UNIT OPERATING AGREEMENT
ATSA UNIT AREA

COUNTY OF SAN JUAN

STATE OF NEW MEXICO

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Case No. 15117

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UNIT OPERATING AGREEMENT

ATSA UNIT AREA

COUNTY OF SAN JUAN

STATE OF NEW MEXICO

THIS AGREEMENT made as of the 21st day of October 2013, by and among the parties who execute or ratify this agreement or a counterpart hereof

WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE ATSA UNIT AREA, County of San Juan, State of New Mexico, dated as of the 21st day of October, 2013, and hereinafter referred to as the "Unit Agreement," covering the lands described in Exhibit 1, hereto attached, which lands are referred to in the Unit Agreement and in this agreement as the "Unit Area";

WHEREAS, the Parties enter into this agreement pursuant to Section 7 of the Unit Agreement.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1

DEFINTIONS

1.1 **Unit Agreement Definitions**. The definitions contained in the Unit Agreement are adopted for all purposes of this agreement. In addition, each term listed below shall have the meaning stated therefor, whenever used in this agreement.

1.2 **"Unit Operator"** means Huntington Energy L.L.C. and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of Working Interest.

1.3 **"Party"** means a party to this agreement, including the Party acting as Unit Operator when acting as an owner of Working Interest.

1.4 **"Costs"** means all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement or the Unit Agreement and all other expenses that are herein made chargeable as Costs, determined in accordance with the accounting procedure set forth in Exhibit 2 attached hereto, which shall govern in all matters covered thereby, except that in event of inconsistency between said accounting procedure and this agreement, this agreement shall control.

1.5 **"Committed Working Interest"** means a Working Interest which is shown on Exhibit B to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement.

1.6 **"Participating Interest"** of a Party means the proportion (expressed as a percentage) that the acreage of its Committed Working Interest or Interests bears to the total acreage of all the Committed Working Interests of the Parties; for the purposes of this definition (a) the acreage of the Working Interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement and (b) if the Working Interest in a tract is owned by two or more owners, the acreage of such tract shall be apportioned among them in proportion to their respective Working Interests therein.

1.7 **"Beneficial Interest"** of a Party means the proportion (expressed as a percentage) that the net acreage of its Committed Working Interest or Interests bears to the total net acreage of all the Committed Working Interests of the Parties; for the purposes of this definition the net acreage of the Committed Working Interest owned by a Party in a tract shall be calculated by multiplying the acreage of such tract, as shown in Exhibit B to the Unit Agreement, by the percentage of the oil and gas which, if produced from such tract in the absence of the Unit Agreement and this agreement, would accrue to such Committed Working Interest after deducting all Lease Burdens (whether payable in cash or in kind) shown on said Exhibit B as an encumbrance upon such Committed Working Interest.

1.8 **"Lease Burdens"** means the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment and any similar burden, but does not include a carried working interest, a net profits interest or any other interest which is payable out of profits.

1.9 **"Available Production"** means all Unitized Substances produced and saved from the Unit Area except so much thereof as is used in the conduct of operations under the Unit Agreement and this

agreement and so much thereof as is delivered in kind to owners of Lease Burdens entitled to delivery thereof in kind.

1.10 **"Drilling Party"** means the Party or Parties obligated to contribute to the Costs incurred in Drilling, Deepening or Plugging Back a well in accordance with this agreement.

1.11 **"Non-Drilling Party"** means a Party not obligated to contribute to the Costs incurred in Drilling, Deepening or Plugging Back a well in accordance with this agreement.

1.12 **"Drill"** means to perform all operations reasonably necessary and incident to the drilling of a well, including preparation of roads and drill site, testing and, if productive of Unitized Substances, completing and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.13 **"Deepen or Plug Back"** means to perform all operations reasonably necessary and incident to deepening or plugging back a well, testing and, if productive of Unitized Substances, completing or recompleting and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.14 **"Initial Test Well"** means a test well specifically provided for in Section 9 of the Unit Agreement and described in Exhibit 3 attached hereto.

1.15 **"Subsequent Test Well"** means a test well drilled after the drilling of the Initial Test Well or Wells, and before discovery of Unitized Substances in paying quantities in the Unit Area.

1.16 **"Approval of the Parties"** or "Direction of the Parties" means an approval, authorization or direction which receives the affirmative vote of the Parties specified in Section 7.2.

1.17 **"Salvage Value"** of materials and equipment means the value of such materials and equipment determined in accordance with Exhibit 2, less the reasonably estimated costs of salvaging the same.

1.18 Each Party is herein referred to by the neuter pronoun "it."

ARTICLE 2

APPORTIONMENT OF COSTS AND OWNERSHIP OF AVAILABLE PRODUCTION AND PROPERTY

2.1 **Apportionment.** Except as otherwise specified herein, (particular reference being made to Sections 9.3 Taxes, 14.10 Effect of Option 2 Assignment, 14.11 Rights and Obligations of Drilling Party Under Option 2, 16.7 Relinquishment of Interests by Non-Drilling Party, 16.8 Rights and Obligations of Drilling Party, 18.9 Relinquishment of Interest by Non-Drilling Parties, 18.11 Rights and Obligations of Drilling Parties, and 25.3 Rights and Obligations of Non-Abandoning Party):

A. All Costs incurred by Unit Operator in the conduct of operations pursuant to this agreement shall be borne by the Parties in proportion to their respective Participating Interests.

B. All Available Production shall be owned by the Parties in proportion to their respective Beneficial Interests.

C. All materials, equipment and other property, whether real or personal, acquired by Unit Operator, and the cost of which is chargeable as Costs pursuant to this agreement, shall be owned by the Parties in proportion to their respective Participating Interests.

2.2 **Revision or Apportionment.** Upon termination or other removal of a Lease Burden shown in Exhibit B to the Unit Agreement as an encumbrance upon a Committed Working Interest, the net acreage of such Committed Working Interest and the Beneficial Interests of all Parties shall be revised, but Unit Operator shall not be required to recognize the change in Beneficial Interests resulting from such revision until the first day of the month next succeeding the termination or other removal of such Lease Burden. No other change shall be made in the Beneficial Interests of the Parties and no change shall be made in the Participating Interests of the Parties, except for transfers of Committed Working Interests and except as otherwise specified herein (particular reference being made to Sections 4.2 Failure to Pay Rentals and 11.7 Effect of Disapproval of Title).

ARTICLE 3

UNLEASED INTERESTS

3.1 **Treated as Leased**. If a Party owns in fee all or any part of the oil and gas rights in a tract within the Unit Area, free from oil and gas lease or other contract in the nature thereof, such Party shall be deemed to own a Committed Working Interest in such tract, and also a royalty interest in such tract, in the same manner and with like effect as if such Party's oil and gas rights in such tract were covered by the form of oil and gas lease attached hereto as Exhibit 4 and as if such Party owned both the royalty interest reserved in such lease and the interest of the lessee under such lease. However, such Party shall have the right to take in kind all Unitized Substances accruing to the royalty interest deemed owned by it in such tract, in the same manner as it is entitled to take in kind its proportionate share of Available Production.

3.2 **Execution or Lease**. In any provisions hereunder where reference is made to an assignment by any Party of its Committed Working Interest to any other Party, such reference as to any Party owning an unleased interest shall be interpreted to mean that such Party shall execute an oil and gas lease to such other Party in the form attached hereto as Exhibit 4, which shall satisfy the requirement for assignment of a Committed Working Interest.

ARTICLE 4

RENTALS AND LEASE BURDENS

4.1 **Payment or Rentals**. Each Party whose committed Working Interest in a tract within the Unit Area is held under oil and gas lease shall pay, on or before the due date thereof, each installment of rental becoming due and payable under such lease, in respect of such tract, unless and until surrender of such lease is directed by the Parties in accordance with Article 26 dealing with Surrender, and such Party shall furnish evidence of payment thereof to Unit Operator and to each of the other Parties who makes written request therefor. Upon receipt of evidence acceptable to it of the payment of any such installment of rental which becomes due on or after the effective date of this agreement, Unit Operator shall credit or reimburse the Party who made payment thereof for the amount of such installment, which shall be charged as Costs and borne by the Parties in proportion to their respective Participating Interests.

4.2 **Failure to Pay Rentals**. If an oil and gas lease covering a tract within the Unit Area is terminated by failure to make proper payment of rental required to be paid by a Party in accordance with Section 4.1, such Party shall make a bona fide effort at its own expense to obtain a new lease covering the same interest in such tract as that covered by the terminated lease. If the new lease is not obtained within sixty (60) days after such termination, loss of the terminated lease shall have the same consequences as if title to the terminated lease had failed before approval thereof in accordance with Article 11 dealing with Titles, and the Participating Interests and Beneficial Interests of the Parties shall be changed accordingly, effective as of the first day of the month following such termination. If a Party's failure to make proper payment of rental required to be paid by it in accordance with Section 4.1 is unintentional, such Party shall not be liable in damages to the other Parties.

4.3 **Lease Burdens Payable by Unit Operator**. Any and all payments (including minimum royalties) accruing to Lease Burdens shown in Exhibit B to the Unit Agreement on the effective date hereof, (including any such Lease Burdens not committed to the Unit Agreement) in respect of Unitized Substances, shall be made by Unit Operator for the account of the Parties. All such payments made by Unit Operator shall be charged to and borne by the Parties in proportion to their respective Beneficial Interests, except that all such payments made in respect of Unitized Substances produced from a well owned by less than all the Parties shall be charged to and borne by the Party or Parties owning such well in the proportions that such Parties share in the Available Production therefrom. Also, Unit Operator shall deliver Unitized Substances to owners of Lease Burdens who have the right and who elect to take the same in kind.

4.4 **Lease Burdens and Other Interests Payable by Parties**. If a Committed Working Interest is subject to a Lease Burden not shown in Exhibit B to the Unit Agreement on the effective date hereof or to a carried working interest, net profits interest or any other interest which is payable out of profits, the Party owning such Committed Working Interest shall be solely responsible for, and shall bear the entire burden of, any and all payments accruing thereto in respect of Unitized Substances.

ARTICLE 5

COMPENSATORY ROYALTIES

5.1 **Payment and Apportionment**. Whenever demand is made in accordance with the Unit Agreement for the drilling of a well for the protection of the Unit Area from drainage, or for the payment of compensatory royalties in lieu thereof, Unit Operator shall give written notice thereof to each Party. If payment of such compensatory royalties is Approved by the Parties, Unit Operator shall make payment thereof. All payments so made by Unit Operator shall be charged as Costs and borne by the Parties in

proportion to their respective Participating Interests. If payment of compensatory royalties is not approved by the Parties then the rights and obligations of the Parties shall be governed by Article 17 dealing with Required Wells.

ARTICLE 6

LIABILITIES FOR DAMAGES TO OWNERS OF UNCOMMITTED ROYALTY INTERESTS

6.1 **Apportionment**. If the royalty interest reserved to the lessor in any oil and gas lease covering land within the Unit Area, or any part of such royalty interest, is not committed to the Unit Agreement, and if operations conducted pursuant to this agreement result in liability in damages to the owner or owners of such uncommitted royalty interest, the amounts payable by reason of such liability shall be charged as Costs and borne by the Parties in proportion to their respective Participating Interests, but this Section 6.1 does not include liability for payment of uncommitted Lease Burdens, such payments being provided for in Section 4.3 dealing with Lease Burdens Payable by Unit Operator.

ARTICLE 7

SUPERVISION OF OPERATIONS BY PARTIES

7.1 **Right of Supervision**. All operations conducted by Unit Operator under this agreement or the Unit Agreement shall be subject to supervision and control by the Parties acting in accordance with the succeeding provisions of this Article; however, if less than all of the Parties are chargeable with the Costs incurred in the conduct of a particular operation such as the Drilling, Deepening or Plugging Back of a well, then, except as provided in Section 18.7 dealing with Effect of Election to Deepen or Plug Back and Limitation on Right, only the Party or Parties obligated to bear such Costs shall have right of supervision over such operation.

7.2 **Voting Control**. Each Party having the right to vote on any matter shall have a vote thereon equal to its Participating Interest. Except as provided in Section 20 of the Unit Agreement and except as otherwise specified herein, (particular reference being made to Sections 7.6 Audits, 11.5 Approval of Titles, 21.1 Consent Required [Secondary Recovery and Pressure Maintenance], 25.1 Consent Required [Abandonment of Producing Wells], 26.2 Right to Surrender Inside Participating Area, and 36.2 Required Withdrawal), the affirmative vote of Parties having sixty-five per cent (65 %) or more of the voting power on any matter which is proper for action by them shall be binding on all Parties entitled to vote thereon; provided, however, that if one Party voting in the affirmative has sixty-five per cent (65 %) or more but less than seventy-five per cent (75 %) of the voting power, the affirmative vote of such Party shall not be binding on the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one additional Party; and provided further, that if one Party voting in the negative has more than thirty five per cent (35 %), but less than fifty per cent (50%), of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding on all Parties entitled to vote unless such Party's negative vote is supported by the negative vote of at least one additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. Except as otherwise specified herein, (particular reference being made to Sections 7.6 Audits, 11.5 Approval of Titles, 21.1 Consent Required [Secondary Recovery and Pressure Maintenance], 25.1 Consent Required [Abandonment of Producing Wells], 26.2 Right to Surrender Inside Participating Area, and 36.2 Required Withdrawal), a Party failing to vote shall not be deemed to have voted either in the affirmative or in the negative Any approval, authorization or direction provided for in this agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding on all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

7.3 **Meetings**. Any matter which is proper for consideration by the Parties or any of them, may be considered at a meeting held for that purpose. A meeting may be called by Unit Operator at any time and a meeting shall be called by Unit Operator upon written request of any Party ~~or Parties having _____ per cent (___%) or more of the voting power on each matter to be considered at the meeting~~. At least ten (10) days in advance of each meeting, Unit Operator shall give each Party entitled to vote thereat written notice of the time, place and purpose of the meeting.

7.4 **Action Without Meeting**. In lieu of calling a meeting, Unit Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party written notice by mail, telegraph, or telephone (confirmed in writing not later than the next business day), describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Unit Operator by mail, telegraph, or telephone (confirmed in writing not later than the next business day), within such period, not less than ten (10) nor more than thirty (30) days, as may be designated in the notice given by Unit Operator, provided, however, that if within ten (10) days after submission of such matter request is made for a meeting in accordance with Section 7.3, such matter shall be considered only at a meeting called for that purpose. If a meeting is not required then, at the expiration of the period designated in the notice given by it, Unit Operator shall give to each Party entitled to vote thereon written notice stating the tabulation and result of the vote.

