

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

**APPLICATION OF CHISHOLM ENERGY OPERATING, LLC
FOR A NON-STANDARD SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

APR 30 2018 PM03:16

CASE NO. 16115

**CHISHOLM'S RESPONSE IN OPPOSITION TO PREMIER OIL & GAS, INC.'S
MOTION TO DISMISS**

Chisholm Energy Operating, LLC ("Chisholm"), by and through its undersigned attorneys, files this response in opposition to Premier Oil & Gas, Inc.'s ("Premier") motion to dismiss. For the reasons stated, the motion should be denied.

Contrary to Premier's argument, the joint operating agreement ("JOA") at issue does not supersede the authority of the Division to issue pooling orders. To the contrary, the JOA expressly states that it is subject to state regulatory orders. *See, infra*, Exhibit A. Nor does the JOA control the rights and obligations of the parties in this circumstance where the subject contract area overlaps the proposed spacing unit only across a portion of Section 31. The parties have no agreement to address the portion of the well and spacing unit within Section 6. Statutory pooling is thus necessary to combine all mineral interests within the proposed spacing where it crosses both Sections. As important, the Division has no authority or jurisdiction to determine or adjudicate the "private rights" and obligations of the parties under the JOA. But even if the Division does have that authority, the JOA does not preclude Chisholm from drilling a well outside and across the subject contract area. Premier points to no such provision within the JOA. Moreover, Premier has admitted that the JOA does not preclude proposing a well that extends

beyond the boundaries of the contract area. *See, infra*. Accordingly, for at least these four reasons, more fully addressed below, Premier's motion should be denied.

First, contrary to Premier's contention, the JOA does not preclude imposition of a Division order pooling all mineral interests. The JOA, in fact, expressly provides that "this agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders." *See* JOA, attached as Exhibit A, Art. XIV.A (emphasis added); *see also* Art. XV.I ("This Agreement shall be subject to the conservation laws of the state" and the "valid rules, regulations and orders of any duly constituted regulatory body of said state.")). Premier, as a party to the JOA, thus expressly acknowledged and agreed that the JOA is subject to the Division's spacing and pooling orders and has no basis to contend otherwise.

Second, the JOA governs the parties' voluntary agreement to explore and develop oil and gas interests only within the lands committed to the contract area. *See generally*, Exhibit A. It does not, however, proscribe development outside the contract area, nor does it preclude the Division from entering a pooling order that covers a portion of the lands within the contract area. Because the contract area under the JOA does not extend to lands in Section 6, which is partially included within the spacing and proration unit proposed by Chisholm, Premier and Chisholm do not have a voluntary agreement covering the lands necessary to develop the proposed well and spacing unit. Chisholm must therefore obtain an order combining all mineral interests within its proposed spacing and proration unit, including interests in Section 31 and 6, pursuant to NMSA 1978, Section 70-2-17(C). Chisholm's pooling application falls squarely within the Division's authority to approve well spacing and to issue pooling orders combining mineral interests. The JOA is expressly subject to the Division's authority and pooling orders. Premier's attempt to

obstruct Chisholm's reasonable and equitable proposal for development is precisely the "dog in the manger' attitude" that forced pooling is intended to overcome. *See Tenneco Oil Co. v. El Paso Natural Gas Co.*, 687 P.2d 1049, 1052 (Okla. 1984).

Third, courts, not the Oil Conservation Division, have jurisdiction to determine "private rights" regarding a contractual dispute between the parties as to any supposed limitations imposed by the operative joint operating agreement ("JOA"). The Division has jurisdiction and authority only to determine "public rights" relating to the public issue of conservation of oil and gas and the prevention of waste, not the private contractual rights between parties to a JOA. *See, e.g., Hartman v. El Paso Nat. Gas Co.*, 1988-NMSC-080, ¶ 30763 P.2d 1144 (recognizing distinction between "public rights vs. private rights" with respect to the (citing *Tenneco Oil Co.*, 687 P.2d 1049). The rights and obligations of parties within a contract area under voluntary agreements, such as the JOA at issue, "are to be determined by the district court." *Tenneco Oil Co.*, 687 P.2d at 1053; *see also Samson Res. Co. v. Oklahoma Corp. Comm'n*, 742 P.2d 1114, 1116. "The Oil Conservation Commission is a creature of statute, expressly defined, limited and empowered by the laws creating it." *Santa Fe Expl. Co. v. Oil Conservation Comm'n of State of N.M.*, 1992-NMSC-044, ¶ 27, 835 P.2d 819. Its powers extend to preventing waste and protection of correlative rights, not the adjudication of private rights between parties to a JOA. *Marbob Energy Corp. v. New Mexico Oil Conservation Comm'n*, 2009-NMSC-013, ¶ 2, 206 P.3d 135. The Division thus has no jurisdiction or authority to rule that the JOA relied on by Premier proscribes Chisholm's proposal to drill across and outside of a contract area subject to a JOA.

Fourth, even if the Division did have jurisdiction to review this private right issue, which it does not, the JOA relied on by Premier does not prevent Chisholm from proposing a well that includes but extends beyond the limits of the contract area. Premier generally relies on the fact

that a portion of the lands subject to Chisholm's pooling application in Section 31 are within the contract area governed by the JOA, but cites no provision in the agreement that precludes or limits a party from proposing a well that extends beyond the contract area. In fact, no provision in the JOA imposes such a limitation. In fact, Premier admits that the JOA cannot be interpreted in that manner when it suggested extending Chisholm's proposed well outside the contract area in an east-west direction, rather than north-south as Chisholm proposes. *See* email from K. Jones to B. Sullivan, 4/20/18, attached as Exhibit B. Here, Premier nevertheless urges this unsupported interpretation in an attempt to force Chisholm to position its proposed well in a lay-down orientation. Such an interpretation—where no such intent is expressly stated—would have far-reaching perverse results and will demonstrably result in waste. As will be shown through testimony and exhibits at hearing, Chisholm has determined that the geology in the area supports drilling horizontal wells in a stand-up orientation.

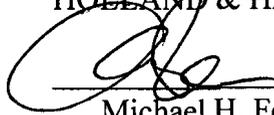
At issue is simply whether such a proposal complies with the Division's well drilling and spacing rules and compulsory pooling authority. Contrary to Premier's argument, the JOA is expressly subject to the Division's regulatory authority to impose such orders.

CONCLUSION

For the foregoing reasons, Premier's motion to dismiss must be denied.

Respectfully submitted,

HOLLAND & HART LLP



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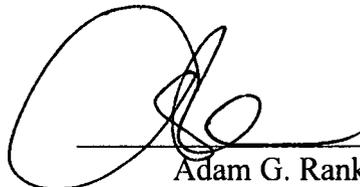
**ATTORNEYS FOR CHISHOLM ENERGY
OPERATING, LLC**

CERTIFICATE OF SERVICE

I hereby certify that on April 30, 2018, I filed a copy of the foregoing document with the Oil Conservation Division clerk and served a copy to the following counsel of record via Electronic Mail:

Ernest L. Padilla, Esq.
Padilla Law Firm, P.A.
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Santa Fe, New Mexico 87504
(505) 988-7577
padillalaw@qwestoffice.net

Attorneys for Premier Oil & Gas, Inc.



