

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE NEW MEXICO 87504

369 MONTEZUMA NO 213
SANTA FE NFW MEXICO 87501

(505) 982 2043 (Phone)
(505) 660 6612 (Cell)
(505) 982 2151 (Fax)

jamesbruc@aol.com

June 20, 2017

Case 15768

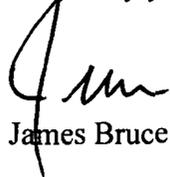
Florene Davidson
Oil Conservation Division
1220 South St Francis Drive
Santa Fe, New Mexico 87505

Dear Florene

Enclosed for filing on behalf of Forty Acres Energy LLC are an application for statutory unitization together with a proposed advertisement Please set this matter for the July 20 2017 Examiner hearing The persons being notified are listed on Exhibit A

Thank you

Very truly yours



James Bruce

Attorney for Forty Acres Energy LLC

3MG Corp
PO Box 7698
Tyler TX 75711

Apache
2000 Post Oak Boulevard Suite 100
Houston TX 77056 4400

Brazos Ltd Partnership
PO Box 911
Breckenridge TX 76424 0911

Chevron
1400 Smith Street
Houston TX 77002

ConocoPhillips Co
3300 N A St # 6 100
Midland TX 79705

Craig M McDonold
505 N Big Spring
Midland TX 79701

Crump Est
500 W 7th St TX1 497 01 011
Ft Worth TX 76102 4700

CWM 200B
PO BOX 7698
Tyler TX 75711

CWM 200B II
PO BOX 7698
Tyler TX 75711

David H Essex
PO Box 5077
Midland TX 79701

Millard Deck Est
500 W 7th St TX1 497 01 011
Ft Worth TX 76102 4700

Devon Energy
333 West Sheridan Avenue
Oklahoma City OK 73102

EOG Resources
Po Box 4362
Houston TX 77210 4362

SCR Energy Capital, LLC
PO Box 519
Phoenix MD 21131

XTO, Attn Steve Cobb
810 Houston Street
Ft Worth TX 76102 6298

GFW Ventures A Reaugh Family, LP
PO Box 6897
Abilene TX 76430

James O Duncan
PO Box 109
Big Spring TX 79721

Kaiser Francis Oil Company
6733 S Yale Ave
Tulsa OK 74136

LeaCo New Mexico Exploration & Production LLC
2000 Post Oak Boulevard Suite 100
Houston TX 77056 4400

McGee Drilling Corp
Po Box 2471
Midland TX 79702

Mewbourne Development Corp
500 W Texas #1020
Midland TX 79701

Mewbourne Energy Partners
500 W Texas #1020
Midland TX 79701

Mewbourne Oil Co
500 W Texas #1020
Midland TX 79701

Oxy USA, Inc
5 Greenway Plaza Suite 100
Houston TX 77046

RBA BOC Permian NM LLC
PO Box 2222
Albany TX 76430

Vanguard Natural Resources
5847 San Felipe Suite 3000
Houston TX 77057

W E Harper

Westbrook Oil Co
215 W Broadway
Hobbs NM 88241 2264

Don B &Doloris Scott
PO Box 1178
Hobbs NM 88240



Yarbrough Oil Co
1008 W Broadway
Hobbs NM 88240

ZPZ Energy Co
200 Post Oak Boulevard Suite 100
Houston TX 77056 4400

Carl W Burnett
2030 American Bank Tower
Austin TX 78204

Bill W Nelson
239 Aspen
Hereford TX 79045

Wade F Spillman
4101 N Hills DR
Austin TX 78731

G H Nelson
707 Purdue Dr
Tyler TX 75703

Alan O Johnson
400 Heritage Bank Bldg
Tyler TX 75703

Don Scott
PO Box 1178
Hobbs NM 88240

Marion Bowers Trust
Route 4 Box 352
Seminole TX 79360

StandleyStuder
2426 Cee Gee STE 206
San Antonio TX 78249

Silverridge Corp
302 W Pointer Trail
Van Buren AR 72956

LHR Enterprises (Robert Bowers Trust)
PO Box 1737
Hobbs NM 88240

Robert Bowers
PO Box 1737
Hobbs NM 88240

Darrell W Marker
PO Box 1737
Hobbs NM 88240

RARN Inc
920 Adeline Court
St Paul MN 55118

Robert E Olson
9014 Callaghan Rd
San Antonio TX 78230

Harvey S & Paula J Olson
2707 Marlborough Dr
San Antonio TX 78230

Roland R Nabors
8922 Wexford Dr
San Antonio TX 78217

A Earl Jones
421 Main
Brownfield TX 79316

Alan W Ralston
PO Box 1737
Hobbs NM 88240

Arnold Divine Est
(see Divine Heirs)

Baber Well Service
PO Box 1772
Hobbs NM 88240

Bobby Doverspike
3312 Pine Hurst Trl Apt 169
Ft Worth TX 76137 3164

Byrl Harris
PO Box 426
Hobbs NM 88240

Concho Resources, Attn Rita Burris
600 W Illinois Avenue
Midland TX 79701

Douglas Kasch
813 N County Club Rd
Algona IA 50511 7265

Guy Williams
420 W Gold Ave
Hobbs NM 88240

Kenneth Boss
301 S Hinson Rd
Lovington NM 88260

R O Williams & Mel van Craighead
PO Box 576
Ardmore OK 73402

Robert D Calhoon
2713 N Gold CT
Hobbs NM 88240

SambbaiahKankanala

W Leo Slaton

14267 FM 2769

Leander TX 78641 9697

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

**APPLICATION OF FORTY ACRES ENERGY, LLC
FOR STATUTORY UNITIZATION, LEA COUNTY,
NEW MEXICO**

APR 21 2 4
Case No 15768

APPLICATION

Forty Acres Energy LLC ("Applicant") for its application, states

1 Applicant is engaged in the business of producing and selling oil and gas as defined in the Statutory Unitization Act NMSA 1978 §§70 7 1 *et seq* (the ' Act)

2 Applicant's address is Suite 305 11777B Katy Freeway Houston Texas 77079, phone number (832) 706 0057

3 Applicant is a working interest owner in the proposed West Eumont Unit (the "Unit Area) which covers the following lands located in Lea County, New Mexico

Township 20 South, Range 36 East, N M P M

Section 21	S/2
Section 22	NE/4 and S/2
Sections 26 28	All
Section 29	NE/4
Section 32	E/2
Sections 33 35	All

Township 21 South, Range 35 East, N M P M

Section 1	Lots 3 6 and 11 14 and SW/4 (W/2 equivalent)
Section 2	Lots 1 16 and S/2 (All)
Section 3	Lots 1 16 and S/2 (All)
Section 11	N/2
Section 12	NW/4

Containing 7,977 30 acres of federal state and fee lands

A plat of the Unit Area is attached hereto as Exhibit A

4 The vertical limits of the unitized formation are defined as

'Unitized Formation shall mean that interval underlying the Unit Area the vertical limits of which extend from an upper limit described as the top of the Yates Formation to a lower limit at the base of the Queen Formation the geologic markers having been previously found to occur at 3,100 feet and 4 208 feet respectively, in Amerada Petroleum Corporation s #1 WE D ' State well (located 1980 feet FSL and 660 feet FEL of Section 27 T-20-S R 36 E Lea County New Mexico) as recorded on the Schlumberger Electrical Log taken on March 25 1954 said log being measured from a derrick floor elevation of 3 586 feet above sea level

The Yates Seven Rivers Queen reservoir underlying the Unit Area has been reasonably defined by development

5 Applicant proposes to institute a secondary recovery project in the Unit Area as further described in an injection application filed concurrently with this application

6 The plan of unitization for the Unit Area is embodied in the Unit Agreement which is attached hereto as Exhibit B The plan of unitization is fair reasonable and equitable, and the participation formula contained therein allocates the produced and saved hydrocarbons to the separately owned tracts in the Unit Area on a fair reasonable and equitable basis

7 The operating plan for the Unit Area covering the manner in which the Unit Area will be supervised and managed and costs allocated and paid is embodied in the Unit Operating Agreement which is attached hereto as Exhibit C

8 The unitized management operation and further development of the Yates - Seven Rivers Queen reservoir underlying the Unit Area is reasonably necessary in order to effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil and gas therefrom

9 The secondary recovery project, as applied to the Yates Seven Rivers Queen reservoir underlying the Unit Area is feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil and gas from the Yates Seven Rivers Queen reservoir than would otherwise be recovered

10 The estimated additional costs of conducting unitized operations will not exceed the estimated value of the additional oil and gas recovered thereby, plus a reasonable profit

11 Unitization and approval of the secondary recovery project will benefit the working interest owners and royalty owners in the Yates Seven Rivers Queen reservoir underlying the Unit Area

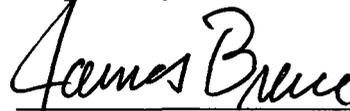
12 Applicant has made a good faith effort to secure the voluntary unitization of interest owners in the Unit Area

13 Applicant requests that it be named operator of the Unit Area

14 Approval of this application will prevent waste and protect correlative rights

WHEREFORE applicant requests that after notice and hearing the Division enter its order approving statutory unitization of the Unit Area

Respectfully submitted



James Bruce
Post Office Box 1056
Santa Fe New Mexico 87504
(505) 982 2043

jamesbruc@aol.com

Attorney for Forty Acres Energy LLC

PROPOSED ADVERTISEMENT

Case No 15768

Application of Forty Acres Energy, LLC for statutory unitization, Lea County, New Mexico
Applicant seeks an order statutorily unitizing all mineral interests in the Yates Seven Rivers-Queen formation in the proposed West Eumont Unit underlying 7977 30 acres of federal state and fee lands covering all or parts of Sections 21 22 26 29 and 32 35 of Township 20 South Range 36 East N M P M and Sections 1 3 11 and 12 of Township 21 South Range 35 East N M P M Among the matters to be considered at hearing pursuant to the New Mexico Statutory Unitization Act NMSA 1978 §§70 7 1 *et seq* will be The necessity of unit operations the determination of horizontal and vertical limits of the unit area the determination of the fair reasonable and equitable allocation of production and costs of production including capital investments to each of the tracts in the unit area the determination of credits and charges to be made among the working interest owners in the unit area for their investment in wells and equipment and such other matters as may be necessary and appropriate The unit area is centered approximately 5 miles northwest of Oil Center New Mexico

2015.02.21

West Eumont Unit
 20S-36E; 21S-35E
 Lea County, New Mexico
 Draft 6 (05/16/2017)