7.5 **Representatives.** Promptly after execution of this agreement, each Party by written notice to all other Parties shall designate a representative authorized to vote for such Party, and may designate an alternate who is authorized to vote for such Party in the absence of its representative. Any such designation of a representative or alternative representative may be revoked at any time by written notice given to all other Parties, provided such notice designates a new representative or alternate representative as the case may be. In addition, any corporate Party may vote through its President or any of its Vice Presidents, and a Party which is a partnership may vote through any of its partners.

7.6 **Audits.** From time to time, but not more often than once each year an audit may be made of Unit Operator's records and books of account pertaining to operations hereunder. Each such audit shall be made by auditors in the employ of Parties whenever an audit is Directed by the Parties other than the Party acting as Unit Operator, which Parties shall also Approve the allowance to be made to each Party furnishing an auditor. Such allowances shall be paid by the Parties (other than the Party acting as Unit Operator) in proportion to their respective Participating Interests among themselves.

7.7 **Extraneous Projects**. Nothing contained in this agreement shall be deemed to authorize the Parties, by vote or otherwise, to act on any matter or authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this agreement.

ARTICLE 8

UNIT OPERATOR'S POWERS AND RIGHTS

8.1 **In General.** Subject to the limitations provided for in this agreement all operations authorized by the Unit Agreement and this agreement shall be managed and conducted by Unit Operator. Unit Operator shall have exclusive custody of all materials, equipment and other property owned by the Parties jointly.

8.2 **Employees**. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone, and their working hours, rates of compensation and all other matters relating to their employment shall be determined solely by Unit Operator.

8.3 **Non-Liability**. Unit Operator shall not be liable to any other Party for anything done or omitted to be done by it in the conduct of operations hereunder except in case of bad faith.

8.4 **Force Majeure**. The obligations of Unit Operator hereunder shall be suspended to the extent that, and only so long as, performance thereof is prevented by fire, action of the elements, strikes or other differences with workmen, acts of civil or military authorities, acts of the public enemy, restrictions or restraints imposed by law or by regulation or order of governmental authority, whether federal, state or local, inability to obtain necessary rights of access, or any other cause reasonably beyond control by Unit Operator, whether or not similar to any cause above enumerated. Whenever performance of its obligations is prevented by any such cause, Unit Operator shall give notice thereof to the other Parties as promptly as reasonably possible.

8.5 **Lien**. Each of the other Parties hereby grants to Unit Operator a lien upon its Committed Working Interests, its interest in all jointly owned materials, equipment and other property and its interest in all Available Production, as security for payment of Costs and Lease Burdens chargeable to it, together with any interest payable thereon. Unit Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by any Party in the payment of Costs or Lease Burdens chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers thereof the proceeds of such Party's share of Available Production, up to the amount owing by such Party plus interest at the rate of 6% per annum until paid; each such purchaser shall be entitled to rely on Unit Operator's statement concerning the existence and amount of any such default.

8.6 **Advances**. Unit Operator, at its election, shall have the right from time to time to demand and receive from the other Parties payment in advance of their respective shares of the estimated amount of the Costs to be incurred in operations hereunder during any month, which right may be exercised only by submission to each such Party of a properly itemized statement of such estimated Costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated Costs for any month shall be submitted on or about the twentieth (20th) day of the next preceding month. The amount of each such invoice shall be payable within fifteen (15) days after the mailing thereof, and thereafter shall bear interest at the rate of six per cent (6%) per annum until paid. Proper adjustment shall be made monthly between such advances and Costs, to the end that each Party shall bear and pay its proportionate share of Costs incurred and no more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Deepening or Plugging Back operation and shall not be obligated to commence such operation unless and until such advance payment

is made or Unit Operator is furnished security acceptable to it for the payment thereof by the Party or Parties chargeable therewith.

8.7 **Use of Unit Operator's Drilling Equipment**. Any Drilling, Deepening or Plugging Back operation conducted hereunder may be conducted by Unit Operator by means of its own tools and equipment provided that the rates to be charged and the applicable terms and conditions are set forth in a form of drilling contract Approved by the Party or Parties chargeable with the Costs incurred in such operation, except that in any case where Unit Operator alone constitutes the Drilling Party, such drilling contract shall be approved by the Parties.

8.8 **Rights as Party**. As an owner of Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not the Unit Operator. In each instance where this agreement requires or permits a Party to give a notice, consent or approval to the Unit Operator, such notice, consent or approval shall be deemed properly given by the Party acting as Unit Operator if and when given to all other Parties.

ARTICLE 9

UNIT OPERATOR'S DUTIES

9.1 **Specific Duties.** In the conduct of operations hereunder, Unit Operator shall:

A **Drilling of Wells**. Drill, Deepen or Plug Back a well or wells only in accordance with the provisions of this agreement;

B. **Compliance with Laws and Agreements**. Comply with the provisions of the Unit Agreement, all applicable laws and governmental regulations (whether federal, state or local), and Directions by the Parties pursuant to this agreement; in case of conflict between such Directions and the provisions of the Unit Agreement or such laws or regulations, the provisions of the Unit Agreement or such laws or regulations shall govern;

C. **Consultation with Parties**. Consult freely with the other Parties concerning operations hereunder, and keep them advised of all matters arising in operations hereunder which Unit Operator deems important, in the exercise of its best judgment;

D. **Payment of Costs**. Pay all Costs incurred in operations hereunder promptly as and when due and payable, and keep the Committed Working Interests and all jointly owned property free from liens which may be claimed for the payment of such Costs, except any such lien which it disputes, in which event Unit Operator may contest the disputed lien upon giving to the other Parties written notice thereof;

E. **Records**. Keep full and accurate records of all Costs incurred, Lease Burdens paid and controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized representatives of the other Parties at reasonable intervals during usual business hours at the office of Unit Operator;

F. **Information**. Furnish to each Party chargeable with Costs of the operation involved ~~of the other Parties who makes timely written request therefore~~ (1) copies of Unit Operator's authorization for expenditure or itemizations of estimated expenditures in excess of $ 50,000.00, (2) copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports and run tickets, (3) reports of stock on hand at the first of each month, (4) samples of cores or cuttings taken from wells drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (5) such other or additional information or reports as may be Directed by the Parties in accordance with the provisions of Section 7.2 dealing with Voting Control;

G. **Access to Unit Area**. Permit each of the other Parties, through its duly authorized employees or agents, but at its sole risk and expense, to have access to the Unit Area at all times, and to the derrick floor of each well drilled or being drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting jointly owned materials, equipment or other property, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area.

9.2 **Insurance**.

A **Unit Operator's**. Unit Operator shall comply with the Workmen's Compensation law of the state in which the Unit Area is located. Unit Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. In addition Unit Operator shall maintain such other insurance, if any, as is described in Exhibit 5 hereto attached or as is Approved from time to time by the Parties. Unit Operator shall

carry no other insurance for the benefit of the Parties except as above specified. Upon written request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

B. **Contractor's**. Unit Operator shall require all contractors engaged in operations under this agreement to comply with the Workmen's Compensation law of the state in which the Unit Area is located and to maintain such insurance as Unit Operator may be Directed by the Parties to require.

C. **Automotive Equipment**. In the event Automobile Public Liability insurance is specified in said Exhibit 5 or is subsequently Approved by the Parties no direct charge shall be made by Unit Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

9.3 **Taxes**. Any and all ad valorem taxes payable upon the Committed Working Interests (and upon Lease Burdens which are not payable by the owners thereof), or upon materials, equipment or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) upon or measured by Unitized Substances produced from the Unit Area which are not payable by the purchaser or purchasers thereof or by the owner of Lease Burdens, shall be paid by Unit Operator as and when due and payable and shall be charged and borne as follows:

A. Taxes upon materials, equipment and other property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective interests therein.

B. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their respective Beneficial Interests, except that in the case of a well owned by less than all the Parties such taxes shall be charged to and borne by the Party or Parties owning such well in the same proportions that they share in the Available Production therefrom. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

C. In the event of a transfer by one Party to another under the provisions of this agreement of any Committed Working Interest or of any interest in any well or in the materials and equipment in any well or in the event of the reversion of any relinquished interest as in this agreement provided the taxes above mentioned assessed against the interest transferred or reverted for the taxable period in which such transfer or reversion occurs shall be apportioned between such Parties so that each shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest. Each Party shall promptly furnish Unit Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

9.4 **Non-Discrimination**. Unit Operator shall not discriminate against any employee or applicant for employment because of race, creed, color or national origin, and an identical provision shall be incorporated in all contracts made by Unit Operator with independent contractors.

9.5 **Drilling Contracts**. Each Drilling, Deepening or Plugging Back operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 8.7 dealing with Use of Unit Operator's Drilling Equipment, shall be performed by a reputable drilling contractor having suitable equipment and personnel under written contract between Unit Operator and the contractor, at the most favorable rates and on the most favorable terms and conditions bid by any such contractor after soliciting bids, if bids are obtainable, but otherwise at rates and on terms and conditions Approved by the Parties.

ARTICLE 10

LIMITATIONS ON UNIT OPERATOR

10.1 **Specific Limitations**. In the conduct of operations hereunder, Unit Operator shall not, without first obtaining the Approval of the Parties:

A. **Change In Operations**. Make any substantial change in the basic method of operation of any well, except in the case of an emergency.

B. **Limit on Expenditures**. Undertake any project reasonably estimated to require an expenditure in excess of Fifty thousand Dollars ($ 50,000.00); provided, however, that

(1) Unit Operator is authorized to make all usual and customary operating expenditures that are required in the normal course of producing operations or that are included in a budget Approved by the Parties, and (2) whenever Unit Operator is authorized to conduct a Drilling, Deepening or Plugging Back operation, or to undertake any other project, in accordance with this agreement, Unit Operator shall be authorized to make all reasonable and necessary expenditures in connection therewith and (3) in case of emergency, Unit Operator may make such immediate expenditures as may be necessary for the protection of life or property, but notice of such emergency shall be given to all other Parties as promptly as reasonably possible.

C. **Partial Relinquishment**. Make any partial relinquishment of its rights as Unit Operator or appoint any suboperator.

D. **Settlement of Claims**. Pay in excess of ~~Five Hundred Dollars ($500.00)~~ Ten Thousand Dollars ($10,000.00) in the settlement of any claim (other than Workmen's Compensation claims) for injury to or death of persons, or for loss of or damage to property.

E. **Determinations**. Make any of the determinations mentioned in Section 22 of the Unit Agreement, except as otherwise specified in this agreement.

ARTICLE 11

TITLES

11.1 **Representations of Ownership**. Each Party represents to all other Parties that its ownership of Working Interests in the Unit Area is that set out in Exhibit B of the Unit Agreement. If it develops that any such representation of ownership is incorrect the rights and responsibilities of the Parties shall be governed by the provisions of this Article 11, but such erroneous representation shall not be a cause for canceling or terminating this Agreement.

11.2 **Title Papers to Be Furnished Before Discovery**.

A **Lease Papers**. Each party, after executing this agreement, shall upon request promptly furnish Unit Operator, and any other Party requesting same, with photostatic copies of all leases, assignments, options and other contracts which it has in its possession relating to its Committed Working Interests.

B. **Title Papers for Initial Test Well**. Promptly after the effective date of this agreement each Party whose Committed Working Interests cover any land, any part of which is within an area of 640 acres delineated by Unit Operator surrounding the location of the Initial Test Well, shall at its own expense furnish Unit Operator with the following title material relating to such land, or to the Committed Working Interests covering the same,limited to data the Party presently has in its possession :

(1) Abstracts of title based upon the county records certified to current date,if available,

(2) All Lease Papers, or photostatic copies thereof, mentioned in Section 11.2 A "which the Party has in its possession, and which have not been previously furnished to Unit Operator,

(3) Copies of any title opinions which the Party has in its possession,

(4) If federal lands are involved, status reports of current date setting forth the entries found in the district land office and the Washington, D.C., land office of the Bureau of Land Management for the lands involved, and also a certified copy of the serial register for the federal leases involved,

(5) If state lands are involved, status reports of current date showing the entries pertaining to the land involved found in the records of such state,

(6) If Indian lands are involved, status reports for the land involved showing the entries found in the office of the Superintendent of the Indian Agency and the area office for such Indian lands and in the Bureau of Indian Affairs in Washington, D.C.

C. **Title Papers For Subsequent Test Well**. Prior to the drilling of any Subsequent Test Well each Party whose Committed Working Interests cover any land, any part of which is within an area of acres delineated by Unit Operator surrounding the location of such Subsequent Test Well, shall at its own expense and upon request furnish Unit Operator with the title materials, presently in its possession, listed in Section 11.2 B relating to such land or its Committed Working Interests therein.

11.3 **Title Committee**. Promptly after the effective date of this agreement the Parties shall appoint a Title Committee which shall arrange for all title examinations herein provided for and shall distribute copies of title opinions to all Parties as soon as they are prepared.

11.4 **Expense of Title Examination and Curative Work.** All expenses incurred in connection with a title examination hereunder prior to the discovery of Unitized Substances in paying quantities shall be charged to and borne by the Parties obligated to bear the Costs of Drilling the well for which title examination is made. All expenses incurred in connection with title examinations hereunder after such discovery shall be charged as Costs and borne by the Parties in proportion to their respective Participating Interests. Such curative work as is performed to meet title requirements concerning a Committed Working Interest shall be performed by and at the expense of the Party claiming such interest.

11.5 **Approval of Title**. After a title examination has been completed and a reasonable time not exceeding thirty (30) days has been allowed for any necessary curative work, the Title Committee shall submit to each Party a report concerning the title examination, with written recommendation for approval or disapproval of the title to each Committed Working Interest involved. Each Party, within fifteen (15) days after receipt of such report and recommendation shall notify each of the other Parties in writing whether it approves or disapproves title to the Committed Working Interests covered by the report. Any Party disapproving any title shall state the reasons therefor. If the Title Committee has unanimously recommended approval of the title to a Committed Working Interest a Party who does not so disapprove title thereto within said fifteen (15) day period shall be deemed to have approved such title. Title to a Committed Working Interest shall be deemed approved if and when approved as above provided by Parties having Eighty per cent (80%) of the total Participating Interest of all the Parties. Title to a Committed Working Interest which is not approved as above provided within the fifteen (15) day period above specified shall be deemed disapproved at the end of said period.

11.6 **No Drilling Until Title Approved**. No well shall be drilled and no production facilities shall be erected on a tract of land within the Unit Area until title to the Committed Working Interest therein has been approved as herein provided.

