



**EOG Resources, Inc.**  
P.O. Box 2267  
Midland, TX 79702  
(432) 686-3600

March 21, 2007

**VIA CERTIFIED MAIL**

Occidental Permian Limited Partnership  
P.O. Box 50250  
Midland, Texas 79710  
Attention: Mr. David Evans

RE: Cimarron "17" State No. 1  
1650' FNL & 330' FWL  
Section 17, T18S, R34E, N.M.P.M.  
Lea County, New Mexico

Gentlemen:

In reference to the captioned well, this is EOG Resources, Inc.'s proposal to drill the Cimarron "17" State No. 1 well as a 9500' Bone Spring test at the above location.

Enclosed please find the following documentation for your review and further handing:

1. Authorization of Expenditure #103725
2. Copy of Drilling Title Opinion prepared by the Stubbeman law firm.
3. Joint Operating Agreement dated March 20, 2007.
4. Copy of approved drilling permit with plat.

It would be appreciated if you would please sign the various signature pages enclosed relating to the Operating Agreement along with the AFE and then return same to me with your geological requirements.

Should you have any questions, please advise.

Very truly yours,

**EOG RESOURCES, INC.**

Douglas W. Hurlbut  
Land Specialist

Oil Conservation Division  
Case No. \_\_\_\_\_  
Exhibit No. 2

**EOG**



MIDLAND

Printed: 03/21/2007

AFE No.	103725	Original
Property No.	043236-000	
EOG W.I.(BCP)	75%	(ACP) 75%
EOG AFE Amt:	(Drig)	\$891,300
	(Completion)	\$577,125
	Total Cost	\$1,468,425

AFE Type : DEVELOPMENT DRILLING	AFE Name : CIMARRON 17 STATE #1 D&C	AFE Date : 03/21/2007	Budget Year : 2007
Reg. Lease No. :	Prospect Name : EK	TVD / MD : 9500 / 9500	Begin Date :
Location : Section 17-T1BS-R34E, 1650 FNL & 330 FWL		Formation :	DD&A Field :
Operator : EOG RESOURCES, INC	County & State : LEA NEW MEXICO	Field : MESCALERO ESCARPE	Water Depth :
AFE Description : cimarron 17 state #1 D&C			Product : OIL Days : 0 / 0

DESCRIPTION	SUB ACT	DRILLING	COMPLETION	TOTAL
ACCESS LOCATION,ROADS & SURVEY	401	90,000	2,500	92,500
RIG MOVE	402	210,000	0	210,000
DAY WORK COST 18 / 2 DAYS @ \$18,000 / \$18,000	404	324,000	36,000	360,000
BITS & BHA	405	75,000	0	75,000
FUEL 18 / 2 DAYS @ \$2,000 / \$2,000	406	36,000	4,000	40,000
WATER	407	40,000	5,000	45,000
MUD & CHEMICALS	408	35,000	0	35,000
CEMENTING & SERVICE	409	40,000	45,000	85,000
OPEN HOLE LOGGING & TESTING	411	30,000	15,000	45,000
MUD LOGGING 15 DAYS @ \$950	412	14,300	0	14,300
COMP-PERFORATING	413	0	10,000	10,000
COMP-STIMULATION	414	0	30,000	30,000
TRANSPORTATION	415	15,000	15,000	30,000
DRILLING OVERHEAD 20 DAYS @ \$250	416	5,000	5,000	10,000
EQUIPMENT RENTAL	417	40,000	30,000	70,000
COMP-COMPLETION RIG	418	0	50,000	50,000
OTHER DRILLING EXPENSE	419	25,000	20,000	45,000
ENVIRONMENTAL & SAFETY CHARGES	421	4,000	30,000	34,000
SUPERVISION 22 DAYS @ \$1,300	424	28,600	15,000	43,600
COMMUNICATIONS 20 DAYS @ \$200	431	4,000	0	4,000
TUBULAR INSPECTION/HANDLING	436	25,000	0	25,000
COMP-WIRELINE SERVICES	442	0	5,500	5,500
DISPOSAL COSTS	447	40,000	0	40,000
TITLE OPINION-DRILL SITE	453	10,000	0	10,000
TOTAL INTANGIBLES		\$1,090,900	\$318,000	\$1,408,900

UOM	QTY	SIZE	GRADE	RATE				
SURFACE CASING	FEET	500	11-3/4" 42#	H-40 STC	31.00	102	15,500	0 15,500
INTERMEDIATE CASING	FEET	3,200	8-5/8" 32#	J-55 LTC	20.00	103	64,000	0 64,000
COMP-PRODUCTION CASING	FEET	9,500	5-1/2" 17#	N-80 LTC	15.00	104	0	142,500 142,500
COMP-TUBING	FEET	9,000	2.875	L80	6.00	106	0	54,000 54,000
WELLHEAD EQUIPMENT						107	18,000	12,000 30,000
COMP-TANKS						108	0	20,000 20,000
COMP-FLOW LINES						109	0	3,500 3,500
COMP-VALVES & FITTINGS						110	0	25,000 25,000
COMP-RODS						111	0	28,000 28,000
COMP-PUMP EQUIPMENT-SURFACE						112	0	100,000 100,000
COMP-PUMP EQUIP/SUBSURFACE						113	0	8,000 8,000
COMP-HEATER,TREATER,SEPARATOR						115	0	18,500 18,500
COMP-METERING EQUIPMENT						118	0	15,000 15,000
COMP-CONSTRUCTION COST						122	0	25,000 25,000
TOTAL TANGIBLES							\$97,500	\$451,500 \$549,000
TOTAL COST							\$1,188,400	\$769,500 \$1,957,900

By <i>Joel L. Bette</i>	Date 3/21/07	By	Date
By	Date	By	Date

JOINT OPERATOR APPROVAL

Firm	By	Title	Date
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7002 3150 0005 0509 5749

<b>U.S. Postal Service™</b> <b>CERTIFIED MAIL™ RECEIPT</b> (Domestic Mail Only; No Insurance Coverage Provided)	
For delivery information visit our website at <a href="http://www.usps.com">www.usps.com</a>	
<b>OFFICIAL USE</b>	
Postage \$ Certified Fee Return Receipt Fee (Endorsement Required) Restricted Delivery Fee (Endorsement Required) Total Postage & Fees	Postmark Here
Sent To: Occidental Permian Limited Partnership P.O. Box 50250 Street, / or P.O. B Midland, Texas 79710 City, St Attention: Mr. David Evans PS Form 3811 17 8/41	

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<ul style="list-style-type: none"> <li>Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</li> <li>Print your name and address on the reverse so that we can return the card to you.</li> <li>Attach this card to the back of the mailpiece, or on the front if space permits.</li> </ul>	A. Signature <i>David Evans</i> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee B. Received by (Printed Name) <i>David Evans</i> C. Date of Delivery <i>3-22-07</i> D. Is delivery address different from item 1? <input type="checkbox"/> Yes <input type="checkbox"/> No If YES, enter delivery address below:
1. Article Addressed to: Occidental Permian Limited Partnership P.O. Box 50250 Midland, Texas 79710 Attention: Mr. David Evans Cameron 17 8/41	3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D. 4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes
2. Article Number (Transfer) 7002 3150 0005 0509 5749	

