed in the future by governmental entity.

**SECTION 3.3** - This provision is intended to limit Overproduction in order to keep a Party from getting too far out of balance. It should be noted that this Section will only have an impact if a Party owns less than a 1/3 working interest in the Balancing Area, since under it a party owning a 1/3 interest will be entitled to take 300%, x 1/3 = 100%.

**SECTION 4.1** - Select the number of days' notification that an Underproduced Party must give prior to making up Gas. Also, indicate the percentage of each Overproduced Parties' Gas that Underproduced Parties will be allowed to make up. The percentages should be identical.

**SECTION 4.2** - The form sets out two Options for imposing seasonal limitations on making up Gas. It should be noted that it is NOT required that any seasonal limitation be included. If Option 1 is selected, select the number of months prior to the Winter Period that will be used to determine how much Gas an Underproduced Party may make up during the Winter Period. This number and the number of months in the Winter Period (as defined in Section 1.16) should add up to 12 or less. If Option 2 is selected, indicate the percentage of an Overproduced Party's Gas that an Underproduced Party may make up during the Winter Period. This percentage should be lower than the percentage set out in Section 4.1.

**SECTION 4.3** - Select the percentage of an Overproduced Party's Gas which it should be required to make available for make up once it has produced all of its share of ultimately recoverable reserves. This percentage should be greater than the percentage set out in Section 4.1.

**SECTION 6.2** - One of the two Alternatives stipulated MUST be selected as the basis upon which Royalty is to be calculated and paid in order to avoid an automatic election that Alternative 1 applies.

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

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

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

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1 parties have elected to balance on Mcfs), in order to determine the total value of Overproduction.  
2 SECTION 7.7 - Select the interest rate payable for unpaid amounts owed pursuant to a cash settlement.  
3 SECTION 7.9 - In the event that the parties anticipate that Overproduction may be subject to a potential refund by an  
4 appropriate governmental authority, the Parties may choose this provision.  
5 SECTION 7.10 - If the Parties adopt this provision, an Overproduced Party may make a cash settlement with Underproduced  
6 Parties for all or part of outstanding gas imbalances as often as once every twenty-four (24) months.  
7 SECTION 8 - Select the number of days' prior notification required for well tests, as well as the length of such tests.  
8 SECTION 12.9 - Select the appropriate method for computing and reporting income to the Internal Revenue Service based  
9 on the "entitlements" or "sales" methods.  
10 SECTION 13 - The purpose of this Section is to stipulate the rights of Parties in the event that any Party sells, exchanges,  
11 transfers or assigns its interest in the Balancing Area. Section 13.2 gives the Underproduced Party an option to demand a  
12 cash settlement if an Overproduced Party sells its interest, and the number of days' notice and response should be selected to  
13 implement this procedure.  
14 SECTION 14 - This provision is intended to provide the Parties an opportunity to modify or supplement any of the Gas  
15 balancing Agreement's provisions.  
16 SECTION 15 - This provision is to be utilized ONLY if the Gas Balancing Agreement is NOT agreed to contemporaneously  
17 with the execution of an A.A.P.L. Form 610 Model Form Operating Agreement or another suitable operating agreement. If  
18 the Gas Balancing Agreement is agreed to contemporaneously with any such operating agreement, Section 15 should be  
19 omitted. Otherwise, the Parties must determine the appropriate Percentage Interest which must execute the form to make it  
20 effective and the date by which such interests must execute it.  
21 SIGNATURE ELEMENT - The "IN WITNESS WHEREOF," signature and attest/witness elements are ONLY to be utilized  
22 if the Gas Balancing Agreement is NOT agreed to contemporaneously with the execution of an A.A.P.L. Form 610 Model  
23 Form Operating Agreement or another suitable operating agreement. If the Gas Balancing Agreement is agreed to  
24 contemporaneously with any such operating agreement, the "IN WITNESS WHEREOF," signature and attest/witness  
25 elements should be omitted. Otherwise, these items should be completed in an appropriate fashion, and any appropriate  
26 amendment made to the heading of the Gas Balancing Agreement.