11.7 **Effect of Disapproval of Title**. If title to a Committed Working Interest is disapproved as above provided the Party claiming such interest may, within thirty (30) days after such disapproval either (a) provide indemnity on such terms, in such amount and covering such period of time as may be specified by the other Parties or (b) undertake by written notice to all other Parties to make a bona fide effort to cure, within a period of time specified by the other Parties, the deficiencies on account of which title was disapproved. In the latter event the proceeds of all Unitized Substances accruing to such interest shall be paid to Unit Operator and held in suspense until title to such interest is approved, or until expiration of the time fixed for curing deficiencies in title to such interest. If either of said elections is made by the Party claiming such interest and title to such interest is not approved within the time specified as above provided, or if neither of said elections is made by such Party, the following provisions shall then apply:

A. **Revision of Interests**. The interest, title to which has been disapproved, shall no longer be subject to this agreement and effective as of the first day of the month following such disapproval of title the Participating Interests and the Beneficial Interests of the Parties shall be revised accordingly; and

B. **Reimbursement**. If at the time of such disapproval of title the Party who claims ownership of such interest has not been fully reimbursed by the proceeds or market value of Unitized Substances theretofore allocated to such interest, for the share of Costs theretofore charged to such Party on account of such interest, such Party shall have the right:

(1) to receive the proceeds of Unitized Substances theretofore accrued to such interest and then held in suspense, up to the amount of such unrecovered Costs; and

(2) insofar as such unrecovered costs are not paid out of said proceeds held in suspense, to receive that portion of the Unitized Substances thereafter produced which would be allocable to such interest had title thereto not been disapproved until the proceeds or market value of such portion (plus the proceeds held in suspense, if any) shall equal such unrecovered Costs; said portion of Unitized Substances shall be contributed by the other Parties in proportion to their respective Beneficial Interests.

11.8 **Title Examination Before Discovery**. Prior to the drilling of the Initial Test Well and prior to the drilling of any Subsequent Test Wells the Title Committee shall examine or cause to be examined title to all Committed Working Interests which cover lands within the areas delineated by Unit Operator and referred to in Sections 11.2 Band 11.2 C and secure the approval or disapproval of the same. Prior to the drilling of the Initial Test Well any Party shall have the right to request title examination of any Committed Working Interest which it claims and which covers land outside the area delineated by Unit Operator under Section 11.2 B and secure the approval or disapproval of the same. The expense of any such requested title examination shall be borne by the requesting Party.

11.9 **Title Papers to Be Furnished After Discovery**. After discovery of Unitized Substances in paying quantities in the Unit Area each Party shall promptly furnish to Unit Operator all the title material listed in Section 11.2 B, presently in its possession, relating to all its Committed Working Interests.

11.10 **Title Examination After Discovery**. Promptly after discovery of Unitized Substances in paying quantities in the Unit Area the Title Committee shall examine or cause to be examined title to all Committed Working Interests and secure the approval or disapproval of the same.

11.11 **Failure of Title to Approved Interest**. If title to any Committed Working Interest has been approved and subsequently fails in whole or in part, the following shall be the consequences:

A. Effect upon Committed Parties. Such title failure shall not cause any change in the proportion in which the Parties to this agreement at the date of such title failure as among themselves bear Costs and share in Unitized Substances, whether or not the true owner of the interest to which title failed joins in the Unit Agreement and this agreement.

B. Damages. Any loss, liability, damage or expense arising by reason of such failure of title, except liability to third parties for damages on account of prior production of Unitized Substances, shall be charged as Costs and borne by the Parties to this agreement at the date title failure in proportion to their respective Participating Interests on such date.

C. Accounting for Unitized Substances. Any liability to third parties for damages on account of prior production of Unitized Substances shall be borne by the Parties in the same proportions in which they shared in such prior production.

11.12 **Joinder by True Owner**. The true owner of a Working Interest which has ceased to be subject to this agreement because title is disapproved or because title has failed may, upon such terms and conditions as are Approved by the Parties, join this agreement or enter into a separate operating agreement.

ARTICLE 12

INITIAL TEST WELL

12.1 **Location**. Unit Operator shall begin to drill the Initial Test Well within the time required by Section 9 of the Unit Agreement or any extension thereof at the location specified in Exhibit 3 attached hereto.

12.2 **Costs of Drilling**. The Costs of Drilling the Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in said Exhibit 3.

ARTICLE 13

ADDITIONAL DRILLING AND DEEPENING OR PLUGGING BACK

13.1 **No Liability Without Consent**. Except as provided in Exhibit 3 with respect to the Initial Test Well and except as provided in Section 17.4 dealing with Required Drilling no Party shall be liable for any portion of the Costs of Drilling any well or for any portion of the Costs incurred in Deepening or Plugging Back a well unless it elects to participate in such operations as hereinafter provided.

(Note: The following Articles 14 are alternates. The Parties should strike the one they do not wish to use.)

~~ARTICLE 14~~

~~SUBSEQUENT TEST WELLS~~

~~14.1 **Purpose**. The purpose of this Article is to enable one or more, of the Parties to have a Subsequent Test Well drilled when all the Parties do not desire to participate in the Costs of Drilling such a well. This Article shall become effective seventy-five (75) days in advance of the date on which a Subsequent Test Well must be drilled to prevent the Unit Agreement from becoming subject to termination, but shall become effective only if all the Parties have not then agreed upon the Drilling of a Subsequent Test Well. Before the beginning of said seventy five (75) day period any Party or Parties desiring to Drill a Subsequent Test Well shall have the right to do so by proceeding in accordance with, and subject to, the provisions of Article 16 dealing with Drilling After Discovery.~~

~~14.2 **Notice of Proposed Drilling**. If this Section becomes effective any Party desiring to have a Subsequent Test Well drilled shall give all other Parties written notice, specifying the location, depth and~~

the estimated cost of the proposed Subsequent Test Well. Such notice shall not create an obligation to Drill the proposed well, unless all other Parties agree to participate therein.

14.3 **Response to Notice.** Within thirty (30) days after receipt of such notice each Party shall advise all other Parties in writing whether or not it wishes to participate in Drilling the proposed well. If all the Parties so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties. If any Party fails to respond to such notice within said thirty (30) day period, it shall be deemed to have elected not to participate in Drilling such proposed well.

14.4 **Notice of Election to Drill.** Unless all Parties agree to participate in response to said notice then within fifteen (15) days after expiration of said period of thirty (30) days each Party then desiring to have the proposed well Drilled shall give to all other Parties written notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in said Drilling.

14.5 **Effect of Election to Drill.** If all the Parties so elect to proceed Unit Operator shall Drill the proposed well for the account of all the Parties, but if one or more, but not all of the Parties, so elect to proceed, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party. In either case Unit Operator shall commence operations for the drilling of the proposed well as promptly as reasonably possible after election to have the well Drilled. If Unit Operator is unable to begin Drilling the well prior to the termination date of the Unit Agreement, Unit Operator shall apply for an extension, but if unsuccessful will not be liable to the other Parties by reason of the termination of the Unit Agreement.

14.6 **Subsequent Election.** Any Party who has not previously elected to participate in the proposed well may do so by written notice given to all other Parties at any time before operations for Drilling the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

14.7 **Obligation of Non-Drilling Party.** Immediately after commencing operations for Drilling the proposed well Unit Operator shall give written notice thereof to each Non-Drilling Party. Within ten (10) days after receipt of such notice each Non-Drilling Party shall be obligated to elect and comply with one of the following options:

Option 1. Execute and deliver to the Drilling Party a good and sufficient assignment transferring to the Drilling Party any and all Committed Working Interests owned by it, together with its entire interest under this agreement, insofar as relates to all quarter-quarter sections of land (or equivalent lots) within the Unit Area which are contained in an approximately square area of _____ acres with such well in the approximate center thereof; or

Option 2. Execute and deliver to the Drilling Party a good and sufficient assignment transferring to the Drilling Party an undivided _____ per cent (___%) of all its Committed Working Interests, together with a like undivided _____ per cent (___%) of its interest under this agreement.

Whichever assignment is made by a Non-Drilling Party shall be made with warranty of title only against liens, encumbrances and claims created by it, other than Lease Burdens shown in Exhibit B to the Unit Agreement, upon the interest or interests so assigned.

14.8 **Effect of Option 1 Assignment.** An assignment made in accordance with Option 1 of Section 14.7 shall not effect any change in the Participating Interests or the Beneficial Interests of the Parties with respect to those lands in the Unit Area which are not covered by the assignment, but thereafter the lands covered by the assignment shall be deemed Segregated Lands and shall be subject to the provisions of Article 27 dealing with Segregated Lands.

14.9 **Apportionment of Interests Assigned Under Option 2.** If an assignment is made under Option 2 provided for in Section 14.7 to two or more Parties each shall be deemed to have acquired the Committed Working Interest and the interest under this agreement so assigned in the proportion that the Participating Interest of each assignee immediately prior to such assignment then bears to the total Participating Interests of all such assignees.

14.10 **Effect of Option 2 Assignment.** If any Non-Drilling Party executes an assignment in accordance with Option 2 of Section 14.7, the Participating Interests and Beneficial Interests of the Parties shall be revised accordingly, effective as of commencement of the proposed well, and Unit Operator shall make an appropriate revision in Exhibit B to the Unit Agreement. In addition (whether or not the land on which the well is drilled has become Segregated Lands by reason of execution of an assignment under Option 1 of Section 14.7), such Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all of its remaining operating rights and working interest in and to the proposed well. If the well is completed as a producer of Unitized Substances such remaining operating

~~rights and working interest so relinquished by such Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Available Production from the well which would have accrued to its Beneficial Interest as revised, if the well had been Drilled for the account of all Parties (after deducting from such proceeds or market value a like portion of Lease Burdens paid in cash in respect of the Unitized Substances theretofore produced from the well and the taxes referred to in Section 9.3 B) shall equal that portion of the Costs incurred in Drilling the well and operating it up to such time, which would have been charged to such Non-Drilling Party's Participating Interest as revised had the well been Drilled for the account of all Parties. From and after such reversion, such Non-Drilling Party shall (a) bear that percentage of all Costs thereafter incurred in operation of the well, and own that percentage of the well, the operating rights and Working Interest therein and the materials and equipment therein or appurtenant thereto, which is equal to its Participating Interest as revised and (b) own that percentage of the Available Production from the well which is equal to its Beneficial Interest as revised.~~

~~14.11 **Rights and Obligations of Drilling Party Under Option 2.** If any Non-Drilling Party executes an assignment in accordance with Option 2 of Section 14.7, all Costs incurred in Drilling the proposed well shall be borne by the Drilling Party and, subject to reversion to each such Non-Drilling Party of its relinquished interest, such well, the materials and equipment therein and the Available Production therefrom, shall be owned by the Drilling Party. If the Drilling Party includes two or more Parties:~~

~~A. Apportionment of Drilling Party Interests. Each such Party shall bear that percentage of all Costs incurred in Drilling and operating the well which is equal to its Participating Interest and shall own that percentage of the Available Production therefrom equal to its Beneficial Interest.~~

~~B. Apportionment of Relinquished Interests. That percentage of all Costs incurred in Drilling the well which is equal to the Participating Interest or Interests of the Non-Drilling Party or Parties shall be borne by the Parties comprising Drilling Party in proportion to their respective Participating Interests among themselves. Until reversion of the relinquished interest of a Non-Drilling Party, the Parties comprising Drilling Party, in proportion to their respective Participating Interests among themselves, shall (1) bear that percentage of the Costs incurred in operating the well equal to such Non-Drilling Party's Participating Interest and (2) own that percentage of the Available Production from the well equal to the Beneficial Interest of such Non-Drilling Party.~~

~~C. Lease Burdens. All payments accruing to Lease Burdens in respect of Unitized Substances produced from the well shall be borne by the Parties entitled to share in the Available Production therefrom in the same proportions that they are entitled to share therein.~~

~~14.12 **Reconveyance of Assigned Interests.** If for any reason the proposed well is not Drilled to the depth initially specified therefor, then, unless the well is completed at a lesser depth as a well productive of Unitized Substances in paying quantities, all Interests assigned by Non-Drilling Parties to the Drilling Party in accordance with Section 14.7 shall be reassigned to such Non-Drilling Parties without warranty of title except against liens, encumbrances and claims caused or created by the Drilling Party.~~

(Alternate)

ARTICLE 14

SUBSEQUENT TEST WELLS

14.1 **Purpose**. The purpose of this Article is to enable one or more of the Parties to have a Subsequent Test Well drilled when all the Parties do not desire to participate in the Costs of Drilling such a well. This Article shall become effective seventy-five (75) days in advance of the date on which a Subsequent Test Well must be drilled to prevent the Unit Agreement from becoming subject to termination, but shall become effective only if all the Parties have not then agreed upon the drilling of a Subsequent Test Well. Before the beginning of said seventy-five (75) day period any Party or Parties desiring to Drill a Subsequent Test Well shall have the right to do so by proceeding in accordance with, and subject to, the provisions of Article 16, dealing with Drilling After Discovery.

14.2 **Rights and Obligations of Drilling Party**. If this Article becomes effective any Party or Parties desiring to have a Subsequent Test Well Drilled and shall have the right so to do by following the same procedure, subject to the same rights and obligations, as provided for in Article 16 dealing with Drilling After Discovery, except that for the purposes of this Article the percentage specified in subsection B of Section 16.7 dealing with Relinquishment of Interests by Non-Drilling Party shall be 300 per cent (300%) ~~instead of _____ per cent (___%)~~.

ARTICLE 15

ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREAS

15.1 **Proposal**. Unit Operator shall initiate each proposal for the establishment, revision or consolidation of a participating area by submitting the proposal in writing to each Party at least fifteen (15) days before filing the same with the Director. The date of proposed filing must be shown on the proposal.

15.2 **Objections to Proposal**. Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If the Unit Operator does not agree with the objection the Party making the same may renew it before the Director.

15.3 **Revised Proposal**. If Unit Operator agrees with any objection it receives, it shall revise the proposal and submit the same to the Parties in the same manner as if it were an original proposal so that all Parties will have opportunity to object thereto.

ARTICLE 16

DRILLING AFTER DISCOVERY

16.1 **Purpose**. The purpose of this Article is to enable one or more of the parties to have a well drilled after discovery of Unitized Substances in paying quantities when all the Parties do not desire to participate therein.

16.2 **Notice of Proposed Drilling**. At any time after discovery of Unitized Substances in paying quantities any Party may propose the Drilling of a well within the Unit Area by giving to each of the other Parties written notice specifying the location, depth and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern theretofore adopted or then being followed.

16.3 **Response to Notice**. Within thirty (30) days after receipt of such notice each Party shall advise all other Parties in writing whether or not it wishes to participate in Drilling the proposed well. If all the parties so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties. If any Party fails to respond to such notice within said thirty (30) day period it shall be deemed to have elected not to participate in drilling such proposed well.