State of New Mexico  
Energy, Minerals and Natural Resources  
Oil Conservation Division  
1120 S. St Francis Dr.  
Santa Fe, NM 87505

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

1. Operator Name and Address BOG RESOURCES INC P.O. Box 2267 Midland, TX 79702		2. OORID Number 7377
		3. API Number 30-025-38347
4. Property Code 36385	5. Property Name CIMARRON 17 STATE	6. Well No. 001

7. Surface Location

UL - Lot	Section	Township	Range	Lot No.	Foot From	N/S Line	Foot From	E/W Line	County
E	17	18S	34E	E	1650	N	330	W	LEA

8. Pool Information

MESCALERO ESCARPE/BONE SPRING	45793
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Additional Well Information

9. Well Type New Well	10. Well Type OIL	11. Cable/Rotary	12. Lease Type State	13. Ground Level Elevation 4070
14. Multiple N	15. Proposed Depth 9500	16. Formation 2nd Bone Spring Carbonate	17. Connector	18. Spud Date
Depth to Ground water 110		Distance from nearest fresh water well > 1000		Distance to nearest surface water > 1000
21. Liner: Synthetic <input checked="" type="checkbox"/> 12 inch thick Clay <input type="checkbox"/> PA Volume: 10300 bbls Drilling Method: Closed Loop System <input type="checkbox"/> Fresh Water <input checked="" type="checkbox"/> Brine <input type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input type="checkbox"/>				

19. Proposed Casing and Cement Program

Type	Hole Size	Casing Type	Casing Weight/lb	Setting Depth	Sacks of Cement	Estimated TOC
Surf	14.375	11.75	42	500	325	0
Int1	11	8.625	32	3200	750	0
Prod	7.875	5.5	17	9500	800	

Casing/Cement Program: Additional Comments

Production Casing String - Desired TOC will be 500' above shallowest hydrocarbon bearing zone.

Proposed Blowout Prevention Program

Type	Working Pressure	Test Pressure	Manufacturer
Double Ram	5000	5000	

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.  
I further certify that the drilling job will be constructed according to NMOCB guidelines ☒ a general permit ☐ or an (attached) alternative OCS-approved plan ☐.

Printed Name: Electronically filed by Donny Glenon

Title: Sr. Lease Operations Rep

Email Address: donny\_glenon@bogresources.com

Date: 3/14/2007

Phone: 432-686-3642

OIL CONSERVATION DIVISION

Approved By: Paul Kautz

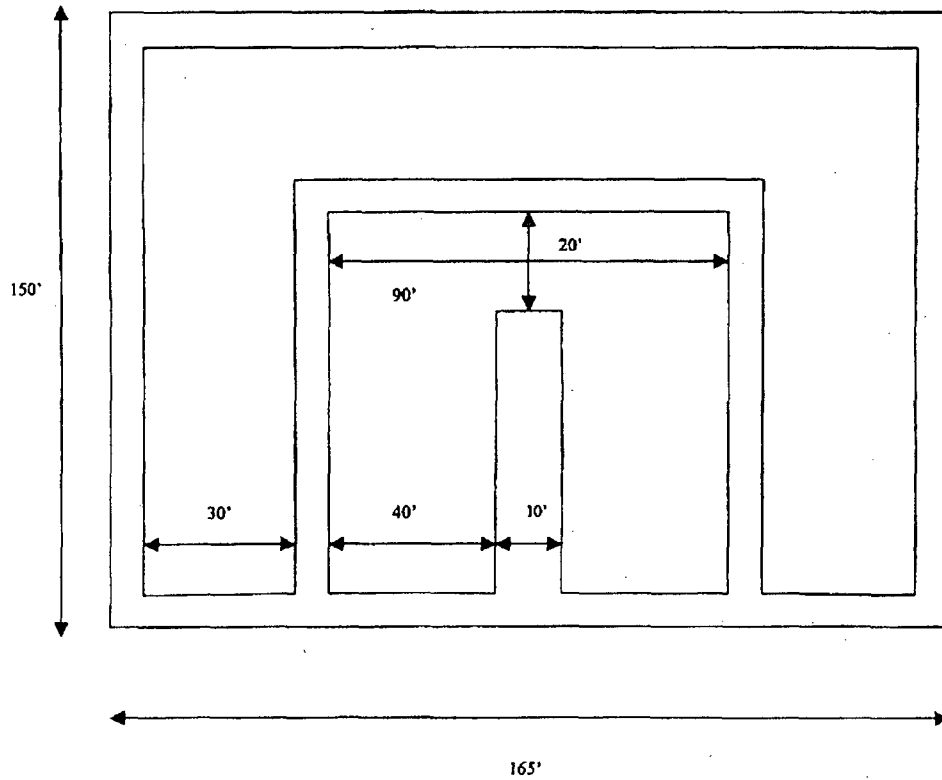
Title: Geologist

Approved Date: 3/15/2007

Expiration Date: 3/15/2008

Conditions of Approval Attached

## New Mexico Double Horseshoe Reserve Pit Design



Approximate Inside Reserve Volume: 4500 bbls  
Approximate Outside Reserve Volume: 5800 bbls

**District I**  
1625 N. French Dr., Hobbs, NM 88240  
Phone (505) 393-6161 Fax(505) 393-0730

**District II**  
1301 W. Grand Ave., Artesia, NM 88210  
Phone (505) 744-1263 Fax(505) 744-8720

**District III**  
1000 Rio Brancos Rd., Aztec, NM 87410  
Phone (505) 334-6178 Fax(505) 334-6170

**District IV**  
1230 S. St. Francis Dr., Santa Fe, NM 87505  
Phone (505) 876-3470 Fax(505) 876-3463

**State of New Mexico**  
**Energy, Minerals and Natural Resources**  
**Oil Conservation Division**  
**1220 S. St Francis Dr.**  
**Santa Fe, NM 87505**

Form C-102  
Permit 49652

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

1. API Number 30-025-38347	2. Pool Code 43793	3. Pool Name MESCALERO ESCARPE BONE SPRING
4. Property Code 36385	5. Property Name CIMARRON 17 STATE	6. Well No. 001
7. OGRID No. 7377	8. Operator Name EOG RESOURCES INC	9. Elevation 4070

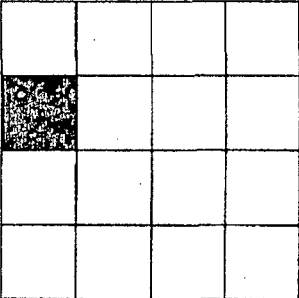
**10. Surface Location**

UL - Lot	Section	Township	Range	Lot Mn	Feet From	N/S Line	Feet From	E/W Line	County
E	17	18S	34E		1650	N	330	W	LEA

**11. Bottom Hole Location If Different From Surface**

UL - Lot	Section	Township	Range	Lot Mn	Feet From	N/S Line	Feet From	E/W Line	County
12. Dedicated Acres 40.00		13. Joint or Well		14. Consolidation Code		15. Order No.			

**NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION**

	<b>OPERATOR CERTIFICATION</b>	
	<i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or undivided mineral interest in the land including the proposed bottom hole location(s) or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</i>	
	E-Signed By: Donny Glanton Title: Sr. Lease Operations Rep Date: 3/14/2007	
	<b>SURVEYOR CERTIFICATION</b>	
	<i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i>	
	Surveyed By: Terry Asel Date of Survey: 3/6/2007 Certificate Number: 15079	

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## Permit Conditions of Approval

Operator: EOG RESOURCES INC , 7377

Well: CIMARRON 17 STATE #001

APL: 30-025-38347

OCD Reviewer	Condition
pkautz	Pit construction and closure must satisfy all requirements of your approved plan, D.C.D. Rule 19.15.2.50, and the Pit and Below-Grade Tank Guidelines

District I  
1625 N. French Dr., Hobbs, NM 88240  
District II  
1301 W. Grand Avenue, Artesia, NM 88210  
District III  
1000 Rio Brazos Rd., Aztec, NM 87410  
District IV  
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals & Natural Resources Department  
OIL CONSERVATION DIVISION  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Form C-102  
Revised October 12, 2005  
Submit to Appropriate District Office  
State Lease- 4 Copies  
Fee Lease- 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name
Property Code	Property Name <b>CIMARRON 17 STATE</b>	Well Number <b>1</b>
OGRID No.	Operator Name <b>EOG RESOURCES, INC.</b>	Elevation <b>4070'</b>

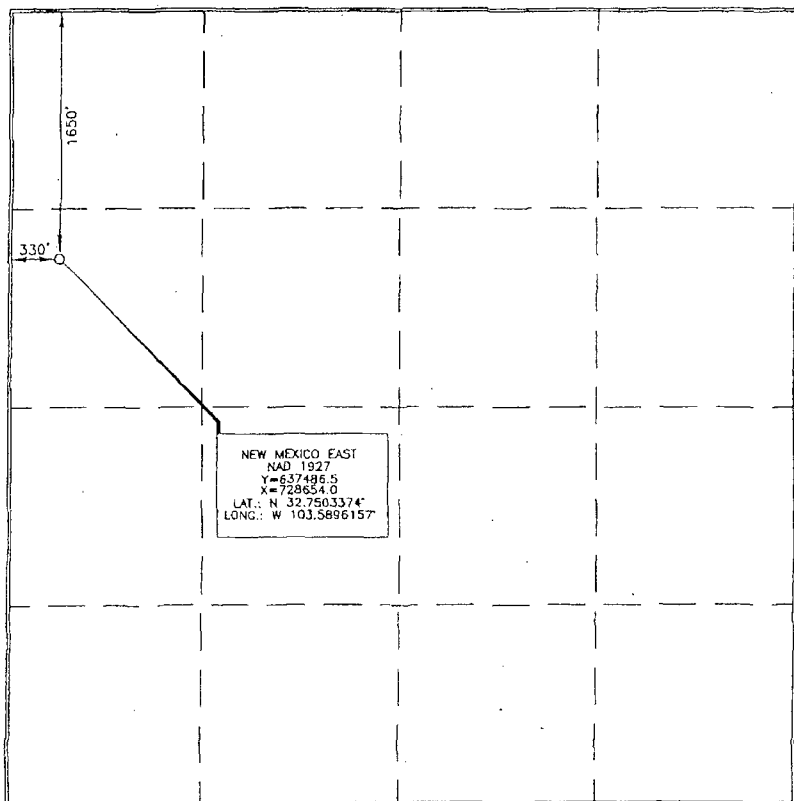
Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
<b>E</b>	<b>17</b>	<b>18 SOUTH</b>	<b>34 EAST, N.M.P.M.</b>		<b>1650'</b>	<b>NORTH</b>	<b>330'</b>	<b>WEST</b>	<b>LEA</b>

Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres		Joint or Infill	Consolidation Code	Order No.					

No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.

	<p><b>OPERATOR CERTIFICATION</b></p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p>Signature _____ Date _____</p> <p>Printed Name _____</p>
	<p><b>SURVEYOR CERTIFICATION</b></p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>DATE OF SURVEY MARCH 06 2007</p> <p>Signature and Seal of Professional Surveyor <i>Terry J. Reed</i> 3/7/2007</p> <p>Certificate Number 15079</p> <p>WOF 070306WL (UL)</p>



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

# MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

March 20 , 2007 ,  
Year

OPERATOR EOG RESOURCES, INC.

CONTRACT AREA SW/4 NW/4 SECTION 17, T-18-S, R-34-E, N.M.P.M

Limited to depths below the base of the Queen formation to the base of the Bone Spring formation

COUNTY OR PARISH OF LEA , STATE OF NEW MEXICO

COPYRIGHT 1989 - ALL RIGHTS RESERVED  
AMERICAN ASSOCIATION OF PETROLEUM  
LANDMEN, 4100 FOSSIL CREEK BLVD.  
FORT WORTH, TEXAS, 76137, APPROVED FORM.

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

SCANNED

**TABLE OF CONTENTS**

Article	Title	Page
I.	<b>DEFINITIONS</b>	1
II.	<b>EXHIBITS</b>	1
III.	<b>INTERESTS OF PARTIES</b>	2
	A. OIL AND GAS INTERESTS:	2
	B. INTERESTS OF PARTIES IN COSTS AND PRODUCTION:	2
	C. SUBSEQUENTLY CREATED INTERESTS:	2
IV.	<b>TITLES</b>	2
	A. TITLE EXAMINATION:	2
	B. LOSS OR FAILURE OF TITLE:	3
	1. Failure of Title:	3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due:	3
	3. Other Losses:	3
	4. Curing Title:	3
V.	<b>OPERATOR</b>	4
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:	4
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR:	4
	1. Resignation or Removal of Operator:	4
	2. Selection of Successor Operator:	4
	3. Effect of Bankruptcy:	4
	C. EMPLOYEES AND CONTRACTORS:	4
	D. RIGHTS AND DUTIES OF OPERATOR:	4
	1. Competitive Rates and Use of Affiliates:	4
	2. Discharge of Joint Account Obligations:	4
	3. Protection from Liens:	4
	4. Custody of Funds:	5
	5. Access to Contract Area and Records:	5
	6. Filing and Furnishing Governmental Reports:	5
	7. Drilling and Testing Operations:	5
	8. Cost Estimates:	5
	9. Insurance:	5
VI.	<b>DRILLING AND DEVELOPMENT</b>	5
	A. INITIAL WELL:	5
	B. SUBSEQUENT OPERATIONS:	5
	1. Proposed Operations:	5
	2. Operations by Less Than All Parties:	6
	3. Stand-By Costs:	7
	4. Deepening:	8
	5. Sidetracking:	8
	6. Order of Preference of Operations:	8
	7. Conformity to Spacing Pattern:	9
	8. Paying Wells:	9
	C. COMPLETION OF WELLS; REWORKING AND PLUGGING BACK:	9
	1. Completion:	9
	2. Rework, Recomplete or Plug Back:	9
	D. OTHER OPERATIONS:	9
	E. ABANDONMENT OF WELLS:	9
	1. Abandonment of Dry Holes:	9
	2. Abandonment of Wells That Have Produced:	10
	3. Abandonment of Non-Consent Operations:	10
	F. TERMINATION OF OPERATIONS:	10
	G. TAKING PRODUCTION IN KIND:	10
	(Option 1) Gas Balancing Agreement:	10
	(Option 2) No Gas Balancing Agreement:	11
VII.	<b>EXPENDITURES AND LIABILITY OF PARTIES</b>	11
	A. LIABILITY OF PARTIES:	11
	B. LIENS AND SECURITY INTERESTS:	12
	C. ADVANCES:	12
	D. DEFAULTS AND REMEDIES:	12
	1. Suspension of Rights:	13
	2. Suit for Damages:	13
	3. Deemed Non-Consent:	13
	4. Advance Payment:	13
	5. Costs and Attorneys' Fees:	13
	E. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES:	13
	F. TAXES:	13
VIII.	<b>ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST</b>	14
	A. SURRENDER OF LEASES:	14
	B. RENEWAL OR EXTENSION OF LEASES:	14
	C. ACREAGE OR CASH CONTRIBUTIONS:	14