Adam G. Rankin

January 9, 2008

Premier Oil & Gas, Inc.
P. O. Box 1246
Artesia, New Mexico 88210
Attn: Ken Jones

16115

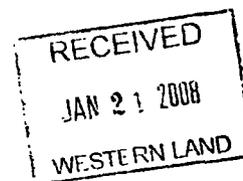
Re: Hackberry Prospect
Township 22 South, Range 26 East
Section 31: All, Section 32: W/2
Eddy County, New Mexico

Gentlemen:

This letter will evidence the agreement between DEVON ENERGY PRODUCTION COMPANY, L.P. (hereinafter referred to as "Devon"), and PREMIER OIL & GAS, INC. (hereinafter referred to as "Premier"), whereby Devon, subject to the terms and conditions of this Letter Agreement ("Agreement"), agrees to assign certain interests, as hereinafter provided, in and to the Oil and Gas Leases (the "Leases") as set forth on Exhibit "A" attached hereto, as such Leases specifically relate to the Morrow development location, as identified below (hereinafter collectively referred to as the "Interests"). In consideration of the mutual benefits to be derived from the covenants and obligations herein contained, Devon and Premier agree as follows:

1. Devon represents but does not warrant that it owns 100% WI in the Leases covering State of New Mexico lands which yields certain working interests in the following Morrow development location (hereinafter referred to as the "Initial Development Location"):

Hackberry 31 State Com #2
S/2 Section 31
920' FSL & 1310' FEL
Township 22 South, Range 26 East
Eddy County, New Mexico
100%WI



2. State of New Mexico Oil and Gas Leases V-6205 and V-6218 covering all of Section 31-T22S-R26E are currently communitized by State of New Mexico agreement dated April 11, 2006, dedicating the S/2 Section 31 as the drilling and spacing unit for the Initial Development Location. Such leases have been extended beyond the expiration of their primary terms of April 30, 2006 by the use of a spudder rig and continuous operations in accordance with the terms of such Leases.



481008204

3. State of New Mexico Oil and Gas Leases V-708 and LG-8291 covering the W/2 Section 32, among other lands, are currently held by production by the FV State Com #2 located 2100' FNL & 660' FEL of said Section 32.
4. Subject to the other terms and provisions of this Agreement, Premier desires to acquire from Devon and Devon desires to assign to Premier, a 20% working interest in and to the Interests for the purpose of jointly developing such Interests for the production of oil and/or gas as set forth herein.
5. The Interests attributable to the Hackberry 31 State Com #2 and to the terms of this Agreement shall be subject to the Joint Operating Agreement attached hereto as Exhibit "B" which shall govern all operations within the Contract Area covered by the Joint Operating Agreement.
6. In order to be entitled to an assignment of a portion Devon's interest in and to the Interests as contemplated by this Agreement, Premier agrees to and shall be obligated to participate as non-operator in the drilling of the Initial Development Location and pay its share of costs to casing point attributable to the Initial Development Location, as follows:

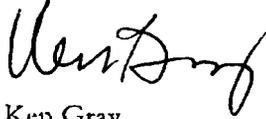
Hackberry 31 State Com #2
✓ 30.5861% before casing point, not to exceed 110% of
the dry hole cost as reflected on the Authority for Expenditure
attached hereto as Exhibit "C" and 20.00% after casing point
7. Upon reaching casing point in the Initial Development Location and provided that Premier has otherwise complied with the terms of this Agreement, Devon shall promptly assign to Premier its proportionate percentage in and to the Interests without warranty of any kind either express or implied. All such assigned Interests shall be delivered at an 80% net revenue interest.
8. Devon and Premier agree to proportionately share, at cost, any subsequently acquired interests within the contract area covered by the Joint Operating Agreement, including but not limited to leasehold acquisition, farmin, term assignment and pooled interests.
9. In the event of a conflict between the terms of this Agreement and the terms of the Joint Operating Agreement, the terms of this Agreement shall prevail.
10. The terms of this Agreement shall extend to, and be binding upon both Devon and Premier and their respective successors and assigns.

If the above terms accurately describe the terms of our verbal agreement, please so indicate by signing and returning one copy of this letter to the undersigned within ten (10) days from the date hereof along with an executed signature page to the Joint Operating Agreement and an executed Authority for Expenditure. Upon failure to receive an executed copy of this Agreement within the time stated, Devon will consider this Agreement null and void.

If there are any questions or if additional information is required feel free to call me at 405-552-4633.

Yours very truly,

DEVON ENERGY PRODUCTION COMPANY, L. P.

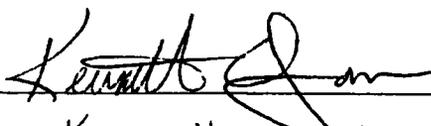


Ken Gray
Senior Land Advisor

Enclosure

Agree to and accept the above this 4th day of January, 2008.

Premier Oil & Gas, Inc.

By: 

Name: Kenneth C Jones

Title: D-P

EXHIBIT "A"

Attached to and made a part of that certain Letter Agreement dated January 9, 2008, by and between Devon Energy Production Company, L.P., and Premier Oil & Gas, Inc.

State of New Mexico Oil and Gas Lease bearing Serial Number V-6025, dated May 1, 2001 from the Commissioners of Public Lands, as Lessor, to Rolla R. Hinkle III, as Lessee, insofar and only insofar as said lease covers the E/2 of Section 31-T22S-R26E, Eddy County, New Mexico, containing 320.00 acres, more or less.

State of New Mexico Oil and Gas Lease bearing Serial Number V-6218, dated May 1, 2001 from the Commissioners of Public Lands, as Lessor, to Rolla R. Hinkle III, as Lessee, insofar and only insofar as said lease covers Lots 1, 2, 3, 4, E/2 W/2 of Section 31-T22S-R26E, Eddy County, New Mexico, containing 313.80 acres, more or less.

State of New Mexico Oil and Gas Lease bearing Serial Number V-708, dated May 1, 1983 from the Commissioners of Public Lands, as Lessor, to Exxon Corporation, as Lessee, insofar and only insofar as said lease covers the NE/4 NW/4, SW/4 NW/4, N/2 SW/4 of Section 32-T22S-R26E, Eddy County, New Mexico, less and except the wellbore of the New Mexico State EV #1 well located 1980' FWL & 1980' FSL of said section 32 containing 160.00 acres, more or less.

State of New Mexico Oil and Gas Lease bearing Serial Number V-708, dated May 1, 1983 from the Commissioners of Public Lands, as Lessor, to Exxon Corporation, as Lessee, insofar and only insofar as said lease covers the NW/4 NW/4, SE/4 NW/4, S/2 SW/4 of Section 32-T22S-R26E, Eddy County, New Mexico, containing 160.00 acres, more or less.

GAS _____
OIL _____



20 N. BROADWAY, SUITE 1500, OKLAHOMA CITY, OK 73102

AUTHORITY FOR EXPENDITURE

DRILLING/COMPLETION COST ESTIMATE

DRILLING _____
COMPLETION _____

Exhibit "C" attached to letter agreement dated
January 9, 2008 between Devon Energy Production
Company, L.P. and Premier Oil & Gas, Inc.

