

BEPCO, L.P.  
201 MAIN ST  
FORT WORTH, TEXAS 76102-3131  
817/390-8400

June 20, 2008

**Federal Express**

Devon Energy Corporation  
20 North Broadway  
Oklahoma City, OK 73102-8260  
Attention: Ken Gray

Maverick Oil & Gas Corporation  
1004 North Big Spring, Suite 507  
Midland, Texas 79701-3383  
Attention: E. Scott Kimbrough

Nearburg Exploration Company, L.L.C.  
3300 North "A" Street  
Building 2, Suite 120  
Midland, Texas 79705  
Attention: Terry Gant

Robert G. Shelton  
c/o Roca Resources  
3300 North "A" Street  
Building 8, Suite 106  
Midland, Texas 79705

Re: Joint Operating Agreement  
George Washington Prospect  
Clark, et al #1  
Section 14, T19N-R2W  
Lincoln Parish, LA

Gentlemen:

Please find attached a copy of the Joint Operating and two copies of the signature page for the captioned well. Please execute one copy of the signature page and return to the undersigned at your earliest convenience. Just a reminder, we do plan on spudding this well in two weeks. Should you have any questions please do not hesitate to call me at (817) 339-7185.

Very truly yours,



Brad Glasscock

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

**MODEL FORM OPERATING AGREEMENT**

OPERATING AGREEMENT

DATED

\_\_\_\_\_, **2008**,  
year

OPERATOR **BEPCO, L.P.**

CONTRACT AREA **N/2 of Section 28, T22S-R28E**

**(see Exhibit "A")**

COUNTY OR PARISH OF **EDDY** STATE OF **NEW MEXICO**

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

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OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

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

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

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

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

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

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

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

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

ARTICLE II. EXHIBITS

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

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

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

\*Exhibit "A-1" Plat

ARTICLE III.  
INTERESTS OF PARTIES

1  
2  
3  
4 **A. Oil and Gas Interests:**

5  
6 If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement  
7 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  
8 shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

9  
10 **B. Interests of Parties in Costs and Production:**

11  
12 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and  
13 paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set  
14 forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the  
15 payment of royalties to the extent of                     fifteen percent (15%)                     which shall be borne as hereinafter set forth.

16  
17 Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and  
18 payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or  
19 cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the  
20 other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received  
21 by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and  
22 receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to  
23 such higher price.

24  
25 Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

26  
27 **C. Excess Royalties, Overriding Royalties and Other Payments:**

28  
29 Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty,  
30 overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so  
31 burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any  
32 and all claims and demands for payment asserted by owners of such excess burden.

33  
34 **D. Subsequently Created Interests:**

35  
36 If any party should hereafter create an overriding royalty, production payment or other burden payable out of production  
37 attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or  
38 was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and  
39 accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the  
40 timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred  
41 to as "burdened party"), and:

- 42  
43 1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion  
44 of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or  
45 production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party,  
46 or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest;  
47 and,  
48  
49 2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be  
50 enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of  
51 the burdened party.

52  
53 **ARTICLE IV.**  
54 **TITLES**

55  
56 **A. Title Examination:**

57  
58 Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if  
59 the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be includ-  
60 ed, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding  
61 royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and  
62 gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status  
63 reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or  
64 made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall  
65 cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party  
66 hereto. The cost incurred by Operator in this title program shall be borne as follows:

- 67  
68  Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental,  
69 shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C",  
70 and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

**ARTICLE IV**  
**continued**

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

6  
7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection  
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling  
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.  
10 This shall not prevent any party from appearing on its own behalf at any such hearing.

11  
12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above  
13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to par-  
14 ticipate in the drilling of the well.

15  
16 **B. Loss of Title:**

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

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

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

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

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

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

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

42  
43 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well  
44 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,  
45 there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required  
46 payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,  
47 which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the  
48 date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in  
49 the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the  
50 required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to  
51 the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it  
52 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled  
53 or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

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

60 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest  
61 lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

62  
63 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses  
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
65 the Contract Area.