**TABLE OF CONTENTS**

D. ASSIGNMENT; MAINTENANCE OF UNIFORM INTEREST: .....	15
E. WAIVER OF RIGHTS TO PARTITION:.....	15
<del>F. PREFERENTIAL RIGHT TO PURCHASE:.....</del>	<del>15</del>
IX. <u>INTERNAL REVENUE CODE ELECTION</u> .....	15
X. <u>CLAIMS AND LAWSUITS</u> .....	15
XI. <u>FORCE MAJEURE</u> .....	16
XII. <u>NOTICES</u> .....	16
XIII. <u>TERM OF AGREEMENT</u> .....	16
XIV. <u>COMPLIANCE WITH LAWS AND REGULATIONS</u> .....	16
A. LAWS, REGULATIONS AND ORDERS:.....	16
B. GOVERNING LAW:.....	16
C. REGULATORY AGENCIES: .....	16
XV. <u>MISCELLANEOUS</u> .....	17
A. EXECUTION: .....	17
B. SUCCESSORS AND ASSIGNS: .....	17
C. COUNTERPARTS: .....	17
D. SEVERABILITY .....	17
XVI. <u>OTHER PROVISIONS</u> .....	17

## OPERATING AGREEMENT

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

## WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

## ARTICLE I.

## DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## ARTICLE II.

## EXHIBITS

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

  X   A. Exhibit "A," shall include the following information:

- (1) Description of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Parties to agreement with addresses and telephone numbers for notice purposes,
- (4) Percentages or fractional interests of parties to this agreement,
- (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
- (6) Burdens on production.

       B. Exhibit "B," Form of Lease.

  X   C. Exhibit "C," Accounting Procedure.

  X   D. Exhibit "D," Insurance.

  X   E. Exhibit "E," Gas Balancing Agreement.

  X   F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.

       G. Exhibit "G," Tax Partnership.

  X   H. Other: Model Form Recording Supplement to Operating Agreement and Financing Statement.

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

### 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 royalty interest 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, however, to the payment of royalties and other burdens on production as described hereafter.

Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area up to, but not in excess of, 1/8th and shall indemnify, defend and hold the other parties free from any liability therefor. Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any liability therefor.

No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if 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, and in the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in said Leaseholds shall be deemed separate leasehold interests for the purposes of this agreement.

#### C. Subsequently Created Interests:

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

The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and alone bear, pay and discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other parties from and against any liability therefor. Further, 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. 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, defend and hold harmless said other party, or parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created Interest.

### ARTICLE IV. TITLES

#### A. Title Examination:

Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, 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 Drilling Party. Costs incurred by Operator in procuring abstracts, fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in royalty opinions and division order title opinions) and other direct charges as provided in Exhibit "C" shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

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

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

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

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

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

1. **Failure of Title:** Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition 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 and Gas Leases and Interests; and,

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

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

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

(d) Should any person not a party to this agreement, who is determined to be the owner of any Lease or Interest which has 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 who bore the costs which are so refunded;

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

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

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

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

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

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

(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 Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. **Other Losses:** All losses of Leases or Interests committed to this agreement, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because express or implied covenants have not been performed (other than performance which requires only the payment of money), and the loss of any Lease by expiration at the end of its primary term if it is not renewed or extended. There shall be no readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.

4. **Curing Title:** In the event of a Failure of Title under Article IV.B.1. or a loss of title under Article IV.B.2. above, any Lease or Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period provided by Article IV.B.1. and Article IV.B.2. above covering all or a portion of the interest that has failed or was lost shall be offered at cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B. shall not apply to such acquisition.

**ARTICLE V.  
OPERATOR**

**A. Designation and Responsibilities of Operator:**

EOG Resources, Inc. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonable prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred except such as may result from gross negligence or willful misconduct.

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

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy Code, and an election to reject this agreement by Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A." In the event there are only two (2) parties to this agreement, during the period of time the operating committee controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest in the Contract Area based on Exhibit "A."

**C. Employees and Contractors:**

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

**D. Rights and Duties of Operator:**

1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or materials supplied by affiliates or related parties of Operator shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance with customs and standards prevailing in the industry.

2. Discharge of Joint Account Obligations: Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C." Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

3. Protection from Liens: Operator shall pay, or cause to be paid, as and when they become due and payable, all accounts of contractors and wages and salaries for services rendered or performed, and for materials supplied on, to or in respect of the Contract Area or any operations for the joint account thereof, and shall keep the Contract Area free from

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of June, 2007, Operator shall commence the drilling of the Initial Well at the following location:

At a legal location in the SW/4 NW/4 of Section 17, T18, R34E, Lea County, NM

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to adequately penetrate and test the Bone Spring formation.

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

B. Subsequent Operations:

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



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

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

## 2. Operations by Less Than All Parties:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

51 **D. Other Operations:**

52 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five  
 53 Thousand and No/100----- Dollars (\$ 25,000.00 ) except in connection with the  
 54 drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously  
 55 authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden  
 56 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion  
 57 are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the  
 58 emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so  
 59 requesting an information copy thereof for any single project costing in excess of Twenty-Five Thousand and No/100----- Dollars  
 60 (\$ 25,000.00 ). Any party who has not relinquished its interest in a well shall have the right to propose that  
 61 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as  
 62 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but  
 63 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall  
 64 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the  
 65 amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under  
 66 Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such  
 67 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent  
 68 of any party or parties owning at least 80 % of the interests of the parties entitled to participate in such operation,  
 69 each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated  
 70 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms  
 71 of the proposal.