AFE NO.: 126323
Lease Name - Well #: Hackberry 31 State 2
Legal Description: SE/4 Sec. 31-T22S-R26E

County/Parish: Eddy
State: New Mexico
Prepared By: Abbitt, Wyatt

AUTHORITY REQUESTED TO:

Drill and complete the Hackberry 31 State #2.

Code	Intangible Description	Drilling	Completion	Dry Hole	Total
		Costs	Costs	Costs	Costs
011	DRILL-LAND, LEGAL	5,000	0	0	5,000
012	COMPL-SURF DAMAGES/RIGHTOFWAY	0	2,500	0	2,500
012	DRILL-SURF DMGS/RIGHT OF WAY	2,000	0	0	2,000
013	DRILL-LOCATION,ROADS, PITS, FNCS	50,000	0	0	50,000
014	ARCHEOLOGICAL TESTING	1,800	0	0	1,800
019	OTHER SITE PREPARATION	0	2,000	0	2,000
043	DAYWORK	612,000	68,000	0	680,000
044	DRILL-MOB/DEMOBILIZATION	37,500	0	0	37,500
045	DIRECTIONAL DRILLING	158,000	0	0	158,000
049	DRILL-OTHER CONTRACTOR SERVICE	10,000	0	0	10,000
101	COMPL-DRILL BITS	0	1,000	0	1,000
101	DRILL BITS	53,000	0	0	53,000
102	COMPLETION FLUIDS	0	2,500	0	2,500
102	DRILL-DRILLING FLUIDS	125,185	0	0	125,185
103	DRILL-SURFACE RENTAL TOOLS & EQUIP	69,960	0	0	69,960
103	SURFACE RENTAL TOOLS & EQUIP (incl. foam/air w)	0	5,000	0	5,000
104	COMPL-DOWNHOLE RNTL TOOLS & EQ	0	1,000	0	1,000
104	DOWNHOLE RENTAL TOOLS & EQUIPMENT	22,320	0	0	22,320
109	DRILL-OTHER MATRLS & SUPPLIES	1,500	0	0	1,500
109	OTHER MATERIALS & SUPPLIES	0	2,000	0	2,000
201	DRILL-WELD, ROUTABOUT & OTHER	17,000	0	0	17,000
201	WELDING, ROUSTABOUTS & OTHER SERV	0	5,000	0	5,000
202	COMPL-DIRT WORK & HEAVY EQUIPN	0	2,500	0	2,500
202	DIRT WORK & HEAVY EQUIPMENT	4,800	0	0	4,800
203	DRILL-TRUCKING & HOTSHOT	15,000	0	0	15,000
203	TRUCKING & HOTSHOT	0	4,500	0	4,500
251	CEMENT & CEMENTING SERVICES	23,000	83,000	0	106,000
254	FLOWBACK EQUIP-TESTING SERVICES	0	10,000	0	10,000
255	LOGGING	0	25,000	0	25,000
257	DRILL-OPEN HOLE EVALUATION	120,800	0	0	120,800
259	CASING & TUBULAR SERVICES	9,000	0	0	9,000
261	COMPL-MISC.PUMPING SERVICES	0	5,000	0	5,000
263	DRILL-FLUID DISPOSAL	75,000	0	0	75,000
263	FLUID DISPOSAL	0	8,500	0	8,500
265	STIMULATION & GRAVEL PACK	0	200,000	0	200,000
269	COMPL - CONSULTANTS	0	15,000	0	15,000
269	CONSULTANTS	45,000	0	0	45,000
281	COMMUNICATION SERVICES	1,800	0	0	1,800
302	DRILL-WATER	38,000	0	0	38,000
302	WATER	0	8,500	0	8,500
306	COMPL-OTHER POWER & FUEL	0	1,500	0	1,500

Please include/attach well requirement data with ballot

EXHIBIT A

12-2008-001

GAS _____
 OIL _____



20 N. BROADWAY, SUITE 1500, OKLAHOMA CITY, OK 73102

AUTHORITY FOR EXPENDITURE
DRILLING/COMPLETION COST ESTIMATE

DRILLING _____
 COMPLETION _____

AFE NO.: 126323
 Lease Name - Well #: Hackberry 31 State 2
 Legal Description: SE/4 Sec. 31-T22S-R26E

County/Parish: Eddy
 State: New Mexico
 Prepared By: Abbitt, Wyatt

AUTHORITY REQUESTED TO:

Drill and complete the Hackberry 31 State #2.

Code	Intangible Description	Drilling Costs	Completion Costs	Dry Hole Costs	Total Costs
306	DRILL-POWER & FUEL	74,250	0	0	74,250
501	PULLING & SWABBING UNITS	0	50,000	0	50,000
503	BACKFILL PITS/RESTORE LOCATION	10,000	1,500	0	11,500
552	DRILL-SAFETY EQUIP & TRAINING	2,160	0	0	2,160
559	DRILL-ENVMNT & SAFETY MISC	1,080	0	0	1,080
711	COMPANY SUPERVISION	0	2,000	0	2,000
721	COMPL- COMPLETION OVERHEAD	0	1,500	0	1,500
895	DRILL-TAXES -OTHER IDC	169,775	0	0	169,775
Total Intangibles		1,754,930	507,500	0	2,262,430

Code	Tangible Description	Drilling Costs	Completion Costs	Dry Hole Costs	Total Costs
901	SURFACE CASING	13,991	0	0	13,991
902	INTERMEDIATE CASING	35,776	0	0	35,776
903	PRODUCTION CASING	0	222,759	0	222,759
915	TUBING	0	70,000	0	70,000
925	SUBSURFACE EQUIP	0	15,000	0	15,000
931	WELLHEAD VALVES & EQUIPMENT	9,000	10,000	0	19,000
941	TANKS	0	30,000	0	30,000
945	TREATING EQUIPMENT	0	16,000	0	16,000
961	COMPL-LINE PIPE,METERS & FITTINGS	0	10,000	0	10,000
986	COMPL-SURFACE-OTH TANG EQUIPMENT	0	10,000	0	10,000
Total Tangibles		58,767	383,759	0	442,526

TOTAL ESTIMATED COSTS		1,813,697	891,259	0	2,704,956
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Note: Costs and participations are generally estimates. Billings will be based on actual expenditures

WORKING INTEREST OWNER APPROVAL

Company name: _____

Signature: _____

Print Name: _____

Title: _____

Date: _____

Email: _____

Please include/attach well requirement data with ballot. **EXHIBIT A**

7-0300-57

EXHIBIT "B"

**Attached hereto and made part of that certain Letter Agreement dated January 9, 2008
between Devon Energy Production Company, L.P., McCombs Energy, LLC, and
Premier Oil & Gas, Inc.**

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

January 1 , 2008 ,
year

OPERATOR Devon Energy Production Company, L.P.