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ARTICLE V.  
OPERATOR

4 A. Designation and Responsibilities of Operator:

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

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

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

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

33 C. Employees:

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

38 D. Drilling Contracts:

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

45 \*PROVIDED, HOWEVER, EXCEPT FOR OPERATOR'S INTEREST IN THE CONTRACT AREA, NON-OPERATORS SHALL  
46 INDEMNIFY OPERATOR FOR, FROM, AND AGAINST ANY AND ALL CLAIMS, DAMAGES, AND LIABILITY OF EVERY  
47 KIND AND CHARACTER (INCLUDING ALL COSTS AND EXPENSES, INCLUDING BUT NOT LIMITED TO ATTORNEYS'  
48 FEES), RESULTING FROM, ARISING OUT OF, OR INCIDENTAL TO OPERATOR'S PERFORMANCE OF DUTIES ON THE  
49 CONTRACT EVEN IF SUCH LIABILITIES ARISE FROM OR ARE ATTRIBUTED TO OPERATOR'S NEGLIGENCE. THE  
50 ONLY LIABILITIES TO WHICH THIS INDEMNITY OBLIGATION DOES NOT APPLY ARE THOSE RESULTING FROM  
51 OPERATOR'S GROSS NEGLIGENCE AND INTENTIONAL TORTS FOR WHICH OPERATOR SHALL BE SOLELY  
52 RESPONSIBLE.

ARTICLE VI.  
DRILLING AND DEVELOPMENT

52 A. Initial Well:

54 On or before the \_\_\_\_\_ day of (to be determined), (year) \_\_\_\_\_, Operator shall commence the drilling of a well for  
55 oil and gas at the following location: 660' FNL, 660' FWL, Section 17-22S-28E, Eddy County, New Mexico

60 and shall thereafter continue the drilling of the well with due diligence to 12,500' or to evaluate the Morrow Formation.

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

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

**ARTICLE VI**  
**continued**

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

3

4

5

6 **B. Subsequent Operations:**

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

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

31

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33

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

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

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

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ARTICLE VI  
continued

1 and the well shall then be turned over to Operator 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, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, and Article XV.E. hereof, 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 until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

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21 (b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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46 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

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

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ARTICLE VI  
continued

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

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

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

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

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

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

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

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54  
55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period  
56 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and  
57 receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time  
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand  
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-  
60 ty's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-  
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

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

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

**ARTICLE VI**  
**continued**

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

2

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

6

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

15

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

20

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

22

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

30

31 **E. Abandonment of Wells:**

32

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

41

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

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**ARTICLE VI**  
**continued**

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

2

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

6

7 ~~In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of~~  
8 ~~the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it,~~  
9 ~~but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-~~  
10 ~~taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to~~  
11 ~~the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas~~  
12 ~~not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such~~  
13 ~~reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event~~  
14 ~~for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate com-~~  
15 ~~merce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.~~

16

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

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

26

27 **E. Abandonment of Wells:**

28

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

37

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

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**ARTICLE VI**  
**continued**

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

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

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

**ARTICLE VII.**  
**EXPENDITURES AND LIABILITY OF PARTIES**

23 **A. Liability of Parties:**

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

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

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

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

48 **C. Payments and Accounting:**

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

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

64 **D. Limitation of Expenditures:**

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

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**ARTICLE VII**  
**continued**

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

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

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

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

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

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

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

45  
46 **F. Taxes:**

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

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

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

69  
70

**ARTICLE VII**  
**continued**

1 **G. Insurance:**

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

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

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

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

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

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

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

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

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

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

53  
54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein  
55 by the acquiring party.

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

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

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

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

**ARTICLE VIII**  
continued

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

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

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

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

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

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

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

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

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

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

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

46  
47 **ARTICLE IX.**  
48 **INTERNAL REVENUE CODE ELECTION**  
49

50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association  
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several  
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax  
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded  
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-  
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-  
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the  
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,  
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further  
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the  
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other  
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,  
63 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-  
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-  
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the  
66 computation of partnership taxable income.

67  
68  
69  
70

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 Twenty Thousand and NO/100 Dollars (\$ 20,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.  
FORCE MAJEURE

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

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

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

ARTICLE XII.  
NOTICES

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

ARTICLE XIII.  
TERM OF AGREEMENT

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

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

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

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

ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

**A. Laws, Regulations and Orders:**

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

**B. Governing Law:**

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

**C. Regulatory Agencies:**

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

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

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

ARTICLE XV.  
OTHER PROVISIONS

**A. EARNING WELLS.** If the additional operations proposed pursuant to Article VI.B.1. are required or are necessary to earn or retain leasehold interests, any party who elects not to participate in such additional operations shall release, relinquish and quitclaim to the parties who participate therein all the rights, titles and interests of such Non-Consenting party in and to the interests which would be earned or retained by such operations. For purposes of this Agreement, operations are considered necessary to earn or retain leasehold interests if those interests would be forfeited within 120 days of the commencement of said operations.