72 **E. Abandonment of Wells:**

73 1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has  
 74 been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

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

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

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

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

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

#### 58 F. Termination of Operations:

59 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,  
 60 Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without  
 61 consent of parties bearing 80% of the costs of such operation; provided, however, that in the event granite or other  
 62 practically impervious substance or condition in the hole is encountered which renders further operations impractical,  
 63 Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the  
 64 provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

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

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

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

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

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

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of 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 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. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise at any time its right to take in kind, or separately dispose of, its share of all Oil not previously 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 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

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

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

In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines and/or 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 be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

**~~Option No. 2: No Gas-Balancing Agreement~~**

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

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

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

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

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

**ARTICLE VII.**

**EXPENDITURES AND LIABILITY OF PARTIES**

**A. Liability of Parties:**

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

**B. Liens and Security Interests:**

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

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

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

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

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

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

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

**C. Advances:**

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

**D. Defaults and Remedies:**

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

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

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

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

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

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

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

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

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

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the 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 contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on 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 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

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

#### F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part 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. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."



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

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

#### ARTICLE VIII.

#### ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

##### A. Surrender of Leases:

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

However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such Oil and Gas Interest for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B." Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any well's salvageable materials and equipment attributable to the assigned or leased acreage. The value of all salvageable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth, then the interest assigned shall similarly reflect such variances.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**F. Preferential Right to Purchase:**

☐ (Optional; Check if applicable)

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

**ARTICLE IX.**

**INTERNAL REVENUE CODE ELECTION**

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

**ARTICLE X.**

**CLAIMS AND LAWSUITS**

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand and No/100----- Dollars (\$ 10,000.00 ) 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 a 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.

## ARTICLE XI.

## FORCE MAJEURE

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

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

## ARTICLE XII.

## NOTICES

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

## ARTICLE XIII.

## TERM OF AGREEMENT

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

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

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of 90 days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within 90 days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

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

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

## ARTICLE XIV.

## COMPLIANCE WITH LAWS AND REGULATIONS

## A. Laws, Regulations and Orders:

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

## B. Governing Law:

This agreement and all matters pertaining hereto, including but not limited to matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. ~~If the Contract Area is in two or more states, the law of the state of \_\_\_\_\_ 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 the 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 Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

#### ARTICLE XV. MISCELLANEOUS

##### A. Execution:

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

##### B. Successors and Assigns:

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

##### C. Counterparts:

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

##### D. Severability:

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

#### ARTICLE XVI. OTHER PROVISIONS

##### A.

Commencement of Operations. For the purpose of Articles VI.B.1. and VI.B.2., Operator may commence activities preliminary to actual drilling operations, including without limitation building location, roads and pits, delivering materials and equipment to the well site, rigging up a drilling rig, and/or actual drilling operations at any time either before or after giving the notice of proposed operations required by said Articles. Notwithstanding the foregoing, the parties receiving notice of proposed operations pursuant to Articles VI.B.1 and VI.B.2 shall have the full time allowed in which to make their election(s) and shall be subject to the non-consent provisions thereof to the same extent and in the same manner as provided in said Article VI.B without reference to the time that such activities were commenced relative to giving notice. Nothing in this provision shall serve to extend the time within which Operator is required to commence operations pursuant to Articles VI.B.1 and VI.B.2.

##### B.

This Operating Agreement, as the same may be hereafter amended or revived, shall supercede and replace in its entirety, for and during the entire term hereof, any operating agreement currently covering as a contract area, any of the leases, lands and depths described on Exhibit A hereto.

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

1 IN WITNESS WHEREOF, this agreement shall be effective as of the 20th day of March,  
2 2007.

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

6 ATTEST OR WITNESS:

7 OPERATOR

8 \_\_\_\_\_  
9 \_\_\_\_\_  
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EOG Resources, Inc.  
By Steven E. Weatherl  
Type or print name  
Title Vice-President  
Date 3/20/07  
Tax ID or S.S. No. \_\_\_\_\_

*Deck  
Pg 5*

13 NON-OPERATORS

14 Occidental Permian Limited Partnership  
15 \_\_\_\_\_  
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Occidental Permian Limited Partnership  
Type or print name  
Title  
Date  
Tax ID or S.S. No.  
Hunt Cimarron Limited Partnership  
d/b/a Cimarron Exploration Company  
Date  
Tax ID or S.S. No.

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss.

This forgoing instrument was acknowledged before me on 20th day of March, 2007, by  
Steven E. Weatherl, as Vice President of EOG Resources, Inc., a Delaware corporation, on behalf of said corporation.

(Seal, if any)



Traci Conner  
Notary Public, State of \_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires: \_\_\_\_\_

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

1 State of )  
2 ) ss.  
3 County of )

4 This forgoing instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2007, by  
5 \_\_\_\_\_, as \_\_\_\_\_ of Occidental Permian Limited Partnership.

6 (Seal, if any)

Notary Public, State of \_\_\_\_\_

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

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

9 State of )  
10 ) ss.  
11 County of )

12 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2007, by  
13 \_\_\_\_\_, as \_\_\_\_\_ of Hunt Cimarron Limited Partnership d/b/a Hunt Cimarron  
14 Exploration Company.

15 (Seal, if any)

Notary Public, State of \_\_\_\_\_

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

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

## EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated March 20, 2007, by and between EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, et al, as Non-operators

1. **DESCRIPTION OF LANDS SUBJECT TO THIS AGREEMENT:**

T-18-S, R-34-E, N.M.P.M.

Section 17: SW/4 NW/4

containing 40.00 acres, more or less, Lea County, New Mexico

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

Limited to depths below the base of the Queen formation to the base of the Bone Spring formation.

3. **PARTIES TO AGREEMENT WITH ADDRESSES AND TELEPHONE NUMBERS FOR NOTICE PURPOSES:**

EOG Resources, Inc.  
P.O. Box 2267  
Midland, Texas 79702-2267  
ATTN: D.W. Hurlbut

Telephone: 432-686-3600  
Fax: 432-686-3773

Occidental Permian Limited Partnership  
P. O. Box 50250  
Midland, TX 79710  
ATTN: David Evans

Telephone: 432-685-5769  
Fax: 432-685-5905

Hunt Cimarron Limited Partnership  
d/b/a Cimarron Exploration Company  
P. O. Box 1592  
Roswell, NM 88202

Telephone: 505-623-9799  
Fax: 505-624-1006

4. **PERCENTAGES OR FRACTIONAL INTERESTS OF PARTIES TO THIS AGREEMENT:**

OWNER	WIBPO %	WIAPO %
*EOG Resources, Inc.	75.00%	62.50%
Occidental Permian Limited Partnership	25.00%	25.00%
*Hunt Cimarron Limited Partnership d/b/a Cimarron Exploration Company	0.00%	12.50%
TOTAL	100.00%	100.00%

\*Subject to Farmout Agreement with election to convert ORRI to a WI after payout.

5. **OIL AND GAS LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THIS AGREEMENT:**

1) EOG lease number: 0105102-000  
Serial number: NM LG-1125  
Lessor: State of New Mexico  
Lessee: Amoco Production Company  
Date: April 1, 1973  
Recorded: N/A  
Land: Insofar as said lease covers the SW/4 NW/4 of Section 17, Township 18 South, Range 34 East, N.M.P.M., Lea County, New Mexico, containing 40.00 acres, more or less

6. **BURDENS ON PRODUCTION:**

Subject to Farmout Agreement between EOG Resources, Inc. and Hunt Cimarron Limited Partnership with election to convert the retained ORRI to a *WIAPO*.