CONTRACT AREA All of Section 31, and W/2 of Section 32, all in

Township 22 South, Range 26 East

COUNTY OR PARISH OF Eddy STATE OF New Mexico

COPYRIGHT 1982 - ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT
WORTH, TEXAS, 76137-2791, APPROVED
FORM, A.A.P.L. NO. 610 - 1982 REVISED

EXHIBIT A

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10000000

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OPERATING AGREEMENT

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THIS AGREEMENT, entered into by and between Devon Energy Production Company, L.P., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

- As used in this agreement, the following words and terms shall have the meanings here ascribed to them:
 - A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
 - B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
 - C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.
 - D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
 - E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.
 - F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.
 - G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
 - H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

ARTICLE II.
EXHIBITS

- The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:
- A. Exhibit "A", shall include the following information:
 - (1) Identification of lands subject to this agreement.
 - (2) Restrictions, if any, as to depths, formations, or substances.
 - (3) Percentages or fractional interests of parties to this agreement.
 - (4) Oil and gas leases and/or oil and gas interests subject to this agreement.
 - (5) Addresses of parties for notice purposes.
 - B. Exhibit "B", Form of Lease.
 - C. Exhibit "C", Accounting Procedure.
 - D. Exhibit "D", Insurance.
 - E. Exhibit "E", Gas Balancing Agreement.
 - F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.
 - G. Exhibit "G", Tax Partnership.

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

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ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of one-eighth (1/8th) which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

- 1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
- 2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

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ARTICLE IV
continued

1 Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-
4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
5 functions.
6

7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.
10 This shall not prevent any party from appearing on its own behalf at any such hearing.
11

12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above
13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to partic-
14 ipate in the drilling of the well.
15

16 **B. Loss of Title:**

17
18 ~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a~~
19 ~~reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days~~
20 ~~from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisi-~~
21 ~~tion will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil~~
22 ~~and gas leases and interests; and;~~

23 ~~—(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be~~
24 ~~entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,~~
25 ~~but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

26 ~~—(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has~~
27 ~~been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has oc-~~
28 ~~curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract~~
29 ~~Area by the amount of the interest lost;~~

30 ~~—(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is~~
31 ~~increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such in-~~
32 ~~terest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such~~
33 ~~well;~~

34 ~~—(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has~~
35 ~~failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties~~
36 ~~who bore the costs which are so refunded;~~

37 ~~—(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be~~
38 ~~borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and;~~

39 ~~—(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest~~
40 ~~claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in~~
41 ~~connection therewith.~~
42

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

54 ~~—(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis,~~
55 ~~up to the amount of unrecovered costs;~~

56 ~~—(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of~~
57 ~~oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease~~
58 ~~termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs; the proceeds of said~~
59 ~~portion of the oil and gas to be contributed by the other parties in proportion to their respective interest; and;~~

60 ~~—(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest~~
61 ~~lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~
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63 **3. I. Other Losses:** All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
65 the Contract Area.
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ARTICLE V.
OPERATOR

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4 A. Designation and Responsibilities of Operator:

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6 Devon Energy Production Company, L.P. shall be the
7 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and
8 required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall
9 have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross
10 negligence or willful misconduct.

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

13
14 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators.
15 If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as
16 Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator
17 may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the
18 affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining
19 after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the
20 first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action
21 by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier
22 date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a cor-
23 porate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not
24 be the basis for removal of Operator.

25
26 2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by
27 the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor
28 Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest
29 based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to
30 succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based
31 on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

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33 C. Employees:

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

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38 D. Drilling Contracts:

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40 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so
41 desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing
42 rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and
43 such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of in-
44 dependent contractors who are doing work of a similar nature.

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ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of February, (year) 2008, Operator shall commence the drilling of a well for
oil and gas at the following location: 920' FSL & 1310' FEL of Section 31-T22S-R26E, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Morrow formation, expected to
require drilling to a depth of approximately 11,675 feet

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is en-
countered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and
gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which
event Operator shall be required to test only the formation or formations to which this agreement may apply.

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ARTICLE VI
continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

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6 **B. Subsequent Operations:**

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8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided
9 for in Article VI.A., or to rework, deepen, ~~or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all~~
10 ~~recomplete, sidetrack~~ the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen, ~~or plug back such a well shall give the~~
11 ~~recomplete, sidetrack~~ other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation
12 and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-
14 ing rig is on location, notice of a proposal to rework, plug back, ~~or drill deeper may be given by telephone and the response period shall be~~
15 ~~recomplete, sidetrack~~ limited to forty-eight (48) hours, exclusive of Saturday, Sunday, and legal holidays. Failure of a party receiving such notice to reply within
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or
17 response given by telephone shall be promptly confirmed in writing.

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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties
24 hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accord-
30 dance with the provisions hereof as if no prior proposal had been made.

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34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-
43 ditions of this agreement.

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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

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58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-
63 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,

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ARTICLE VI
continued

1 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above,
2 the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-
3 Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production
4 therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging
5 back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of
6 the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

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10 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall
11 be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such
12 well conforms to the then-existing well spacing pattern for such source of supply.

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16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.
17 except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening, ^{sidetracking} and plugging back of such initial well
18 after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for pro-
19 duction, ceases to produce in paying quantities.

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23 3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been
24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a
25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening
26 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever
27 first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second gram-
28 matical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently
29 withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion
30 each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Par-
31 ties.

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35 4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall
36 also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole
37 location (herein call "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other
38 mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the
39 affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal
40 to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

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

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49 (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's
50 salvageable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the
51 provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

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55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period
56 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and
57 receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-
60 ty's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

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65 **C. TAKING PRODUCTION IN KIND:**

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67 Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area,
68 exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for
69 marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any
70 party of its proportionate share of the production shall be borne by such party. ~~Any party taking its share of production in kind shall be~~

ARTICLE VI
continued

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

6

7 * In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the
10 best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the
11 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess
14 of one (1) year.

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16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or
17 deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to
18 be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing
19 agreement between the parties hereto, ^{which} whether such an agreement is attached as Exhibit "E", or is a separate agreement. ^{hereto.}

20

21 **D. Access to Contract Area and Information:**

22

23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with
26 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of
27 each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
29 quests the information.

30

31 **E. Abandonment of Wells:**

32

33 1. Abandonment of Dry Holes: Except for any well drilled, ^{sidetracked} / or deepened pursuant to Article VI.B.2., any well which has been
34 drilled, / or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned
35 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
36 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon
37 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
38 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening
39 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
40 operations in search of oil and/or gas subject to the provisions of Article VI.B.

41

42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
44 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
46 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
47 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
48 parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
51 material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-
52 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
53 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-
54 tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-
55 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

56

57 * In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate
58 share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party
59 owning it, but not the obligation, to purchase such oil and gas or sell it to others in an arms length transaction at any time and from
60 time to time, for the account of the non-taking party and Operator will use its best efforts to market Non-operator's share of the oil
61 and/or gas on the same terms that Operator markets its own share of such production. Any such purchase or sale by Operator shall
62 be subject always to the right of the owner of the production upon thirty (30) days written notice to exercise its right to take in kind
63 or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any
64 other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the
65 industry under the particular circumstances, but in no event for a period in excess of one (1) year.