BLM #
 NM #
 Fee
 Unit Tract
 WI Owner

15 14
 T20S-R36E

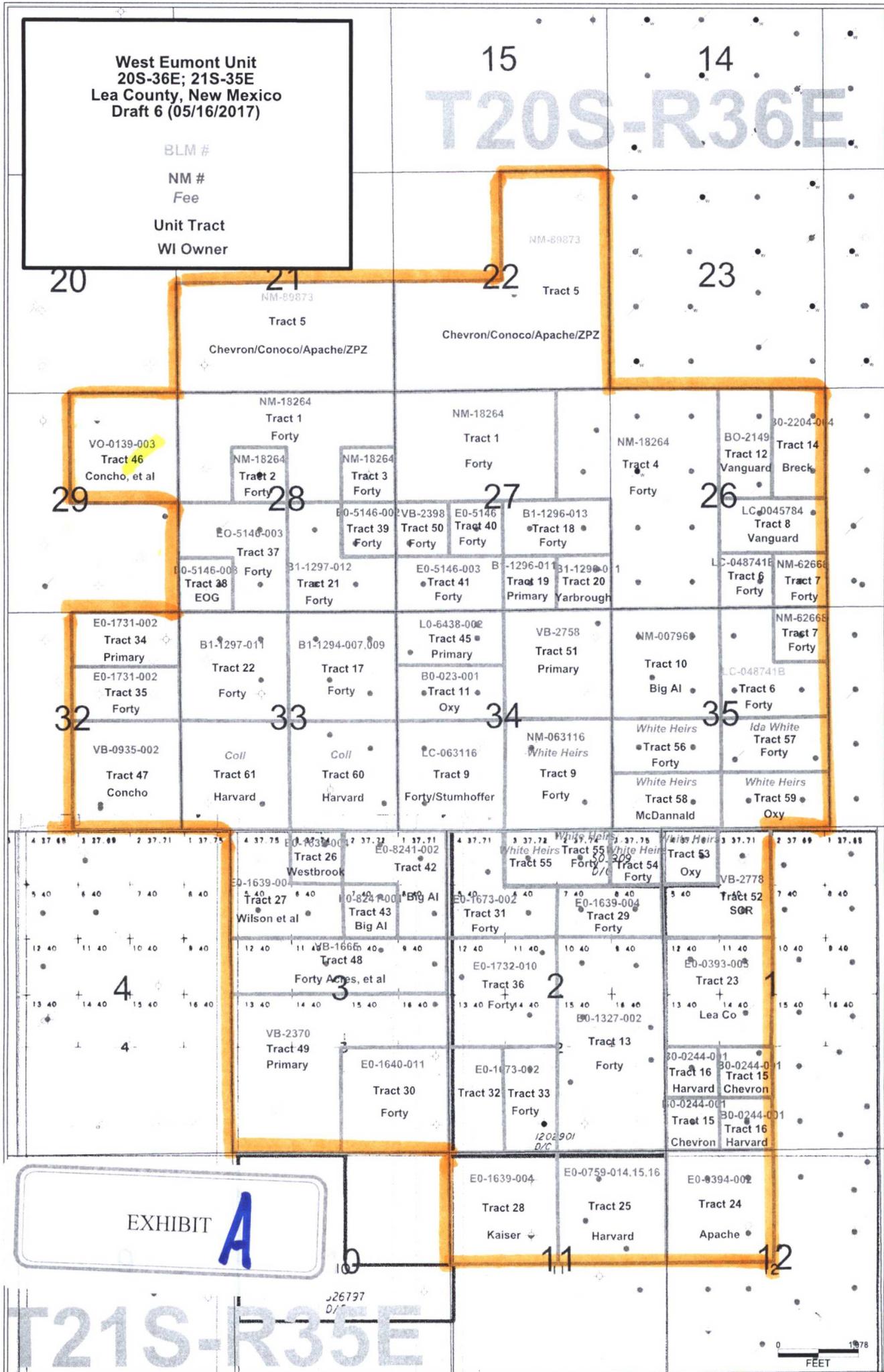


EXHIBIT **A**

T21S-R35E

0 1078
 FEET

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

WEST EUMONT UNIT
LEA COUNTY, NEW MEXICO

NO _____

EXHIBIT

B

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

WILKINSON UNIT
IN A COUNTY NEW MEXICO

TABLE OF CONTENTS by Sections

SECTION

- 1 ENABLING ACT AND REGULATIONS
- 2 UNIT AREA AND DEFINITIONS
- 3 EXHIBITS
- 4 EXPANSION
- 5 UNITIZED LAND
- 6 UNIT OPERATOR
- 7 RESIGNATION OR REMOVAL OF UNIT OPERATOR
- 8 SUCCESSOR UNIT OPERATOR
- 9 ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT
- 10 RIGHTS AND OBLIGATIONS OF UNIT OPERATOR
- 11 PLAN OF OPERATIONS
- 12 USE OF SURFACE AND USE OF WATER
- 13 TRACT PARTICIPATION
- 14 TRACTS QUALIFIED FOR PARTICIPATION
- 15
- A ALLOCATION OF UNITIZED SUBSTANCES
- B EXCESS IMPUTED NEWLY DISCOVERED CRUDE OIL
- C EXCESS IMPUTED STRIPPER CRUDE OIL
- D TAKING UNITIZED SUBSTANCES IN KIND
- 16 OUTSIDE SUBSTANCES
- 17 ROYALTY SETTLEMENT
- 18 RENTAL SETTLEMENT
- 19 CONSERVATION
- 20 DRAINAGE
- 21 LOSS OF TITLE
- 22 LEASES AND CONTRACTS CONFORMED AND EXTENDED
- 23 COVENANTS RUN WITH LAND
- 24 EFFECTIVE DATE AND TERM

- 25 RATE OF PROSPECTING, DEVELOPMENT & PRODUCTION
- 26 NONDISCRIMINATION
- 27 APPEARANCES
- 28 NOTICES
- 29 NO WAIVER OF CERTAIN RIGHT
- 30 EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY
- 31 UNAVOIDABLE DELAY
- 32 NONJOINER AND SUBSEQUENT JOINER
- 33 COUNTERPARTS
- 34 JOINER IN DUAL CAPACITY
- 35 TAXES
- 36 NO PARTNERSHIP
- 37 PRODUCTION AS OF THE EFFECTIVE DATE
- 38 NO SHARING OF MARKET
- 39 STATUTORY UNITIZATION
- EXHIBIT A MAP OF UNIT AREA
- EXHIBIT B SCHEDULE OF OWNERSHIP and TRACT PARTICIPATION

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
WEST MOUNT UNIT
LEA COUNTY NEW MEXICO

THIS AGREEMENT entered into as of the ____1st____ day of April 2017 by and between the parties subscribing ratifying or consenting hereto and herein referred to as the parties hereto

WITNESSTH

WHEREAS the parties hereto are the owners of working royalty or other oil and gas interests in the Unit Area subject to this Agreement and

WHEREAS the Mineral Leasing Act of February 25 1920 41 Stat 437 as amended 30 U.S.C. Sec 181 et seq authorizes Federal lessees and their representatives to unite with each other or jointly or separately with others in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool field or like area or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest and

WHEREAS the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1 Chapter 88 Laws 1943 as amended by Section 1 of Chapter 176 Laws of 1961) (Chapter 19 Article 10 Section 45 New Mexico Statutes 1978 Annotated) to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool field or area and

WHEREAS the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1 Chapter 88 Laws 1943 as amended by Section 1 Chapter 162 Laws of 1951) (Chapter 19 Article 10 Section 47 New Mexico Statutes 1978 Annotated) to amend with the approval of lessee evidenced by the lessee's execution of such agreement or otherwise any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool field or area and

WHEREAS the Oil Conservation Division of the State of New Mexico (hereinafter referred to as the Division) is authorized by an Act of the Legislature (Chapter 72 Laws of 1935 as amended) (Chapter 70 Article 2 Section 2 et seq New Mexico Statutes 1978 Annotated) to approve this Agreement and the conservation provisions hereof and

WHEREAS the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chapter 65 Article 3 and Article 14 N.M.S. 1953 Annotated) to approve this Agreement and the conservation provisions hereof and

WHEREAS the parties hereto hold sufficient interest in the Unit Area covering the land hereinafter described to give reasonably effective control of operations therein and

WHEREAS it is the purpose of the parties hereto to conserve natural resources prevent waste and secure other benefits obtainable through development and operation of the area subject to this Agreement under the terms conditions and limitations herein set forth

NOW THEREFORE in consideration of the premises and the promises herein contained the parties hereto commit to this Agreement their respective interest in the below defined Unit Area, and agree severally among themselves as follows

SECTION 1 ENABLING ACT AND REGULATIONS The Mineral Leasing Act of February 25 1920 as amended *supra*, and all valid pertinent regulations including operating and unit plan regulations heretofore issued thereunder or valid pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands provided such regulations are not inconsistent with the terms of this Agreement and as to non Federal lands the oil and gas operating regulations in effect as of the Effective Date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the state in which the non Federal land is located are hereby accepted and made a part of this Agreement

SECTION 2 UNIT AREA AND DEFINITIONS For the purpose of this Agreement the following terms and expressions as used herein shall mean

- (a) Unit Area is defined as those lands described in Exhibit B and depicted on Exhibit A hereof and such land is hereby designated and recognized as constituting the Unit Area, containing 7 977 30 acres more or less in Lea County New Mexico
- (b) Land Commissioner is defined as the Commissioner of Public Lands of the State of New Mexico
- (c) Division is defined as the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico
- (d) Authorized Officer or A.O. is any employee of the Bureau of Land Management who has been delegated the required authority to act on behalf of the BLM
- (e) Secretary is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate
- (f) Department is defined as the Department of the Interior of the United States of America

(g) Proper BLM Office is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area

(h) Unitized Formation shall mean that interval underlying the Unit Area the vertical limits of which extended from an upper limit described as the top of the Yates Formation to a lower limit at the base of the Queen Formation the geologic markers having been previously found to occur at 3 100 feet and 4 208 feet respectively in Amerada Petroleum Corporation s #1 WE D State well (located at 1980 feet FSL and 660 feet FFI of Section 27 T 20 S R 36 E Lea County New Mexico) as recorded on the Schlumberger Electrical Log taken on March 25 1954 said log being measured from a derrick floor elevation of 3 586 feet above sea level

(i) Unitized Substances are all oil gas gaseous substances sulphur contained in gas condensate distillate and all associated and constituent liquid or liquefiable hydrocarbons other than outside substances within and produced from the Unitized Formation

(j) Tract is each parcel of land described as such and given a Tract number in Exhibit B

(k) Tract Participation is defined as the percentage of participation shown on Exhibit B for allocating Unitized Substances to a Tract under this agreement

(l) Unit Participation is the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract by the Tract Participation of such Tract

(m) Working Interest is the right to search for produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title under an oil and gas lease operating agreement or otherwise held which interest is chargeable with and obligated to pay or bear either in cash or out of production or otherwise all or a portion of the cost of drilling developing and producing the Unitized Substances from the Unitized Formation and operations thereof hereunder Provided that any royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of the working interest shall continue to be subject to such working interest burdens and obligations

(n) Working Interest Owner is any party hereto owning a Working Interest including a carried working interest owner holding an interest in Unitized Substances by virtue of a lease operating agreement fee title or otherwise The owner of oil and gas rights that are free of lease or other instrument creating a Working Interest in another shall be regarded as a Working Interest Owner to the extent of seven eighths (7/8) of his interest in Unitized Substances and as a Royalty Owner with respect to his remaining one eighth (1/8) interest therein

(o) Royalty Interest or Royalty is an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor or by an oil and gas lease and any overriding royalty interest oil payment interest net profit contracts or any other payment or burden which does not carry with it the right to search for and produce unitized substances

(p) Royalty Owner is the owner of a Royalty Interest

(q) Unit Operating Agreement is the agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9 infra, and shall be styled Unit Operating Agreement West Eumont Unit Lea County New Mexico

(r) Oil and Gas Rights is the right to explore develop and operate lands within the Unit Area for the production of Unitized Substances or to share in the production so obtained or the proceeds thereof

(s) Outside Substances is any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation

(t) Unit Manager is any person or corporation appointed by Working Interest Owners to perform the duties of Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 7 hereof

(u) Unit Operator is the party designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations

(v) Unit Operations is any operation conducted pursuant to this Agreement and the Unit Operating Agreement

(w) Unit Equipment is all personal property lease and well equipment plants and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations

(x) Unit Expense is all cost expense or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations

(y) Effective Date is the date determined in accordance with Section 24 or as re determined in accordance with Section 39

SECTION 3 EXHIBITS The following exhibits are incorporated herein by reference Exhibit A attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator Exhibit B attached hereto is a schedule showing to the extent known to the Unit Operator the acreage comprising each Tract percentages and kind of ownership of oil and

gas interests in all land in the Unit Area and Tract Participation of each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. The shapes and descriptions of the respective Tracts have been established by using the best information available. Each Working Interest Owner is responsible for supplying Unit Operator with accurate information relating to each Working Interest Owner's interest. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date hereof, should be divided into more than one Tract, or when any revision is requested by the A O or any correction of any error other than mechanical miscalculations or clerical is needed, then the Unit Operator, with the approval of the Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any reevaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each other such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit. Copies of such revision shall be filed with the L and Commissioner and not less than four copies shall be filed with the A O. In any such revision, there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced or proceeds thereof.

SECTION 4 EXPANSION The above described Unit Area may, with the approval of the A O and the Land Commissioner, when practicable, be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement, provided, however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced or proceeds thereof. Pursuant to Subsection (b), the Working Interest Owners may agree upon an adjustment of investment by reason of the expansion. Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into this unit, shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit Area and in the Tract proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if at least two Working Interest Owners having in the aggregate seventy five percent (75%) of the Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

1. After obtaining preliminary concurrence by the A O and Land Commissioner, prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof, and

2. Deliver copies of said notice to Land Commissioner, the A O, at the proper BLM Office, each Working Interest Owner and to the last known address of each lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion, and

3. File, upon the expiration of said thirty (30) day period as set out in (2) immediately above, with the Land Commissioner and A O, the following: (a) evidence of mailing or delivering copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirements of Section 14 and Section 34, *infra*; and (d) a copy of all objections received along with the Unit Operator's response thereto.

The expansion shall, after due consideration of all pertinent information and approval by the L and Commissioner and the A O, become effective as of the date prescribed in the notice thereof, preferably the first day of the month subsequent to the date of notice. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain the same ratio one to another.

SECTION 5 UNITIZED LAND All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as Unitized Land or Land subject to this Agreement. Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas, and other minerals contained in, or that may be produced from, any formation other than the Unitized Formation as defined in Section 2 (h) of this Agreement.

SECTION 6 UNIT OPERATOR Forty Acres Energy, L.P. is hereby designated the Unit Operator, and by signing this instrument as Unit Operator, agrees and consents to accept the duties and obligations of Unit Operator for the operation, development, and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances when such interests are owned by it, and the term Working Interest Owner when used herein shall include or refer to the Unit Operator as the owner of a Working Interest when such an interest is owned by it.

Unit Operator shall have a lien upon interests of Working Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

SECTION 7 RESIGNATION OR REMOVAL OF UNIT OPERATOR Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the L and Commissioner, and the A O, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by Working Interest Owners having in the aggregate eighty percent (80%) or more of the Unit Participation then in effect, exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the L and Commissioner and the A O.