16.4 **Notice of Election to Drill**. Unless all Parties agree to participate in response to said notice then within fifteen (15) days after expiration of said period of thirty (30) days each Party then desiring to have the proposed well Drilled shall give to all other Parties written notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling said well.

16.5 **Effect of Election to Drill**. If all the Parties so elect to proceed, Unit Operator shall Drill the proposed well for the account of all the Parties, but if one or more, but not all, of the Parties so elect to proceed, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party; provided, however, that if the proposed well is to be Drilled within a participating area to any zone or pool for which such participating area was established the well shall not be drilled without the Approval of the Parties first obtained, or in the event Approval is not obtained from all parties, then Unit Operator may drill such proposed well subject to the non-consent provisions set out within Section 16.7 herein. Unit Operator shall commence operations for the Drilling of the proposed well as promptly as reasonably possible after all necessary approvals have been obtained.

16.6 **Subsequent Election**. Any Party who has not previously elected to participate in the proposed well may do so by written notice given to all other Parties at any time before operations for Drilling the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

16.7 **Relinquishment of Interests by Non-Drilling Party**. If any Party does not elect, as above provided, to participate in Drilling the proposed well, such Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all of its operating rights and working interest in and to the proposed well. If the well is completed as a producer of Unitized Substances the operating rights and working interest so relinquished by such Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Available Production from the well which would have accrued to its Beneficial Interest, if the well had been Drilled for the account of all Parties (after deducting from such proceeds or market value a like portion of Lease Burdens paid in cash in respect of the Unitized Substances theretofore produced from the well and the taxes referred to in Section 9.3 B) shall equal the total of the following:

A 100% of that portion of the Costs incurred in operation of the well up to such time which would have been charged to such Non-Drilling Party's Participating Interest if the well had been Drilled for the account of all Parties; and

B. 300% of that portion of the Costs incurred in Drilling the well which would have been charged to such Non-Drilling Party's Participating Interest if the well had been Drilled for the account of all Parties.

From and after such reversion, such Non-Drilling Party shall (a) bear that percentage of all Costs thereafter incurred in operation of the well, and own that percentage of the well, the operating rights and working interest therein and the materials and equipment therein or appurtenant thereto, which is equal to its Participating Interest, and (b) own that percentage of all Available Production from the well which is equal to its Beneficial Interest.

16.8 **Rights and Obligations of Drilling Party**. If the proposed well is Drilled as above provided otherwise than for the account of all the Parties, all Costs incurred in Drilling the proposed well shall be borne by the Drilling Party and, subject to reversion to Non-Drilling Parties of their relinquished interests, such well, the materials and equipment therein, and Available Production therefrom, shall be owned by the Drilling Party. If the Drilling Party includes two or more Parties:

A. **Apportionment of Drilling Party Interests**. Each such Party shall bear that percentage of all Costs incurred in Drilling and operating the well which is equal to its Participating Interest and shall own that percentage of the Available Production therefrom equal to its Beneficial Interest.

B. **Apportionment of Relinquished Interests**. That percentage of all Costs incurred in Drilling the well which is equal to the Participating Interest or Interests of the Non-Drilling Party or Parties shall be borne by the Parties comprising Drilling Party in proportion to their respective Participating Interests among themselves. Until reversion of the relinquished interest of a Non-Drilling Party, the Parties comprising Drilling Party, in proportion to their respective Participating Interests among themselves, shall (1) bear that percentage of the Costs incurred in operating the well equal to such Non-Drilling Party's Participating Interest and (2) own that percentage of the Available Production from the well equal to the Beneficial Interest of such Non-Drilling Party.

C. **Lease Burdens**. All payments accruing to Lease Burdens in respect of Unitized Substances produced from the well shall be borne by the Parties entitled to share in the Available Production therefrom in the same proportions that they are entitled to share therein.

ARTICLE 17

REQUIRED WELLS

17.1 **Definition**. For the purpose of this Article a well shall be deemed a required well if the Drilling thereof is required by the final order of an authorized representative of the Department of Interior. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each of the other Parties; if any such order is appealed, the Party appealing shall give prompt written notice thereof to each of the other Parties, and upon final disposition of the appeal, Unit Operator shall give each of the other Parties prompt written notice of the result thereof.

17.2 **Election to Drill**. Any Party desiring to Drill, or participate in the drilling of, a required well shall give to Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required by such order. If such notice is given within said period Unit Operator shall drill the required well for the account of the Party or Parties giving such notice, who shall bear all Costs incurred therein; the rights and obligations of such Party or Parties with respect to the ownership of such well, the operating rights therein, the Available Production therefrom and the bearing of Costs incurred therein shall be the same as if the well had been Drilled for the account of such Party or Parties under Article 16 dealing with Drilling After Discovery.

17.3 **Alternatives to Drilling**. If no Party elects to Drill a required well within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

A. **Compensatory Royalties**. If compensatory royalties may be paid in lieu of Drilling the well and if payment thereof is authorized by the Parties within said period, Unit Operator shall pay such compensatory royalties; or

B. **Contraction**. If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area through exclusion of lands not then within a participating area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the Director; or

C. **Termination**. If Unitized Substances have not theretofore been discovered in paying quantities within the Unit Area, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

17.4 **Required Drilling**. If none of the foregoing alternatives is available, Unit Operator shall Drill the required well for the account of all the Parties, each of whom shall bear that percentage of all Costs incurred therein which is equal to its Participating Interest.

ARTICLE 18

DEEPENING OR PLUGGING BACK

18.1 **Purpose of Article**. It is the purpose of this article to specify the circumstances under which, and the procedure by which, wells may be Deepened or Plugged Back otherwise than for account of all the Parties, whether or not theretofore completed as producers of Unitized Substances. If all the Parties consent in writing to the Deepening or Plugging Back of a well owned by all the Parties, such Deepening or Plugging Back shall be conducted by Unit Operator for the account of all the Parties, and this Article shall not apply thereto. If no Party elects to Deepen or Plug Back a Well Drilled hereunder but not completed as a producer, or a producing well which every Party owning an interest therein desires to abandon, such well shall be abandoned and plugged by Unit Operator for the account of the Parties then owning interests therein.

18.2 **Notice and Response on Discontinuance of Production From Producing Well**. If every Party then owning an interest in a well completed as a producer of Unitized Substances agrees in writing to discontinue operation of such well for production from each pool or zone in which it is then completed, Unit Operator shall give written notice thereof to all the Parties, except that such notice need not be given in the case of a well owned by all the Parties if every Party has consented in writing to abandonment and plugging of the well, or if every Party has agreed in writing to participate in Deepening or Plugging Back the well. If such notice is required, any Party proposing to Deepen or Plug Back such well shall, within twenty (20) days after receipt of the notice given by Unit Operator, so advise all other Parties in writing, stating the projected depth of the Deepening or Plugging Back and the estimated cost thereof. If such proposal is so made, each of the other Parties who desires to participate therein shall so advise all other Parties in writing within thirty (30) days after receipt of the proposal. Any Party or Parties then electing to proceed with the Deepening or Plugging Back shall give Unit Operator written notice thereof within fifteen (15) days after expiration of said period of thirty (30) days.

18.3 **Notice and Response on Direction by Parties**. The Deepening or Plugging Back of a well completed as a producer of Unitized Substances may be Directed by the Parties owning such well. In such event, unless the well is owned by all the Parties and every Party has joined in such Direction, Unit Operator shall give written notice thereof to all the Parties, stating the projected depth of such Deepening or Plugging Back and the estimated cost thereof, and within fifteen (15) days after the giving of such notice, any Party or Parties then electing to proceed with such Deepening or Plugging Back shall give to Unit Operator written notice thereof.

18.4 **Notice and Response on Well Not Completed as Producer**. After a well Drilled hereunder has been drilled to its projected depth, but not completed as a producer, if abandonment of the well is Directed by the Party or Parties for whose account the well was Drilled, or if, in the absence of such Direction, Unit Operator decides to abandon such well, Unit Operator shall so notify all the Parties by telephone or telegram, except that such notice need not be given if the well was Drilled for the account of all the Parties, and every Party consents to abandonment and plugging of the well. If such notice is required, each Party electing to proceed with the Deepening or Plugging Back of the well shall so notify Unit Operator by telegram or by written notice delivered to Unit Operator within forty-eight (48) hours after receipt of the notice given by Unit Operator. Likewise, if any Party desires to attempt to complete such well as a producer of Unitized Substances at its then depth, such Party shall have the right so to do by giving like notice to Unit Operator of its election to proceed with such completion attempt, in which event such completion attempt shall be deemed a Deepening or Plugging Back operation for the purposes of this Article.

18.5 **Prior Rights of Parties**. In application of Sections 18.2, 18.3 and 18.4 to a well not owned by all the Parties, if election to proceed with the Deepening or Plugging Back of such well is made, as above provided, by a Party or Parties who participated in the initial drilling of the well, or whose relinquished interest therein has theretofore reverted, then, except with the written consent of such Party or Parties, no other Party shall have the right to participate in the Deepening or Plugging Back of such well.

18.6 **Conflict Between Deepening or Plugging Back or Attempting Completion**. If any Party elects in accordance with Section 18.4 to attempt completion of a well at its then depth, such completion attempt shall be made for the account of the Party or Parties making such election notwithstanding election by any other Party or Parties to Deepen or Plug Back the well. If any Party elects to procced with the Deepening of a well in accordance with Sections 18.2, 18.3 or 18.4 then (subject to the prior right of any Party or Parties electing to make a completion attempt in accordance with Section 18.4, if applicable) the well shall be deepened for the account of the Party or Parties making such election, notwithstanding election by any other Party or Parties to Plug Back the well. In either of the above mentioned events, if the completion attempt or the Deepening operation, as the case may be, does not result in completion of the well as a producer of Unitized Substances, Unit Operator shall give written notice thereof to all the Parties in accordance with Section 18.4, which shall govern the rights of the Parties with respect to election to Deepen or Plug Back the well.

18.7 **Effect or Election to Deepen or Plug Back and Limitation on Right**. If any of the Parties elect to proceed with the Deepening or Plugging Back of a well in accordance with Sections 18.2, 18.3 or 18.4, such Party or Parties (except any such Party who is not entitled to participate therein under Section 18.5) shall constitute the Drilling Party, and Unit Operator shall conduct such operation for the account of the Drilling Party; provided, however, that a well which is within an established Participating Area shall not be Deepened or Plugged Back to any pool or zone for which such participating area was established, except with the prior Approval of the Parties, on the giving of which all Parties shall be entitled to vote whether or not the well is owned by all the Parties.

18.8 **Subsequent Election**. Any Party who has the right to do so in accordance with Section 18.5, but who has not previously elected to participate in a Deepening or Plugging Back operation with which any other Party has elected to proceed, as provided in Sections 18.2, 18.3 or 18.4, shall have the right to participate in such operation by written notice given to all other Parties at any time before operations for Deepening or Plugging Back the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning such operation.

18.9 **Relinquishment or Interest by Non-Drilling Parties**. When a well is Deepened or Plugged Back otherwise than for the account of all Parties, each Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all of its operating rights and working interest in and to such well. If any Non-Drilling Party owns an interest in any materials and equipment in or appurtenant to the well, the Drilling Party shall pay to such Non-Drilling Party its share of the Salvage Value of such materials and equipment; upon such payment the interest of such Non-Drilling Party in such materials and equipment shall be deemed relinquished to the Drilling Party. If the well after being Deepened or Plugged Back is completed as a producer of Unitized Substances, the operating rights and working interest so relinquished by a Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Available Production obtained from the well, after such Deepening or Plugging Back, which would have accrued to such Non-Drilling Party's Beneficial Interest, if the well had been Deepened or Plugged Back for the account of all Parties (after deducting from such proceeds or market value a like portion of Lease Burdens paid in cash in respect of the Unitized Substances theretofore produced from the well and the taxes referred to in Section 9.3 B), shall equal the total of the following:

A. 100% of that portion of the Costs incurred in operating the well after such Deepening or Plugging Back and up to such time which would have been charged to such Non-Drilling Party's Participating Interest had the well been Deepened or Plugged Back for the account of all the Parties; and

B. 300% of (1) that portion of the Costs incurred in Deepening or Plugging Back the well which would have been charged to such Non-Drilling Party's Participating Interest if the well had been Deepened or Plugged Back for the account of all the Parties and (2) the amount, if any paid to such Non-Drilling Party as its share of the Salvage Value of materials and equipment in or appurtenant to the well as above provided in this section;

provided however, that if such Non-Drilling Party did not, and the Drilling Party did, participate in the initial Drilling of the well and if the interest relinquished by it in connection therewith in accordance with Section 16.7 dealing with Relinquishment of Interests by Non-Drilling Party had not reverted to it before such Deepening or Plugging Back, then for the purposes of Subdivision B above there shall be included in and deemed part of the Costs incurred in the Deepening or Plugging Back that portion (if any) of the unrecovered Costs incurred in the initial Drilling of the well which would have been charged to such Non- Drilling Party's Participating Interest if the well had been initially Drilled for the account of all the Parties; and provided further, that if the well is within a previously established participating area and is Deepened or Plugged Back to a pool or zone for which such participating area was established, after obtaining the Approval of the Parties as above provided, then the amount specified in Subdivision B above shall be limited to 100% of that portion of the unrecovered Costs incurred in the initial Drilling of the well down to such pool or zone that would have been chargeable to such Non-Drilling Party's Participating Interest had the well been Drilled for the account of all the Parties.

18.10 **Effect of Reversion**. Reversion to a Non-Drilling Party of the interest relinquished by it in connection with the Deepening or Plugging Back of a well shall have the same effect as the reversion provided for in Section 16.7 dealing with Relinquishment of Interests by Non-Drilling Party.

18.11 **Rights and Obligations of Drilling Parties**. All Costs incurred in Deepening or Plugging Back a well otherwise than for the account of all the Parties shall be borne by the Drilling Party and, subject to reversion to Non-Drilling Parties of their relinquished interests, such well, the materials and equipment therein and the Available Production therefrom shall be owned by the Drilling Party. If the Drilling Party includes two (2) or more Parties apportionment between them of Costs incurred in Deepening or Plugging Back the well, Available Production therefrom, and Lease Burdens shall be in accordance with subdivisions A, B, and C of Section 16.8 dealing with the Rights and Obligations of Drilling Party.

ARTICLE 19

SEPARATE MEASUREMENT AND SALVAGE

19.1 **Separate Measurement**. If a well Drilled, Deepened or Plugged Back otherwise than for the account of all the Parties is completed as a producer of Unitized Substances and if, within thirty (30) days after request, a method of measuring the production from such well that does not require additional facilities is not Approved by the Parties, then Unit Operator shall install such additional tankage, flow lines or other facilities for separate measurement of the Unitized Substances produced from such well as Unit Operator may deem suitable. The Costs of such facilities for separate measurement shall be charged to and borne by the Drilling Party and treated as Costs incurred in operating such well.