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

4  
5  
6  
7  
8 EXHIBIT "E"  
9 GAS BALANCING AGREEMENT ("AGREEMENT")  
10 ATTACHED TO AND MADE PART OF THAT CERTAIN

11 OPERATING AGREEMENT DATED October 28, 2013

12 BY AND BETWEEN Chevron MidContinent, L.P.

13 AND Regeneration Energy Corp., The Albar Co. ("OPERATING AGREEMENT")

14 RELATING TO THE contract area AREA,

15 Lea COUNTY/PARISH, STATE OF New Mexico

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16 1. DEFINITIONS

17 The following definitions shall apply to this Agreement:

18 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales  
19 agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are  
20 representative of prices and delivery conditions existing under other similar agreements in the area between  
21 unaffiliated parties at the same time for natural gas of comparable quality and quantity.

22 1.02 "Balancing Area" shall mean (select one):

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

26  all of the acreage and depths subject to the Operating Agreement.

27

28 \_\_\_\_\_  
29 \_\_\_\_\_  
30 \_\_\_\_\_

31 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced  
32 from the Balancing Area during each month.

33 1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified  
34 as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made  
35 available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by  
36 field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel,  
37 recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

38 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full  
39 Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

40 1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic  
41 foot of space at a standard pressure base and at a standard temperature base.

42 1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat  
43 required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a  
44 constant pressure of 14.73 pounds per square inch absolute.

45 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the  
46 event this Agreement is not employed in connection with an operating agreement, the individual or entity  
47 designated as the operator of the well(s) located in the Balancing Area.

48 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than  
49 the Percentage interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

50 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in  
51 the cumulative quantity of all Gas produced from the Balancing Area.

52 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors,  
53 transferees and assigns.

54 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the  
55 Balancing Area pursuant to the Operating Agreement covering the Balancing Area.

56 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding  
57 royalties, production payments or similar interests.

58 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than  
59 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

60 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its  
61 Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

62 1.16 ~~Optional "Winter Period" shall mean the month(s) of \_\_\_\_\_ in one~~  
63 ~~calendar year and the month(s) of \_\_\_\_\_ in the succeeding calendar year.~~

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64 2. BALANCING AREA

65 2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered  
66 by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area  
67 measured in (Alternative 1)  Mcf or (Alternative 2)  MMBtus.

68 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  
69 maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area  
70 and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

71 3. RIGHT OF PARTIES TO TAKE GAS

72 3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes  
73 nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating  
74 to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other

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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 render 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 thirty-five percent (35%) 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 \_\_\_\_\_ (fifty) \_\_\_\_\_ percent (50%) 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.

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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.

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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-five (45) 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

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

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

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

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

7. CASH SETTLEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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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 \_\_\_\_\_ percent (\_\_\_\_%) 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 7.4 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.~~

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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 \_\_\_\_\_ forty-eight \_\_\_\_\_ (\_\_\_\_ 48 \_\_\_\_\_) hours.

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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

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

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

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

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

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

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

13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

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

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

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

14. OTHER PROVISIONS

14.1 The election of an underproduced party to commence taking makeup gas under the provisions of this paragraph shall remain in effect until such underproduced party gives Operator thirty (30) days notice of its election to cease taking makeup gas, or until such party's underproduction is eliminated, whichever first occurs. In the event an underproduced party provides notice to Operator of its intent to cease taking makeup gas, such underproduced party shall not thereafter be allowed to request makeup gas again until 180 days from the last day of the month in which they last took makeup gas.

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1 15. COUNTERPARTS

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

7 IN WITNESS WHEREOF, this Agreement shall be effective as of the \_\_\_\_\_ day of \_\_\_\_\_.

8  
9  
10 ATTEST OR WITNESS:

OPERATOR

11 Chevron MidContinent, L.P. \_\_\_\_\_

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

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15 Title \_\_\_\_\_

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16 Date \_\_\_\_\_

17 Tax ID or S.S. No. \_\_\_\_\_

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19 NON-OPERATORS

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20 The Allar Co. \_\_\_\_\_

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27 Tax ID or S.S. No. \_\_\_\_\_

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29 Regeneration Energy Corp. \_\_\_\_\_

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A.A.P.L. FORM 610-E - GAS BALANCING AGREEMENT - 1992

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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: \_\_\_\_\_

Individual acknowledgment:

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

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

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

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

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

(Seal, if any)

\_\_\_\_\_

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

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

Individual acknowledgment:

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

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

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

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

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

(Seal, if any)

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

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

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A.A.P.L. FORM 610-E - GAS BALANCING AGREEMENT - 1992

Acknowledgment in representative capacity: ..... **Formatted: Font: Bold**

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

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

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

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

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

7 \_\_\_\_\_ of \_\_\_\_\_

8 (Seal, if any) \_\_\_\_\_

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

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

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

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

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17 (Seal, if any) \_\_\_\_\_