In all such instances of effective resignation or removal until a successor to Unit Operator is selected and approved as hereinafter provided the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall not later than thirty (30) days before such resignation or removal becomes effective appoint a Unit Manager to represent them in any action to be taken hereunder

The resignation or removal of Unit Operator under this Agreement shall not terminate its right title or interest as the owner of a Working Interest or other interest in Unitized Substances but upon the resignation or removal of Unit Operator becoming effective such Unit Operator shall deliver possession of all wells equipment books and records materials appurtenances and any other assets used in connection with the Unit Operations to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected Nothing herein shall be construed as authorizing the removal of any material equipment or appurtenances needed for the preservation of any wells Nothing herein contained shall be construed to relieve or discharge any Unit Operator or Unit Manager who resigns or is removed hereunder from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal

SECTION 8 SUCCESSOR UNIT OPERATOR Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided the Working Interest Owners shall select a successor Unit Operator as herein provided Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator and (b) the selection shall have been approved by the Land Commissioner and the A O If no successor Unit Operator or Unit Manager is selected and qualified as herein provided the Land Commissioner and/or the A O at their election may declare this Agreement terminated

In selecting a successor Unit Operator the affirmative vote of three or more Working Interest Owners having a total of sixty five percent (65%) or more of the total Unit Participation shall prevail provided that if any one Working Interest Owner has a Unit Participation of more than thirty five percent (35%) its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one or more other Working Interest Owners having a total Unit Participation of at least five percent (5%) If the Unit Operator who is removed votes only to succeed itself or fails to vote the successor Unit Operator may be selected by the affirmative vote of the owners of at least seventy five percent (75%) of the Unit Participation remaining after excluding the Unit Participation of Unit Operator so removed

SECTION 9 ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements leases or other contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners however no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement this Agreement shall prevail Copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Land Commissioner and with the A O at the Proper BLM Office as required prior to approval of this Agreement

SECTION 10 RIGHTS AND OBLIGATIONS OF UNIT OPERATOR Except as otherwise specifically provided herein the exclusive right privilege and duty of exercising any and all rights of the parties hereto including surface rights which are necessary or convenient for prospecting for producing storing allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided Upon request acceptable evidence of title to said rights shall be deposited with said Unit Operator and together with this Agreement shall constitute and define the rights privileges and obligations of Unit Operator Nothing herein however shall be construed to transfer title to any land or to any lease or operating agreement it being understood that under this Agreement the Unit Operator in its capacity as Unit Operator shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified

SECTION 11 PLAN OF OPERATIONS It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recovery of Unitized Substances prevent waste and conserve natural resources Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or enhanced recovery purposes in accordance with a plan of operation approved by the Working Interest Owners the A O the Land Commissioner and the Division including the right to drill and maintain injection wells on the Unitized Land and completed in the Unitized Formation and to use abandoned well or wells producing from the Unitized Formation for said purpose Subject to like approval the Plan of Operation may be revised as conditions may warrant

The initial Plan of Operation shall be filed with the A O the Land Commissioner and the Division concurrently with the filing of the Unit Agreement for final approval Said initial plan of operations and all revisions thereof shall be as complete and adequate as the A O the Land Commissioner and the Division may determine to be necessary for timely operation consistent herewith Upon approval of this Agreement and the initial plan by the A O and Commissioner said plan and all subsequently approved plans shall constitute the operating obligations of the Unit Operator under this Agreement for the period specified therein Thereafter from time to time before the expiration of any existing plan the Unit Operator shall submit for like approval a plan for an additional specified period of operations After such operations are commenced reasonable diligence shall be exercised by the Unit Operator in complying with the obligations of the approved Plan of Operation

Notwithstanding anything to the contrary herein contained should the Unit Operator fail to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within eighteen (18) months after the effective date of this Agreement or any extension thereof approved by the A O this Agreement shall terminate automatically as of the date of default

SECTION 12 USE OF SURFACE AND USE OF WATER The parties to the extent of their rights and interests hereby grant to Unit Operator the right to use as much of the surface including the water thereunder of the Unitized Land as may reasonably be necessary for Unit Operations

Unit Operator's free use of water or brine or both for Unit Operations shall not include any water from any well lake pond or

irrigation ditch of a surface owner unless approval for such use is granted by the surface owner

Unit Operator shall pay the surface owner for damages to growing crops fences improvements and structures on the Unitized Land that result from Unit Operations and such payments shall be considered as items of unit expense to be borne by all the Working Interest Owners of lands subject hereto

SECTION 13 TRACT PARTICIPATION In Exhibit B attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation during Unit Operations if all Tracts in the Unit Area qualify as provided herein The Tract Participation of each Tract as shown in Exhibit B was determined in accordance with the following formula

$$\text{Tract Participation} = 80 / A/B + 10 / C/D + 10 / F/I$$

A = the amount of oil produced from the Unitized Formation by the Tract from 10/01/2016 through 03/31/2017

B = the amount of oil produced from the Unitized Formation by all Unit Tracts from 10/01/2016 – 03/31/2017

C = the Tract Acreage within the Unit boundary

D = the Total Acreage within the Unit boundary

E = the Tract Cumulative Oil Production from the Unitized Formation as of 09/30/2016

F = the Unit Total Cumulative Oil Production from the Unitized Formation as of 09/30/2016

In the event less than all Tracts are qualified on the Effective Date hereof the Tract Participation shall be calculated on the basis of all such qualified Tracts rather than all Tracts in the Unit Area

SECTION 14 TRACTS QUALIFIED FOR PARTICIPATION On and after the Effective Date hereof the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances shall be those Tracts more particularly described in Exhibit B that corner or have a common boundary (Tracts separated only by a public road or a railroad right of way shall be considered to have a common boundary) and that otherwise qualify as follows

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement and as to which Royalty Owners owning seventy five percent (75%) or more of the Royalty Interest have become parties to this Agreement

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement and as to which Royalty Owners owning less than seventy five percent (75%) of the Royalty Interest have become parties to this Agreement and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owners owning at least seventy five percent (75%) of the remaining Working Interest in such Tract have joined in a request for the inclusion of such Tract, and as to which (2) Working Interest Owners owning at least seventy five percent (75%) of the combined Unit Participation in all Tracts that meet the requirements of Section 14 (a) above have voted in favor of the inclusion of such tract

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement regardless of the percentage of Royalty Interest therein that is committed hereto and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owner owning at least seventy five percent (75%) of the remaining Working Interest in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract and have executed and delivered or obligated themselves to execute and deliver an indemnity agreement indemnifying and agreeing to hold harmless the other owners of committed Working Interests their successors and assigns against all claims and demands that may be made by the owners of Working Interest in such Tract who are not parties to this Agreement and which arise out of the inclusion of the Tract and as to which (2) Working Interest Owners owning at least seventy five percent (75%) of the Unit Participation in all Tracts that meet the requirements of Section 14 (a) and 14 (b) have voted in favor of the inclusion of such Tract and to accept the indemnity agreement Upon the inclusion of such a Tract the Tract Participation which would have been attributed to the non subscribing owners of Working Interest in such Tract had they become parties to this Agreement and the Unit Operating Agreement shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements and joined in the indemnity agreement in proportion to their respective Working Interests in the Tract

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided then such Tract or Tracts shall not be entitled to participate hereunder Unit Operator shall when submitting this Agreement for final approval by the Land Commissioner and the A O file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in Unitized Substances Said schedule shall set forth opposite each such committed Tract the lease number or assignment number the owner of record of the lease and the percentage participation of such tract which shall be computed according to the participation formula set forth in Section 13 (Tract Participation) above This schedule of participation shall be revised Exhibit B and upon approval thereof by the Land Commissioner and the A O shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Land Commissioner and the A O

SECTION 15 A ALLOCATION OF UNITIZED SUBSTANCES All Unitized Substances produced and saved (less save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling operating camp and other production or development purposes and for injection or unavoidable loss in accordance with a Plan of Operation approved by the A O and the Land

Commissioner) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced as set forth in the schedule of participation in Exhibit B. The amount of Unitized Substances so allocated to each Tract and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells (if any) on such Tract) shall for all intents, uses and purposes be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties entitled to share in the production from such Tract in the same manner, in the same proportions and upon the same conditions as they would have participated and shared in the production from such Tracts or in the proceeds thereof had this Agreement not been entered into and with the same legal force and effect.

No Tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances.

If the Working Interest and/or the Royalty Interest in any Tract are divided with respect to separate parcels or portions of such Tract and owned now or hereafter in severalty by different persons, the Tract Participation shall in the absence of a recordable instrument executed by all owners in such Tract and furnished to Unit Operator fixing the divisions of ownership be divided among such parcels or portions in proportion to the number of surface acres in each.

SECTION 15 B EXCESS IMPUTED NEWLY DISCOVERED CRUDE OIL Each Tract shall be allocated any excess imputed newly discovered crude oil in the proportion that its Tract Participation bears to the total of the Tract Participations of all Tracts not previously allocated the total number of barrels of crude oil allocable to these Tracts out of unit production in accordance with the Tract Participations of such Tracts provided however that excess imputed newly discovered crude oil allocated to each such Tract when added to the total number of barrels of imputed newly discovered crude oil previously allocated to it shall not exceed in any month the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15 C EXCESS IMPUTED STRIPPER CRUDE OIL Each Tract shall be allocated any excess imputed stripper crude oil in the proportion that its Tract Participation bears to the total of the Tract Participations of all Tracts not previously allocated the total number of crude oil barrels allocable to these Tracts out of unit production in accordance with the Tract Participations of such Tracts provided however that excess imputed stripper crude oil allocated to each such Tract when added to the total number of barrels of imputed stripper crude oil previously allocated to it shall not exceed in any month the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15 D TAKING UNITIZED SUBSTANCES IN KIND The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unitized Area provided the same are so constructed, maintained and operated as not to interfere with Unit Operations. Subject to Section 17 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party taking delivery. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation then so long as such condition continues, Unit Operator for the account and at the expense of the Working Interest Owner of the Tract or Tracts concerned and in order to avoid curtailing the operation of the Unit Area may but shall not be required to sell or otherwise dispose of such production to itself or to others provided that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances but in no event shall any such contract be for a period in excess of one year and at not less than the prevailing market price in the area for like production and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds if any of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator shall be responsible for the payment of all royalty, overriding royalty and production payments due thereon and each such party shall hold each other Working Interest Owner harmless against all claims, demands and causes of action by owners of such royalty, overriding royalty and production payments.

If after the Effective Date of this Agreement there is any Tract or Tracts that are subsequently committed hereto as provided in Section 4 (Expansion) hereof or any Tract or Tracts within the Unit Area not committed hereto as of the Effective Date hereof but which are subsequently committed hereto under the provisions of Section 14 (Tracts Qualified for Participation) and Section 32 (Non Joinder and Subsequent Joinder) or if any Tract is excluded from this Agreement as provided for in Section 21 (Loss of Title), the schedule of participation as shown in Exhibit B shall be revised by the Unit Operator and the revised Exhibit B upon approval by the Land Commissioner and the A O shall govern the allocation of production on and after the effective date thereof until a revised schedule is approved as hereinabove provided.

SECTION 16 OUTSIDE SUBSTANCES If gas obtained from formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulating of production or increasing ultimate recovery which shall be in conformity with a Plan of Operation first approved by the Land Commissioner and the A O, a like amount of gas with appropriate deduction for loss or depletion from any cause may be withdrawn from unit wells completed in the Unitized Formation royalty free as to dry gas but not royalty free as to the products extracted therefrom provided that such withdrawal shall be at such time as may be provided in the approved Plan of Operation or as otherwise may be consented to or prescribed by the Land Commissioner and the A O as conforming to good petroleum engineering practices and provided further that such right of withdrawal shall terminate on the termination date of this Agreement.

SECTION 17 ROYALTY SETTLEMENT The State of New Mexico and United States of America and all Royalty Owners who under an existing contract are entitled to take in kind a share of the substances produced from any Tract unitized hereunder shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts laws and regulations Settlement for Royalty not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month provided however that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under the leases except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Agreement With respect to Federal leases committed hereto on which the royalty rate depends upon the daily average production per well such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline runs per well from such Tract during any period of time then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the Effective Date hereof provided that any Tract not having any well so capable of producing Unitized Substances on the Effective Date hereof shall be considered as having one such well for the purpose of this provision

All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts committed hereto in lieu of actual production from such Tract or Tracts

With the exception of Federal and State requirements to the contrary Working Interest Owners may use or consume Unitized Substances for Unit Operations and no Royalty overriding royalty production or other payments shall be payable on account of Unitized Substances used lost or consumed in Unit Operations

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit B attached hereto If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly

SECTION 18 RENTAL SETTLEMENT Rentals or minimum Royalties due on the leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts laws and regulations provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum Royalty in lieu thereof due under their leases Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico Rental or minimum Royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America unless such rental or minimum Royalty is waived suspended or reduced by law or by approval of the Secretary or his duly authorized representative

SECTION 19 CONSERVATION Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste as defined by or pursuant to Federal and State laws and regulations

SECTION 20 DRAINAGE The Unit Operator shall take all reasonable and prudent measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement

The Unit Operator upon approval by the Working Interest Owners the A O and the Land Commissioner is hereby empowered to enter into a borderline agreement or agreements with working interest owners of adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum economic recovery conservation purposes and proper protection of the parties and interest affected

SECTION 21 LOSS OF TITLE In the event title to any Tract of unitized land shall fail and the true owner cannot be induced to join in this Agreement such Tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title In the event of a dispute as to title to any Royalty Working Interest, or other interests subject thereto payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled provided that as to State or Federal lands or leases no payments of funds due the United States or the State of New Mexico shall be withheld but such funds shall be deposited as directed by the A O or the Land Commissioner (as the case may be) to be held as unearned money pending final settlement of the title dispute and then applied as earned or returned in accordance with such final settlement

If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute Unit Operator at the direction of Working Interest Owners shall either

(a) require that the party to whom such Unitized Substance are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part or

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto

Each Working Interest Owner shall indemnify, hold harmless and defend all other Working Interest Owners against any and all claims by any party against the interest attributed to such Working Interest Owner on Exhibit B.

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

SECTION 22 LEASES AND CONTRACTS CONFORMED AND EXTENDED The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof but otherwise to remain in full force and effect and the parties hereto hereby consent that the Secretary and the Land Commissioner respectively shall and by their approval hereof or by the approval hereof by their duly authorized representatives do hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each Tract subject to this Agreement regardless of whether there is any development of any Tract of the Unit Area notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto or their respective predecessors in interest or any of them.

(b) Drilling, producing or improved recovery operations performed hereunder shall be deemed to be performed upon and for the benefit of each Tract, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations within the Unit Area pursuant to direction or consent of the Land Commissioner and the A.O. or their duly authorized representatives shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract within the Unitized Area.

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this Agreement is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this Agreement.

(e) Any lease embracing lands of the State of New Mexico which is made subject to this Agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(f) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall be segregated as to that portion committed and that not committed and the terms of such lease shall apply separately to such segregated portions commencing as of the Effective Date hereof. Provided, however, that notwithstanding any of the provisions of this Agreement to the contrary, such lease (including both segregated portions) shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this Agreement or so long as a portion of the Unitized Substances produced from the Unit Area is under the terms of this Agreement allocated to the portion of the lands covered by such lease committed to this Agreement or at any time during the term hereof as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking or improved recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

(g) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act as amended by the Act of September 2, 1960 (74 Stat. 781-784): Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities.