64

65 Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract Area
66 shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators shall,
67 upon request, furnish operator with true and complete copies of the records required to be kept hereunder whenever, under the terms
68 of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any
69 information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as
70 Operator and shall otherwise be kept confidential.

70

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ARTICLE VI
continued

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of
4 interests in the remaining portion of the Contract Area.

5
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing intervals assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.

13
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1 or VI.E.2 above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

19
20
21
22
23 **A. Liability of Parties:**

24
25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted
27 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

29
30 **B. Liens and Payment Defaults:**

31
32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

47
48 **C. Payments and Accounting:**

49
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,
53 showing expenses incurred and charges and credits made and received.

54
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within
60 fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-
62 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

63
64 **D. Limitation of Expenditures:**

65
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

68
69
70

ARTICLE VII
continued

1 Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including
2 necessary tankage and/or surface facilities.

3
4 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage
18 and/or surface facilities.

19
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of Thirty-five thousand and No/100 Dollars (\$ 35,000.00)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of Twenty-five thousand and No/100
28 Dollars (\$ 25,000.00) but less than the amount first set forth above in this paragraph.

29
30 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

31
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
33 party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have con-
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
35 behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
38 visions of Article IV.B.2. **1. When sales commence, Operator shall notify non-Operator of the date of first sale.**

39
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3. **1.**

45
46 **F. Taxes:**

47
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in
58 the manner provided in Exhibit "C".

59
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as
65 provided in Exhibit "C".

66
67 Each party shall pay or cause to be paid all production severance, excise, gathering and other taxes imposed upon or with respect
68 to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

69
70

ARTICLE VII
continued

1 **G. Insurance:**

2
3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall
6 also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9
10 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

12
13 **ARTICLE VIII.**
14 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

15
16 **A. Surrender of Leases:**

17
18 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
19 or in part unless all parties consent thereto.

20
21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas inter-
25 est, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
26 such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such
27 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

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

40
41 **B. Renewal or Extension of Leases:**

42
43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and
44 shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the
45 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-
46 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the
47 interests held at that time by the parties in the Contract Area.

48
49 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

53
54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein
55 by the acquiring party without warranty of title, except as to acts by, through or under the acquiring party.

56
57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
58 or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-
60 tracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to
61 the provisions of this agreement.

62
63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.

64
65 **C. Acreage or Cash Contributions:**

66
67 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
69 applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the con-
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

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ARTICLE VIII
continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

5
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8
9 **D. Maintenance of Uniform Interests:**

10
11 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no
12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,
13 equipment and production unless such disposition covers either:

- 14
15 1. the entire interest of the party in all leases and equipment and production; or
16
17 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

18
19 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
20 and shall be made without prejudice to the right of the other parties.

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

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

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

34
35 **F. ~~Preferential Right to Purchase:~~**

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

46
47 **ARTICLE IX.**
48 **INTERNAL REVENUE CODE ELECTION**

49
50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as per-
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
63 Subtitle "A", of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is per-
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
66 computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Thirty thousand and No/100 Dollars (\$ 30,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. All claims or suits involving title to any interest subject to this Agreement shall be treated as a claim or a suit against all parties hereto.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspending during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

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

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. 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.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

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

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of ninety (90) days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within ninety (90) days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

RECORDED

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ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

[Redacted text]

B. Governing Law:

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

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract 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 interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or 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.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.
OTHER PROVISIONS

See attached Article XV.

2000

**ARTICLE XV.
OTHER PROVISIONS**

A. With respect to a well drilled or deepened pursuant to Article VI.B.2. for which the Consenting Parties have not been fully reimbursed for the amounts provided in Article VI.B. ("Non-Consent Well"), the right to propose and to participate in further operations under Article VI.B. for such Non-Consent Well shall be limited as follows:

1. Only a party which participated in the Non-Consent Well shall have the right to propose a reworking, plugging back or completion operation for such Non-Consent Well, and only those parties which elected to participate in such Non-Consent Well shall be entitled to receive such notice and to participate in such operation pursuant to Article VI.B.
2. Only a party which participated in the Non-Consent Well shall have the right to propose a deepening or sidetracking operation for such Well, but all parties (including parties which did not participate in such Well) shall be entitled to receive notice and shall have the right to participate pursuant to Article VI.B. in such sidetracking or deepening operation except as to a well covered by Article XV, Paragraph G. hereof. However, those parties which did not participate in the Non-Consent Well shall reimburse the Consenting Parties the unrecouped portion of the amount allowed by Article VI.B. to be recouped with respect to such Non-Consent Well.

B. If Operator is not successful with its initial completion attempt in any well drilled pursuant to this Agreement, and recommends a subsequent completion attempt in another zone and if less than all parties elect to attempt such completion, the provisions of Article VI.B.2. shall apply. Provided, however, that Article VI.B.2. shall apply separately to each separate completion or recompletion attempt undertaken hereunder, and an election to become a Non-Consenting Party as to one completion or recompletion attempt shall not prevent a party from becoming a Consenting Party in subsequent completion or recompletion attempts regardless whether the Consenting Parties, as to earlier completions or recompletions have recouped their costs pursuant to Article VI.B.2.; provided further, that any recoupment of costs by a Consenting Party shall be made solely from the production attributable to the zone in which the completion attempt is made. Election by a previous Non-Consenting Party to participate in a subsequent completion or recompletion attempt shall require such party to pay its proportionate share of the costs of salvable materials and equipment installed in the well pursuant to the previous completion or recompletion attempt, insofar and only insofar as such materials and equipment benefit the zone in which such party participates in a completion attempt. Notwithstanding the foregoing, to be entitled to the benefits of this Article a party must have participated in all operations prior to the initial completion attempt.

C. Priority of Proposals:

If at any time there is more than one operation proposed in connection with any well subject to this Agreement, and the parties participating in the well cannot agree upon the sequence and timing of further operations regarding the well, the following elections shall control in the order enumerated, as follows:

1. Prior to Reaching the Objective Depth
 - a. Drilling a well to its Objective Depth shall have first priority over all other operations and proposals.
 - b. In the event that impenetrable conditions or mechanical difficulties prevent reaching the Objective Depth, a proposal to sidetrack in an effort to reach the Objective Depth shall have priority over a proposal to attempt a completion in a formation already reached.
2. After the Objective Depth Has Been Reached
 - a. An election to add additional logging, coring or testing.

II. At the request of any party, all the parties hereto shall execute a recordable Memorandum and Financing Statement referring to this Agreement, the Contract Area of this Agreement, and the rights and obligations of the parties under this Agreement.

I. [REDACTED]
[REDACTED]
[REDACTED] and to all other applicable Federal, state and local laws, ordinances, rules, regulations and orders.

J. In the event of a conflict between the provisions of this Article XV. and any other provision of this Operating Agreement, the provisions of this Article XV. shall control and prevail.

K. As to the Contract Area covered hereby and for so long as this Operating Agreement remains in effect, this Operating Agreement is intended to supercede and take the place of any previously existing Operating Agreement(s) the parties hereto may have entered into prior to the date of this Operating Agreement.