**EXHIBIT "B"**

Attached to and made a part of that certain Operating Agreement dated March 20, 2007, by and between EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, et al, as Non-operators

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

EXHIBIT "C"

Attached to and made a part of that certain Joint Operating Agreement, dated March 20, 2007, by and between  
EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, et al, as Non-Operators

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within thirty (30) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Citi-Bank, New York, New York on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

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5. Audits

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

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

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

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

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

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

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

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

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

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

4. Employee Benefits

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

5. **Material**

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

6. **Transportation**

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

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

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

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

7. **Services**

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

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

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

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

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

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

10. **Legal Expense**

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

11. **Taxes**

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,000.00  
(Prorated for less than a full month)

Producing Well Rate \$ 500.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached by the percent increase or decrease published by COPAS. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

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

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

- A. 5 % of first \$100,000 or total cost if less, plus  
B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus  
C. 2 % of costs in excess of \$1,000,000.

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

### 3. Catastrophe Overhead

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

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

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

### 4. Amendment of Rates

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

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

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

### 1. Purchases

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

### 2. Transfers and Dispositions

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

#### A. New Material (Condition A)

##### (1) Tubular Goods Other than Line Pipe

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

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

COPAS

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

2  
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,  
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,  
5 to the railway receiving point nearest the Joint Property.

6  
7 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices  
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate  
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10  
11 (2) Line Pipe

12  
13 (a) Line pipe movements (except size 24 inch OD and larger with walls 1/4 inch and over) 30,000 pounds or  
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.  
15 Freight charges shall be calculated from Lorain, Ohio.

16  
17 (b) Line Pipe movements (except size 24 inch OD and larger with walls 1/4 inch and over) less than 30,000  
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,  
19 plus the percent most recently recommended by COPAS,  
20 ~~plus 20 percent~~, plus transportation costs based on freight rates as set forth under provisions of tubular  
21 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,  
22 Ohio.

23 (c) Line pipe 24 inch OD and over and 1/4 inch wall and larger shall be priced f.o.b. the point of  
24 manufacture at current new published prices plus transportation cost to the railway receiving point  
25 nearest the Joint Property.

26  
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall  
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at  
29 prices agreed to by the Parties.

30  
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable  
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the  
33 railway receiving point nearest the Joint Property.

34  
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current  
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or  
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint  
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39  
40 B. Good Used Material (Condition B)

41  
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43  
44 (1) Material moved to the Joint Property

45  
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47  
48 (2) Material used on and moved from the Joint Property

49  
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A: if Material was  
51 originally charged to the Joint Account as new Material or

52  
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was  
54 originally charged to the Joint Account as used Material

55  
56 (3) Material not used on and moved from the Joint Property

57  
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59  
60 The cost of reconditioning, if any, shall be absorbed by the transferring property.

61  
62 C. Other Used Material

63  
64 (1) Condition C

65  
66 Material which is not in sound and serviceable condition and not suitable for its original function until  
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by  
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition  
69 C value plus cost of reconditioning does not exceed Condition B value.



(2) Condition D

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

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

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

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

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

3. Special Inventories

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

4. Expense of Conducting Inventories

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

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

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated March 20, 2007, by and between EOG Resources, Inc., as Operator and Occidental Permian Limited Partnership, et al, as Non-Operators.

INSURANCE

A. As to all operations hereunder, Operator shall carry for the benefit and protection of the parties hereto Workers' Compensation and Employer's Liability Insurance in accordance with the applicable State Law. If under the laws of said state, Operator is authorized to be a self-insurer as to Workers' Compensation and Employer' Liability, Operator may elect to be a self-insurer under such laws and in such event Operator shall charge to the joint account, in lieu of any premiums for such insurance, a premium equivalent not to exceed manual insurance rates applied to the payroll.

B. Operator shall not be required to carry any other insurance for the joint account. The liability of the parties hereto in damages for claims growing out of personal injury to or death of third persons or damage to or destruction of property of third parties resulting from the operations conducted hereunder shall be borne by the parties hereto in the proportions of their respective obligations to bear such costs. Operator shall not be liable to Non-Operator for loss, damages or destruction to jointly-owned property from operations hereunder unless such loss, damages or destruction arise solely out of willful misconduct or gross negligence of Operator.

C. Each party individually may acquire at its own cost and expense such insurance as it deems proper to protect itself from third party claims or damages to joint property and such insurance shall inure solely for the benefit of such party procuring same; provided, however, that each such insurance policy shall contain a waiver on the part of the insurance carrier of all rights, by subrogation or otherwise, against all of the other parties hereto.

D. Operator shall require all contractors engaged in work on or for the benefit of the operations hereunder to comply with applicable Workers' Compensation and Employer's Liability Laws and to maintain such other insurance as Operator shall deem necessary.

## **EXHIBIT "E"**

Attached to and made a part of that certain Operating Agreement, dated March 20, 2007, by and between EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, et al, as Non-Operators

### **GAS STORAGE AND BALANCING AGREEMENT**

In the event any of the parties hereto is not at any time taking or marketing its full share of gas produced from the well or wells, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto is not taking or marketing its full share of gas produced from the well or wells, the other parties having an interest in such well or wells shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such well or wells by the appropriate regulatory body having jurisdiction or, in the event no gas allowable is assigned, one hundred percent (100%) of the gas that may be produced up to the MER, and such parties shall be entitled to take or deliver to their purchaser their pro rata share of all such gas production. For the purposes of this agreement the term MER shall mean the total daily maximum efficient rate of hydrocarbon withdrawal from each separately produced producing interval which if exceeded for a sustained period of time, would lead to underground waste in the form of reduced ultimate recovery from each producing interval. A party's pro rata share shall be based on the ratio of such party's interest in the well or wells to the total interests of all parties then taking gas from the well or wells. All parties having an interest in the well or wells shall share in and own any liquid hydrocarbons recovered from the gas produced from such well or wells by lease equipment in accordance with their respective interests in such well or wells and subject to the Operating Agreement to which this agreement is attached, but the parties taking or marketing the gas shall own all of the gas taken or delivered to their respective purchasers and shall own and shall have the right to all liquids removed from the gas by off lease processing.

On a cumulative basis, each party not taking or marketing its full share of the gas produced from the well or wells (underproduced party) shall be credited with gas in storage equal to its full share of the gas produced from such well or wells, less its share of gas used in its lease operations, vented and unavoidably lost, and less that portion such party took or delivered to its purchaser. Each party taking gas shall furnish, or cause to be furnished, to the Operator a monthly statement of gas taken. The Operator will maintain a current account of the gas balance between the parties for each well or wells and will furnish all parties having an interest in such well or wells and their purchasers monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented and unavoidably lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

At all times while gas is produced from the well or wells, each party hereto will make or cause to be made settlement with the respective royalty owners to whom it is accountable, just as if such party were taking or delivering to a purchaser its full share, and its share only, of such gas production. Each party hereto agrees to hold all other parties harmless from any and all claims for royalty payments asserted by royalty owners to whom such party is accountable. The term "royalty owner" shall include owners of royalties, overriding royalties, and other payments out of or in lieu of production for which each party is responsible.