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

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

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

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

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

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

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26 (Seal, if any) \_\_\_\_\_

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

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

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

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

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

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

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

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

(Seal, if any) \_\_\_\_\_

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

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

A.A.P.L. FORM 610-E - GAS BALANCING AGREEMENT - 1992

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

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

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

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

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9 (Seal, if any) \_\_\_\_\_

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

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

THIS AGREEMENT, entered into by and between Chevron MidContinent LP, 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 October 28, 2013 (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), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**OPERATOR**

ATTEST OR WITNESS

Chevron MidContinent, LP

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

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

**NON-OPERATORS**

ATTEST OR WITNESS

The Allar Co.

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

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

ATTEST OR WITNESS

Regeneration Energy Corp.

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ATTEST OR WITNESS

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ATTEST OR WITNESS

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ATTEST OR WITNESS

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

Type or Print Name

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

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

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

ACKNOWLEDGMENTS

NOTE:

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

Individual Acknowledgment

State of \_\_\_\_\_ §

§ ss.

County of \_\_\_\_\_ §

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

(Seal, if any) \_\_\_\_\_

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

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

State of \_\_\_\_\_ §

\_\_\_\_\_ § ss.

County of \_\_\_\_\_ §

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

(Seal, if any) \_\_\_\_\_

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

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

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: \_\_\_\_\_

State of \_\_\_\_\_ §

\_\_\_\_\_ § ss.

County of \_\_\_\_\_ §

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

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

(Seal, if any) \_\_\_\_\_

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

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State of \_\_\_\_\_ §

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**ARTICLE XVI.**

**OTHER PROVISIONS**

**1. BINDING NATURE OF OPERATING AGREEMENT.**

1.1 If a party assigns all or a portion of its interest in the Oil and Gas Leaseholds and Oil and Gas Interests to a bona fide unaffiliated purchaser and subject to this Operating Agreement in accordance with the provision of this Article VIII.D., it shall be responsible only for costs charged to the joint account for activity occurring prior to such sale attributable to the assigned interests. Such purchaser shall be jointly and severally liable with the seller for costs charged to the joint account for activity occurring prior to such sale and shall be liable for costs charged to the joint account. Any such assignment of an interest in the Contract Area covered hereby shall expressly be made subject to all of the terms, covenants, provisions and conditions of this Operating Agreement and any parties so assigning such interests in the Contract Area shall promptly give notice of such an assignment to Operator. No such assignment shall be binding upon any other party hereto until, (1) all monies due and accounts payable accruing out of the development and operation of the lease(s) subject hereto shall have been paid in full by the party assigning its interest, and (2) thirty (30) days after the assigning party shall have furnished to Operator hereto a certified copy of the recorded instrument or instruments evidencing the same.

**2. MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT.**

2.1 Operator shall prepare and circulate for execution a Memorandum of Operating Agreement and Financing Statement for the Contract Area (in the form set out in Exhibit "I" hereto) in order to give record notice of this Operating Agreement and terms hereof, including, but not limited to, the lien granted herein. Each Non-Operator shall execute such instrument upon receipt from Operator and deliver same to Operator within ten (10) days of receipt. Failure by any party to so return same shall give the Operator the right to suspend all payments under this Operating Agreement due to said party until such time as the Memorandum is received by the Operator. Once the Memorandum is executed Operator shall file same of record in each county which contributes acreage to the Contract Area.

**3. REPLACEMENT EXHIBIT "A."**

3.1 Exhibit "A" may be amended from time to time to reflect changes in ownership and changes in the addresses of the parties upon Operator circulating a replacement Exhibit "A" reflecting an effective date of any such changes. Non-Operators shall have 30 days to submit corrections to any replacement Exhibit "A" circulated by Operator.

**4. PRIORITY OF OPERATIONS AND LIMITATION WELL PROPOSALS.**

4.1 When a well which has been authorized under the terms of this Operating Agreement shall have been drilled to the objective depth or formation and all tests have been completed and the results thereof furnished to the participating parties, and such parties cannot agree upon the sequence and timing of further operations regarding said well, the following proposals shall control in the order enumerated hereafter:

- (A) a proposal to do additional logging, coring or testing;
- (B) a proposal to attempt to complete the well at the objective depth or formation in the manner set forth in the AFE (i.e., in accordance with the casing, stimulation and other completion programs set forth in the in the AFE);
- (C) a proposal to attempt to complete the well at the objective depth or formation in a manner different than as set forth in the AFE;
- (D) a proposal to plug back and attempt to complete the well at a depth shallower than the objective depth or formation, with priority given to objectives in ascending order up hole;
- (E) a proposal to deepen the well below the objective depth or formation;