ARTICLE XVI.
MISCELLANEOUS

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This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

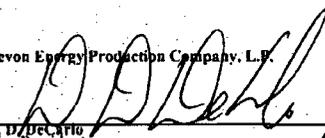
This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of January, (year) 2008

~~who has prepared and circulated this form for execution, represents and warrants that the form is printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles _____, have been made to the form~~

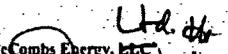
OPERATOR

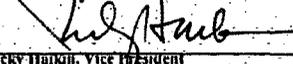
Devon Energy Production Company, L.P.


D. D. DeCaffo
Vice President

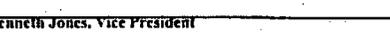
KLA *OK*

NON-OPERATORS


McCombs Energy, L.P.C.


Ricky Hankin, Vice President

Premier Oil & Gas, Inc.


Kenneth Jones, Vice President

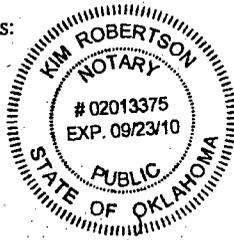
Hackberry 31 State #2

7-07990-84

STATE OF OKLAHOMA)
) SS
COUNTY OF OKLAHOMA)

The foregoing instrument was acknowledged before me this 10th day of January, 2008, by D. D. DeCarlo, Vice President of Devon Energy Production Company, L.P./an Oklahoma limited partnership, on behalf of the partnership.

My Commission Expires:
9-23-2010



Kim Robertson
Notary Public

STATE OF TEXAS)
) SS
COUNTY OF Harris)

The foregoing instrument was acknowledged before me this 11 day of April, 2008, by Ricky Haikin, Vice President of McCombs Energy, LLC, on behalf of said corporation. Ltd

My Commission Expires:
12/31/09

Sharon Metcalf McDonald
Notary Public



STATE OF NEW MEXICO)
) SS
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 2008, by Kenneth Jones, Vice President of Premier Oil & Gas, Inc., on behalf of said corporation.

My Commission Expires:

Notary Public

ARTICLE XVI.
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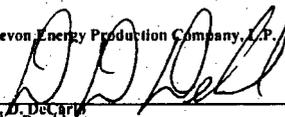
This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of January, (year) 2008

~~who has prepared and circulated this form for execution, represents and warrants that the form was printed from and /-with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles~~
~~_____ have been made to the form.~~

OPERATOR

Devon Energy Production Company, L.P.

D. J. DeCarlo
Vice President

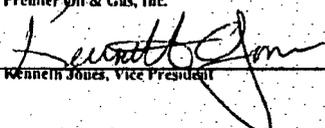
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NON-OPERATORS

McCombs Energy, LLC

Ricky Hankin, Vice President

Premier Oil & Gas, Inc.


Kenneth Jones, Vice President

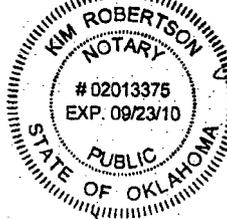
Hackberry 31 State #2

STATE OF OKLAHOMA)
) SS
COUNTY OF OKLAHOMA)

The foregoing instrument was acknowledged before me this 10th day of January, 2008, by D. D. DeCarlo, Vice President of Devon Energy Production Company, L.P., an Oklahoma limited partnership, on behalf of the partnership.

My Commission Expires:

9-23-2010



Kim Robertson
Notary Public

STATE OF TEXAS)
) SS
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 2008, by Ricky Haikin, Vice President of McCombs Energy, LLC, on behalf of said corporation.

My Commission Expires:

Notary Public

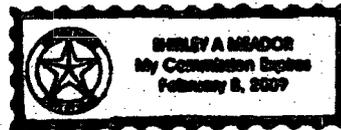
Texas
STATE OF ~~NEW MEXICO~~)
) SS
COUNTY OF Dallas)

The foregoing instrument was acknowledged before me this 15th day of January, 2008, by Kenneth Jones, Vice President of Premier Oil & Gas, Inc., on behalf of said corporation.

My Commission Expires:

Feb. 8, 2009

Shirley A. Meador
Notary Public



ARTICLE XVI.
MISCELLANEOUS

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This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of January, (year) 2008

~~who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles _____, have been made to the form~~

OPERATOR

Devon Energy Production Company, L.P.

D. D. DeCarlo
Vice President

NON-OPERATORS

McCombs Energy, LLC

Ricky Hankin, Vice President

Premier Oil & Gas, Inc.

Kenneth Jones, Vice President

Hackberry 31 State #2

11/11/07

STATE OF OKLAHOMA)
) SS
COUNTY OF OKLAHOMA)

The foregoing instrument was acknowledged before me this _____ day of _____, 2008, by D. D. DeCarlo, Vice President of Devon Energy Production Company, L.P., an Oklahoma limited partnership, on behalf of the partnership.

My Commission Expires:

Notary Public

STATE OF TEXAS)
) SS
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 2008, by Ricky Haikin, Vice President of McCombs Energy, L.L.C, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)
) SS
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 2008, by Kenneth Jones, Vice President of Premier Oil & Gas, Inc., on behalf of said corporation.

My Commission Expires:

Notary Public

EXHIBIT "A"
Revised 1/31/08

Attached to that certain Operating Agreement dated January 1, 2008,
by and between Devon Energy Production Company, L.P., as Operator,
and McCombs Energy, LLC, et al, as Non-Operator.

1. IDENTIFICATION OF LANDS SUBJECT TO THIS AGREEMENT:

All of Section 31, and W/2 of Section 32, all in T22S-R26E, Eddy County, New Mexico,
Containing 953.80 acres, more or less

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

None

3. PERCENTAGES OR FRACTIONAL INTERESTS AND ADDRESSES OF PARTIES TO THIS AGREEMENT:

	<u>BCP of Initial Well</u>	<u>ACP of Initial Well and Subsequent Wells</u>
Devon Energy Production Company, L.P. 20 North Broadway Oklahoma City, OK 73102	46.4744%	65.0000%
McCombs Energy, LLC 5599 San Felipe, Suite 1200 Houston, TX 77056	22.9395%*	15.0000%
Premier Oil & Gas, Inc. P. O. Box 1246 Artesia, NM 88210 Attn: Ken Jones	30.5861%*	20.0000%
	<u>100.0000%</u>	<u>100.0000%</u>

*Not to exceed 110% of dry hole cost as set forth on Exhibit "C" to Letter Agreement dated January 9, 2008.

4. OVERRIDING ROYALTIES

To be determined

5. [REDACTED]

Lease No. 1

Lease Serial No.: V-6025
Lease Date: May 1, 2001
Lessor: State of New Mexico
Lessee: Rolla R. Hinkle III
Description: Township 22 South, Range 26 East, N.M.P.M.
[REDACTED]

Lease No. 2

Lease Serial No.: V-6218
Lease Date: May 1, 2001
Lessor: State of New Mexico
Lessee: Rolla R. Hinkle III
Description: Township 22 South, Range 26 East, N.M.P.M.
[REDACTED]

Lease No. 3

Lease Serial No.: LG-8291
Lease Date: May 1, 1980
Lessor: State of New Mexico
Lessee: Gulf Oil Corporation
Description: Township 22 South, Range 26 East, N.M.P.M.