19.2 **Salvaged Materials**. If any materials and equipment are salvaged from a well Drilled, Deepened or Plugged Back otherwise than for the account of all the Parties, and completed for production, before reversion to the Non-Drilling Parties of their relinquished interests in the well, the proceeds derived from sale thereof, or, if not sold, the Salvage Value thereof, shall be treated in the same manner as proceeds of Available Production from such well for the purpose of determining reversion to Non-Drilling Parties of their relinquished interests in such well.

ARTICLE 20

PLANS OF DEVELOPMENT

20.1 **Wells and Projects Included**. Each plan for the development and operation of the Unit Area which is submitted by Unit Operator to the Supervisor in accordance with the Unit Agreement shall make provision only for such Drilling, Deepening and Plugging Back operations and such other projects as Unit Operator has been authorized to conduct by the Parties chargeable with the Costs incurred therein.

20.2 **Notice of Proposed Plan**. At least ten (10) days before submitting any such proposed plan to the Supervisor, Unit Operator shall give each Party written notice thereof, together with a copy of the proposed plan.

20.3 **Notice of Approval or Disapproval**. If and when a proposed plan has been approved or disapproved by the Supervisor, Unit Operator shall give prompt written notice thereof to each Party. In case of disapproval Unit Operator shall state in such notice the reasons therefor.

20.4 **Amendments**. If a Drilling, Deepening or Plugging Back operation which is authorized by all the Parties, or which any of the Parties have elected to perform in accordance with Article 16 dealing with Drilling After Discovery or Article 17 dealing with Required Wells or Article 18 dealing with Deepening or Plugging Back is not provided for in the then current plan of development as approved by the Supervisor, Unit Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation, if his consent is sufficient.

20.5 **Cessation of Operations Under Plan**. If any such plan as approved by the Supervisor provides for the cessation of any Drilling or other operation therein provided for on the happening of a contingency and if such contingency occurs, Unit Operator shall promptly cease such Drilling or other operations and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operations are again authorized in accordance with this agreement by the Parties chargeable with such Costs.

ARTICLE 21

SECONDARY RECOVERY AND PRESSURE MAINTENANCE

21.1 **Consent Required**. Unit Operator shall not undertake any program of secondary recovery or pressure maintenance involving injection of gas, water or other substance by any method, whether now known or hereafter devised, without first obtaining the consent of ~~not less than ____~~ Parties in the aggregate owning not less than Eighty-five per cent (85%) of the Participating Interests of all Parties.

21.2 **Above Ground Facilities**. This agreement shall not be deemed to require any Party to participate in the construction or operation of any gasoline plant, sulphur recovery plant, de-waxing plant or other above ground facilities to process or otherwise treat Unitized Substances, other than such facilities as may be required for treating Unitized Substances in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 21.2.

ARTICLE 22

DISPOSITION OF PRODUCTION

22.1 **Taking in Kind**. Each Party shall, currently as produced, take in kind or separately dispose of its share of Available Production and pay Unit Operator for any extra expenditure necessitated thereby. Each Party shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of all Available Production, and on all purchases or sales, each Party shall execute any division order or contract of sale pertaining to its share of Available Production.

22.2 **Failure to Take in Kind**. If any Party fails to so take or dispose of its share, Unit Operator shall have the right, for the time being and subject to revocation at will be the Party owning same, to purchase for its own account or sell to others such share, at not less than the market price prevailing in the area and not less than the price Unit Operator receives for its share of Available Production, subject to the right of such Party to exercise at any time its right to take in kind or separately dispose of its own share of Available Production not previously delivered by Unit Operator to others pursuant to this Section 22.2.

ARTICLE 23

DISPOSAL OF MATERIALS AND EQUIPMENT

23.1 **Classification as Surplus**. Unit Operator, by written notice to the Parties, may classify as surplus any materials and equipment owned by the Parties when deemed by it to be no longer needed in operations hereunder.

23.2 **Division in Kind**. Each Party shall have the right to take in kind its share of surplus tubular goods and other surplus items which are susceptible of division in kind except junk and any item having a replacement cost less than $5,000.00 Said right may be exercised only by written notice to Unit Operator within thirty (30) days after classification as surplus of the materials to be taken in kind.

23.3 **Sale to Parties**. Surplus tubular goods and other items not divided in kind (other than junk and any item having a replacement cost of less than $5,000.00) shall be offered to the Parties and sold to the highest bidder or bidders.

23.4 **Sale to Others**. Surplus materials not disposed of in accordance with Sections 23.2 and 23.3 and junk materials shall be disposed of by Unit Operator for the best prices obtainable.

ARTICLE 24

TRANSFERS OF INTEREST

24.1 **Partial Transfer**. No Party shall assign, mortgage or transfer less than its entire Committed Working Interest and its entire interest under this agreement without first obtaining the Approval of the Parties; provided, however, that after the Drilling of the Initial Test Well or Wells and prior to discovery of Unitized Substances in paying quantities any Party shall have the right, without obtaining the Approval of the Parties, to transfer a portion of its Committed Working Interest under a farmout arrangement, in consideration of the Drilling of a well within the Unit Area free of expense to the other Parties, but only if the well, if completed as a producer of Unitized Substances, will be owned and the Available Production therefrom will be shared by all the Parties in the same manner as if the well had been Drilled for the account of all the Parties, including such transferee.

24.2 **Sale by Unit Operator**. If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in Section 6 of the Unit Agreement.

24.3 **Assumption of Obligations**. No Party shall make any transfer of Committed Working Interests without making the same expressly subject to the Unit Agreement and this agreement and requiring the transferee in writing to assume and to agree to perform all obligations of the transferor under the Unit Agreement and this agreement insofar as relates to the interest assigned, except that such assumption of obligations shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

24.4 **Effective Date**. A transfer of Committed Working Interests shall not be effective as between the Parties until the first day of the month next following the delivery to Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of Section 24.3, along with evidence satisfactory to Unit Operator of approval by the governmental authority having supervision over the Committed Working Interest transferred, where such approval is required. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued hereunder prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Deepening or Plugging Back of a well prior to such effective date shall be deemed an accrued obligation.

(Note: The following Section should be stricken if not desired by the Parties.)

~~24.5 **Preferential Right of Purchase**. Before any Party makes a sale of all or any part of its Committed Working Interest it shall give to the other Parties written notice describing the Committed Working Interest proposed to be sold and stating the price at which and the terms upon which such Party is willing to sell the same. For a period of fifteen (15) days after receipt of such notice the other Parties shall have the right to purchase the interest proposed to be sold at the same price and upon the same terms as stated in said notice, which right may be exercised only by written notice given to the selling Party within the said period of fifteen (15) days. If said right is exercised by any of the Parties, the obligation to purchase shall be subject to title to such interests being found to be merchantable in the selling Party and a reasonable time shall be allowed for examination of title thereto. Upon approval of title the selling Party shall convey such interests to the purchasing Party or Parties who shall thereupon pay to the selling Party the purchase price specified therefor; if two or more Parties have elected to purchase such interest, the purchase shall be made by them in proportion to their Participating Interests among themselves. If no Party exercises said right of purchase within said fifteen (15) day period, as above provided, the selling Party shall be free to sell the Committed Working Interest described in its notice to any other purchaser provided the sale is consummated within ninety (90) days after the giving of the initial notice of proposal to sell and for a price no lower and terms no less favorable to the selling party than the price and terms specified in such initial notice. Such interests shall not be sold after the expiration of said period of ninety (90) days or for any lower price than said specified price without written notice to the other Parties as hereinabove provided. The provisions of this Section 24.5 shall not apply to:~~

~~A The mortgage by any Party of all or any part of its Committed Working Interest; or~~

~~B. To the transfer by any corporate Party of all or any part of its Committed Working Interest to its parent corporation or to a subsidiary corporation or to a corporation which is the subsidiary of its parent corporation; or~~

~~C. The sale by any Party of all or substantially all of its oil and gas properties within the state in which the Unit Area is located; or~~

~~D. A farmout arrangement made pursuant to the provisions of Section 24.1 dealing with Partial Transfer.~~

ARTICLE 25

ABANDONMENT OF PRODUCING WELLS

25.1 **Consent Required**. A well which has been completed as a producer of Unitized Substances shall not be abandoned and plugged, nor shall the operation of such well for production from the formations or zones in which it has been completed be discontinued, except with the written consent of all Parties then owning the well or except as provided in Section 18.3 dealing with Notice and Response on Direction by Parties and the succeeding provisions of Article 18 dealing with Deepening or Plugging Back.

25.2 **Abandonment Procedure**. If the abandonment of a well which has once produced is Directed by the Parties Unit Operator shall give written notice thereof to each party then having an interest in the well who did not join in such Direction. Any such non-joining Party who objects to abandonment of the well (herein called non-abandoning Party) may give written notice thereof to all other Parties (herein called abandoning Parties) then having interests in the well, provided such notice is given within thirty (30) days after receipt of the notice given by Unit Operator. If such objection is so made the non-abandoning Party or Parties shall forthwith pay to the abandoning Parties their respective shares of the Salvage Value of the materials and equipment in or appurtenant to the well, less the reasonably

estimated cost of plugging the well. Upon the making of such payment the abandoning Parties shall be deemed to have relinquished unto the non-abandoning Party or Parties all their operating rights and working interest in the well and the area prescribed for such well by spacing order of state or governmental authority, or, if there is no such order, the area established for such well by the spacing pattern then in use in the field, or, if there is no such order or spacing pattern, then the forty (40) acre legal subdivision, or fractional lot or lots approximating the same, embracing such well, but only with respect to the formation or zone in which it is then completed, and all their interest in the materials and equipment in or appurtenant to the well. If there is more than one non-abandoning Party each shall be deemed to have acquired the operating rights and working interest so relinquished in the proportion that the Participating Interest of each such Party immediately prior to such relinquishment then bears to the total Participating Interests of all non-abandoning Parties.

25.3 **Rights and Obligations of Non-Abandoning Party**. After the relinquishment above provided for such well shall be operated by Unit Operator for the account of the non-abandoning Party or Parties, who shall own all Available Production therefrom and shall bear all Lease Burdens and Costs thereafter incurred in operating the well and plugging it when abandoned, and also the Costs of any additional tankage, flow lines or other facilities needed to measure separately the Unitized Substances produced from the well; said operating costs shall include an overhead charge computed at the highest per well rate applicable to the operation of a single producing well in accordance with Exhibit 2, if such rate is provided.

25.4 **Option to Repurchase Materials**. If a well taken over by the non-abandoning Party or Parties as above provided is abandoned for plugging within six (6) months after relinquishment by the abandoning Parties of their interest therein, each abandoning Party shall have the right at its option to repurchase that portion of the materials and equipment salvaged from the well equal to the interest relinquished by it to the non-abandoning Party or Parties at the value fixed therefor in accordance with Section 25.2. Said option may be exercised only by written notice given to Unit Operator and the non-abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator in connection with such well in accordance with Section 18.2 dealing with Notice and Response on Discontinuance of Production from Producing Well.

ARTICLE 26

SURRENDER

26.1 **Release from Obligations**. At any time after the Drilling of the Initial Test Well or Wells any Party who is not then committed to participate in the Drilling, Deepening or Plugging Back of a well within the Unit Area and who desires to be relieved of further obligation under this agreement may give to all other Parties written notice thereof. Such other Parties or any of them shall have the right at their option to take from such Party an assignment of all its Committed Working Interests and its entire interest under this agreement by giving to such Party a written notice of election so to do within thirty (30) days after receipt of the initial notice. If such election is made within said period the Party or Parties taking the assignment shall pay to the assigning Party its share of the Salvage Value of any salvable materials and equipment then owned by the Parties, less the reasonably estimated cost of plugging any well or wells in which the assigning Party then has an interest, such payment to be made on receipt of an assignment from the assigning Party of its said interests. If such assignment is taken by more than one Party the Committed Working Interest thereby acquired by them shall be apportioned among such Parties in proportion to their participating interests among themselves. If no Party elects to take such assignment within said thirty (30) day period the Parties shall join in termination of the Unit Agreement.

26.2 **Right to Surrender Inside Participating Area**. No Committed Working Interest shall be surrendered in whole or in part as to any lands within any Participating Area, without the written consent of all Parties.

26.3 **Right to Surrender Outside Participating Area**. Committed Working Interests covering land outside a Participating Area shall not be surrendered in whole or in part without the Approval of the Parties.

26.4 **Procedure on Surrender Outside Participating Area**. Whenever a Party desires that a Committed Working Interest of any Party covering lands outside a participating area be surrendered, whether or not legal title to such Committed Working Interest is owned by the Party desiring such surrender, such Party shall give to all other Parties written notice thereof, describing such Committed Working Interest. The other Parties, or any of them, shall have the right at their option to take from the Party desiring the surrender an assignment of the entire interest (if any) of such Party in such Committed Working Interest and, subject to such Party's rights under Section 26.5, its entire interest under this agreement insofar as relates to the land covered by such Committed Working Interest, by giving to the Party desiring the surrender written notice of election so to do within thirty (30) days after receipt of such notice. If such election is made within said period the Party or Parties taking the assignment shall pay to

the assigning Party its share of the Salvage Value of any salvable materials and equipment owned by the Parties and then located on the land covered by such Committed Working Interest, less the reasonably estimated cost of plugging any well or wells located on such land in which the assigning Party then has an interest, such payment to be made on receipt of an assignment from the assigning Party of its said interest. If no Party elects to take such assignment within such thirty (30) day period the Parties shall cooperate in an effort to contract the Unit Area by exclusion of the land covered by such Committed Working Interest. If such contraction is not effected within thirty (30) days after expiration of the time limited for election to take an assignment as above provided then the Parties shall be deemed to have approved surrender of such Committed Working Interests and the Party or Parties owning legal title to such Committed Working Interests shall forthwith surrender it if surrender thereof can be made in accordance with Section 31 of the Unit Agreement.

26.5 **Effect of Assignment or Surrender**. An assignment made by any Party to another Party or Parties in accordance with Section 26.4 or a surrender of any Committed Working Interest as provided in this Article shall not effect any change in the Participating Interests or the Beneficial Interests of the Parties insofar as relates to all lands within the unit area not covered by the assignment or surrender. However, from and after such assignment or surrender the lands covered thereby shall be deemed Segregated Lands and shall be subject to the provisions of Article 27 dealing with Segregated Lands.

26.6 **Accrued Obligations**. An assignment or surrender in accordance with this Article shall not relieve any Party of its liability for any obligation accrued hereunder prior to such assignment or surrender, or of obligation to bear its share of the Costs incurred in any Drilling, Deepening or Plugging Back operation in which such Party has elected to participate prior to such assignment or surrender.