SECTION 23 COVENANTS RUN WITH LAND The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original or acceptable photo static or certified copy of the recorded instrument or transfer and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original or acceptable photo static or certified copy of the recorded instrument or transfer.

SECTION 24 EFFECTIVE DATE AND TERM This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective on the first day of the calendar month next following the approval of this Agreement by the A.O., the Land Commissioner and the Commission.

If this Agreement does not become effective on or before _____ 2017 it shall ipso facto expire on said date (hereinafter call Expiration Date) and thereafter be of no further force or effect unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Participation of at least seventy five percent (75 /) and at least seventy five percent (75 /) of such Working Interest Owners committed to this Agreement have decided to extend I xpiration Date for a period not to exceed one (1) year (hereinafter called Extended Expiration Date) If Expiration Date is so extended and this Agreement does not become effective on or before the Extended Expiration Date it shall ipso facto expire on I xtended I xpiration Date and thereafter be of no further force and effect

Unit Operator shall file for record within thirty (30) days after the Effective Date of this Agreement in the office of the County Clerk of LeaCounty New Mexico where a counterpart of this Agreement has become effective according to its terms and stating further the effective date

The terms of this Agreement shall be for and during the time that Unitized Substances are produced from the unitized land and so long thereafter as drilling reworking or other operations (including improved recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days unless sooner terminated as herein provided

This Agreement may be terminated with the approval of the I and Commissioner and the A O by Working Interest Owners owning eighty percent (80 /) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable or in the interest of conservation Upon approval such termination shall be effective as of the first day of the month after said Working Interest Owners determination Notice of any such termination shall be filed by Unit Operator in the office of the CountyClerk of LeaCounty New Mexico within thirty (30) days of the effective date of termination

Upon termination of this Agreement the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement had never been entered into

Notwithstanding any other provisions in the leases unitized under this Agreement Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this Agreement in which to salvage sell distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations

SECTION 25 RATE OF PROSPLCTING, DI VEI OPINI & PRODUCTION All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State Statute The A O is hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and within the limits made or fixed by the Division to alter or modify the quantity and rate of production under this Agreement such authority being hereby limited to alteration or modification in the public interest the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification provided further that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Land Commissioner and as to any lands in the State of New Mexico or privately owned lands subject to this Agreement or to the quantity and rate of production from such lands in the absence of specific written approval thereof by the Division

Powers in this Section vested in the A O shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice and thereafter subject to administrative appeal before becoming final

SECTION 26 NONDISCRIMINATION Unit Operator in connection with the performance of work under this Agreement relating to leases of the United States agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F R 12319) which are hereby incorporated by reference in this Agreement

SECTION 27 APPEARANCES Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Land Commissioner the Department and the Division and to appeal from any order issued under the rules and regulations of the Land Commissioner the Department or the Division or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner the Department or the Division or any other legally constituted authority provided however that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding

SECTION 28 NOTICES All notices demands objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified or registered mail addressed to such party or parties at their last known address set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice demand or statement

SECTION 29 NO WAIVER OF CERTAIN RIGHT Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located or regulations issued thereunder in any way affecting such party or as a waiver by any such party of any right beyond his or its authority to waive provided however each party hereto covenants that it will not resort to any action to partition the unitized land or the Unit Equipment

SECTION 30 EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this Agreement various well and lease equipment and other property equipment and facilities It is also recognized that additional equipment and facilities may hereafter be placed and used upon the UnitizedLand as now or hereafter constituted Therefore for all purposes of this Agreement any such equipment shall be considered to be personal property and not fixtures attached to realty Accordingly said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement and it is agreed that any such equipment and personal property shall be and remain personal property of the Working Interest Owners for all purposes

SECTION 31 UNAVOIDABLE DELAY All obligations under this Agreement requiring the Unit Operator to commence or continue improved recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while but only so long as the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations in whole or in part by strikes acts of God Federal State or municipal law or agency unavoidable accident, uncontrollable delays in transportation inability to obtain necessary materials or equipment in open market or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not

SECTION 32 NONJOINDER AND SUBSEQUENT JOINDER Joinder by any Royalty Owner at any time must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed Joinder to this Agreement by a Working Interest Owner at any time must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Agreement

Any oil or gas interest in the Unitized Formations not committed hereto prior to submission of this Agreement to the Land Commissioner and the A O for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof at any time up to the Effective Date hereof on the same basis of Tract Participation as provided in Section 13 by the owner or owners thereof subscribing ratifying or consenting in writing to this Agreement and if the interest is a Working Interest by the owner of such interest subscribing also to the Unit Operating Agreement

It is understood and agreed however that from and after the Effective Date hereof the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners owning not less than sixty five percent (65%) of the Unit Participation then in effect and approved by the Land Commissioner and the A O Such subsequent joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement and where State or Federal land is involved such joinder must be approved by the Land Commissioner or the A O Such joinder by a proposed Royalty Owner must be evidenced by his execution ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner Except as may be otherwise herein provided subsequent joinder to this Agreement shall be effective as of the first day of the month following the filing with the Land Commissioner and A O of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement unless objection to such joinder by the Land Commissioner or the A O is duly made sixty (60) days after such filing

SECTION 33 COUNTERPARTS This Agreement may be executed in any number of counterparts no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the land within the described Unit Area Furthermore this Agreement shall extend to and be binding on the parties hereto their successors heirs and assigns

SECTION 34 JOINDER IN DUAL CAPACITY Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such party provided that if the party is the owner of a Working Interest he must also execute the Unit Operating Agreement

SECTION 35 TAXES Each party hereto shall for its own account render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land provided however that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto including Royalty Owners who may be responsible for the taxes on their respective allocated share of said Unitized Substances No taxes shall be charged to the United States or to the State of New Mexico nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes

SECTION 36 NO PARTNERSHIP The duties obligations and liabilities of the parties hereto are intended to be several and not joint or collective This Agreement is not intended to create and shall not be construed to create an association or trust or to impose a partnership duty obligation or liability with regard to any one or more of the parties hereto Each party hereto shall be individually responsible for its own obligation as herein provided

SECTION 37 PRODUCTION AS OF THE EFFECTIVE DATE Unit Operator shall make a proper and timely gauge of all leases and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 a.m. on the Effective Date hereof All such oil which has been produced in accordance with established allowables shall be and remain the property of the Working Interest Owner entitled thereto the same as if the unit had not been formed and the responsible Working Interest Owner shall promptly remove said oil from the unitized land Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners subject to the payment of all Royalty to Royalty Owners under the terms hereof The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after Effective Date hereof

If as of the Effective Date hereof any Tract is overproduced with respect to the allowable of the wells on that Tract and the amount of over production has been sold or otherwise disposed of such over production shall be regarded as a part of the Unitized Substances produced after the Effective Date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract

SECTION 38 NO SHARING OF MARKET This Agreement is not intended to provide and shall not be construed to provide directly or indirectly for any cooperative refining joint sale or marketing of Unitized Substances

SECTION 39 STATUTORY UNITIZATION If and when Working Interest Owners owning at least seventy five percent (75%) Unit Participation and Royalty Owners owning at least seventy five percent (75%) Royalty Interest have become parties to this Agreement or have

approved this Agreement in writing and such Working Interest Owners have also become parties to the Unit Operating Agreement Unit Operator may make application to the Division for statutory unitization of the uncommitted interests pursuant to the Statutory Unitization Act (Chapter 65 Article 14 N.M.S. 1953 Annotated) If such application is made and statutory unitization is approved by the Division then effective as of the date of the Division's order approving statutory unitization this Agreement and/or the Unit Operating Agreement shall automatically be revised and/or amended in accordance with the following

(1) Section 14 of this Agreement shall be revised by substituting for the entire said section the following

SECTION 14 TRACTS QUALIFIED FOR PARTICIPATION On and after the Effective Date hereof all Tracts within the Unit Area shall be entitled to participation in the production of Unitized Substances

(2) Section 24 of this Agreement shall be revised by substituting for the first three paragraphs of said section the following

SECTION 24 EFFECTIVE DATE AND TERM This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement as amended (if any amendment is necessary) to conform to the Division's order approval of this Agreement as so amended by the Land Commissioner and the A O and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of Lea County New Mexico Unit Operator shall not file this Agreement or notice thereof for record and hence this Agreement shall not become effective unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied such filing is approved by Working Interest Owners owning a combined Unit I participation of at least sixty five percent (65%) as to all Tracts within the Unit Area

Unit Operator shall within thirty (30) days after the Effective Date of this Agreement file for record in the office of the County Clerk of Lea County New Mexico a certificate to the effect that this Agreement has become effective in accordance with its terms therein identifying the Division's order approving statutory unitization and stating the Effective Date

(3) This Agreement and/or the Unit Operating Agreement shall be amended in any and all respects necessary to conform to the Division's order approving statutory unitization

Any and all amendments of this Agreement and/or the Unit Operating Agreement that are necessary to conform said agreements to the Division's order approving statutory unitization shall be deemed to be hereby approved in writing by the parties hereto without any necessity for further approval by said parties except as follows

(a) If any amendment of this Agreement has the effect of reducing any Royalty Owner's participation in the production of Unitized Substances such Royalty Owner shall not be deemed to have hereby approved the amended agreement without the necessity of further approval in writing by said Royalty Owner and

(b) If any amendment of this Agreement and/or the Unit Operating Agreement has the effect of reducing any Working Interest Owner's participation in the production of Unitized Substances or increasing such Working Interest Owner's share of Unit Expense such Working Interest Owner shall not be deemed to have hereby approved the amended agreements without the necessity of further approval in writing by said Working Interest Owner

[Signature sheet follows]

Executed as of the day and year first above written

By _____
BUSINESS ENTITY SIGNATURE OF OFFICER

Date of execution _____

STATE OF _____)
COUNTY OF _____)ss

West Eumont Unit
 20S 36E 21S 35E
 Lea County New Mexico
 Draft 6 (05/16/2017)

NM #
 Fee
 Unit Tract
 WI Owner

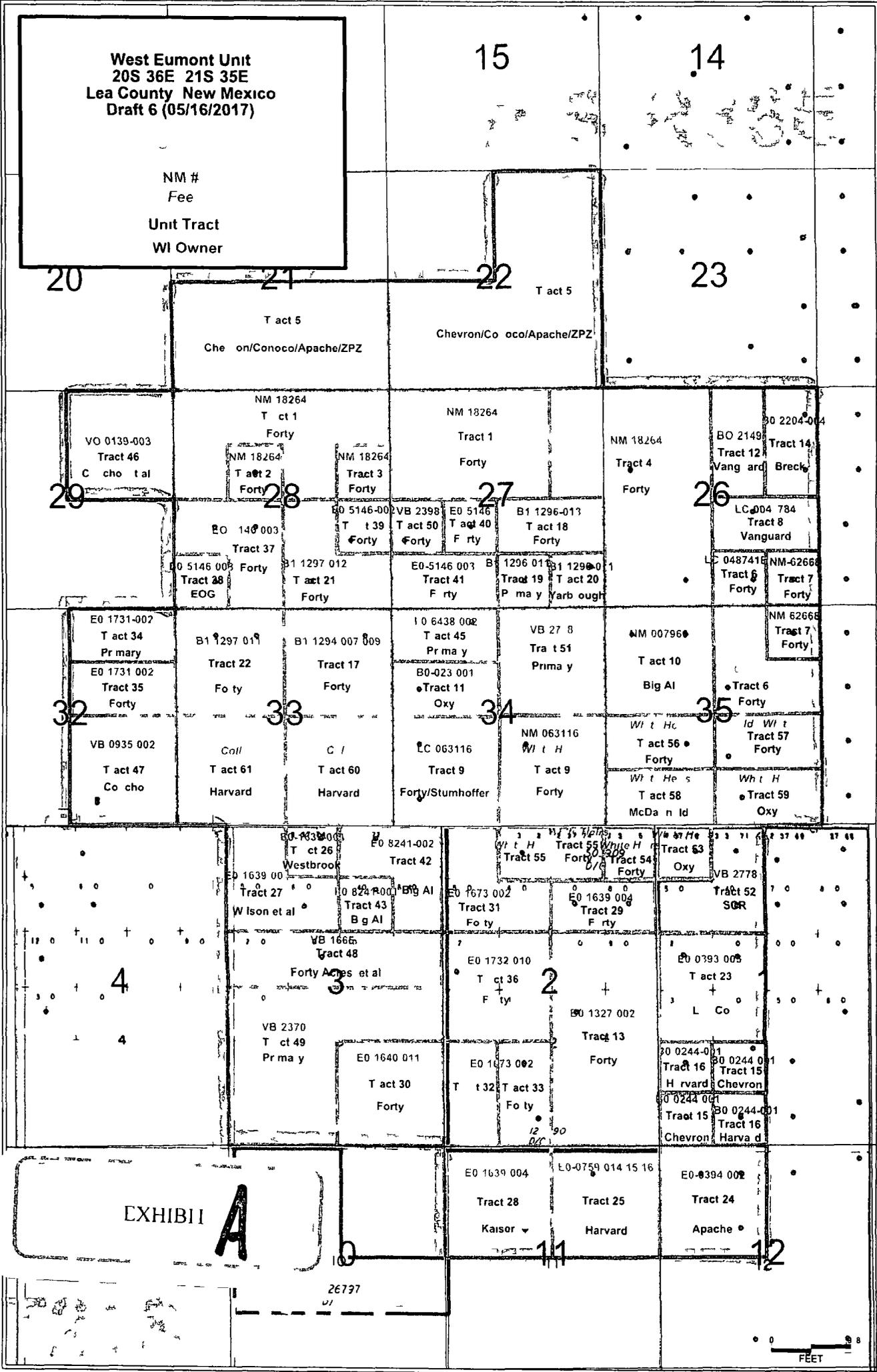


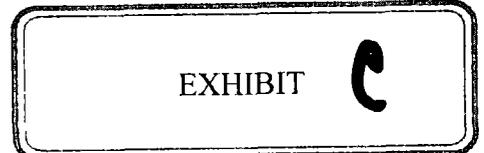
EXHIBIT **A**

26737



Total Participation By Tract#
Sum of Tract Participation

Tract #	Total
1	0 0060170734
2	0 0005014228
3	0 0270201372
4	0 2044484884
5	0 0100284557
6	0 0471370291
7	0 0029594199
8	0 0039203411
9	0 0528862415
10	0 0361987900
11	0 0025502310
12	0 0021342697
13	0 0081276611
14	0 0290288939
15	0 0027594473
16	0 0269369377
17	0 1159132639
18	0 0013196443
19	0 0005098427
20	0 0118728406
21	0 0142465858
22	0 0031013307
23	0 0126592440
24	0 0059377847
25	0 0050908180
26	0 0013752470
27	0 0012864406
28	0 0020056911
29	0 0752350726
30	0 0020056911
31	0 0506453261
32	0 0010028456
33	0 0017353769
34	0 0010028456
35	0 0010112655
36	0 0192156574
37	0 0034597902
38	0 0011546467