**B. PRIORITY OF OPERATIONS.** When any well authorized under the provisions of this Agreement and as to which any of the Non-Operators are participants shall have been drilled to objective depth, in the event there is a conflict among the participating parties as to which course of action to pursue, preference shall be given to (1) additional logging, coring, testing and evaluating; (2) completing at objective depth before completing at a shallower depth; (3) completing at a shallower depth before deepening; (4) deepening before sidetracking; and (5) sidetracking before plugging and abandoning. A deeper completion shall take precedent over a shallower completion. As used herein, "objective depth" shall mean the deepest formation in the total depth drilled. If more than one productive zone is indicated, which cannot be commingled, priority shall be given to attempting completion in the deepest zone.

**C. SECURITY.** The lien and security interest granted by each Non-Operator to Operator and by Operator to the Non-Operator under Article VII.B. shall extend not only to such party's oil and gas rights in the Contract Area (which for greater certainty shall include all of each party's leasehold interest and leasehold estate in the Contract Area), the oil and/or gas when extracted and equipment (as mentioned in said Article) but also to all accounts, contract rights, inventory and general intangibles constituting a part of, relating to or arising out of said oil and gas rights, extracted oil and gas and said equipment or which are otherwise owned or held by any such party in the Contract Area. Further, the lien and security interest of each of said parties shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII.B. as being subject to said lien and security interest. Any party, to the extent it deems necessary to perfect the lien and security interest provided herein, may file this Operating Agreement 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. Further, and not in limitation of the foregoing, each party hereby grants to Operator full right, power and authority to execute in each such party's name and on its behalf any financing statement which Operator deems necessary in order to perfect the security interest hereby granted under the applicable Uniform Commercial Code.

**D. RIGHTS SUSPENDED.** If a lien conferred in Article VII.B. has been enforced, for so long as the affected party remains in default, it shall have no further access to the Contract Area or information obtained in connection with operations hereunder and shall not be entitled to vote on any matter hereunder. As to any proposed operation in which it otherwise would have the right to participate, such party shall have the right to be a Consenting Party therein only if it pays the amount it is in default before the operation is commenced; otherwise, it automatically shall be deemed a Non-Consenting Party to that operation.

**E. CERTAIN PLUGGING AND ABANDONMENT COSTS.** If pursuant to Article VI.B.2. hereto, less than all of the parties elect to participate in a proposed reworking, deepening or plugging back operation, and if such operation does not result in the production of hydrocarbons in commercial quantities, or results in a completion that ceases to produce in commercial quantities prior to the time at which the consenting parties are fully reimbursed as provided in Article VI.B.2., then, notwithstanding the printed provisions of this Agreement, the party or parties who elected not to participate in such reworking, deepening or plugging back operation shall nevertheless be responsible for their proportionate part (Exhibit "A" percentage after casing point) of the cost to plug and abandon such well, and salvage the equipment therefrom, except for the additional plugging and abandonment of salvage costs that are caused by the non-consent reworking, deepening or plugging back operation; the consenting parties shall be solely responsible for such additional costs.

1 **F. AGREEMENT SUBJECT TO APPLICABLE LAWS - REPORTING.** This agreement and the respective rights and obligations of the  
2 parties hereunder shall be subject to all applicable Federal, State, local or other governmental laws, rules, regulations and orders, and in the  
3 event this agreement or any provision hereof is, or the operations contemplated hereby are, found to be inconsistent with or contrary to any  
4 such law, rule, regulation or order, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly, and  
5 as so modified, to continue in full force and effect. Operator shall prepare and furnish to any duly constituted authority having jurisdiction  
6 in the premises through its proper agency or department any and all reports, statements and information that may be requested when such  
7 reports are required to be filed by Operator.