[REDACTED]

Lease No. 4

Lease Serial No.: V-708
Lease Date: May 1, 1983
Lessor: State of New Mexico
Lessee: Exxon Corporation, a New Jersey corporation
Description: Township 22 South, Range 26 East, N.M.P.M.

[REDACTED]

EXHIBIT "B"

Attached to that certain Operating Agreement dated January 1, 2008,
by and between Devon Energy Production Company, L.P., as Operator,
and McCombs Energy, LLC, et al, as Non-Operator.

There is no Exhibit "B" to this Operating Agreement.

EXHIBIT A

EXHIBIT " C "

1 Attached to and made a part of that certain Operating Agreement dated January 1, 2008 by and between Devon
2 Energy Production Company, L.P., as Operator, and McCombs Energy, L.L.C. et al, as Non-Operator
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7 **ACCOUNTING PROCEDURE**
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9 **JOINT OPERATIONS**

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11 **I. GENERAL PROVISIONS**

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14 **1. Definitions**

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

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

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

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

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

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

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

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

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

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

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

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36 **2. Statement and Billings**

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

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44 **3. Advances and Payments by Non-Operators**

45 A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their
46 share of estimated cash outlay for the succeeding month's operation within ~~fifteen (15)~~^{thirty (30)} days after receipt of the
47 billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust
48 each monthly billing to reflect advances received from the Non-Operators

49 B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made
50 within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank of America, Dallas, Texas
51 on the first day of the month in which delinquency occurs plus 1% or the
52 maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located,
53 whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid
54 amounts.

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58 **4. Adjustments**

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

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68 **COPYRIGHT © 1985 by the Council of Petroleum Accountants Societies.**
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1 5. **Material**

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

6. **Transportation**

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

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

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

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

7. **Services**

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

8. **Equipment and Facilities Furnished By Operator**

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed eight percent (8 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

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

9. **Damages and Losses to Joint Property**

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

10. **Legal Expense**

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

11. **Taxes**

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

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

- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls 1/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
- (b) Line Pipe movements (except size 24 inch OD) and larger with walls 1/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
- (c) Line pipe 24 inch OD and over and 1/4 inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
- (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

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

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

B. Good Used Material (Condition B)

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

- (1) Material moved to the Joint Property

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

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

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

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

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

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

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

C. Other Used Material

- (1) Condition C

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

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(2) Condition D

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

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

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

D Obsolete Material

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

E Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

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

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3. Special Inventories

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

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated January 1, 2008, between Devon Energy Production Company, L.P., as Operator, and McCombs Energy, LLC, et al, as Non-Operator.

The Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

- a) Workmen's compensation insurance: In compliance with the workmen's compensation laws of the State of New Mexico, including employer's liability with minimum limits of \$1,000,000.00.
- b) Comprehensive general liability insurance, excluding products: A limit of \$1,000,000.00 each occurrence for bodily injuries, \$2,000,000.00 aggregate. Property damage liability limit being \$1,000,000.00 each occurrence, \$2,000,000.00 aggregate.
- c) Automobile public liability and property damage insurance. Limits of bodily injury \$1,000,000.00 each person; \$1,000,000.00 each occurrence; property damage \$1,000,000.00 each occurrence.

The Operator shall require its contracts and subcontractors working or performing services upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached to comply with the workmen's compensation laws of the State of New Mexico and to carry such other insurance and in such amounts as the Operator shall deem necessary.

During drilling operations, Operator shall also carry Operator's Extra Expense Indemnity insurance during drilling and completion including coverage for well seepage, pollution, cleanup and containment and evacuation expenses. The limit of such insurance is \$10,000,000.00 any one occurrence. Non-Operators shall elect, in writing prior to spudding, to be covered under such policy or shall furnish Operator with evidence that it carries for its own account such insurance with minimum limits corresponding to those provided for in Operator's policy. At all times while operations are being conducted under this agreement, Operator, or the designated Operator for the account of the Non-Operators, shall maintain insurance in accordance with this Exhibit. If a Non-Operator elects to be an additional insured on Operator's policy, it shall bear its proportionate part of the expense of such policy.

1 NOTE: Instructions For Use of Gas Balancing
2 Agreement MUST be reviewed before finalizing
3 this document.
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7 EXHIBIT "E"
8 GAS BALANCING AGREEMENT ("AGREEMENT")
9 ATTACHED TO AND MADE PART OF THAT CERTAIN

10 OPERATING AGREEMENT DATED January 1, 2008
11 BY AND BETWEEN Devon Energy Production Company, L.P., as Operator
12 AND McCumb Energy, LLC, et al. as Non-Operator ("OPERATING AGREEMENT")
13 RELATING TO THE All of Section 31-T22S-R26E AREA,
14 Eddy COUNTY/PARISH, STATE OF New Mexico
15

16 1. DEFINITIONS

17 The following definitions shall apply to this Agreement:

- 18 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales
19 agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are
20 representative of prices and delivery conditions existing under other similar agreements in the area between
21 unaffiliated parties at the same time for natural gas of comparable quality and quantity.
- 22 1.02 "Balancing Area" shall mean (select one):
23 each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a
24 single well is completed in two or more producing intervals, each producing interval from which the Gas
25 production is not commingled in the wellbore shall be considered a separate well.
26 all of the acreage and depths subject to the Operating Agreement.
27 _____
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- 31 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced
32 from the Balancing Area during each month.
- 33 1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified
34 as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made
35 available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by
36 field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel,
37 recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.
- 38 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full
39 Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.
- 40 1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic
41 foot of space at a standard pressure base and at a standard temperature base.
- 42 1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat
43 required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a
44 constant pressure of 14.73 pounds per square inch absolute.
- 45 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the
46 event this Agreement is not employed in connection with an operating agreement, the individual or entity
47 designated as the operator of the well(s) located in the Balancing Area.
- 48 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than
49 the Percentage interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.
- 50 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in
51 the cumulative quantity of all Gas produced from the Balancing Area.
- 52 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors,
53 transferees and assigns.
- 54 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the
55 Balancing Area pursuant to the Operating Agreement covering the Balancing Area.
- 56 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding
57 royalties, production payments or similar interests.
- 58 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than
59 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.
- 60 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its
61 Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.
- 62 1.16 (Optional) "Winter Period" shall mean the month(s) of _____ in one
63 calendar year and the month(s) of _____ in the succeeding calendar year.

64 2. BALANCING AREA

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

68 2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more
69 maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area
70 and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

71 3. RIGHT OF PARTIES TO TAKE GAS

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

EXHIBIT A

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1 requirements. Operator is authorized to deliver the volumes so nominated ^{in accordance with each Parties' interest in the well} and confirmed (if confirmation is required) to the
 2 transporting pipeline in accordance with the terms of this Agreement, provided however, the Well is capable of delivering the nominated volume for the
 3 applicable Party or Parties.
 3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the
 4 extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to
 5 preserve correlative rights, or to maintain oil production.