This agreement shall constitute a separate agreement as to each producing interval in a well or wells. Where production from two or more producing intervals is commingled in the wellbore so that the gas from each such interval cannot be separately metered, the commingled producing intervals shall then be considered to be a single interval for the purposes of this agreement.

Upon written notice at least five (5) days prior to the beginning of a month from any underproduced party to the Operator and to each party that has taken or delivered to its purchaser more than its full share of gas (overproduced party), such underproduced party may, commencing on the first day of the month after such notice is given, begin taking or delivering to its purchaser, its full share of gas produced from the well or wells less such party's share of gas used in lease operations, vented and unavoidably lost (net share of gas produced). In addition to

such share, the underproduced party, until it has recovered its gas in storage and balanced its gas account, shall be entitled to take or deliver to its purchaser the following: (1) During the months of January, February, March, November and December, twenty-five percent (25%) of each overproduced party's net share of gas produced from the well or wells, and (2) During the remaining months, fifty percent (50%) of each overproduced party's net share of gas produced from the well or wells. However, in no event shall such make-up volume for any month exceed fifty percent (50%) of the underproduced party's net share of gas produced from the well or wells. If more than one underproduced party are balancing their gas accounts, each underproduced party shall be entitled to take or deliver to its purchaser that share of the additional gas as determined herein in proportion to its interest in such well or wells to all of the underproduced parties' interests in such well or wells then balancing their gas accounts. Any such additional gas taken or delivered to an underproduced party's purchaser shall be credited against such underproduced party's gas in storage in the order of accrual.

Each party taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser the full amount of its allowable gas production to meet the deliverability tests required by its purchaser.

When gas production from the well or wells permanently ceases, there shall be a cash settlement between/among the parties hereto for the volume of gas, if any, remaining in imbalance. It shall be the obligation of the Operator to determine the final accounting of underproduction and overproduction. In making such cash settlement, each overproduced party shall remit to the Operator a sum of money attributable to the amount actually or constructively received by such overproduced party from sale or utilization of overproduction which remains accrued to such party, less applicable taxes, and other costs actually paid by the overproduced party in connection with the sale of such gas. The Operator shall distribute the total of such amounts so collected among the underproduced parties in the proportion of such latter parties' underproduction. It is recognized that there may have been changes in the price received by overproduced parties for overproduction sold or otherwise utilized. It is therefore agreed that any underproduction credited from time to time against any overproduced party shall be applied against such party's overproduction in the order in which such overproduction occurred. The "amount actually or constructively received" shall then be that overproduction remaining following application of the above rule and valued at the price in effect at the time such overproduction occurred. If a portion of a party's gas is taken for its own use and a portion thereof is sold, the gas value for accounting between/among the parties will be based on the price received simultaneously by such party for gas sold from the well or wells. During periods in which a party is taking gas for its own use and making no sales, gas so taken will be valued at the maximum price which such party could have received for such gas if actually delivered under such party's contract, or, if none, the weighted average price received simultaneously by all other parties for gas sold from the well or wells. In either such instance the value so determined for gas so used will be deemed to have been constructively received by such using party. In the event refunds are later required by any governmental authority, each party shall be accountable for such refunds on the basis of its share of gas produced and finally balanced hereunder. If gas is processed for the recovery of liquefiable hydrocarbons, the gas value will be based on the amount which would have been received for the sale of such gas (adjusted for actual Btu content) without processing. Anything herein to the contrary notwithstanding, the underproduced party shall not be entitled to receive from the overproduced party a payment greater than the amount the underproduced party would have been entitled to receive if the sale had been made under the contract of the underproduced party, if any. Each party agrees to maintain complete records of gas sold and price received so Operator's computations can be made. Operator shall rely on statements furnished and have no liability with respect to correctness of proceeds received and distributed.

Notwithstanding the provisions of final cash settlements provided above, it is expressly agreed that any underproduced party shall have the optional right, with respect to each proration unit, to receive a cash settlement bringing such underproduced party's gas account into balance at any time and from time to time prior to the final settlement, by first giving each overproduced party

90 days written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the first day of the calendar month following the date of such written demands) within 90 days following the actual receipt of such written demands by the overproduced parties, in the same manner provided for in final cash settlements provided above. The option provided for in this paragraph may be exercised, from time to time, but only one time in each calendar year.

Nothing herein shall change or affect. Each party's obligations to pay its proportionate share of all costs and liabilities incurred in any well or wells pursuant to the Operating Agreement to which this agreement is attached.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

Each party hereby indemnifies the other parties hereto against all liability for and agrees to defend the parties hereto against all claims which may be asserted by third parties who now or hereafter stand in contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under its provisions, and further agrees to save the other parties hereto harmless from all judgments or damages sustained and costs incurred in connection herewith.

The Operator under the Operating Agreement is authorized to carry out the provisions of this agreement, but shall not be liable for its failure to do so as long as it acts in good faith and as would a reasonably prudent Operator in the same or similar circumstances.

Notwithstanding any provision to the contrary in this or any other agreement, any underproduced party shall have the right for a period of two (2) years after the date that gas accounts are settled, to audit an overproduced party's records as to volumes and prices received for gas produced from the applicable area, and any overproduced party shall have the right for a period a two (2) years after the gas accounts are settled, to audit any underproduced party's records as to volumes.

#### EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated March 20, 2007, by and between EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, et al, as Non-Operators.

#### I. EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator (meaning and referring separately to each party hereto) agrees as follows:

- A. The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided setting forth the provisions of this nondiscrimination clause.
- B. The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
- C. The Operator will send to each labor union or representative of workers with which Operator has a collective bargaining agreement or other contract or understanding, a notice to be provided, advising the said labor union or workers' representatives of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- D. The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- E. The Operator 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 Operator's books, records, and accounts by the administering agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- F. In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of the said rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts or federally assisted construction contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.
- G. The Operator will include the provisions of paragraphs (A.) through (F.) in every subcontract or purchase order as the contracting agency may direct

as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States. Operator 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 with Joint Reporting committee, Federal Depot, Jeffersonville, Indiana, 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.

Operator further acknowledges that he 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 Non-Operators with a copy of such program if they so request.

## **II. CERTIFICATION OF NONSEGREGATED FACILITIES.**

- A. Operator assures Non-Operators 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.
- II. B. Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of labor dated may 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.
- A. Whoever knowingly and willfully makes any false, fictitious, or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. Sec. 1001.

## **III. OCCUPATIONAL SAFETY AND HEALTH ACT**

Operator will observe and comply with all safety and healthy standards promulgated by the Secretary of Labor under Section 107 of the Contract Work Hour and Standards Act, published in 29 CFR part 1518 and adopted by the Secretary of Labor as occupational safety and health standard under the Williams-Steiger Occupational Safety and Health Act of 1970. Such safety and health standards shall apply to all subcontractors



#### **IV. VETERANS' PREFERENCE**

Operator agrees to comply with the following insofar as contracts it lets for an amount of \$10,000 or more or which will generate 400 or more man-days of employment (each man-day consisting of any day in which an employee performs more than one hour of work) and further agrees to include the following provisions in contracts with Contractors and Subcontractors:

#### **V. CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT**

- A. As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed, but excluding those of independently operated corporate affiliates, shall, to the maximum extent feasible, be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hires as may be required; provided, that this provision shall not apply to openings which the contractor fills from within the contractor's organization or are filled pursuant to a customary and traditional employer union hiring arrangement and that the listing of employment openings shall involve only the normal obligations which attach to the placing of job orders.
- B. The contractor agrees to place the above provision in any subcontract directly under this contract.