8 Operator shall act as the representative of all parties hereto in all hearings and proceedings before administrative bodies  
9 concerning the Contract Area and, by Operator directly or by retention of outside personnel in participation in such hearings or  
10 proceedings shall be proper charges against the joint account; provided, however, that nothing herein contained shall prohibit any of the  
11 parties other than Operator from participating in any such hearing or proceeding in his or its own behalf or at his or its own cost and  
12 expense.

13 The Operator shall at all times consult freely with the other parties concerning the operations being or to be conducted on the  
14 Contract Area and shall permit any party hereto to collaborate in any litigation or hearings before any administrative body, State or  
15 Federal, affecting the Contract Area or the production therefrom.

16 **G. ADVANCE BILLING.**

17 1. **Dry Hole Costs** - In addition to all rights and powers of the Operator under Article VII hereof, Operator, at its election, shall  
18 have the right, from time to time, to demand and receive from the Parties, (or any of them) in its discretion, payment in advance  
19 of their respective share or shares of the entire estimated amount of the expenses to be incurred in operations for drilling,  
20 deepening, sidetracking and testing of a well, up to the casing point, in the amount of the "dry hole costs" on the applicable AFE.  
21 Such right may be exercised by submitting to each such party an itemized statement of the estimated expense, together with an  
22 invoice for its share thereof. Such statement and invoice shall be submitted no earlier than sixty (60) days prior to the estimated  
23 date of spudding the well and the party invoiced shall pay Operator its proportionate share of such estimated expense within  
24 twenty (20) days after receipt of such estimate and invoice.

25 2. **Completion Costs** - Additionally, Operator, at its election, shall have the right from time to time to demand and receive from the  
26 parties payment in advance of their respective share or shares of the entire estimated amount of the expenses to be incurred in  
27 operations for the completing and equipping of a well in the amount of the "Completion Costs" on the applicable AFE. Such  
28 right may be exercised by submitting to each such party an itemized statement of the estimated expense, together with an invoice  
29 for its share thereof. Such statement and invoice shall be submitted no earlier than three (3) days prior to the estimated date of  
30 commencing the completion operations, unless a drilling rig is on location, such notice shall be submitted no earlier than twenty-  
31 four (24) hours prior to the estimated date of commencing the completion operations. Provided that such party has made a  
32 timely election to participate in the completion operations in accordance with Article VII.D.2. of this Operating Agreement, the  
33 party invoiced shall pay Operator its proportionate share of such estimated expense within five (5) days after receipt of such  
34 estimated invoice.

35 3. **Adjustments** - Proper adjustment shall be made between such advance payments and the actual expenses incurred to the end  
36 that each party shall bear and pay its proportionate share of the actual expenses incurred, and no more.

37 4. **Default.** In the event any advance billings invoiced by Operator pursuant to Article XV.G. of this Operating Agreement which  
38 are associated with its drilling of the Initial Test Well are not timely paid within the prescribed time period as provided in Article  
39 XV.G., Operator shall provide the Non-Operator with a second written notice of non-payment for such expenses. It is agreed  
40 and understood that as for any advance billings for dry hole costs as further provided in Article XV.G.1 above, Non-Operator  
41 shall have fifteen (15) days from receipt of the second written notice in which to pay in full all amounts owing to Operator.  
42 However, with regard to any advance billings for completion costs as further discussed in Article XV.G.2. above, Non-Operator  
43 shall only have ten (10) days from receipt of the second written notice in which to pay in full all amounts due Operator.

44 Operator shall immediately advise the non-defaulting parties of the amount of the defaulting interest, and the non-defaulting  
45 parties shall have ten (10) days from receipt of such notice in which to elect (or not) to pay for their proportionate shares of the  
46 interest of the defaulting party. If one or more of the non-defaulting parties elects not to acquire its share of the defaulting  
47 party's interest, the other non-defaulting parties shall have the option to acquire the portion(s) not acquired. If the non-  
48 defaulting parties do not elect, within thirty (30) days of the default, to acquire, collectively, all of the defaulting interest, then the  
49 operations shall not be conducted and the interest of the defaulting party shall revert to the defaulting party.