39	0 0054189989
40	0 0005761494
41	0 0011891359
42	0 0279020571
43	0 0012859464
44	0 0000000000
45	0 0014248931
46	0 0020056911
47	0 0020856802
48	0 0029192503
49	0 0045355211
50	0 0007224452
51	0 0023035451
52	0 0051961054
53	0 0018246118
54	0 0030135726
55	0 0012732577
56	0 1051268836
57	0 0040740043
58	0 0019458744
59	0 0049107319
60	0 0036844088
61	0 0020520006
62	0 0200766332

UNIT OPERATING AGREEMENT

WEST EUMONT UNIT
Lea County New Mexico

EFFECTIVE DATE

(MONTH) 1, 2017

EXHIBIT **C**

UNIT OPERATING AGREEMENT
WEST EUMONT UNIT
Lea County, New Mexico

TABLE OF CONTENTS

SECTION		PAGE
	Preliminary Recitals	1
ARTICLE 1 CONFIRMATION OF UNIT AGREEMENT		
1 1	Confirmation of Unit Agreement	1
ARTICLE 2 EXHIBITS		
2 1	Exhibits	1
2 1 1	Exhibits A and B Reference to Unit Agreement	1
2 1 2	Exhibit C Unit Participation	1
2 1 3	Exhibit D Accounting Procedure	2
2 1 4	Exhibit E Insurance Provisions	2
2 2	Revision of Exhibits	2
ARTICLE 3 SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS		
3 1	Overall Supervision	2
3 2	Specific Authorities and Duties	2
3 2 1	Method of Operation	2
3 2 2	Drilling of Wells	2
3 2 3	Well Recompletions and Change of Status	2
3 2 4	Expenditures	2
3 2 5	Disposition of Unit Equipment	2
3 2 6	Appearance Before a Court or Regulatory Body	2
3 2 7	Audits	3
3 2 8	Inventories	3
3 2 9	Technical Services	3
3 2 10	Assignments to Committee	3
3 2 11	Removal of Unit Operator	3

3 2 12	Enlargement of Unit Area	3
3 2 13	Adjustment and Readjustment of Investments	3
3 2 14	Termination	3

ARTICLE 4
MANNER OF EXERCISING SUPERVISION

4 1	Designation of Representatives	3
4 2	Meetings	3
4 3	Voting Procedure	4
4 3 1	Voting Interest	4
4 3 2	Vote Required Generally	4
4 3 3	Vote at Meeting by Non-attending Working Interest Owners	4
4 3 4	Poll Votes	4

ARTICLE 5
INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5 1	Reservation of Rights	4
5 2	Specific Rights	4
5 2 1	Access to Unit Area	4
5 2 2	Reports	4

ARTICLE 6
UNIT OPERATOR

6 1	Initial Unit Operator	5
6 2	Resignation or Removal	5
6 3	Selection of Successor	5

ARTICLE 7
AUTHORITIES AND DUTIES OF UNIT OPERATOR

7 1	Exclusive Right to Operate Unit	5
7 2	Workmanlike Conduct	5
7 3	Liens and Encumbrances	5
7 4	Employees	5
7 5	Records	6
7 6	Reports to Working Interest Owners	6
7 7	Reports to Governmental Authorities	6
7 8	Engineering and Geological Information	6
7 9	Expenditures	6
7 10	Wells Drilled by Unit Operator	6
7 11	Taking in Kind	6

ARTICLE 8
TAXES

8 1	Ad Valorem Taxes	7
8 2	Other Taxes	7

ARTICLE 9
INSURANCE

9 1	Insurance	7
9 1 1	Workmen's Compensation Law	7
9 1 2	Employer's Liability Insurance	7
9 1 3	Other Insurance	7

ARTICLE 10
ADJUSTMENT OF INVESTMENTS

10 1	Personal Property Taken Over	7
10 1 1	Wells and Casing	7
10 1 2	Well and Lease Equipment	8
10 1 3	Records	8
10 2	Inventory and Evaluation of Personal Property	8
10 3	Investment Adjustment	8
10 4	General Facilities	8
10 5	Ownership of Personal Property and Facilities	8

ARTICLE 11
UNIT EXPENSE

11 1	Basis of Charge to Working Interest Owners	8
11 2	Budgets	9
11 3	Advance Billings	9
11 4	Unpaid Ordinary Unit Expenses	9
11 5	Commingling of Funds	10
11 6	Liens and Security Interests	10
11 7	Uncommitted Royalty	12
11 8	Non participating Working Interest Owners	12

ARTICLE 12
NON UNITIZED FORMATIONS

12 1	Right to Operate	12
------	------------------	----

ARTICLE 13
TITLES

13 1	Warranty and Indemnity	13
13 2	Failure Because of Unit Operations	13

ARTICLE 14
LIABILITY CLAIMS AND SUITS

14 1	Individual Liability	13
14 2	Settlements	13

ARTICLE 15
INTERNAL REVENUE PROVISION

15 1	Internal Revenue Provision	14
------	----------------------------	----

ARTICLE 16
NOTICES

16 1	Notices	14
------	---------	----

ARTICLE 17
WITHDRAWAL OF WORKING INTEREST OWNER

17 1	Withdrawal	15
------	------------	----

ARTICLE 18
ABANDONMENT OF WELLS

18 1	Rights of Former Owners	15
18 2	Plugging	15

ARTICLE 19
EFFECTIVE DATE AND TERM

19 1	Effective Date	15
19 2	Term	16

ARTICLE 20
ABANDONMENT OF OPERATIONS

20 1	Termination	16
20 1 1	Oil and Gas Rights	16

20 1 2	Right to Operate	16
20 1 3	Salvaging Wells	16
20 1 4	Costof Salvaging	16

ARTICLE 21
EXECUTION

21 1	Original Counterpart, or Other Instrument	16
------	---	----

ARTICLE 22
SEVERABILITY

22 1	Severability	16
------	--------------	----

ARTICLE 23
SUCCESSORS AND ASSIGNS

23 1	Successors and Assigns	17
------	------------------------	----

UNIT OPERATING AGREEMENT

West Eumont Unit Lea County New Mexico

This Agreement entered into as of the 1st day of (MONTH) 2017 by the parties who have signed the original of this instrument, a counterpart thereof or other instrument agreeing to be bound by the provisions hereof

WITNESSETH

WHEREAS, by order of the New Mexico Oil Conservation Commission, as entered in Case No (XXXX) dated (MONTH) __, 2017 the parties hereto designated as Working Interest Owners are subject to, or have executed, as of the date hereof an agreement entitled "Unit Agreement, West Eumont Unit Lea County New Mexico herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area as therein defined

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

Article 1
CONFIRMATION OF UNIT AGREEMENT

1 1 Confirmation of Unit Agreement The Unit Agreement is hereby confirmed and by reference made a part of this agreement The definitions in the Unit Agreement are adopted for all purposes of this agreement If there is any conflict between the Unit Agreement and this agreement the Unit Agreement shall govern

Article 2
EXHIBITS

2 1 Exhibits The following exhibits are incorporated herein by reference

2 1 1 Exhibits A and B of the Unit Agreement

2 1 2 Exhibit C attached hereto is a schedule showing the total Unit Participation of each Working Interest Owner Exhibit C or a revision thereof shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of the Working Interest Owners for purposes of this agreement until shown to be in error or is revised as herein authorized

2 1 3 Exhibit D attached hereto is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit D, this agreement shall govern.

2 1 4 Exhibit E, attached hereto contains insurance provisions applicable to Unit Operations.

2 2 Revision of Exhibits Whenever Exhibits A and B are revised Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

Article 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3 1 Overall Supervision Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this agreement and the Unit Agreement. In the exercise of such authority each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3 2 Specific Authorities and Duties The matters with respect to which the Working Interest Owners shall decide and take action shall include, but not be limited to the following:

3 2 1 Method of Operation The method of operation including any type of pressure maintenance, secondary recovery, or other recovery program to be employed.

3 2 2 Drilling of Wells The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3 2 3 Well Recompletions and Change of Status The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3 2 4 Expenditures The making of any single expenditure in excess of Two hundred Seventy-five Thousand and No/100 Dollars (\$275,000.00) provided that approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage, or injection equipment.

3 2 5 Disposition of Unit Equipment The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is Two hundred fifty thousand and No/100 Dollars (\$250,000.00) or more.

3 2 6 Appearance Before a Court or Regulatory Agency The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit

Operations, provided that, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf

3 2 7 Audits The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder provided that the audits shall

(a) not be conducted more than once each year except upon the resignation or removal of Unit Operator

(b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator and

(c) be made upon not less than thirty (30) days' written notice to Unit Operator

3 2 8 Inventories The taking of periodic inventories under the terms of Exhibit D

3 2 9 Technical Services The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit D

3 2 10 Assignments to Committees The appointment of committees to study any problems in connection with Unit Operations

3 2 11 The removal of Unit Operator and the selection of a successor

3 2 12 The enlargement of the Unit Area

3 2 13 The adjustment and readjustment of investments

3 2 14 The termination of the Unit Agreement

Article 4 MANNER OF EXERCISING SUPERVISION

4 1 Designation of Representatives Each Working Interest Owner shall in writing inform Unit Operator of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations The representative or alternate may be changed from time to time by written notice to Unit Operator

4 2 Meetings All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than two percent (2%) No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached Unit Operator

shall determine and notify Working Interest Owners of the time and place for the meeting. Working Interest Owners who attend the meeting shall not be prevented from amending items or other items presented in the agenda or from deciding the amended item or other items presented at the meeting. Working Interest Owners may attend any meeting by telephone, or other live-voice electronic means. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

4.3.2 Vote Required Generally Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of seventy five percent (75%) or more voting interest provided that, should any one Working Interest Owner have more than seventy-five percent (75%) voting interest, its vote must be supported by the vote of one or more Working Interest Owners.

4.3.3 Vote at Meeting by Non-attending Working Interest Owner Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item.

4.3.4 Poll Votes Working Interest Owners may vote on and decide, by letter or telegram any matter submitted in writing to Working Interest Owners if no meeting is requested as provided in Section 4.2 within seven (7) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of the voting to all Working Interest Owners.

Article 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 Reservation of Rights Working Interest Owners severally reserve to themselves all their rights except as otherwise provided in this agreement and the Unit Agreement.

5.2 Specific Rights Each Working Interest Owner shall have among others, the following specific rights:

5.2.1 Access to Unit Area Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports The right to receive from Unit Operator upon written request, copies of all reports to any governmental agency reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering, and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

Article 6
UNIT OPERATOR

6.1 Initial Unit Operator Forty Acres Energy LLC is hereby designated as Unit Operator

6.2 Resignation or Removal Operator may resign at any time by giving written notice thereof to Non Operators. If Operator terminates its legal existence or no longer owns an interest in the Unit Area Operator shall be deemed to resign without any action by Non-Operators except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of two or more Non Operators owning eighty percent (80%) interest based on ownership as shown on Exhibit "A". Such vote shall not be deemed effective until a written notice has been delivered to the Operator by Non Operator detailing the alleged default and Operator has failed to terminate the default within 30 days from its receipt of the notice or, if the default concerns an operation then being conducted within 48 hours of its receipt of the notice. For the purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operations contained Article 7.2 herein or material failure or inability to perform its obligations under this Agreement.

6.3 Selection of Successor Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners.

Article 7
AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit Subject to the provisions of this agreement and to instructions from Working Interest Owners Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator in the exercise of its best judgment considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances Unit Operator shall endeavor to keep the lands and leases in the Unit Area free from all liens and encumbrances occasioned by Unit Operations, except the lien of Unit Operator granted hereunder.

7.4 Employees The number of employees used by Unit Operator in conducting Unit Operations their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

7 5 Records Unit Operator shall keep correct books, accounts and records of Unit Operations

7 6 Reports to Working Interest Owners Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations

7 7 Reports to Governmental Authorities Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator

Nothing herein contained shall grant or be construed to grant Operator the right or authority to waive or release any rights, privileges or obligations which Non Operators may have under federal or state laws or under rules or regulations or orders promulgated under such laws in reference to oil and gas operations including the location operation, or production of wells, on tracts offsetting or adjacent to the Unit Area

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

7 8 Engineering and Geological Information Unit Operator shall furnish to a Working Interest Owner upon written request, a copy of the log and other engineering and geological data pertaining to wells drilled for Unit Operations

7 9 Expenditures Unit Operator is authorized to make single expenditures not in excess of Two hundred seventy five thousand and No/100 Dollars (\$275,000 00) without prior approval of Working Interest Owners If an emergency occurs Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency Unit Operator shall report to Working Interest Owners as promptly as possible the nature of the emergency and the action taken

7 10 Wells Drilled by Unit Operator All new drill wells or existing wells deepened ~~wells drilled~~ by Unit Operator shall be at the usual rates prevailing in the area Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature

7 11 Taking in Kind If, pursuant to the Unit Agreement, Operator is purchasing or selling more than its share of Unitized Substances pursuant to the Unit Agreement, any such sale

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

Article 8 TAXES

8.1 Ad Valorem Taxes. Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account, provided that if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment or other interest in excess of a one eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or in respect of the production or handling of its share of Unitized Substances.