1 (F) a proposal to sidetrack the well to a new target objective, with priority given  
2 first in ascending order to the objectives above the objective depth or  
3 formation and then to depths below the objective depth or formation.  
4

5 4.2 If at the time the parties are considering a proposed operation, the well is in such  
6 condition, in the Operator's judgment, that a reasonably prudent operator would not  
7 conduct such operation for fear of mechanical difficulties, placing the hole, equipment  
8 or personnel in danger of loss or injury or fear of loss of the well for any reason  
9 without being able to attempt a completion at the objective depth or formation, then the  
10 proposal shall be given no priority to any proposed operation except for plugging and  
11 abandoning the well.  
12

13 4.3 Notwithstanding Article VI.B, no party may propose more than one (1) well at any one  
14 time.  
15

16 **5. D. ASSIGNMENT; MAINTENANCE OF UNIFORM INTEREST:**  
17

18 5.1 In the event a party sells, encumbers, transfers or otherwise disposes of a portion of its  
19 interests in the oil and gas leaseholds or oil and/gas interests subject to this agreement  
20 in violation of this Article VIII.D, it shall pay liquidated damages of One hundred  
21 thousand Dollars (\$100,000.00) to the Operator, who shall credit such sum to the joint  
22 account except for all violating parties.  
23  
24

25 **6.**  
26

27 6.1 If said trustee or agent is not appointed within thirty (30) days after written notice from  
28 Operator to said parties, Operator shall have the right to appoint such trustee or agent  
29 from such group of parties and such appointment shall be binding upon all of said  
30 parties.  
31

32 **7.**  
33

34 7.1 If any proposed sale subject to this Article VIII.F includes property not subject to this  
35 agreement, the property subject to this agreement shall be separately appraised by an  
36 independent appraiser and offered to the other parties in accordance with this Article  
37 VIII.F.  
38

39 **8. HEADINGS.**  
40

41 8.1 All headings in this agreement are for reference purposes only and have no binding  
42 effect on the terms, conditions or provisions of this Operating Agreement.  
43

44 **9. CONFIDENTIALITY.**  
45

46 9.1 Except as otherwise provided herein, no party shall divulge to any third party any  
47 geophysical data acquired, obtained or developed by the parties hereto involving the  
48 Contract Area subsequent to the effective date of this Operating Agreement, or any  
49 drilling information relative to any well or wells drilled as a result hereof, other than  
50 the depth and information customarily publicized, without first obtaining the written  
51 consent of the other parties to release such information, which consent shall not be  
52 unreasonably withheld; provided, however, that such consent shall not be necessary for  
53 any party to divulge such information to a party from whom they may receive a  
54 contribution for the drilling of the well hereunder or to a party who is record owner of  
55 an interest in such well or to the lessor of a lease which requires lessee to divulge such  
56 information to the lessor, but only if such party to whom the information is to be  
57 disclosed agrees to be subject to this provision prior to disclosure. All such information  
58 and data shall be treated as strictly confidential. Nothing contained herein shall be  
59 deemed to prevent disclosure of any such information or data if such disclosure is  
60 required by applicable laws or rules and regulations of any administrative or  
61 governmental agency or entity.  
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63

64 **10. MEDIA/NEWS RELEASES.**  
65

66 10.1 No party hereto shall, at any time, issue to the press or other media any news release or  
67 distribute any information or photographs concerning the Contract Area. If a party  
68 desires to make any public announcement or statement with respect to the transaction  
69 contemplated by this agreement, it shall provide the other parties with the proposed  
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1 statement or announcement. When all of the parties have reviewed such material and  
2 all parties have approved the issuance of the material, the Operator shall have the  
3 option of issuing such announcement. If the Operator declines, the party desiring such  
4 release shall have the principal responsibility for its issuance. Nothing contained in  
5 this paragraph shall be construed to require the parties to obtain approval of the other  
6 parties hereto to disclose information with respect to the transaction contemplated by  
7 this Operating Agreement to any state or federal governmental authority or agency to  
8 the extent required by applicable law or necessary to comply with the disclosure  
9 requirements of the New York Stock Exchange or any other regulated stock exchange.  
10 The only other exception to the foregoing shall be that in the event of an emergency  
11 involving extensive property damage, operations failure, loss of human life or other  
12 clear emergency, the party designated as Operator hereunder is authorized to furnish  
13 such minimum, strictly factual information as shall be necessary to satisfy the  
14 legitimate public interest on the part of the press and duly constituted authorities, if  
15 such time does not permit the obtaining of prior approval by the other parties. Said  
16 Operator shall thereupon promptly advise the other parties of the information so  
17 furnished.  
18