50 **H. GENERAL DEFAULT.** In addition to Operator's other remedies, if any Non-Operator neglects or fails to pay sums due and  
51 owing Operator hereunder for a period of sixty (60) days after receipt of an invoice therefor, Operator may notify Non-Operator in  
52 writing of its election to regard such Non-Operating Party as a Non-Consenting Party hereunder as to said costs, whereupon  
53 Operator shall be liable therefor. If Non-Operator fails to pay such amount within ten (10) days after receipt of such notice, then  
54 Operator's election shall be effective, Non-Operator will no longer owe said sum to Operator and shall be subject to the non-consent  
55 provisions hereof the same as if such party had elected to be a Non-Consenting Party at the inception of the operation, but only with  
56 respect to the sums remaining unpaid by such Non-Operator. Provided, however, this provision shall not be applicable to any sums  
57 owed Operator but which Non-Operator contests in good faith.

58 **I. EXCLUSION OF HORIZONTAL WELL PROPOSALS.** Drilling operations by the parties hereto, including the proposal of  
59 additional wells pursuant to Article VI.B. are limited to the drilling of vertical wells only and proposals for horizontal wells are  
60 expressly excluded. The term "horizontal well" means any well in which either a) the horizontal displacement from vertical within  
61 the formation in which the well is completed exceeds 100 feet, or b) the horizontal displacement from vertical of the wellbore within  
62 the formation in which the well is completed exceeds the actual vertical depth within such formation penetrated by such wellbore.

63 **J. ASSIGNMENT OF INTERESTS.**

64 1. If any party is required under this agreement to assign or relinquish to any other party or parties all or a portion of its  
65 working interest or production attributable thereto, the interest or production so assigned or relinquished shall be free and  
66 clear, not only of "subsequently created interests" as defined in Article III.D., but also of all mortgages, liens or other  
67 similar burdens placed thereon by the assigning party or resulting from its ownership and operation of such lease or  
68 interest on and after the date of this agreement, but otherwise without warranty of title, express or implied.

69 2. Each party hereto covenants and agrees for itself, its successors and assigns, that any sale, assignment, sublease, mortgage,  
70 pledge or other instrument affecting the leases and lands subject to this instrument (whether of an operating or non-  
operating interest or mortgage, pledge or other security interest) will be made and accepted subject to this instrument and  
the party acquiring the interest or security shall expressly agree to be bound by all its terms and provisions. Any party  
hereto who executes any instrument in favor of any party without complying with the provisions of this paragraph shall  
indemnify, defend and hold the other parties hereto harmless from and against any and all claims or causes of action by  
any person whomsoever and for any expenses and losses sustained as a result of the failure of such party to comply with  
these provisions.

71 3. Notwithstanding the provisions of this agreement and of the accounting procedure attached as Exhibit "C", the parties to  
this agreement specifically agree that in no event during the term of this contract shall Operator be required to make more  
than one billing for the entire interest credited to each party on Exhibit "A". It is further agreed that if any party to this

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agreement (hereafter referred to as "Selling Party") disposes of all or a part of the interest credited to it on Exhibit "A", the Selling Party will remain solely responsible for all costs and expenses associated with any operation or operations approved by the Selling Party according to the terms hereof, and will be subject to all provisions of this Agreement regarding default of said costs. After the approved operation has been completed and the Selling Party has remitted payment for its share of expenses, Operator shall continue to issue statements and billings to the Selling Party for the interest conveyed until such time as Selling Party has designated and qualified one assignee to receive the billing for the entire interest. In order to qualify one assignee to receive the billing of the entire interest credited to Selling Party on Exhibit "A", Selling Party shall furnish to Operator the following:

- a) written notice of the conveyance and photostatic or certified copies of the assignments by which the transfer was made;
- b) the name of the assignee to be billed and written statement signed by the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party.

The parties agree that the sale of any interest in the leases covered by this agreement shall be made specifically subject to the provisions of this section.

**K. COMMENCEMENT OF SUBSEQUENT OPERATIONS.** Notwithstanding any provision in the printed form hereof, Operator may commence any "subsequent operation" or completion attempt proposed, or to be proposed, hereunder prior to the submittal of the proposal, or the expiration of the time provided in Article VI or VII for the non-proposing parties to elect to participate or not to participate in the cost of such proposed operation. If Operator does so, the commencement of the operation shall not shorten or diminish, to any extent, the time in which other parties may elect to participate in the proposed operation, or the right of the consenting parties to enforce the applicable non-consent penalty as to any non-consenting party; but, any party who has not yet made an election to participate in a proposed operation is not entitled to any information data, reports, etc. acquired or generated in connection with the commencement of such operation unless and until such party elects to be a participating party in the operation.