#### **VI. CERTIFICATION OF COMPLIANCE WITH ENVIRONMENTAL LAWS**

Operator agrees to comply with the Clean Air Act (42 U.S.C. Sec. 1857) and the Federal Water Pollution Control Act (33 U.S.C. Sec. 1251) when conducting operations involving nonexempt contracts. In all nonexempt contracts with subcontractors, Operator shall require:

- A. No facility is to be utilized by Subcontractor in the performance of this contract with Operator which is listed on the Environmental Protection Agency (EPA) List of Violating Facilities. See Executive Order No. 11738 of September 12, 1973, and 40 CFR Sec. 15.20.
- B. Prompt written notification shall be given by Subcontractor to Operator of any communication indicating that any such facility is under consideration to be included on the EPA List of Violating Facilities.
- C. Subcontractor shall comply with all requirements of Section 114 of the Clean Air Act (42 U.S.C. Sec. 1857) and Section 308 of the Federal Water Pollution Control Act (33 U.S.C. Sec. 1251) relating to inspection, monitoring, entry, reports, and information, as well as all other requirements specified in these Sections, and all regulations and guidelines issued thereunder.
- D. The foregoing criteria and requirements shall be included in all of Subcontractors' nonexempt subcontract, and Subcontractor shall take such action as the Government may direct as a means of enforcing such provisions. See 40 CFR Sec. 15.4 & 5.

**EXHIBIT "G"**

Attached to and made a part of that certain Operating Agreement, dated March 20, 2007, by and between EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, as Non-Operator.

There is no Exhibit "G" to this Operating Agreement

Attached to and made a part of that certain Operating Agreement dated March 20, 2007, between EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, et al, as Non-Operators.

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

THIS AGREEMENT, entered into by and between EOG Resources, Inc., hereinafter referred to as "Operator," and the signatory party or parties other than Operator, hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

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

WHEREAS, the parties hereto have executed an Operating Agreement dated March 20, 2007 (herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

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

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

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

2. The parties do hereby agree that:

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

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

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

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

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

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

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

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

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

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

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

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

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

Attached to and made a part of that certain Operating Agreement dated March 20, 2007, between EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, et al. as Non-Operators.

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

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

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

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

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

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

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

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

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

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

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

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

Attached to and made a part of that certain Operating Agreement dated March 20, 2007, between EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, et al, as Non-Operators.

8. Other provisions:

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

IN WITNESS WHEREOF, this agreement shall be effective as of the 20th day of March, year: 2007.

ATTEST OR WITNESS:

OPERATOR

EOG Resources, Inc.

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

Steven E. Weatherl

Type or Print Name

Title: Vice President

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

Address: P. O. Box 2267, Midland, Texas 79702

ATTEST OR WITNESS:

NON-OPERATOR

Occidental Permian Limited Partnership

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

Type or Print Name

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

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

Address: 6 Desta Drive, Midland, TX 79707

Attest or Witness:

Hunt Cimarron Limited Partnership

d/b/a Cimarron Exploration Company

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

Address: P. O. Box 1592, Roswell, NM 88202

State of \_\_\_\_\_ )  
 ) ss.  
County of \_\_\_\_\_ )

This foregoing instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2007, by Steven E. Weatherl, as Vice President of EOG Resources, Inc., a Delaware corporation, on behalf of said corporation.

(Seal, if any)

\_\_\_\_\_  
Notary Public, State of \_\_\_\_\_

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

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

Attached to and made a part of that certain Operating Agreement dated March 20, 2007, between EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, et al, as Non-Operators.

1 State of )  
 2 ) ss.  
 3 County of )  
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5 This forgoing instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 2007, by  
 6 \_\_\_\_\_, as \_\_\_\_\_ of Occidental Permian Limited Partnership.  
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9 (Seal, if any)

\_\_\_\_\_  
 Notary Public, State of

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

My commission expires:  
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17 State of )  
 18 ) ss.  
 19 County of )  
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22 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2007, by  
 23 \_\_\_\_\_, as \_\_\_\_\_ of Hunt Cimarron Limited Partnership, d/b/a Cimarron  
 24 Exploration Company.  
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27 (Seal, if any)

\_\_\_\_\_  
 Notary Public, State of

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

My commission expires: \_\_\_\_\_  
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## EXHIBIT "A"

Attached to and made a part of that certain Model Form Recording Supplement to Operating Agreement dated March 20, 2007, by and between EOG Resources, Inc., as Operator, and Occidental Permian Limited Partnership, et al, as Non-operators

1. **DESCRIPTION OF LANDS SUBJECT TO THIS AGREEMENT:**

T-18-S, R-34-E, N.M.P.M.  
Section 17: SW/4 NW/4  
containing 40.00 acres, more or less, Lea County, New Mexico

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

Limited to depths below the base of the Queen formation to the base of the Bone Spring formation.

3. **PARTIES TO AGREEMENT WITH ADDRESSES AND TELEPHONE NUMBERS FOR NOTICE PURPOSES:**

EOG Resources, Inc. P.O. Box 2267 Midland, Texas 79702-2267 ATTN: D.W. Hurlbut	Telephone: 432-686-3600 Fax: 432-686-3773
Occidental Permian Limited Partnership P. O. Box 50250 Midland, TX 79710 ATTN: David Evans	Telephone: 432-685-5769 Fax: 432-685-5905
Hunt Cimarron Limited Partnership d/b/a Cimarron Exploration Company P. O. Box 1592 Roswell, NM 88202	Telephone: 505-623-9799 Fax: 505-624-1006

4. **PERCENTAGES OR FRACTIONAL INTERESTS OF PARTIES TO THIS AGREEMENT:**

OWNER	WIBPO %	WIAPO %
*EOG Resources, Inc.	75.00%	62.50%
Occidental Permian Limited Partnership	25.00%	25.00%
*Hunt Cimarron Limited Partnership d/b/a Cimarron Exploration Company	0.00%	12.50%
TOTAL	100.00%	100.00%

\*Subject to Farmout Agreement with election to convert ORRI to a WI after payout.

5. **OIL AND GAS LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THIS AGREEMENT:**

1) EOG lease number: 0105102-000  
Serial number: NM LG-1125  
Lessor: State of New Mexico  
Lessee: Amoco Production Company  
Date: April 1, 1973  
Recorded: N/A  
Land: Insofar as said lease covers the SW/4 NW/4 of Section 17, Township 18 South, Range 34 East, N.M.P.M., Lea County, New Mexico, containing 40.00 acres, more or less

6. BURDENS ON PRODUCTION:

Subject to Farmout Agreement between EOG Resources, Inc. and Hunt Cimarron Limited Partnership with election to convert the retained ORRI to a WIAPO.