19 **11. DEFAULTS AND REMEDIES.**

21 11.1 A defaulting party shall have no further access to the drilling rig floor, platforms,  
22 facilities, logs, maps records, data, interpretations, or other information obtained in  
23 connection with operations. A defaulting party shall not be entitled to vote on any  
24 matter until such time as said Party's payments are current. The voting interest of each  
25 non-defaulting party shall be in the proportion its participating interest bears to the  
26 total non-defaulting participating interest. As to any operation approved during the  
27 time a Party is in default, such Party shall be deemed to be a non-consenting party and  
28 shall be subject to the penalties as provided in Article VI.B.2.  
29

31 11.2 If Operator is the party in default, the Non-Operators shall have, in addition, the right  
32 by vote on Non-Operators owning a majority in interest in the Contract Area or Lease  
33 after excluding the voting interest of Operator, to appoint a new Operator effective  
34 immediately.  
35

36 **12. CONFLICT OF TERMS.**

38 12.1 In the event of a conflict between the provisions of this Article XVI and the terms and  
39 conditions contained in the prior Articles hereof, the provisions of this Article XVI  
40 shall prevail.  
41

42 **13. TIME PERIOD FOR PARTICIPATION ELECTION.**

44 13.1 Notwithstanding anything to the contrary in this Operating Agreement, Operator shall  
45 have the right to commence proposed operations under Article VI.B.1 prior to the  
46 expiration of the thirty (30) day notice period (or forty-eight (48) hour period if a  
47 drilling rig is on location) for participation elections. Operator's commencement of the  
48 proposed operations prior to the expiration of the notice period shall not impair any  
49 other party's right to utilize the full thirty (30) day notice period (or forty-eight (48)  
50 hour period if a drilling rig is on location) for submittal of its participation election,  
51 provided that once a party has submitted its participation election, it shall not have the  
52 right to change its election without the approval of all Consenting Parties. Any party  
53 that elects not to participate in a proposed operation after Operator's commencement of  
54 the proposed operation shall relinquish its interest in the well and share of production  
55 therefrom until the proceeds of the sale of such share or market value thereof if such  
56 share is not sold, shall equal the total of the amounts set forth in Article VI.B.2 (a) and  
57 (b).  
58

60 **14. TIME PERIOD FOR PARTICIPATION ELECTION.**

62 14.1 Notwithstanding anything to the contrary in this Operating Agreement, Operator shall  
63 have the right to commence proposed operations under Article VI.B.1 prior to the  
64 expiration of the thirty (30) day notice period (or forty-eight (48) hour period if a  
65 drilling rig is on location) for participation elections. Operator's commencement of the  
66 proposed operations prior to the expiration of the notice period shall not impair any  
67 other party's right to utilize the full thirty (30) day notice period (or forty-eight (48)  
68 hour period if a drilling rig is on location) for submittal of its participation election,  
69 provided that once a party has submitted its participation election, it shall not have the  
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1 right to change its election without the approval of all Consenting Parties. Any party  
2 that elects not to participate in a proposed operation after Operator's commencement of  
3 the proposed operation shall relinquish its interest in the well and share of production  
4 therefrom until the proceeds of the sale of such share or market value thereof if such  
5 share is not sold, shall equal the total of the amounts set forth in Article VI.B.2(a) and  
6 (b).  
7

8 **15. DEFINITIONS.**  
9

10 15.1 The term Deepen shall also mean a single operation whereby a Horizontal Well is  
11 drilled to a targeted distance beyond the horizontal distance in which the well was  
12 previously drilled, or beyond the targeted horizontal distance proposed in the  
13 associated AFE, whichever is the lesser.  
14

15 15.2 The term Horizontal Well shall mean a well in which the horizontal component of the  
16 gross Completion interval in the reservoir exceeds the vertical component of such  
17 gross Completion interval.  
18