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ARTICLE XVI.  
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of \_\_\_\_\_ day of \_\_\_\_\_, (year) 2008.

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

OPERATOR

**BEPCO, L.P., a Delaware limited partnership**

By: **BEPCO Genpar, L.L.C., a Delaware limited liability company, its general partner**

\_\_\_\_\_  
W. Frank McCreight  
Vice President

NON-OPERATORS

**CTV O&G NM, L.L.C., a Delaware limited liability company**

**LMBI O&G NM, L.L.C., a Delaware limited liability company**

\_\_\_\_\_  
W. Frank McCreight  
Vice President

\_\_\_\_\_  
W. Frank McCreight  
Vice President

**SRBI O&G NM, L.L.C., a Delaware limited liability company**

**KEYSTONE O&G NM, L.L.C., a Delaware limited liability company**

\_\_\_\_\_  
W. Frank McCreight  
Vice President

\_\_\_\_\_  
W. Frank McCreight  
Vice President

**THRU LINE O&G NM, L.L.C., a Delaware limited liability company**

**DEVON ENERGY CORPORATION**

\_\_\_\_\_  
W. Frank McCreight  
Vice President

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

Its: \_\_\_\_\_

**MAVERICK OIL & GAS CORPORATION**

**NEARBURG EXPLORATION COMPANY, L.L.C.**

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

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

\_\_\_\_\_  
Its: \_\_\_\_\_

\_\_\_\_\_  
Its: \_\_\_\_\_

\_\_\_\_\_  
**ROBERT G. SHELTON**

**EXHIBIT "A"**

**Attached to and made a part of that certain Operating Agreement dated \_\_\_\_\_, 2008, between BEPCO, L.P., Operator, and Nearburg Exploration Company, L.L.C., et al, Non-Operators, covering the lands in Eddy County, New Mexico**

**I. Identification of Lands Subject to this Agreement:**

N/2 of Section 17-T22S-R28E, Eddy County, New Mexico, containing 320.00 acres more or less.

**II. Restrictions as to Depths, Formations or Substances:**

Limited to the well bore of the Big Eddy Unit #218 and the production therefrom and further limited to those depths below the stratigraphic equivalent of the base of the Strawn formation as seen at 11,004' on the electric log for the Foal 17 Federal Com #1 well located 1980' FNL & 1980' FEL Section 17-T22S-R28E, Eddy County, New Mexico.

**III. Percentages of Interest of the Parties to this Agreement:**

	Working Interest
Devon Energy Production Company, L.P.	37.500000%
Nearburg Exploration Company, L.L.C.	12.479166%
CTV O&G NM, L.L.C. (Delaware)	12.500000%
LMBI O&G NM, L.L.C. (Delaware)	9.375000%
Keystone O&G NM, L.L.C. (Delaware)	9.375000%
SRBI O&G NM, L.L.C. (Delaware)	9.375000%
Thru line O&G NM, L.L.C. (Delaware)	9.375000%
Robert G. Shelton	0.010417%
Maverick Oil & Gas Corporation	<u>0.010417%</u>
Total	100.000000%

**IV. Oil and Gas Leases Subject to this Agreement:**

Lessor: Bureau of Land Management  
Lessee: Betsy Dixson Morrison  
Date: July 1, 1951  
BLM Lease No.: NMLC-067186  
Description: Insofar and only insofar as said lease covers N/2 N/2 of Section 17, T22S-R28E, Eddy County, New Mexico

Lessor: Bureau of Land Management  
Lessee: Anita L. Berger  
Date: September 1, 1963  
BLM Lease No.: NMNM-0415688-A  
Description: Insofar and only insofar as said lease covers S/2 N/2 of Section 17, T22S-R28E, Eddy County, New Mexico

**V. Addresses of Parties to this Agreement:**

Devon Energy Production Company, L.P. 20 N. Broadway, Suite 1500 Oklahoma City, OK 73102	CTV O&G NM, L.L.C. (Delaware) LMBI O&G NM, L.L.C. (Delaware) Keystone O&G NM, L.L.C. (Delaware) SRBI O&G NM, L.L.C. (Delaware)
Nearburg Exploration Company, L.L.C. 3300 North "A" Street Building 2, Suite 120 Midland, Texas 79705	Thru Line O&G NM, L.L.C. (Delaware) c/o BEPCO, L.P. 201 Main Street, Suite 2900 Fort Worth, Texas 76102
Robert G. Shelton c/o Roca Resources P.O. Box 1981 Midland, Texas 79702-1981	Maverick Oil & Gas Corporation 1004 North Big Spring, Suite 507 Midland, Texas 79704