ARTICLE 27

SEGREGATED LANDS

27.1 **Exclusion From Agreement**. Whenever any lands within the Unit Area become Segregated Lands in accordance with ~~Section 14.8 dealing with Effect of Option 1 Assignment or~~ Section 26.5 dealing with Effect of Assignment or Surrender, such lands shall cease to be subject to this agreement but shall remain subject to the Unit Agreement.

27.2 **Interests of Parties in Assigned Lands**. Upon the making of an assignment referred to in ~~Section 14.8 or~~ Section 26.5, the assigning Party shall cease to have any interest in the lands which become Segregated Lands by reason thereof. Insofar as relates to such Segregated Lands, the Participating Interest and the Beneficial Interest of the assigning Party shall be deemed to have been transferred to and acquired by the Party or Parties receiving such assignment, each of whom (if more than one) shall be deemed to have acquired such interests so assigned in the proportion that its Participating Interest immediately prior to such assignment then bears to the total Participating Interests of all assignees. In addition, each Party retaining an interest in such segregated lands shall retain the same Participating Interest and Beneficial Interest therein as it had immediately prior to such assignment.

27.3 **Operation of Lands Segregated by Assignment**. All operations on lands which become Segregated Lands by reason of assignment pursuant to Sections ~~14.8 and~~ 26.5 shall be conducted by Unit Operator for the account and at the expense of the Party or Parties retaining interests therein. Unless otherwise agreed between Unit Operator and such Party or Parties, their respective rights and obligations with respect to such Segregated Lands shall be the same in all respects as if Unit Operator and such Party or Parties had entered into an agreement identical with this agreement but covering only such Segregated Lands, except that if two or more Parties retain interests in the Segregated Lands, the Participating Interest and the Beneficial Interest of each shall be determined in accordance with Section 27.2.

27.4 **Operation of Lands Segregated by Surrender**. All operations on lands which become Segregated Lands by reason of surrender and which remain committed to the Unit Agreement shall be carried on by Unit Operator for the account and at the expense of the parties owning the working interests therein. All Lease Burdens shown on Exhibit B to the Unit Agreement on the effective date hereof payable on account of Unitized Substances produced from Segregated Lands shall be paid by the Unit Operator and shall be charged to and borne by the owners of the working interest in the Segregated Lands in proportion to their Beneficial Interests therein.

ARTICLE 28

CONTRACTION OR EXPANSION OF UNIT AREA

28.1 **Contraction**. In the event of contraction of the Unit Area as provided in Section 2 of the Unit Agreement, the lands excluded from the Unit Area shall be excluded from this agreement, but such exclusion shall not alter the Participating Interests or the Beneficial Interests of the Parties as to lands remaining in the Unit Area.

28.2 **Expansion.** In the event of expansion of the Unit Area as provided in Section 2 of the Unit Agreement the lands added to the Unit Area shall not become subject to this agreement unless and until the owner or owners of the working interest in such lands become Parties to this agreement in accordance with Article 35 dealing with Subsequent Joinder, and until such time any reference to Unit Area shall not include such lands for the purposes of this agreement.

28.3 **Approval Required.** The Unit Operator shall not initiate any contraction or expansion of the Unit Area except with the Approval of the Parties first obtained.

ARTICLE 29

SEVERAL, NOT JOINT LIABILITY

29.1 **Liability.** The liability of the Parties hereunder shall be several and not joint or collective. Each Party shall be responsible only for its obligations as herein set out.

29.2 **No Partnership Created.** It is not the intention of the Parties to create, nor shall this agreement or the Unit Agreement be construed as creating a mining or other partnership or association between the Parties, or to render them liable as partners or associates.

ARTICLE 30

NOTICES

30.1 **Giving and Receipt.** Except as otherwise specified herein, any notice, consent, Approval, Direction or statement herein provided or permitted to be given by Unit Operator or a Party to the Parties shall be given in writing by United States mail or by telegraph, properly addressed to each Party to whom given, with postage or charges prepaid, or by delivery thereof in person to the Party to whom given; however, if delivered to a corporate Party it shall not be deemed given unless delivered personally to an executive officer of such Party or to its representative designated pursuant to Section 7.5 dealing with Representatives. A notice given under any provision hereof shall be deemed given only when received by the Party to whom such notice is directed, except that any notice given by United States registered mail or by telegraph, properly addressed to the Party to whom given with all postage and charges prepaid, shall be deemed given to and received by the Party to whom directed forty-eight (48) hours after such notice is deposited in the United States mails or twenty-four (24) hours after such notice is filed with an operating telegraph company for immediate transmission by telegraph, and also except that a notice to Unit Operator shall not be deemed given until actually received by it.

30.2 **Proper Addresses.** Each Party's proper address shall be deemed to be the address set forth under or opposite its signature hereto unless and until such Party specifies another post office address within the continental limits of the United States by not less than ten (10) days prior written notice to all other Parties.

ARTICLE 31

EXECUTION IN COUNTERPARTS AND RATIFICATION

31.1 **Counterparts.** This agreement may be executed in counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.

31.2 **Ratification.** This agreement may be executed by the execution and delivery of a good and sufficient instrument of ratification, adopting and entering into this agreement. Such ratification shall have the same effect as if the party executing it had executed this agreement or a counterpart hereof.

ARTICLE 32

SUCCESSORS AND ASSIGNS

32.1 **Covenants.** This agreement shall be binding on and inure to the benefit of all Parties signing the same, their heirs, devisees, personal representatives, successors and assigns, whether or not it is signed by all the parties listed below. The terms hereof shall constitute a covenant running with the lands and the Committed Working Interests of the Parties.

ARTICLE 33

HEADINGS FOR CONVENIENCE

33.1 **Headings.** The table of contents and the headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

ARTICLE 34

EFFECTIVE DATE AND TERM

34.1 **Effective Date**. This agreement shall become effective on the effective date of the Unit Agreement.

34.2 **Term**. The term of this agreement shall be the same as the term of the Unit Agreement.

34.3 **Effect of Termination**. Termination of this agreement shall not relieve any Party of its obligations accrued hereunder before such termination. Notwithstanding termination of this agreement the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of and until final accounting between Unit Operator and the Parties. Termination of this agreement shall automatically terminate all rights and interests acquired by virtue of this agreement in lands within the Unit Area except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

34.4 **Effect of Signature**. When this agreement is executed by two Parties, execution by each shall be deemed consideration for execution by the other and each Party theretofore or thereafter executing this agreement shall thereupon become and remain bound hereby until the termination of this agreement. However, if the Unit Agreement does not become effective within twelve (12) months from and after the date of this agreement then at the expiration of said period this agreement shall terminate.

ARTICLE 35

SUBSEQUENT JOINDER

35.1 **Prior to the Commencement of Operations**. Prior to the commencement of operations under the Unit Agreement, all owners of Working Interests in the Unit Area who have joined in the Unit Agreement shall be privileged to execute or ratify this agreement, except as otherwise provided in Section 11.12 which deals with Joinder by True Owner.

35.2 **After Commencement of Operations**. After commencement of operations under the Unit Agreement, subsequent joinder in the Unit Agreement and in this agreement by any owner of Working Interest in land within the Unit Area who is not a Party shall be permitted upon such reasonable terms and conditions as may be approved by the Parties.

ARTICLE 36

WITHDRAWAL OF TRACTS

36.1 **Restriction**. No Party shall withdraw a tract from the Unit Area except with the written Approval or Direction of the Parties.

36.2 **Required Withdrawal**. If the owner of any substantial Lease Burden in a tract within the Unit Area fails to join in the Unit Agreement, upon Direction of the Parties in writing such tract shall be withdrawn from the Unit Area in accordance with Section 29 of the Unit Agreement, provided the time for such withdrawal has not expired. In such event if any Party or Parties owning a Committed Working Interest in such tract provide such indemnity as may be approved in writing by all other Parties, the Party or Parties owning Committed Working Interest in such tract shall not be required to withdraw it from the Unit Area.

36.3 **Action Before Effective Date**. Any Approval or Direction provided for in this article may be given before the effective date of this agreement by the Parties who have executed the same.

ARTICLE 37

RIGHT OF APPEAL

37.1 **Not Waived**. Nothing contained in this agreement shall be deemed to constitute the waiver by any Party of any right it would otherwise have to contest the validity of any law or any order or regulation of governmental authority (whether federal, state or local) relating to or affecting the conduct of operations within the Unit Area or to appeal from any such order.

ARTICLE 38

OTHER PROVISIONS Other provisions, if any, are:

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER

HUNTINGTON ENERGY, L.L.C.

By _____
Steven J. Goetzinger, Manager

Address: 908 N.W. 71st Street
Oklahoma City, OK 73116

Date of Execution

2-21-14

STATE OF OKLAHOMA)
) ss.
COUNTY OF OKLAHOMA)

The foregoing instrument was acknowledged before me by Steven J. Goetzinger, as Manager of Huntington Energy, L.L.C.

This 21 day of February, 2014.

WITNESS my hand and official seal.

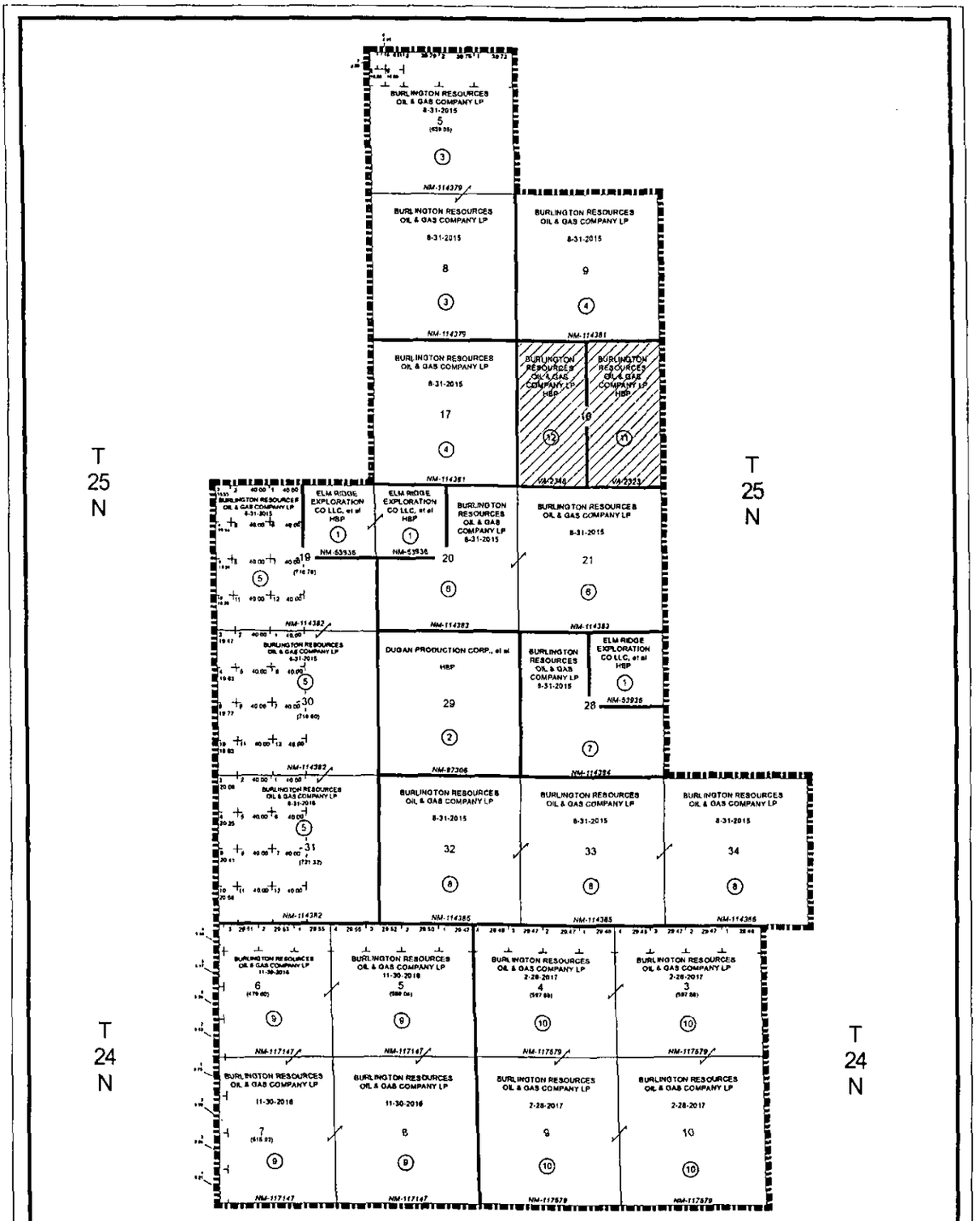
My Commission Expires:

12/3/17

SARA LYNCH NOTARY # 01018280 EXP. 12/03/17 PUBLIC STATE OF OKLAHOMA

_____
Notary Public

SIGNATURE PAGE FOR THE
ATSA FEDERAL UNIT OPERATING AGREEMENT
SAN JUAN COUNTY, NEW MEXICO



FYI JCU #2#

EXHIBIT "A"

ATSA UNIT AREA

SAN JUAN COUNTY, NEW MEXICO

	ACREAGE	PERCENTAGE
FEDERAL LANDS	13,905 28	95.60%
STATE LANDS	640.00	4.40%
TOTALS	14,545.28	100.00%

NOTE: UNLESS OTHERWISE NOTED HEREIN THE SECTIONS ON THIS PLAT CONTAIN 640 00 ACRES

HUNTINGTON ENERGY COMPANY, LLC
OKLAHOMA CITY, OKLAHOMA

4-3-2013

EXHIBIT "2"

Attached to and made a part of the Unit Operating Agreement for the Atsa Unit Area, San Juan County, New Mexico

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Chase Manahattan Bank, New York, New York on the first day of the month in which delinquency occurs plus + 2% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. **Audits**

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. 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 Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

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

6. **Approval By Non-Operators**

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Ecological and Environmental**

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

2. **Rentals and Royalties**

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

3. **Labor**

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation or the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

4. **Employee Benefits**

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

5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is $400 or less excluding accessorial charges. The $400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

(X) shall be covered by the overhead rates, or
( ) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

( ) shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 6,000.00
(Prorated for less than a full month)

Producing Well Rate $ 500.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

(2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

(1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

(2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

(3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

(4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

(5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

_____Percent (_____%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

_____ Percent (_____%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

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

2. **Overhead - Major Construction**

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

Account for overhead based on the following rates for any Major Construction project in excess of $ 25,000.00 :

A. 5 % of first $100,000 or total cost if less, plus

B. 3 % of costs in excess of $100,000 but less than $1,000,000, plus

C. 2 % of costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. **Catastrophe Overhead**

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

A. 5 % of total costs through $100,000; plus

B. 3 % of total costs in excess of $100,000 but less than $1,000,000; plus

C. 2 % of total costs in excess of $1,000,000.

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

4. **Amendment of Rates**

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

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

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

1. **Purchases**

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

2. **Transfers and Dispositions**

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line Pipe movements (except size 24 inch OD) and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) 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.