19 **16. CONFLICT OF INTEREST.**  
20

21 16.1 No employee of another party shall have a significant direct or indirect financial  
22 interest in the business of any other party. No party shall pay any commissions, fees or  
23 grant any rebates to any employee or officer of another party, or favor employees or  
24 officers of another party with gifts or entertainment of significant cost or value, or  
25 enter into any business arrangements with employees or officers of another party. Any  
26 representative or representatives authorized by another party may audit any and all  
27 records relative to the work performed hereunder and all transactions related thereto,  
28 for the purpose of determining whether there has been compliance with this Article  
29 XVI.  
30  
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32 **17. RESOLUTION OF DISPUTES.**  
33

34 17.1 Any dispute between the parties shall be resolved in accordance with Exhibit "H."  
35

36 **18. ADDITIONAL FACILITIES.**  
37

38 18.1 Any party may propose the installation of additional facilities, including a gas  
39 gathering pipeline, reasonably intended to benefit the Contract Area, beyond those  
40 included in a proposed operation, by giving to all other parties written notice of the  
41 proposal together with an estimate of anticipated expenses and all other reasonably  
42 necessary details. The parties shall have thirty (30) days from receipt of such notice to  
43 elect in writing whether or not to participate in the proposed installation. At the  
44 expiration of the 30-day period, those parties electing to participate may proceed to  
45 install the proposed facilities at their own risk and expense and shall own said facilities  
46 in the proportion that they bear the expense of construction and installation. To the  
47 extent that the additional facilities are to be used for the benefit of the Contract Area,  
48 all of the parties shall have access to and use of said facilities ratably, provided that the  
49 participating parties shall be entitled to a reasonable fee for such use by the non-  
50 participated parties, which fee shall include a reasonable return on investment.  
51 Operator shall be responsible for constructing and operating said facilities and shall be  
52 entitled to collect a reasonable charge for overhead during construction and installation  
53 pursuant to the provisions of Exhibit "C".  
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## EXHIBIT H

### ALTERNATIVE DISPUTE RESOLUTION

#### 1. DIRECT NEGOTIATIONS.

- 1.1 If a Dispute arises, either Party may initiate the resolution process by giving written notice to the other Party of the Dispute. Within twenty days of delivery of the notice, the receiving Party shall submit to the other Party a written response. “Dispute” means any dispute or controversy arising out of this agreement, including a Claim under this agreement, and any dispute or controversy regarding the making, existence, construction, validity, interpretation, enforceability, termination or breach of this Lease. A “Claim” means any claim, liability, loss, demand, damages, lien, cause of action of any kind, obligation, costs, fees, assessments, penalties, fines, judgment, interest and award (including recoverable legal counsel fees, expert witness fees, and costs of litigation of the party asserting the Claim), whether arising by law, contract, tort, voluntary settlement or otherwise.
- 1.2 The notice and response shall include a statement of that Party’s position and supporting arguments, the value of that Party’s Claim, and state whether the Party agrees to toll all applicable statutes of limitations and defenses based upon the passage of time while the proceedings in this Exhibit are pending.
- 1.3 If the Parties do not agree that all applicable statutes of limitation and defenses based upon the passage of time shall be tolled while the proceedings under this Exhibit are pending, a Party may file an arbitration proceeding under Section 3 of this Exhibit to attempt to preserve its Claim. Any arbitration proceeding filed to preserve a Claim shall be stayed by the arbitrator immediately after appointment so that the Parties may continue direct negotiations under Section 1 and mediation under Section 2.
- 1.4 A meeting between the Parties, attended by individuals with decision-making authority, shall take place within sixty days from delivery of the initial notice and as often after the initial meeting as the Parties deem necessary in an attempt to resolve the Dispute through direct negotiations.
- 1.5 All negotiations under this Section 1 shall be treated as compromise and settlement negotiations under the applicable rules of evidence.

#### 2. MEDIATION.

- 2.1 If an initial meeting under Section 1.4 does not occur within sixty days of the delivery of the written notice of Dispute or if the Parties do not resolve the Dispute within sixty days from the first meeting, the Parties may attempt to resolve the Dispute by confidential mediation under the Conflict Prevention & Resolution International Institute (“CPR”) Mediation Procedure then currently in effect. The Parties shall select a mediator from the CPR Panels of Distinguished Neutrals. The place of mediation is Houston, Harris County, Texas.
- 2.2 Regardless of whether direct negotiations or mediation has occurred, if the Dispute has not been resolved within 180 days of the delivery of the written notice of Dispute, then either Party may submit, at any time until the Dispute has been resolved, the Dispute for binding arbitration under Section 3 as the sole and exclusive remedy of the Parties regarding the Dispute, according to the Rules of the CPR Institute for Dispute Resolution for Non-Administered Arbitration (“CPR Rules”). The mediator shall not serve as an arbitrator.
- 2.3 All discussions under this Section 2 shall be treated as compromise and settlement negotiations under applicable rules of evidence.