**End of Exhibit "A"**

# Exhibit "A-1"

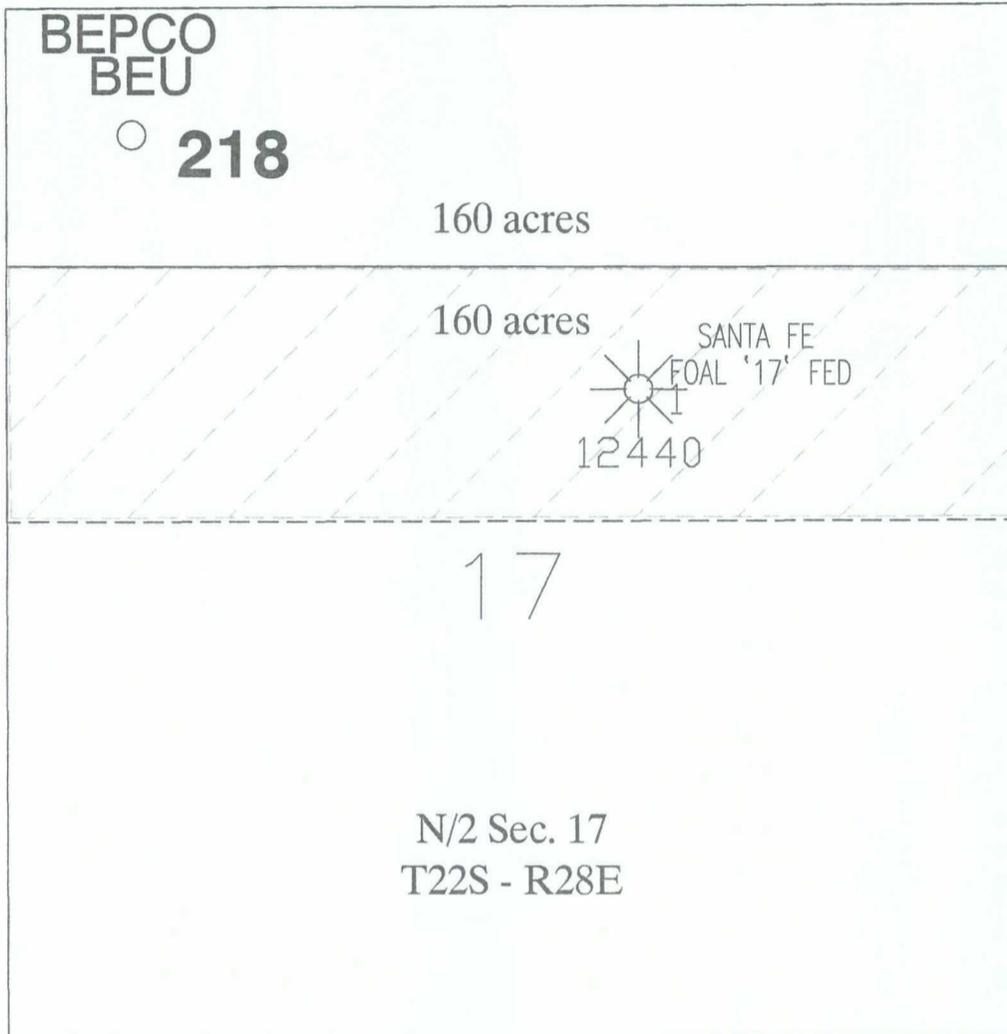
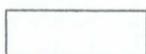


Exhibit A-1  
To that certain operating agreement by and between  
BEPCO, L. P. and Devon Energy Production Company, L. P.