Article 9 INSURANCE

- 9.1 Insurance. Unit Operator, with respect to Unit Operations, shall do the following:
- 9.1.1 Comply with the Workmen's Compensation Law of the State of New Mexico.
 - 9.1.2 Carry Employer's Liability and other insurance required by the laws of the State of New Mexico.
 - 9.1.3 Carry other insurance as set forth in Exhibit E.

Article 10 ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the Effective Date hereof, Working Interest Owners shall deliver to Unit Operator the following:

- 10.1.1 Wells and Casing. All wells completed in the Unitized Formation, together with the casing therein.

10 1 2 Well and Lease Equipment The tubing in each such well the wellhead connections thereon and all other lease and operating equipment that is used in this operation of such wells which Working Interest Owners determine necessary or desirable for conducting Unit Operations

10 1 3 Records A copy of all production and well records that pertain to such wells

10 2 Inventory and Evaluation of Personal Property Working Interest Owners shall at Unit Expense inventory and evaluate in accordance with the provisions of Exhibit D the personal property taken over

10 3 Investment Adjustment Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property taken over under Section 10 1 2 and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Section 10 1 2 by such Working Interest Owner's Unit Participation If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above

10 4 General Facilities The acquisition of warehouses, warehouse stock, lease houses, camps, facility systems and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator subject to the approval of Working Interest Owners

10 5 Ownership of Personal Property and Facilities Each Working Interest Owner individually shall by virtue hereof own an undivided interest equal to its Unit Participation in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement

Article 11 UNIT EXPENSE

11 1 Basis of Charge to Working Interest Owners Unit Operator initially shall pay all Unit Expenses for Unit Operations that do not otherwise require Working Interest Owner approval pursuant to Article 3 and all approved Unit Operations (hereinafter Ordinary Unit Expenses") Each Working Interest Owner shall reimburse Unit Operator for its share of Ordinary Unit Expenses Each Working Interest Owner's share of Ordinary Unit Expenses shall be allocated in proportion to its Unit Participation at the time such Ordinary Unit Expense is incurred All charges credits and accounting for Ordinary Unit Expenses shall be in accordance with Exhibit D

11.2 Budgets Before or as soon as practical after the effective date hereof Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year and on or before the first day of each November thereafter shall prepare such a budget for anticipated Ordinary Unit Expenses anticipated for the ensuing calendar year. A budget shall set forth the estimated Ordinary Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall promptly be furnished to each Working Interest Owner.

11.3 Advance Billings Unit Operator shall have the right without prejudice to its other rights or remedies to require Working Interest Owners to advance their respective shares of estimated Ordinary Unit Expenses by submitting to each Working Interest Owner on or before the 15th day of any month an itemized estimate thereof for the succeeding month together with an invoice for such Working Interest Owner's share thereof. Within thirty (30) days thereafter, each Working Interest Owner shall pay to Unit Operator its respective share of such estimate. Adjustments between estimated and actual Ordinary Unit Expenses shall be made by Unit Operator at the close of each calendar month and the accounts of Working Interest Owners shall be adjusted accordingly. If a Working Interest Owner fails to advance its respective share of estimated Ordinary Unit Expenses as provided in this Section 11.3, such Working Interest Owner's share of any such advanced billings shall be treated as an item of Unpaid Ordinary Unit Expenses pursuant to Section 11.4.

11.4 Unpaid Ordinary Unit Expenses If any Working Interest Owner fails or is unable to pay (i) its share of Ordinary Unit Expenses within sixty (60) days after rendition of a statement therefore by Unit Operator or (ii) its share of advanced billings in accordance with Section 11.3 the unpaid balance shall be paid to Unit Operator by the non defaulting Working Interest Owners (or by Unit Operator as applicable under Section 11.3) as if it were Ordinary Unit Expenses in the proportion that the Unit Participation of each such non-defaulting Working Interest Owner bears to the total Unit Participation of all such non defaulting Working Interest Owners. Such unpaid amount shall bear interest at the prime rate set by Chase Bank for the same period plus five percent (5%) per annum or the maximum contract rate permitted by applicable usury laws whichever is the lesser. Working Interest Owners (or Unit Operator as applicable) so paying the same shall be reimbursed therefor together with interest thereon when the amount so carried and the interest thereon are collected from the defaulting Working Interest Owner's share of the sale of Unitized Substances. During the time that any Working Interest Owner fails to pay its share of Ordinary Unit Expenses the Unit Operator shall be entitled to collect and receive from the purchaser of production the proceeds from such defaulting Working Interest Owner's share of the sale of Unitized Substances. All credits to any such defaulting Working Interest Owner on account of the sale or disposal of Unit Equipment or otherwise, shall also be applied against the unpaid share of Ordinary Unit Expenses charged against such defaulting Working Interest Owner until such Working Interest Owner's share of Ordinary Unit Expenses are paid in full, together with any interest accrued thereon.

Notwithstanding the foregoing, Unit Operator shall have the option, but not the obligation, to elect to carry or otherwise finance any defaulting Working Interest Owner(s) in

lieu of having all non defaulting Working Interest Owners participate in the carrying or otherwise financing any defaulting Working Interest Owner(s) Unit Operator upon such election shall be entitled to recovery of the money advanced on behalf of a defaulting Working Interest Owner plus any additional administrative charges and interest as provided herein

11.5 Commingling of Funds No funds received by Unit Operator under this agreement need be segregated or maintained by it as a separate fund, but may be commingled with its own funds

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

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

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

herewith or such other documents as it deems necessary as a lien or mortgage in the applicable real estate records and/or a financing statement with the proper officer under the Uniform Commercial Code

Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this Agreement by through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this Agreement whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article 11.5 as to all obligations attributable to such interest hereunder whether or not such obligations arise before or after such interest is acquired.

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

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

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

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

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement and as a result thereof the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participations, however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

11.8 Non-participating Working Interest Owners. Upon entry of an order of the New Mexico Oil Conservation Division this Agreement as authorized by Article 7, Statutory Unitization Act §70-7-1 Et seq. N.M.S.A. governs the relationship of all Working Interest Owners in lands included in the Unit Area. Any Working Interest Owner that does not join in, or ratify this Agreement ("Non-participating Working Interest Owner") shall (a) have no voting rights as to Unit Operations; (b) be deemed non-participating in all Unit operations conducted in accordance with this Agreement; and (c) shall not be entitled to notice of, or to attend meetings of the Working Interest Owners. The ownership interest, and development obligations of each Non-participating Working Interest Owner shall be allocated to the Working Interest Owners executing, or ratifying this Agreement, and costs incurred on behalf of such Non-participating Working Interest Owners may be recouped by those Working Interest Owners from the participation share of proceeds from the sale of oil and gas attributable to the ownership of the Non-participating Working Interest Owners and such recoupment shall include the actual costs incurred plus two hundred percent (200%) of such costs.

Article 12 NON UNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas or other minerals, from other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent reasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation the Unitized Formation

shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected

Article 13 TITLES

13 1 Warranty and Indemnity Each Working Interest Owner represents and warrants that it is the owner of the respective working interests set forth opposite its name in Exhibit C, and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations, provided that, such indemnity shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed Each failure of title will be deemed to be effective insofar as this agreement is concerned as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expenses or retroactive allocation of Unitized Substances or the proceeds therefrom as a result of title failure

13 2 Failure Because of Unit Operations The failure of title to any Working Interest in any Tract by reason of Unit Operations including non production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure

Article 14 LIABILITY CLAIMS, AND SUITS

14 1 Individual Liability The liability of the parties shall be several not joint or collective Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area Accordingly the liens granted among the parties in Article 11 5 are given to secure only the debts of each severally and no party shall have any liability to third parties hereunder to satisfy the default of any other party in the payment of any expense or obligation hereunder It is not the intention of the parties to create nor shall this Agreement be construed as creating, a mining or other partnership, joint venture agency relationship or association or to render the parties liable as parties, co venturers, or principles In their relations with each other under the Agreement the parties shall not be considered fiduciaries or to have established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own respective self-interest subject however to the obligation of the parties to act in good faith in their dealings with each other with respect to activities hereunder

14 2 Settlements Unit Operator, on behalf of the Working Interest Owners, may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Two Hundred Fifty Thousand and no/100 Dollars (\$250,000 00) provided the payment is in complete settlement of such claim or suit If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an

item of Unit Expenses. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15 INTERNAL REVENUE PROVISION

15.1 Each Working Interest Owner hereby elects that it and the operations covered by this agreement be excluded from the application of Subchapter K of chapter I of Subtitle A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such additional or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to applicable state laws, regulations and rulings now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

Article 16 NOTICES

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

hours the notice may be delivered in writing by any other method specified herein and shall be deemed delivered in the same manner provided above for any responsive notice

Article 17
WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal A Working Interest Owner may withdraw from this agreement by transferring without warranty of title either express or implied to the other Working Interest Owner who do not desire to withdraw all its Oil and Gas Rights together with its interest in all Unit Equipment and in all wells used in Unit Operation. Such transfer shall not relieve said Working Interest Owner from obligation or liability incurred prior to the date of the delivery of the transfer which delivery may be made to Unit Operator as Agent for the transferees. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations. The transferees in proportion to the respective interests so acquired, shall pay transferor for its interest in Unit Equipment, the fair salvage value thereof as estimated and fixed by Working Interest Owners. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

Article 18
ABANDONMENT OF WELLS

18.1 Rights of Former Owners If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well they shall pay Unit Operator for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation and upon abandonment to plug the well in compliance with applicable laws and regulations.

18.2 Plugging If the Working Interest Owners of a Tract do not elect to take over a well located thereon which is proposed for abandonment Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

Article 19
EFFECTIVE DATE AND TERM

19.1 Effective Date This agreement shall become effective on the date and at the time that the Unit Agreement becomes effective.

19.2 Term This agreement shall continue in effect so long as the Unit Agreement remains in effect and thereafter until (a) all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 20, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners and (c) there has been a final accounting

Article 20 ABANDONMENT OF OPERATIONS

20.1 Termination Upon termination of the Unit Agreement, the following will occur

20.1.1 Oil and Gas Rights Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts

20.1.2 Right to Operate Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator for credit to the joint account the net salvage value of the casing and equipment in and on the wells taken over, as estimated by Working Interest Owners, and by agreeing to plug properly each well at such time as it is abandoned

20.1.3 Salvaging Wells Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged and shall cause the wells to be plugged and abandoned properly

20.1.4 Cost of Salvaging Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operation in proportion to their respective Unit Participations

Article 21 EXECUTION

21.1 Original Counterpart or Other Instrument A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument

Article 22 SEVERABILITY

22.1 Severability For the purposes of assuming or rejecting this Agreement as an executory contract pursuant to federal bankruptcy laws, this Agreement shall not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to this

Agreement to comply with all of its financial obligations provided herein shall be a material default

Article 23
SUCCESSORS AND ASSIGNS

23 1 Successors and Assigns The provisions hereof shall be covenants running with lands leases, and interests covered hereby and shall be binding upon and inure to the benefit of the respective heirs devisees, legal representatives, successors and assigns of the parties hereto

IN WITNESS WHEREOF, The parties hereto have executed this agreement on the dates opposite their respective signatures

UNIT OPERATOR

Forty Acres Energy LLC

By _____
Name
Title

WORKING INTEREST OWNERS

Forty Acres Energy LLC

By _____
Name
Title

STATE OF TEXAS §
COUNTY OF HARRIS §

This instrument was acknowledged before me this ___ day of _____, 2017, by XXXX, (title) ofForty Acres Energy LLC a Delaware limited Liability Company on behalf of said LLC

Notary Public for the
State of Texas

Exhibit E
INSURANCE

1 Operator shall procure and maintain at all times while conducting operations under this Agreement the following insurance coverages with limits not less than those specified below

A Workers Compensation Employer s Liability	Statutory \$1 000 000 Each Accident
B General Liability including bodily injury and property damage liability	\$1 000 000 Combined Single Limit
C Auto Liability	\$1 000 000 Combined Single Limit
D Excess or Umbrella Liability	\$20 000 000 Combined Single Limit
E Cost of Well Control and Care Custody and Control	\$5 000 000 Each Occurrence and \$250 000 CCC
F Pollution Liability	\$20 000 000 Combined Single Limit

2 The insurance described in 1 above shall include Non Operator as additional insured (except Workers Compensation) and shall include a waiver by the insurer of all rights of subrogation in favor of Non Operator Such insurance shall be carried at the joint expense of the parties hereto and all premiums and other costs and expenses related thereto shall be charged to the Joint Account in accordance with the Accounting Procedure attached as Exhibit C to this Agreement unless prior to spud a party hereto who desires to provide its own insurance or self insurance provides Operator with a certificate of insurance evidencing such individual coverage Operator shall have the right to be self insured

3 Operator shall endeavor to have its contractors and subcontractors comply with applicable Workers Compensation laws rules and regulations and carry such insurance as Operator may deem necessary