(b) 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.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "3"

Initial Test Well

Attached to and made a part of the
Unit Operating Agreement
for the
Atsa Unit Area
San Juan County, New Mexico

1. LOCATION: The Initial Test Well shall be drilled at a location selected by Unit Operator and approved by the Authorized Office of the Bureau of Land Management.

2. DEPTH: The Initial Test Well shall be drilled conformably with the terms of Article 9 of the Atsa Unit Agreement.

3. COSTS: Except as may be provided otherwise in any other Agreement or Agreements entered into by and between the Parties signatory hereto, the costs and expenses in connection with the Initial Test Well shall be borne by the Parties in proportion to their respective Participating Interest as defined in Paragraph 1.6 of Article 1.

4. TITLE EXAMINATION AREA: The title examination area for the Initial Test Well shall be an area surrounding the location of such well as may be designated by the Unit Operator

5. COST OF TITLE EXAMINATION: The cost of title examination shall be charged as a cost of drilling the Initial Test Well.

6. DEEPENING, PLUGGING BACK: In the absence of any agreement to the contrary, the attempted completion, deepening or plugging back, and abandonment of the Initial Test Well shall be governed by the provisions of Articles 18 to this Agreement.

PRODUCERS 88-PAID UP
Rev. 5-60, No. 2-8pt.
Spec. CO

EXHIBIT "4"
Attached to and made a part of the Unit Operating Agreement
for the Atsa Unit Area, San Juan County, New Mexico

OIL AND GAS LEASE

AGREEMENT, Made and entered into the _____ day of _____, 201 _____, by and between

_____

_____ whose address is

_____, hereinafter called Lessor (whether one or more) and

_____ whose address is _____

hereinafter called Lessee:

WITNESSETH, That the Lessor, for and in consideration of TEN AND MORE ($10.00+) DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of drilling, mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, specifically including coalbed methane and any and all substances produced in association therewith from coal-bearing formations, with rights of way and easements for roads, laying pipe lines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land situated in the County of _____ State of _____, described as follows, to-wit:

together with any reversionary rights therein, and together with all strips or parcels of land, (not, however, to be construed to include parcels comprising a regular 40-acre legal subdivision or lot of approximately corresponding size) adjoining or contiguous to the above described land and owned or claimed by Lessor, and containing _____ acres, more or less.

1. It is agreed that this lease shall remain in force for a term of Five (5) years from this date and as long thereafter as oil or gas of whatsoever nature or kind is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or re-working operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or re-working operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith.

In the event a well or wells is drilled and completed on the lands, or on the lands pooled therewith, for the purpose of developing coalbed gas, the word "operations" shall mean, in addition to those matters covered in the preceding paragraph. (1) operations of said wells to remove water or other substances from the coalbed, or to dispose of such water or other substances, even though such operations do not result in the production of hydrocarbons in paying quantities, or (2) shutting-in or otherwise discontinuing production from said wells to allow for surface or underground mining affecting the drillsite or wellbore.

2. This is a PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

3. In consideration of the premises the said Lessee covenants and agrees:
   - 1st To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal one-eighth (1/8) part of all oil produced and saved from the leased premises.
   - 2nd To pay Lessor on gas and casinghead gas produced from said land (1) when sold by Lessee, one-eighth (1/8) of the net proceeds derived from such sale or (2) when used by Lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of one-eighth(1/8) of such gas and casinghead gas, Lessor's interest, in either case, to bear one-eighth of the cost of processing, compressing, dehydrating and otherwise treating such gas or casinghead gas to render it marketable or usable and one-eighth (1/8) of the cost of gathering and transporting such gas and casinghead gas from the mouth of the well to the point of sale or use.
   - 3rd To pay Lessor for gas produced from any oil well and used off the premises or in the manufacture of gasoline or any other product, a royalty of one-eighth (1/8) of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. Where gas from a well capable of producing gas is not sold or used, Lessee may pay or tender as royalty to the royalty owners One Dollar per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of 90 days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.

5. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be paid the Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon.

7. When requested by Lessor, Lessee shall bury Lessee's pipeline below plow depth.

8. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

11. The rights of Lessor and Lessee hereunder may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title form Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission or any other leasehold owner.

12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands as to one or more of the formations thereunder with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

13. When operations or production are delayed or interrupted by lack of water, labor or material, or by fire, storm, flood, war rebellion, insurrection, riot, strike, differences with workmen, or failure of carriers to furnish transport or furnish facilities for transportation or lack of market in the field for the minerals produced, or as a result of any cause whatsoever beyond the control of Lessee, the time of such delay or interruption shall not be counted against Lessee and this lease shall remain in force during such delay or interruption and ninety (90) days thereafter, anything in this lease to the contrary notwithstanding.

14. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor and be subrogated to the rights of the holder thereof, and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

15. Should any one or more of the parties hereinabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor. The word "Lessor," as used in this lease, shall mean any one or more or all of the parties who execute this lease as Lessor. All the provisions of this lease shall be binding on the heirs, successors and assigns of Lessor and Lessee.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written.

_____ _____

SS#_____ SS#_____

STATE of _____ ACKNOWLEDGEMENT-INDIVIDUAL

COUNTY of _____

BEFORE ME, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____ , 200 ____ , personally appeared _____ _____ , to me known to be the identical person ___ , described in and who executed the within and foregoing instrument of writing and acknowledged to me that ___ he ___ duly executed same as _____ free and voluntary act and deed for the uses and purposes therein set forth and in the capacity stated therein.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year last above written.

My Commission Expires: _____

_____
Notary Public:
Address:

After recording return to:

EXHIBIT "5"

Attached to and made a part of the
Unit Operating Agreement
for the
Atsa Unit Area
San Juan County, New Mexico

INSURANCE

Operator shall carry insurance as follows for the benefit and protection of the Parties to this Agreement:

1. Insurance which shall comply with all applicable Worker's Compensation and Occupational Disease laws and which shall cover all of operator's employees performing work. Such insurance must also be endorsed, if applicable, to cover claims under the United States Longshoremen's and Harbor Workers' Compensation Act extended to include the Outer Continental Shelf, the Jones Act, and other maritime law. Employer's Liability Insurance shall be provided with a limit of $100,000 per accident.

2. Operator may include the aforesaid risks under its self-insurance program provided Operator complies with applicable laws and, in such event, Operator shall charge to the Joint Account a premium determined by applying manual insurance rates to the payroll.

3. Operator shall not be obligated or authorized to obtain or carry on behalf of the Joint Account any additional insurance covering the Parties or the operations to be conducted hereunder without the consent and agreement of all Parties. Each Party individually may acquire at its own expense such insurance as it deems proper to protect itself against claims, losses, or damages arising out of the joint operations provided that such insurance shall include a waiver of subrogation against the other Parties in respect of their interests hereunder. All uninsured losses and all damages to jointly owned property shall be borne by the Parties in proportion to their respective cost interests.

4. Operator shall promptly notify Non-Operators in writing of all losses involving damage to jointly owned property in excess of $50,000. In the event of an incident for which a loss adjuster may be appointed by one or more of the parties to this Agreement, the Parties agree that the Operator shall coordinate the appointment of such adjuster(s).

5. Operator shall require all contractors engaged in operations under this Agreement to comply with the applicable Worker's Compensation laws and to maintain such other insurance and in such amounts as Operator deems necessary.

In the event fewer than all Parties participate in an operation conducted under the terms of this Agreement, then the insurance requirement and costs, as well as all losses, liabilities, and expenses incurred as the result of such operation, shall be the burden of the Party or Parties participating therein.

Exhibit "6"

Attached to and made a part of the Unit Operating Agreement for the Atsa Unit Area, San Juan County, New Mexico

SECTION I
EQUAL EMPLOYMENT OPPORTUNITY CLAUSE

The following clause shall be included in all contracts exceeding $10,000.

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

(b) The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

(c) The Contractor will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(d) The Contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of labor.

(e) The Contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(f) In the event of the Contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Contractor may be declared ineligible for further government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(g) The Contractor will include the provisions of Paragraphs (a) through (g) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; provided however, that in the event the Contractor becomes involved in or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

SECTION 2
EMPLOYMENT OF THE HANDICAPPED

(a) The Contractor will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. The Contractor agrees to make affirmative action to employ, advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following; employment, upgrading, demotion or transfer, recruitment, advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The Contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(c) In the event of the Contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(d) The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer.

Such notices shall state the Contractor's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment, and the rights of applicants and employees.

(e) The Contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the Contractor is bound by the terms of Section 503 of the Rehabilitation Act of 1973, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

(f) The Contractor will include the provisions of this clause in every subcontract or purchase order of $2,500 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to Section 503 of the Act, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

SECTION 3
CERTIFICATION OF NONSEGREGATED FACILITIES

The following clause shall be included in all contracts and related subcontracts exceeding $10,000 which are not exempt from the Equal Opportunity Clause.

The Contractor certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. The Contractor certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. The Contractor agrees that a breach of this certification is a violation of the Equal Opportunity Clause in this contract. As used in this certification, the term "Segregated Facilities" means any waiting room, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms or other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom, or otherwise. The Contractor agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause, and that it will retain such certifications in its files.

NOTE: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.

The failure of a prime Contractor or subcontractor to comply with the terms of its certification of nonsegregated facilities or with the terms of Equal Opportunity Clause shall be a ground for termination or cancellation of contracts or subcontracts as provided in §1-12.805-9.

SECTION 4
WRITTEN AFFIRMATIVE ACTION COMPLIANCE PROGRAM

The Contractor certifies that if it has 50 or more employees and if it anticipates sales to us in connection with government contracts of $50,000 or more, it will develop a written Affirmative Action Compliance Program for each of its establishments consistent with the rules and regulations published by the Department of Labor in 41 CFR Chapter 60.

SECTION 5
AFFIRMATIVE ACTION PROGRAMS FOR DISABLED VETERANS AND VETERANS OF VIETNAM ERA

The following clauses shall be included in all contracts exceeding $10,000.

(a) The Contractor will not discriminate against any employee or applicant for employment because he or she is a disabled veteran or veteran of the Vietnam Era in regard to any position for which the employee or applicant for employment is qualified. The Contractor agrees to take affirmative action to employ, advance in employment and otherwise treat qualified disabled veterans and veterans of the Vietnam Era without discrimination based on their disability or veterans status in all employment practices such as the following; employment upgrading, demotion or transfer, recruitment, advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The Contractor agrees that all suitable employment openings of the Contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the Contractor other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall be listed at an appropriate local office of the State employment service system wherein the opening occurs. The Contractor further agrees to provide such reports to such local office regarding employment openings and hires as may be required.

State and local government agencies holding Federal contracts of $10,000 or more shall also list all their suitable openings with the appropriate office of the State employment service, but are not required to provide those reports set forth in paragraphs (d) and (3).

(c) Listing of employment openings with the employment service system pursuant to this clause shall be made at least concurrently with the use of any other recruitment source or effort and shall involve the normal obligations which attach to the placing of a bona fide job order, including the acceptance of referrals of veterans and nonveterans. The listing of employment openings does not require the hiring of any particular job applicant or from any particular group of job applicants, and nothing herein is intended to relieve the Contractor from any requirements in Executive Orders or regulations regarding nondiscrimination in employment.

(d) The reports required by paragraph (b) of this clause shall include, but not be limited to, periodic reports which shall be filed at least quarterly with the appropriate local office or, where the Contractor has more than one hiring location in a State, with the central office of that State employment service. Such reports shall indicate for each hiring location (1) the number of individuals hired during the reporting period, (2) the number of nondisabled veterans of the Vietnam Era hired, (3) the number of disabled veterans of the Vietnam Era hired, and (4) the total number of disabled veterans hired. The reports should include covered veterans hired for on-the-job training under 38 USC 1787. The Contractor shall submit a report within 30 days after the end of each reporting period wherein any performance is made on the contract identifying data for each hiring location. The Contractor shall maintain at each hiring location copies of the reports submitted until the expiration of one year after final payment under the contract, during which time these reports and related documentation shall be made available, upon request, for examination by any authorized representatives of the contracting officer or of the Secretary of Labor. Documentation would include personnel records respecting job openings, recruitment and placements.

(e) Whenever the Contractor becomes contractually bound to the listing provisions of this clause, it shall advise the employment service system in each State where it has establishments of the name and location of each hiring location in the State. As long as the Contractor is contractually bound to these provisions and has so advised the State system, there is not need to advise the State system of subsequent contracts. The Contractor may advise the State system when it is no longer bound by this contract clause.

(f) This clause does not apply to the listing of employment openings which occur and are filled outside of the 50 states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands.

(g) The provisions of paragraphs (b), (c), (d) and (e) of this clause do not apply to openings which the Contractor proposes to fill from within its own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement. This exclusion does not apply to a particular opening once an employer decides to consider applicants outside of its own organization or employer-union arrangement for that opening.

(h) As used in this clause:

(1) "All suitable employment openings" includes, but is not limited to, openings which occur in the following job categories: production and nonproduction; plant and office; laborers and mechanics; supervisory and nonsupervisory; technical; and executive, administrative; and professional openings as are compensated on a salary basis of less than $25,000 per year. This term includes full time employment of more than three (3) days' duration, and part-time employment. It does not include openings which the Contractor proposes to fill from within its own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement nor openings in an education institution which are restricted to students of that institution. Under the most compelling circumstances an employment opening may not be suitable for listing, including such situations where the needs of the Government cannot reasonably be otherwise supplied, where listing would be contrary to national security, or where the requirement of listing would otherwise not be for the best interest of the Government.

(2) "Appropriate office of the State employment service system" means the local office of the Federal-State national system of public employment offices with assigned responsibility for serving the area where the employment opening is to be filled, including the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

(3) "Openings which the Contractor proposes to fill from within its own organization" means employment openings for which no consideration will be given to persons outside the Contractor's organization (including any affiliates, subsidiaries, and the parent companies) and includes any openings which the Contractor proposes to fill from regularly established "recall" lists.

(4) "Openings which the Contractor proposes to fill pursuant to a customary and traditional employer-union hiring arrangement" means employment openings which the Contractor proposes to fill from union halls, which is part of the customary and traditional hiring relationship which exists between the Contractor and representatives of its employees.