#### 3. ARBITRATION.

- 3.1 **Governing Rules.** The arbitration shall be conducted in accordance with this Section 3 and the Federal Arbitration Act, 9 U.S.C. §§ 1-16 (“Act”). To the extent that a matter is not addressed by this Section 3 or the Act, the arbitration shall be conducted in accordance with CPR Rules. To the extent of conflicts between the Act or CPR Rules and the provisions of this Agreement, the provisions of this Agreement prevail. The CPR Institute is the appointing authority.
- 3.2 **Location.** The place of arbitration is Houston, Harris County, Texas.
- 3.3 **Selection of Arbitrators.**

- (A) If the monetary value of the Dispute is US\$2,000,000 (or its currency equivalent) or less, one arbitrator shall be appointed. The Parties may mutually agree on an arbitrator within thirty days from the delivery of written notice of initiation of arbitration under the CPR Rules as required by Section 2.2. If the Parties cannot agree on an arbitrator within thirty days of delivery of written notice, then the Parties shall apply in writing to CPR to designate an arbitrator under CPR Rule 6, who shall act as if mutually agreed to by the Parties.
- (B) If the Dispute has a monetary value greater than US\$2,000,000 or its currency equivalent, three arbitrators shall be appointed. If three arbitrators are appointed, they shall be chosen as follows:
  - (1) Each Party shall designate an arbitrator meeting the criteria set forth in Section 3.4 and notify the other Party of its designated arbitrator within thirty days from the delivery of written notice of initiation of arbitration under Section 2.2. If a Party fails to designate an arbitrator, then the other Party may apply in writing to CPR for or on behalf of the Party who failed to designate an arbitrator.
  - (2) The two arbitrators chosen under Section 3.3(B)(1) shall act as if mutually agreed to by the Parties, and within fifteen days after the appointment of the second arbitrator, choose the third arbitrator who shall also meet the criteria set forth in Section 3.4. If the two arbitrators fail to select a third within fifteen days, either Party may request in writing that CPR choose a third arbitrator under CPR Rule 6.
  - (3) The third arbitrator shall serve as the presiding arbitrator of the panel. The action of a majority of the members of the arbitration panel shall govern, and their written decision shall be final, and binding on the Parties.
- (C) If more than two Parties are involved in the Dispute, the following applies:
  - (1) If the monetary value of the Dispute is US\$2,000,000 (or its currency equivalent) or less, then the Parties shall apply in writing to CPR to appoint one arbitrator under CPR Rule 6 who meets the criteria of Section 3.4.
  - (2) If the monetary value of the Dispute is greater than US\$2,000,000 or its currency equivalent, then the Parties shall apply in writing to CPR to appoint three arbitrators under CPR Rule 6 who meet the criteria of Section 3.4.
- (D) The appointed arbitrators, whether one or three, shall be referred to as the Panel.

#### 3.4 **Qualifications of Panel.**

- (A) The Panel shall be knowledgeable about or specialize in the subject matter involved in the Dispute.
- (B) Prior to appointment, all arbitrators shall disclose to the Parties and to any other arbitrators all actual or perceived conflicts of interest involving the Dispute, the Parties, the Parties' Affiliates, or the Parties' counsel or consultants, including past or present business, professional, and social relationships.
- (C) The Panel shall remain neutral, impartial and independent regarding the Dispute and the Parties. The sole or presiding arbitrator shall be a lawyer experienced in the resolution of disputes.

#### 3.5 **Conduct of Arbitration.** The arbitration shall be conducted according to CPR Rules. The hearing shall be transcribed for the benefit of the arbitrator and the Parties.