4 Operator shall not be liable to Non Operator for loss suffered because of insufficiency of the insurance procured and maintained for the Joint Account nor shall Operator be liable to Non Operator for any loss occurring by reason of Operator's inability to procure or maintain the insurance provided for herein If in Operator's opinion at any time during the term of this Agreement Operator is unable to procure or maintain said insurance on commercially reasonable terms or Operator reduces the limits of insurance Operator shall promptly so notify Non Operator in writing

5 In the event of loss not covered by the insurance provided for herein such loss shall be charged to the Joint Account and borne by the parties in accordance with their respective percentage of participation as determined by this Agreement

6 Any party hereto may individually and at its own expense procure such additional insurance as it desires provided however such party shall provide Operator with a certificate of insurance evidencing such coverage before spud of the well and such coverage shall include a waiver by the insurer of all rights of subrogation in favor of the parties hereto



Exhibit "D"
ACCOUNTING PROCEDURE
JOINT OPERATIONS

1 1 Attached to and made part of West Eumont Unit Joint Operations Agreement
2
3

1 GENERAL PROVISIONS

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

11
12 IN THE EVENT THAT ANY OPTIONAL PROVISION OF THIS ACCOUNTING PROCEDURE IS NOT ADOPTED BY THE
13 PARTIES TO THE AGREEMENT BY A TYPED PRINTED OR HANDWRITTEN INDICATION SUCH PROVISION SHALL NOT
14 FORM A PART OF THIS ACCOUNTING PROCEDURE AND NO INFERENCE SHALL BE MADE CONCERNING THE INTENT
15 OF THE PARTIES IN SUCH EVENT

16
17 1 DEFINITIONS

18 All terms used in this Accounting Procedure shall have the following meanings unless otherwise expressly defined in this Agreement

19
20
21 Affiliated means for purposes of this Agreement any person or entity controlled by, or under common control with, the person in this
22 definition or any other person or entity which is directly or indirectly (50%) of the ownership of the person or entity
23 or for other persons or entities (including partnerships, trusts, and (b) partnerships and
24 individual corporations, partnerships, trusts, corporations, organizations, associations or other legal entities

25
26 Agreement means the operating agreement or other contract between the Parties to which this Accounting
27 Procedure is attached

28
29 Controlling Materials means material that is the property of the Joint Accountable Class of the Material Class for the most recently recommended by the Council of Petroleum Accountants Societies (COPAS)

30
31 Field means the production field or gas or oil field or other production area from the West
32 Eumont Unit or other production area

33
34 Elected means the person or entity elected or appointed by COPAS

35
36 Field Office means a structure with temporary or permanent staff the primary function of which is
37 to provide services to the field and which is responsible for the day-to-day operations and which is responsible for the day-to-day operations
38 of the field

39
40 Full Time Employee means the person who is employed by the Joint Operations and who is employed full time
41 in the field or other production area and who is employed full time in the field or other production area
42 and is employed full time in the field or other production area

43 Responsibility for field employees means the activities that are related to the field operations including
44 instruction, well remedial work, equipment maintenance and drilling

45 Responsibility for drilling means the activities related to the drilling operations

46 Responsibility for drilling means the activities related to the drilling operations

47 Responsibility for drilling means the activities related to the drilling operations

48 Responsibility for drilling means the activities related to the drilling operations

49 Responsibility for drilling means the activities related to the drilling operations

50 Responsibility for drilling means the activities related to the drilling operations

51 Responsibility for drilling means the activities related to the drilling operations

52 Responsibility for drilling means the activities related to the drilling operations

53 Responsibility for drilling means the activities related to the drilling operations

54 Responsibility for drilling means the activities related to the drilling operations

55 Responsibility for drilling means the activities related to the drilling operations

56 Responsibility for drilling means the activities related to the drilling operations

57
58 Joint Operations means the operations necessary or proper for the exploration, appraisal, development, production, protection
59 and maintenance and operation of the Joint Operations

60
61
62
63
64
65
66

1 Joint Property means the real and personal property subject to the Agreement
2
3 Laws means any laws, rules, regulations, decrees, and orders of the United States, of America or any state thereof and all other
4 governmental bodies, agencies and other authorities having jurisdiction over or affecting the provisions contained in or the transactions
5 contemplated by the Agreement of the Parties and their operations whether such laws now exist or are hereafter amended, enacted
6 promulgated, issued
7
8 Mitil means personal property equipment, supplies, consumables, required held for use by the Joint Property
9
10 Non-Operators means the Parties to the Agreement other than the Operator
11
12 Offshore Facilities means platforms, surface and subsea development and production systems and other support systems such as oil and
13 gas handling facilities, loading, unloading, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping,
14 heliport, marine docking installations, communication facilities, navigation aids and other similar facilities necessary in the conduct of
15 offshore operations all of which are located offshore
16
17 Offsite means any location that is not considered as defined in this Accounting Procedure
18
19 Onsite means on the Joint Property which is directly related to the Joint Operations. The term 'Onsite' shall also include that portion of
20 Offshore Facilities, Shore-based Facilities, facilities, yards, and staging areas from which Joint Operations are conducted or other
21 facilities that directly control equipment on the Joint Property regardless of whether such facilities are owned by the Joint Account
22
23 Operator means the Party designated pursuant to the Agreement to conduct the Joint Operations
24
25 Parties means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as
26 Party
27
28 Participating Interest means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees
29 or is otherwise obligated to pay and bear
30
31 Participant Party means a Party that proposes, proposed, operates or otherwise agrees to become a participant and bears a share of
32 the costs and risks of conducting an operation under the Agreement
33
34 Reimbursable means reimbursed costs for travel and temporary living expenses
35
36 Railhead means the railhead nearest the Joint Property for which freight rates are published, even though an actual
37 railhead may not exist
38
39 Shore-based Facilities means onshore support facilities that during Joint Operations provide such services to the Joint Property as
40 receiving and transshipment point for materials, embarkation point for drilling and production personnel and services, communication,
41 scheduling and dispatching center and other associated functions serving the Joint Property
42
43 Supply Store means a recognized source of common stock point for general material items
44
45 Technical Services means services providing geophysical, geoscience, other professional skills such as those performed by
46 engineers, geologists, geophysicists and technicians required to handle specific operating conditions and problems for the Joint
47 Operations provided however Technical Services shall not include those functions specifically identified as overhead under the second
48 paragraph of the introduction of Section III (Overhead) Technical Services may be provided by the Operator, Operator Affiliates, Non-
49 Operator Affiliates and/or third parties
50

51 2 STATEMENTS AND BILLINGS
52

53 The Operator shall bill Non-Operators on a monthly basis for the last day of the month for the proportionate share of the Joint Account for the
54 preceding month. Such bills shall be accompanied by statements that identify the AIE (Authority for Expenditure) lease or facility and all
55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified
56 and fully described in detail. At the Operator's option, Controllable Material may be summarized by major Material classifications.
57 Intangible drilling costs, audit adjustments and unusual charges and credits shall be separately and clearly identified.
58
59 The Operator may make available to Non-Operators any statements and bills required under Section 12 and/or Section 13 A (Advances
60 and Payments by the Parties) in email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper
61 copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and
62 bills within the timeframes specified here. A statement or billing shall be deemed as delivered twenty-four (24) hours (excluding
63 weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via
64 email, electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and bills via
65 electronic or request paper copies. Such election may be changed upon thirty (30) days prior to written
66 notice to the Operator.

3 ADVANCES AND PAYMENTS BY THE PARTIES

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

B Expenses provided below each Party shall pay its proportionate share of liabilities full within fifteen (15) days of receipt. If payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the *Wall Street Journal* on the first day of each month, the payment is delinquent, plus three percent (3%) per annum or the maximum contract rate permitted by the applicable usury laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court costs and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published, the *Scottsdale Publishing Prime Rate Unpaid Balance* shall bear interest compounded monthly at the prime rate published by the Federal Reserve plus three percent (3%) per annum. Interest shall begin accruing on the first day of the month in which the payment was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the Operator at the time payments are made to the extent such reduction is caused by:

- (1) being billed for an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working interest or Participating Interest, as applicable;
- (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved or is not otherwise obligated to pay under the Agreement; or
- (3) being billed for a property in which the Non-Operator no longer owns a working interest provided that the Non-Operator has furnished the Operator a copy of the record assignment letter. Notwithstanding the foregoing, the Non-Operator shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty (30) day period following the Operator's receipt of such written notice.
- (4) charges to the adjustment period as provided in Section 14 (*Adjustments*).

4 ADJUSTMENTS

A Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills stated to be paid on the calendar year shall on the last day of the calendar year be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide response to all written exceptions, whether or not contained in the report, with the time periods prescribed in Section 15 (*Expenditure Audits*).

B All adjustments initiated by the Operator except those described in items (1) through (4) of this Section 14 B are limited to the twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month period are limited to adjustments resulting from the following:

- (1) a physical inventory of Controllable Material as provided for in Section V (*Inventory of Controllable Material*);
- (2) offsetting entry (whole or in part) that is the direct result of a specific joint interest audit exception granted by the Operator relating to another property;
- (3) a government/regulatory audit; or
- (4) working interest participation adjustment.

5 EXPENDITURE AUDITS

A. A Non-Operator upon written notice to the Operator and all other Non-Operators shall have the right to audit the Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in which such bill was rendered, however, conducting an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Section 14 (*Adjustments*). Any Party that is subject to payment accounting under the Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payment statements of the Party furnishing the form to the Party responsible for preparing the statements. Audits of payment accounts may include the volumes of hydrocarbons produced and saved and proceeds received for hydrocarbons as they pertain to payout accounting required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

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

those Non-Operators approve such a date

The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after completion of the audit testing and analysis however the ninety (90) day time period shall not extend the twenty-four (24) month requirement for taking specified as led written exceptions as required in Section 14 A (Adjustments) above. All claims shall be supported with sufficient documentation.

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

B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide a substantive response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception's portion thereof, if ultimately granted from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 13 B (Advances and Payments by the Parties).

C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt, provided, however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in Section 15 E, if the Operator fails to provide a substantive response to an exception within the ninety (90) day period, the Operator will owe interest on that exception's portion thereof, if ultimately granted from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 13 B (Advances and Payments by the Parties).

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

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

E. (Optional Provision - Forfeiture Penalties)

If the Non-Operator fails to meet the deadline in Section 15 C, the Operator shall be entitled to withdraw the Non-Operator's contribution to the audit. If the Operator fails to meet the deadline in Section 15 B or 15 C, any response by the Operator shall be deemed to have been withdrawn by the Non-Operator. If the Operator fails to meet the deadline in Section 15 B or 15 C, any response by the Operator shall be deemed to have been withdrawn by the Non-Operator. If the Operator fails to meet the deadline in Section 15 B or 15 C, any response by the Operator shall be deemed to have been withdrawn by the Non-Operator. If the Operator fails to meet the deadline in Section 15 B or 15 C, any response by the Operator shall be deemed to have been withdrawn by the Non-Operator.

6 APPROVAL BY PARTIES

A GENERAL MATTERS

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, the



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

3 This Section 16 A applies to specific situations of limited duration where Party proposes to change the accounting for charges from
4 that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure which re-
5 ceived by Section 16 B

6
7 **B AMENDMENTS**

8
9 If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto this Accounting
10 Procedure can be amended by affirmative vote of two (2) or more Parties of which is the Operator
11 having a combined working interest of at least seventy five percent (75%), which approval shall be binding on all Parties
12 provided however approval of at least one (1) Non-Operator shall be required

13
14
15 **C AFFILIATES**

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

19
20 For the purposes of administering the operating procedures Section 16 A, if Non-Operator is an Affiliate of the Operator votes
21 under Section 16 A shall require the majority interest of the Non-Operator(s) after excluding the interest of the Operator's
22 Affiliate

23
24 **II DIRECT CHARGES**

25
26 The Operator shall charge the Joint Account with the following items

27
28 **1 RENTALS AND ROYALTIES**

29 Leases and royalties paid by the Operator on behalf of all Parties for the Joint Operations

30
31
32 **2 LABOR**

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

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

51 Charges for the Operator's employees identified Section II 2 A may be made based on the employee's actual salaries and wages
52 or on the industry rate prevailing in the Operator's area salaries and wages of the employee's specific job category

53
54 Charge for personnel chargeable under this Section II 2 A who are foreign nationals shall not exceed comparable compensation paid
55 to an equivalent US employee pursuant to this Section II 2 unless otherwise approved by the Parties pursuant to Section
56 16 A (General Matters)

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

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

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

19
20
21
22
23 **3 MATERIAL**

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

29
30
31 **4 TRANSPORTATION**

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

48
49 **5 SERVICES**

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

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

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

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

- 59
60 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to
61 production facilities, Shore Base Facilities Offshore Facilities and Field Offices at rates commensurate with the costs of ownership
62 and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who
63 are chargeable pursuant to Section II 2 A (*Labor*). Such rates may include labor maintenance repairs other operating expense
64 insurance taxes depreciation using straight line depreciation method and interest on gross investment less accumulated depreciation
65 not to exceed twenty percent (20%) per annum provided however depreciation shall not be charged when the
66

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

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

7 AFFILIATES

A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators may be made without the approval of the Parties provided () the Affiliate is designated and the Affiliate goods and services are specifically detailed in the approved AFE or other authorization and () the total costs for such Affiliate goods and services charged to such individual project do not exceed \$ 250,000.00. If the total costs for an Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or authorization exceed such amount charges for such Affiliate shall require approval of the Parties, pursuant to Section I 6 A (General Matters).

B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators charges for such Affiliate's goods and services shall require approval of the Parties pursuant to Section I 6 A (General Matters) if the charge exceeds \$ 500,000.00 per calendar year.

C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation provided however documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing direct charges for Affiliate-owned commercial facilities or systems shall be made pursuant to Section II 12 (Commitments).