(i) The Contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(j) In the event of the Contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations and relevant orders of the Secretary of Labor issued pursuant to the Act.

(k) The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such notice shall state the Contractor's obligation under the law to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Vietnam Era for employment, and the rights of applicants and employees.

(l) The Contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the Contractor is bound by the terms of the

Vietnam Era Veterans Readjustment Assistant Act, and is committed to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Vietnam Era.

(m) The Contractor will include the provisions of this clause in every subcontract or purchase order of $10,000 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to the Act, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

SECTION 6
UTILIZATION OF SMALL BUSINESS CONCERNS AND SMALL BUSINESS CONCERNS OWNED AND CONTROLLED BY SOCIALLY AND ECONOMICALLY DISADVANTAGED INDIVIDUALS

The following clause shall be included in all contracts over $10,000 except contracts for services which are personal in nature and contracts which will be performed entirely (including all subcontracts) outside any State, territory, or possession of the United States, the District of Columbia, or the Commonwealth of Puerto Rico.

(a) It is the policy of the United States that small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in the performance of contracts let by any Federal agency.

(b) The Contractor hereby agrees to carry out this policy in the awarding of subcontracts to the fullest extent consistent with the efficient performance of this contract. The Contractor further agrees to cooperate in any studies or surveys as may be conducted by the Small Business Administration or the contracting agency which may be necessary to determine the extent of the Contractor's compliance with this clause.

(c) As used in this contract:

(1) The term "small business concern" shall mean a small business as defined pursuant to Section 3 of the Small Business Act and relevant regulations promulgated pursuant thereto.

(2) The term "small business concern owned and controlled by socially and economically disadvantaged individuals" shall mean a small business concern--

(i) which is at least 51 per centum owned by one or more socially and economically disadvantaged individuals; or in the case of any publicly owned business, at least 51 per centum of the stock of which is owned by one or more socially and economically disadvantaged individuals; and

(ii) whose management and daily business operations are controlled by one or more of such individuals.

The Contractor shall presume that socially and economically disadvantaged individuals include Black Americans, Hispanic Americans, Native Americans, Asian-Pacific Americans, and other minorities, or any other individual found to be disadvantaged by the Small Business Administration pursuant to Section 8(a) of the Small Business Act.

(d) Contractors acting in good faith may rely on written representations by their subcontractors regarding their status as a small business concern or a small business concern owned and controlled by socially and economically disadvantaged individuals.

SECTION 7
UTILIZATION OF WOMEN-OWNED BUSINESS CONCERNS

The following clause shall be include in all contracts expected to exceed $10,000 except contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, Puerto Rico and the Trust Territory of the Pacific Islands, and contracts for services which are personal in nature.

(a) It is the policy of the United States Government that women-owned businesses shall have the maximum practicable opportunity to participate in the performance of contracts awarded by any Federal agency.

(b) The Contractor agrees to use its best efforts to carry out this policy in the award of subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, a "woman-owned business" concern means a business that is at least 51 per centum owned by a woman or women who also control and operate it. "Control" in this context means exercising the power to make policy decisions. "Operate"

in this context means being actively involved in the day-to-day management. "Women" means all women business owners.

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

Exhibit "7"

Attached to and made a part of that certain Unit Operating Agreement by and between the parties relating to the Atsa Unit Area, San Juan County, New Mexico

EXHIBIT "E"

GAS BALANCING AGREEMENT ("AGREEMENT")

ATTACHED TO AND MADE PART OF THAT CERTAIN

OPERATING AGREEMENT DATED December 1, 2011

BY AND BETWEEN Huntington Energy LLC, as Operator

AND Burlington Resources Oil & Gas Company LP, as Non-Operator ("OPERATING AGREEMENT")

RELATING TO THE Contract AREA,

San Juan **COUNTY/PARISH, STATE OF** New Mexico.

1. DEFINITIONS

The following definitions shall apply to this Agreement:

1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price ~~and delivery conditions~~ under such agreement ~~are representative of prices and delivery conditions existing under other similar agreements in the area between unaffiliated parties at the same time for natural gas of comparable quality and quantity.~~ equals or exceeds the Published Reference Price less any applicable gathering and treating charges.

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

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

☑ all of the acreage and depths subject to the Operating Agreement, subject to the following: (i) if a well is completed in two (2) or more producing intervals where the working interest and royalty ownership are not uniform, producing intervals having uniform working interest and royalty ownership shall be considered a separate Balancing Area, and (ii) if a well or group of wells have uniform working interest and royalty ownership, but any of such well or wells are considered to be in a different state and/or federal communitized area, state or federal unit, or pooled unit, each such well or group of wells shall be considered a separate Balancing Area.

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

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

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

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

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

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

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

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

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

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

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

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

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

1.16 ☐ **(Optional)** "Winter Period" shall mean the month(s) of November and December in one calendar year and the month(s) of January and February in the succeeding calendar year.

1.17 "Published Reference Price" shall mean the index price published for the applicable geographic area on the transporting pipeline in the first of the production month's edition of *Inside FERC Gas Market Report* ("*Inside FERC Index*"). *

2. BALANCING AREA

2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder other than cash settlements made pursuant to Section 7, shall be on the basis of Gas taken from the Balancing Area measured in **(Alternative 1)** ☑ Mcfs ~~or **(Alternative 2)** ☐ MMBtus~~.

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

3. RIGHT OF PARTIES TO TAKE GAS

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

* In the event the *Inside FERC Index* ceases to be published, the Parties will attempt in good faith to agree upon a replacement reference price reflective of the same market reflected by the *Inside FERC Index*.

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

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

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

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

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

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

the Operator determines

shall, to the extent practicable, make available to the Underproduced Party(ies) any part of such Party's Full Share of Current Production that *

* such Party fails to take, or

4. IN-KIND BALANCING

4.1 Effective the first day of any calendar month following at least thirty (30) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying fifty percent (50%) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than fifty percent (50%) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

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

4.2 ☑ **(Optional - Seasonal Limitation on Makeup - Option 2)** Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than twenty-five percent (25%) of its Full Share of Current Production for Makeup Gas during / the Winter Period.

any month of

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

5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within / sixty (60) ~~forty five (45)~~ days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party~~, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No.24, as amended or supplemented hereafter~~. Each Party taking Gas will promptly provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

5.2 If any Party fails to provide the data required herein for ~~four (4)~~ **six (6)** consecutive production months, the Operator, or where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the required data.

6. PAYMENTS ON PRODUCTION

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

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

owners to whom it is 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 (i) the plugging and abandonment of the last producing interval in the Balancing Area, (ii) the termination of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, ~~or at~~ (iii) any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, / or (iv) all leases in the Balancing Area have expired, 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 this 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)** Notwithstanding anything to the contrary in Section 2.1 / 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 / (measured on a MMBtu basis) 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

Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be based on the / ~~spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing bulletin~~ Published Reference Price, less applicable gathering and treating costs.

7.7 Interest compounded at the / ~~rate of~~ prime rate published by the *Wall Street Journal* plus one percent (1 %) per annum, or the maximum lawful rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1 beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.

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

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

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

~~8. TESTING~~

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

9. OPERATING COSTS

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

10. LIQUIDS

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

11. AUDIT RIGHTS

Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination or cancellation of this Agreement, for a period of / ~~two (2)~~ four (4) years from the end of the calendar year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not limited to information regarding Btu-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

12. MISCELLANEOUS

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

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

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

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

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

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

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

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

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

12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all Parties, each Party agrees to compute and report income to the Internal Revenue Service ~~(select one) ☐ 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 ☐~~ (the cumulative method) 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 thirty (30) 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.

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

Dispute Resolution

If a dispute arises between the Parties under this Gas Balancing Agreement, which cannot be resolved by negotiation, the dispute shall be submitted to mediation before resorting to litigation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties shall each have present at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any Party may file a complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60) days of the date of the mediation request, (2) for statute of limitation reasons, or (3) to seek a preliminary injunction or other provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.

Balancing Net of Royalty **(To be used for deepwater properties subject to royalty relief or properties subject to MMS take-in-kind program)**

The Parties agree that the intent of this Gas Balancing Agreement is for each Party to ultimately take or otherwise receive the benefit of its Percentage Interest of the Gas produced from the Balancing Area after satisfaction of lessor royalty obligations. Therefore, in the event royalty relief, lessor take-in-kind or other programs cause changes in the lessor royalty burden affecting Gas produced from the Balancing Area over the life of such production such that the Parties are precluded from achieving that end, Makeup Gas volumes and cash settlement volumes shall be adjusted to ensure that each Party receives its Percentage Interest in Gas after satisfaction of lessor royalty obligations. The Operator shall maintain documentation on volumes subject to royalty relief, and each Party shall maintain documents with respect to lessor royalty take in-kind to effect this provision.

15. COUNTERPARTS

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

IN WITNESS WHEREOF, this Agreement shall be effective as of the _____ day of _____, _____.

ATTEST OR WITNESS: **OPERATOR**

_____ _____

_____ BY: _____

_____ _____

Type or print name

_____ Title _____

_____ Date _____

_____ Tax ID or S.S. No. _____

NON-OPERATORS

_____ _____

_____ BY: _____

_____ _____

_____ Type or print name

_____ Title _____

_____ Date _____

_____ Tax ID or S.S. No. _____

_____

_____ BY: _____

_____ _____

_____ Type or print name

_____ Title _____

_____ Date _____

_____ Tax ID or S.S. No. _____

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: _____

Acknowledgment in representative capacity:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____ as

_____ of _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

EXHIBIT "8 A"

Attached to and made a part of the Unit Operating Agreement
for the Atsa Unit Area, San Juan County, New Mexico

	TRACT NO.	ACRES PER TRACT	UNIT PARTICIPATION FACTOR
FEDERAL	1*	480.00*	0.0000000%
	2*	640.00*	0.0000000%
	3	1,279.08	9.5273991%
	4	1,280.00	9.5342518%
	5	1,996.88	14.8740287%
	6	1,120.00	8.3424703%
	7	480.00	3.5753444%
	8	1,920.00	14.3013777%
	9	2,233.56	16.6369714%
	10	2,475.76	18.4410307%
		12,785.28	95.2328741%
STATE	11	320.00	2.3835629%
	12	320.00	2.3835629%
		640.00	4.7671259%
TOTAL COMMITTED ACRES		13,425.28	100.0000000%

*Denotes tract is not committed to the Atsa Unit Area.

EXHIBIT "8B"
ATSA UNIT AREA
SAN JUAN COUNTY, NEW MEXICO
WORKING INTEREST OWNERS PARTICIPATION INTEREST

2/11/2014

TRACT NUMBER	1	2	3	4	5	6	7	8	9	10*	11	12
TRACT STATUS	EC	EC	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC
PARTICIPATION ACRES BY TRACT	0.00	0.00	1,279.08	1,280.00	1,996.88	1,120.00	480.00	1,920.00	2,233.56	2,475.76	320.00	320.00
Elm Ridge Exploration Co LLC	0.00											
QEP Energy Co.	0.00											
Dugan Production Corp.		0.00										
Oxy Y-1 Company		0.00										
Burlington Resources Oil & Gas Company LP			1,279.08	1,280.00	1,996.88	1,120.00	480.00	1,920.00	2,233.56	2,475.76	320.00	320.00
TOTALS	0.00	0.00	0.00	1,280.00	1,996.88	1,120.00	480.00	1,920.00	2,233.56	2,475.76	320.00	320.00

TRACT NUMBER	TOT. AC.S	PERCENT
TRACT STATUS		
PARTICIPATION ACRES BY TRACT	13,425.28	
Elm Ridge Exploration Co LLC	0.00	0.0000%
QEP Energy Co.	0.00	0.0000%
Dugan Production Corp.	0.00	0.0000%
Oxy Y-1 Company	0.00	0.0000%
Burlington Resources Oil & Gas Company LP	13,425.28	100.0000%
TOTALS	13,425.28	100.0000%

EXHIBIT "9 A"

Attached to and made a part of the Unit Operating Agreement
for the Atsa Unit Area, San Juan County, New Mexico

	TRACT NO.	ACRES PER TRACT	UNIT NET REVENUE	BENEFICIAL ACRES	BENEFICIAL INTEREST
FEDERAL	1*	480.00*	78.95830%	0.00	0.0000000%
	2*	640.00*	85.46000%	0.00	0.0000000%
	3	1,279.08	87.50000%	1,119.20	9.5429965%
	4	1,280.00	87.50000%	1,120.00	9.5498605%
	5	1,996.88	87.50000%	1,747.27	14.8983793%
	6	1,120.00	87.50000%	980.00	8.3561279%
	7	480.00	87.50000%	420.00	3.5811977%
	8	1,920.00	87.50000%	1,680.00	14.3247908%
	9	2,233.56	87.50000%	1,954.37	16.6642081%
	10	2,475.76	87.50000%	2,166.29	18.4712208%
		12,785.28		11,187.12	95.3887816%
STATE	11	320.00	84.50000%	270.40	2.3056092%
	12	320.00	84.50000%	270.40	2.3056092%
		640.00		540.80	4.6112184%
TOTAL COMMITTED ACRES		13,425.28		11,727.92	100.0000000%

*Denotes tract is not committed to the Atsa Unit Area.

EXHIBIT "9 B"
ATSA UNIT AREA
SAN JUAN COUNTY, NEW MEXICO
WORKING INTEREST OWNERS BENEFICIAL INTEREST

2/11/2014

TRACT NUMBER	1	2	3	4	5	6	7	8	9	10	11	12
TRACT STATUS	EC	EC	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC
PARTICIPATION ACRES BY TRACT	0.00	0.00	1,119.20	1,120.00	1,747.27	980.00	420.00	1,680.00	1,954.37	2,166.29	270.40	270.40
Elm Ridge Exploration Co LLC	0.00											
QEP Energy Co.	0.00											
Dugan Production Corp.		0.00										
Oxy Y-1 Company		0.00										
Burlington Resources Oil & Gas Company LP			1,119.20	1,120.00	1,747.27	980.00	420.00	1,680.00	1,954.37	2,166.29	270.40	270.40
TOTALS	0.00	0.00	0.00	1,120.00	1,747.27	980.00	420.00	1,680.00	1,954.37	2,166.29	270.40	270.40

TRACT NUMBER	TOT. AC.S	PERCENT
TRACT STATUS		
PARTICIPATION ACRES BY TRACT	11,727.92	
Elm Ridge Exploration Co LLC	0.00	0.0000%
QEP Energy Co.	0.00	0.0000%
Dugan Production Corp.	0.00	0.0000%
Oxy Y-1 Company	0.00	0.0000%
Burlington Resources Oil & Gas Company LP	11,727.92	100.0000%
TOTALS	11,727.92	100.0000%