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

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

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

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

35 **4. IN-KIND BALANCING**

36 4.1 Effective the first day of any calendar month following ^{reasonable notice of} ~~at least~~ thirty (30) days prior
 37 written notice to the Operator, ^{if required by Operator,} any Underproduced Party may begin taking, in addition to its Full Share of Current
 38 Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined
 39 by multiplying thirty-five percent (35%) of the Full Shares of Current Production of all Overproduced Parties by
 40 a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which
 41 is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an
 42 Overproduced Party be required to provide more than thirty-five percent (35%) of its Full Share of Current
 43 Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced
 44 Party to begin taking Makeup Gas.

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

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

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

57 **5. STATEMENT OF GAS BALANCES**

58 5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each
 59 Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within ^{sixty (60)} ~~forty-five (45)~~ days
 60 after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of
 61 Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between
 62 the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or
 63 Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum
 64 Accountants Societies Bulletin No.24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to
 65 the Operator any data required by the Operator for preparation of the statements required hereunder.

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

71 **6. PAYMENTS ON PRODUCTION**

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

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

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

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

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

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

16 7. CASH SETTLEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

5 7.7 Interest compounded at the prime rate in effect at Bank of America, Dallas, Texas percent (%) per annum or the maximum lawful
6 rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1 beginning
7 the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any
8 Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3
9 contributed to the accrual of the interest. The Operator shall also be required to pay such interest if it has received payment from any Overproduced
10 Party but failed to timely pay the Underproduced Party.

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

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

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

31 8. TESTING

32 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to
33 produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s)
34 required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to
35 conduct such tests, provided, however, that such tests shall be conducted in accordance with prudent operating practices only
36 after thirty (30) days' prior written notice to the Operator and shall last no longer than
37 seven (7) hours, days including prior shut-in time.

38 9. OPERATING COSTS

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

43 10. LIQUIDS

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

46 11. AUDIT RIGHTS

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

59 12. MISCELLANEOUS

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

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

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

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

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

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

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

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

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

24 ~~12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all~~
 25 ~~Parties, each Party agrees to compute and report income to the Internal Revenue Service (select one) as if such Party were~~
 26 ~~taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same~~
 27 ~~relate to entitlement method tax computations; or based on the quantity of Gas taken for its account in accordance with~~
 28 ~~such regulations, insofar as same relate to sales method tax computations. See 14.3 on Page -5a-~~

29 **13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT**

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

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

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

60 **14. OTIHER PROVISIONS**

61 See Attachment.
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14. OTHER PROVISIONS

- 14.1 Any Underproduced party can require cash settlement from the Overproduced Parties in January of each even numbered year by providing written notice to the Operator. Section 7 of this Gas Balancing Agreement shall govern cash settlement under this provision.
- 14.2 In the event any Party feels a Party has produced more than its share of recoverable reserves and wants to prohibit said Party from selling additional Gas, the Party shall notify the Operator, including its estimate of remaining recoverable reserves. The Operator shall notify all other Parties. If Parties concur with the recoverable reserve estimate, said Overproduced Party shall be prohibited from selling Gas until the Overproduced Party is back in balance. If the Parties cannot agree on the remaining recoverable reserves, the Operator shall retain an independent reservoir engineer, experienced and competent in the geographical areas of the well(s) in question, to compute the reserves. Its decision shall be final. Costs incurred by the independent engineer shall be borne by the Parties hereto.
- 14.3 The Parties to this Agreement agree to abide by Regulation 1.761-2(d)(2) as promulgated by the Internal Revenue Service. Regulation 1.761-2(d)(2) requires that all co-producers of natural gas operating under the same joint operating agreement must use the cumulative gas balancing method, as described under this regulation, to report gas balancing for tax purposes. In the event of a conflict between the provisions of this Section and any other provisions of this Agreement, the provisions of this Section shall control.

1 15. COUNTERPARTS

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

7 IN WITNESS WHEREOF, this Agreement shall be effective as of the _____ day of _____,
8
9

10 ATTEST OR WITNESS:

OPERATOR

11 _____

12 _____ BY: _____

13 _____

14 Type or print name

15 Title _____

16 Date _____

17 Tax ID or S.S. No. _____

18 _____

19 NON-OPERATORS

20 _____

21 _____ BY: _____

22 _____

23 Type or print name

24 Title _____

25 Date _____

26 Tax ID or S.S. No. _____

27 _____

28 _____

29 _____ BY: _____

30 _____

31 Type or print name

32 Title _____

33 Date _____

34 Tax ID or S.S. No. _____

35 _____

36 _____

37 _____

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ACKNOWLEDGMENTS

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

Individual acknowledgment:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

Acknowledgment in representative capacity:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____ as

_____ of _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY AND
NON-DISCRIMINATION SUPPLEMENT

Attached to and made a part of that certain Operating Agreement dated January 1, 2008, between Devon Energy Production Company, L.P., as Operator, and McCombs Energy, LLC, et al, as Non-Operator.

The term "Contractor", as used herein shall mean the party designated or acting as contractor, Operator or Seller in the foregoing agreement, of which this supplement is a part.

During the performance of this contract, Contractor agrees as follows:

1. The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. Contractor will take affirmative action to insure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination, rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post, in conspicuous places available to employees and applications for employment, notices to be provided by the contracting officer, setting forth the provisions of this nondiscrimination clause.
2. The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
3. The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
4. The Contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.
5. The Contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
6. In the event of Contractor's noncompliance with the non-discrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be canceled, terminated or suspended in whole or in part, and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.
7. The Contractor will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provision, including sanctions of noncompliance; provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

Contractor acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder. Contractor further acknowledges that it may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply the other party or parties to the foregoing agreement with a copy of such program if they so request.

Contractor certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965. Contractor agrees to obtain similar certification from its subcontractor prior to the award of subcontract which are not exempt from the provisions of the equal opportunity clause.

Thanks,
Beau Sullivan
817.953.0812

Chisholm Energy Holdings, LLC



**CHISHOLM
ENERGY**

801 Cherry Street, Suite 1200-Unit 20
Fort Worth, TX 76102

From: ken.jones@premieroilgas.com [mailto:ken.jones@premieroilgas.com]
Sent: Friday, April 20, 2018 8:53 AM
To: Beau Sullivan <bsullivan@chisholmenergy.com>
Cc: dan.jones@premieroilgas.com; Ernest Padilla <epadillaplf@qwestoffice.net>
Subject: FW: JOA

Beau-

Since Premier's WI in Section 31 and W/2 of 32 in 22S-26E is covered under the JOA dated January 9, 2008, Premier will require that the wells be drilled in a east-west direction. Premier is willing to extend the JOA to cover the E/2 of Section 32 to allow for Chisholm to drill 2-mile laterals if Chisholm desires. Premier is open to negotiating the terms of a new JOA to extend the current acreage into the E/2 of Section 32.

Please let us know how Chisholm wishes to proceed in terms of the potential E/2 Section 32 addition.

Regards,

Ken

Kenneth C. Jones
Premier Oil & Gas Inc.
President
901 Waterfall Way, Suite 201



Richardson, Tx 75080
Office # 972-470-0228
Cell # 214-543-3688