3.6 **Panel Authority.**

- (A) The Panel shall fashion any remedy it deems appropriate as long as that remedy is consistent with the Parties' notice of arbitration claim or defense, and this Agreement.
- (B) The Panel has no authority to appoint or retain any expert witness for any purpose unless agreed to by the Parties.
- (C) Panel has the power to rule on objections concerning jurisdiction, including the existence, validity, and interpretation of this arbitration clause, and the existence, validity, and interpretation of the Agreement or any of its provisions.
- (D) The Panel is authorized to take any interim measures as it considers necessary, including the making of interim orders or awards or partial final awards. An interim order or award shall be enforced in the same manner as a final award using the procedures specified below.
- (E) The Panel shall apply all relevant statutes of limitations and equitable defenses based on the passage of time to the claims raised in the arbitration.
- (F) Any attorney-client or attorney work product privileges and other protections against disclosure of privileged or confidential information that are available to a Party may be claimed by that Party in any arbitration proceeding and ruled on by the Panel. No conduct, action, omission, or ruling by a Party or the Panel will result in waiver of a Party's attorney-client privilege or any other protection against disclosure of privileged or confidential information in any proceeding outside of the arbitration.
- (G) The arbitrator Panel shall render a reasoned award in writing. The decision shall detail the findings of fact and conclusions of law on which it rests. The award is final and binding.
- (H) Any money judgment the Panel enters shall be payable in U.S. Dollars. The Parties forego any claim for, and the arbitrator Panel has no power to award, the damages waived and released under Section 11.5. If applicable law allows pre- or post-award interest, the Panel may in its discretion grant pre- or post-award interest at the rate provided in the Agreement, or if no Agreement rate is specified, at applicable statutory interest rates under Texas law during the relevant period. All arbitration fees and costs (with the exception of transcription costs as specified above) shall be borne equally regardless of which Party prevails. Each Party shall bear its own costs of legal representation and witnesses.
- (I) The Panel's award shall be issued within three months from the completion of the hearing.

3.7 **Enforceability.**

- (A) The Parties waive any right of appeal or recourse to any court except to compel arbitration, to compel the appointment of arbitrators, to stay judicial proceedings pending arbitration, for an injunction pending determination by the arbitrator, for disqualification of arbitrators, for aid in furtherance of arbitration, to confirm the award, to enforce any judgment confirming the award, in circumstances which would permit refusal of recognition and enforcement of an award under the Act, 9 U.S.C. § 10, or as provided in Section 0.
- (B) Except for proceedings to preserve Property pending determination by the arbitrator or to enforce judgment entered on an award, the mandatory exclusive venue for any judicial proceeding permitted in the Agreement is the United States District Court for the Southern District of Texas located in Houston, Harris County, Texas. If the United States District Court does not have subject matter jurisdiction, venue shall lie in any state court in Houston, Harris County, Texas.. The Parties consent to the jurisdiction of these courts, and waive any defenses they have regarding jurisdiction or venue. Proceedings to confirm an award may be filed as provided in this Section 3.7(B) at any time within one year after the award is made.
- (C) Proceedings to enforce a judgment entered on an award may be filed in any court having jurisdiction over the person or assets of the non-prevailing Party. The prevailing Party may seek, in any court having jurisdiction, judicial recognition of the award, or order of enforcement or any other order or decree that is necessary to give full effect to the award.

3.8 **Confidentiality.**

- (A) The Parties agree that any Dispute and any negotiations, mediation and arbitration proceedings between the Parties in relation to any Dispute, including their existence, content, or results, shall be confidential and will not be disclosed to any third party.
- (B) The Parties further agree that any information, documents or materials produced for the purposes of, or used in, negotiations, mediation or arbitration of any Dispute shall be confidential and will not be disclosed to any third party.
- (C) Without prejudice to the foregoing, the Parties agree that disclosure may be made:

- (1) In order to enforce any of the provisions of this Exhibit including without limitation, the Parties agreement to arbitrate, any arbitration order or award and any court judgment.
  - (2) To the auditors, legal advisers, insurers and Affiliates of that Party to whom the confidentiality obligations set out in this Contract shall extend.
  - (3) Where that Party is under a legal or regulatory obligation to make such disclosure, but limited to the extent of that legal obligation in the written opinion of that Party's counsel.
  - (4) With the prior written consent of the other Party.
- (D) Any breach of this Section 3.8 shall not invalidate or be used as a basis to challenge an arbitration award.
- (E) The Parties agree to submit to the jurisdiction of the United States District Court for the Southern District of Texas located in Houston, Harris County, Texas for the purposes of any proceedings to enforce this Section 0 and shall prevent any information, documents or materials protected under this Section 0 from being used or disclosed by any Party other than the Party to whom the documents or materials belong for any purpose. If the United States District Court does not have subject matter jurisdiction, the parties agree to submit to the jurisdiction of any state court in Houston, Harris County, Texas. The Parties consent to the jurisdiction of these courts, and waive any defenses they have regarding jurisdiction or venue.

3.9 **Survival.** This Exhibit remains in force and effect and binding on the Parties after termination or completion of the Agreement.