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

8 DAMAGES AND LOSSES TO JOINT PROPERTY

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

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

9 LEGAL EXPENSE

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

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

10 TAXES AND PERMITS

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

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

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

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

9
10 **11. INSURANCE**

11 Not premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are
12 conducted at locations where the Operator acts as self-insurer in regard to its work's compensation and employer liability insurance
13 obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the
14 jurisdiction governing the Joint Property. In the case of offshore operations, field waters, the manual rates of the adjacent state shall be
15 used for personnel performing work on site, and such rates shall be adjusted for offshore operations by the US Longshoreman and
16 Harbor Workers (USL&H) or Jones Act surcharge as appropriate.
17

18
19 **12. COMMUNICATIONS**

20 Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems including satellite radio
21 and microwave facilities between the Joint Property and the Operator's office(s) directly responsible for field operations in accordance
22 with the provisions of COPAS MFI 44 ("Field Computing and Communication Systems"). If the communication facilities or systems
23 serving the Joint Property are Operator-owned, charges to the Joint Account shall be made as provided in Section II.6 (*Equipment and
24 Facilities Furnished by Operator*). If the communication facilities or systems serving the Joint Property are owned by the Operator's
25 Affiliate, charges to the Joint Account shall not exceed agreed commercial rates prevailing in the area of the Joint Property. The Operator
26 shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting
27 documentation.
28

29
30 **13. ECOLOGICAL ENVIRONMENTAL AND SAFETY**

31 Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or standards recommended by
32 Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All other labor and functions incurred for
33 ecological, environmental and safety matters including management, administration and permitting, shall be covered by Sections II.2
34 (*Labor*), II.5 (*Services*) or Section III (*Overhead*) as applicable.
35

36 Costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting
37 responsibilities of oil and other spills as well as discharges from permitted outfall as required by applicable Laws or other pollution
38 containment and removal equipment deemed appropriate by the Operator for prudent operations are directly chargeable.
39

40
41 **14. ABANDONMENT AND RECLAMATION**

42 Costs incurred for abandonment and reclamation of the Joint Property including costs required by lease agreements or by Laws.
43

44
45 **15. OTHER EXPENDITURES**

46 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charge*) or in Section III
47 (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the
48 Joint Operations. Charges made under this Section II.15 shall be applied to the Parties pursuant to Section 1.6 A (*General Matters*).
49
50

51
52 **III OVERHEAD**

53 As compensation for costs not specifically defined as chargeable to the Joint Account pursuant to Section II (*Direct Charge*), the Operator
54 shall charge the Joint Account in accordance with this Section III.
55

56 Functions included in the overhead rates regardless of whether performed by the Operator, Operator's Affiliates, third parties and regardless
57 of location shall include but not be limited to costs of expenses of:
58

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

human resources
management
supervision not directly charged under Section II.2 (*Labor*)
legal services not directly chargeable under Section II.9 (*Legal Expenses*)
taxation other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
preparation and monitoring of permits and certifications preparing regulatory reports appearances before meetings with governmental agencies or other authorities including judicially the Joint Property other than On-site inspections wing, interpretation, construction, lobbying with respect to Laws or proposed Laws

Overhead charges including salaries or wages plus applicable payroll burdens benefits and Personal Expenses of personnel performing overhead functions as well as office and other related expenses of overhead functions

1 OVERHEAD—DRILLING AND PRODUCING OPERATIONS

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

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

A TECHNICAL SERVICES

() Except as otherwise provided in Section II.13 (*Ecological Environmental and Safety*) and Section III.2 (*Overhead—Major Construction and Catastrophe*) or by approval of the Parties pursuant to Section 16.A (*General Matters*) the salaries wages related payroll burdens and benefits and Personal Expenses for On-site Technical Services, including third party Technical Services

- (Alternative 1—Direct) shall be charged direct to the Joint Account
- (Alternative 2—Overhead) shall be covered by the overhead rates

() Except as otherwise provided in Section II.13 (*Ecological Environmental and Safety*) and Section III.2 (*Overhead—Major Construction and Catastrophe*) or by approval of the Parties pursuant to Section 16.A (*General Matters*) the salaries wages related payroll burdens and benefits and Personal Expenses for Off-site Technical Services including third party Technical Services

- (Alternative 1—All Overhead) shall be covered by the overhead rates
- (Alternative 2—All Direct) shall be charged direct to the Joint Account

(Alternative 3—Drilling Direct) shall be charged direct to the Joint Account, only to the extent which Technical Services are directly attributable to drilling, re-drilling, deepening or sidetracking operations through completion temporary abandonment of dry hole Off-site Technical Services for all other operations including workover recompletion abandonment of production wells and the construction of fixed assets ordered by Section III.2 (*Overhead—Major Construction and Catastrophe*) shall be covered by the overhead rates

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

B OVERHEAD—FIXED RATE BASIS

- (1) The Operator shall charge the Joint Account at the following rates per well per month
 - Drilling Well Rate per month \$ 11,000.00 (prorated for less than full month)
 - Production Well Rate per month \$ 1,100.00

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

(a) Charges for onshore drilling wells shall begin on the spud date and terminate on the date the drilling and/or completion equipment used on the well is released whether onshore or offshore and land waters drilling wells shall begin on the date the drilling completion equipment arrives on location and terminate on the date the drilling or completion equipment is off location or is released whichever occurs first No charge shall be made if suspensions of drilling and/or completion operations for fifteen (15) or more consecutive calendar days

- 1 (b) Charges for any well undergoing any type of work re-completion, and/or abandonment for a period of five (5) or more
2 consecutive work-days shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date of
3 operations with rig or other units used; operations commence through date of rig or other unit release except that no charge
4 shall be made during suspensions of operations for fifteen (15) or more consecutive calendar days.
- 5 (3) Application of Overhead—Production Well Rates shall be as follows
- 6
- 7 (a) An unproductive well that is plugged, cemented to for recovery or disposal or used to obtain water supply to support operations for
8 a period of three months shall be considered as a non-producing well for the entire month.
- 9
- 10 (b) Each active completion in a completed well shall be considered as one well charge provided each completion is
11 considered a separate well by the governing regulatory authority.
- 12
- 13 (c) A one well charge shall be made for the month in which plugging and abandonment operations are completed on any well
14 unless the Drilling Well Rate applies as provided in Sections III B (2)(a) or (b). Thus one-well charge shall be made whether
15 the well has produced.
- 16
- 17 (d) An active gas well shut in because of operational failure of a purchaser, processor or transporter to take production shall
18 be considered as a non-producing well provided the gas well is directly connected to permanent facilities.
- 19
- 20 (e) Any well not meeting the criteria set forth in Sections III B (3) (a) (b) (c) or (d) shall not qualify for production overhead
21 charge.
- 22
- 23 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement provided,
24 however if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the
25 rates shall be adjusted the first day of April each year following the effective date of such farmout agreement. The adjustment
26 shall be computed by applying the adjustment factors most recently published by COPAS. The adjusted rates shall be the initial or
27 amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein for each year from the
28 effective date of such rates in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").
- 29

30 ~~C OVERHEAD PERCENTAGE BASIS~~

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

32 ~~(a) Development Rate _____ percent (____%) of the cost of development of the Joint Property, exclusive of costs~~
33 ~~provided under Section II.9 (Legal Expense) and all Material salvage credits.~~

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

38 ~~(2) Application of Overhead—Percentage Basis shall be as follows:~~

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

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

47 ~~(b) The Operating Rate shall be applied to all other costs in connection with Joint Operations except those subject to Section III.2~~
48 ~~(Overhead Major Construction and Catastrophe).~~

49 **2 OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE**

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

1 Major Construction shall mean the construction and installation of fixed assets that expands on fixed assets and any other project clearly
2 discernible as a fixed asset required for the development and operation of the Joint Property or for the dismantlement, abandonment,
3 removal and restoration of platforms, production equipment, and other operating facilities

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

- 7
8 A. If the Operator absorbs the engineering, design and drafting costs related to the project
- 9
 - 10 (1) 5% of total costs if such costs are less than \$100,000 plus
 - 11
 - 12 (2) 4% of total costs in excess of \$100,000 but less than \$1,000,000 plus
 - 13
 - 14 (3) 2% of total costs in excess of \$1,000,000
 - 15

- 16 B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account
- 17
 - 18 (1) 5% of total costs if such costs are less than \$100,000 plus
 - 19
 - 20 (2) 4% of total costs in excess of \$100,000 but less than \$1,000,000 plus
 - 21
 - 22 (3) 2% of total costs in excess of \$1,000,000
 - 23

24 Total cost shall mean the gross cost of any project for the purposes of this paragraph, the component parts of a single Major
25 Construction project shall not be treated separately and the cost of drilling and workovers and purchasing and installing pumping
26 units and downhole artificial lift equipment shall be included. For Catastrophes the rate shall be applied to losses sustained with each
27 single occurrence.

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

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

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

38
39 **3 AMENDMENT OF OVERHEAD RATES**

40
41 The overhead rates provided for in this Section III may be amended from time to time if, in practice, the rates are found to be insufficient
42 or excessive in accordance with the provisions of Section I.6.B (Amendments).

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

46
47 The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers and
48 dispositions. The Operator shall provide Material furnished by the Operator, however, Material may be supplied by the Non
49 Operator at the Operator's option. Material furnished by any Party shall be furnished with any express or implied warranties as to quality
50 fitness for use in any matter.

51
52 **1 DIRECT PURCHASES**

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

62
63
64
65
66

2 TRANSFERS

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

A. PRICING

The value of Material transferred to/from the Joint Property should generally reflect the market value of the physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operator sufficient documentation to verify the Material value. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well design specification tubulars unless such higher specification grade or sized tubulars are approved by the Parties pursuant to Section 16 A (*General Materials*). Transfers of new Material will be priced using one of the following pricing methods, provided however the Operator shall use consistent pricing methods, and not alternate between methods for the purpose of choosing the method most favorable to the Operator for specific transfers:

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

B. FREIGHT

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

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

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

C. TAXES

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

D CONDITION

(1) Condition A New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%) of the price as determined in Sections IV 2 A (Pricing) IV 2 B (Freight) and IV 2 C (Taxes) Material transferred from the Joint Property that was not placed in service shall be credited as charged without gain or loss provided, however any unused Material that was charged to the Joint Account through direct purchase will be credited to the Joint Account at the original cost plus less restocking fees charged by the vendor and unused Material transferred from the Joint Property may be credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties owning such Material pursuant to Section 16 A (General Matters) All refurbishing costs required necessary to return the Material to original condition to correct handling, transportation other damages will be borne by the destituting property The Joint Account is responsible for Material preparation handling, and transportation costs for new and unused Material charged to the Joint Property either through a direct purchase or transfer Any preparation costs incurred including any internal coating and wrapping will be credited on new Material provided these services were not repeated for such Material for the receiving property

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

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

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

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

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

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

(4) Condition D Material that is no longer suitable for its original purpose but is suitable for some other purpose () obsolete or () does not meet original specifications but still has value and can be used in other applications as a substitute for items with different specifications considered Condition D Material Casing, tubing or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices Casing tubing or drill pipe used as higher pressure service lines than standard line pipe shall be priced under minimum price provided for casing, tubing, or drill pipe Upset tubular goods shall be priced on a non-competitive basis For other items that are used the result of the Joint Account shall be charged or credited with the value of the service rendered of the Material, as agreed to by the Parties pursuant to Section 16 A (General Matters)

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

E OTHER PRICING PROVISIONS

(1) Preparation Costs

Subject to Section II (Direct Charges) and Section III (Overhead) of this Accounting Procedure costs incurred by the Operator making Material serviceable including inspection, third party surveillance services and other similar services will be charged to the Joint Account at prices which reflect the Operator's actual costs of the services Documentation must be provided to the Non-Operators upon request to report the cost of service New coating and/or wrapping shall be considered an important part of the Material and priced in accordance with Section IV 1 (Direct Purchase) or IV 2 A (Pricing) as applicable Charges or credits shall be made for used coating or wrapping Charges and credits for inspections shall be made in accordance with COPAS MFI 38 (Material Pricing Manual)

(2) Loading and Unloading Costs

Loading and unloading costs related to the movement of the Material to the Joint Property shall be handled in accordance with the method specified in COPAS MFI 38 (Material Pricing Manual)

3 DISPOSITION OF SURPLUS

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

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

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

The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is attached without the prior approval of the Parties owning such Material.

If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such Material.

The Operator may purchase surplus Condition A or B Material with the approval of the Parties owning such Material based on the pricing methods set forth in Section IV 2 (Transfers).

The Operator may purchase Condition C Material without prior approval of the Parties owning such Material if the value of the Materials based on the pricing methods set forth in Section IV 2 (Transfers) is less than or equal to the Operator's expenditure limit as set forth in the Agreement. The Operator shall provide a report to the Parties on the disposal of Condition C Material.

The Operator may dispose of Condition D or E Material under procedures normally utilized by the Operator without prior approval of the Parties owning such Material.

4 SPECIAL PRICING PROVISIONS

A PREMIUM PRICING

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

B SHOP MADE ITEMS

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

C MILL REJECTS

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

V INVENTORIES OF CONTROLLABLE MATERIAL

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

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

1 DIRECTED INVENTORIES

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

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

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

2 NON DIRECTED INVENTORIES

A OPERATOR INVENTORIES

Physical inventories that are not requested by the Non Operators may be performed by the Operator at the Operator's discretion. The expenses of non directed inventories shall not be charged to the Joint Account.

B NON OPERATOR INVENTORIES

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

C SPECIAL INVENTORIES

The expense of conducting inventories other than those described in Sections VI (*Directed Inventories*) and VII A (*Operator Inventories*) and VII B (*Non Operator Inventories*) shall be charged to the Party requesting such inventory provided however expenses equated to the charge of Operator shall be charged to the Joint Account in the same manner as described in Section VI (*Directed Inventories*).