-  Bass
-  Devon Energy et al



<b>BEPCO, L.P.</b>		
<b>BIG EDDY UNIT</b> Eddy County, New Mexico		
<b>Exhibit "A-1"</b>		
DATE: 20080609	INTER./DRAFT. BY: RS/TE	FILE: BEU.dwg pg43

**THERE IS NO EXHIBIT "B"**

EXHIBIT " C "

1 Attached to and made a part of that certain Operating Agreement dated June, 2008, between BEPCO, L.P., Operator,  
2 and Nearburg Exploration Company, L.L.C., et al, Non-Operators, covering the lands in Eddy County, New Mexico  
3  
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7 **ACCOUNTING PROCEDURE**  
8 **JOINT OPERATIONS**  
9

10  
11 **I. GENERAL PROVISIONS**  
12

13  
14 **1. Definitions**  
15

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

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

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

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

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

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

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

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

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

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

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

35  
36 **2. Statement and Billings**  
37

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

43  
44 **3. Advances and Payments by Non-Operators**  
45

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

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

57  
58 **4. Adjustments**  
59

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

67  
68 **COPYRIGHT © 1985 by the Council of Petroleum Accountants Societies.**  
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1 **5. Audits**

2  
3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit  
4 Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four  
5 (24) month period following the end of such calendar year; provided, however, the making of an audit shall not  
6 extend the time for the taking of written exception to and the adjustments of accounts as provided for in  
7 Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make  
8 every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience  
9 to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this  
10 paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year  
11 without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made  
12 at the expense of those Non-Operators approving such audit.

13  
14 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

15  
16 **6. Approval By Non-Operators**

17  
18 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this  
19 Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no  
20 contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the  
21 agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

22  
23  
24 **II. DIRECT CHARGES**

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

27  
28 **1. Ecological and Environmental**

29  
30 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy  
31 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or  
32 archaeological nature and pollution control procedures as required by applicable laws and regulations.

33  
34 **2. Rentals and Royalties**

35  
36 Lease rentals and royalties paid by Operator for the Joint Operations.

37  
38 **3. Labor**

39  
40 A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of  
41 Joint Operations.

42  
43 (2) Salaries of First level Supervisors in the field.

44  
45 (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are  
46 excluded from the overhead rates.

47  
48 (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly  
49 employed in the operation or the Joint Property if such charges are excluded from the overhead rates.

50  
51 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to  
52 employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.  
53 Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment"  
54 on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If  
55 percentage assessment is used, the rate shall be based on the Operator's cost experience.

56  
57 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are  
58 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

59  
60 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under  
61 Paragraphs 3A and 3B of this Section II.

62  
63 **4. Employee Benefits**

64  
65 Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement,  
66 stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the  
67 Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent  
68 most recently recommended by the Council of Petroleum Accountants Societies.

1   **5.       Material**

2  
3       Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such  
4       Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is  
5       reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be  
6       avoided.

7  
8   **6.       Transportation**

9  
10       Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

11  
12       A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be  
13       made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like  
14       material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

15  
16       B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint  
17       Account for a distance greater than the distance to the nearest reliable supply store where like material is normally  
18       available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be  
19       made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the  
20       Parties.

21  
22       C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is  
23       available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the  
24       amount most recently recommended by the Council of Petroleum Accountants Societies.

25  
26   **7.       Services**

27  
28       The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph  
29       10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract  
30       services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead  
31       rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the  
32       Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

33  
34   **8.       Equipment and Facilities Furnished By Operator**

35  
36       A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate  
37       with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating  
38       expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to  
39       exceed twelve and one-half percent (12.5%) per annum. Such rates shall not exceed average commercial  
40       rates currently prevailing in the immediate area of the Joint Property.

41  
42       B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the  
43       immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates  
44       published by the Petroleum Motor Transport Association.

45  
46   **9.       Damages and Losses to Joint Property**

47  
48       All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or  
49       losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross  
50       negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as  
51       soon as practicable after a report thereof has been received by Operator.

52  
53   **10.      Legal Expense**

54  
55       Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and  
56       amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to  
57       protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of  
58       outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be  
59       covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section  
60       I, Paragraph 3.

61  
62   **11.      Taxes**

63  
64       All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,  
65       or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad  
66       valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then  
67       notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties  
68       hereto in accordance with the tax value generated by each party's working interest.

1 12. Insurance

2  
3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the  
4 event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation  
5 and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-  
6 insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

7  
8 13. Abandonment and Reclamation

9  
10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory  
11 authority.

12  
13 14. Communications

14  
15 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and  
16 microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint  
17 Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

18  
19 15. Other Expenditures

20  
21 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which  
22 is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint  
23 Operations.

24  
25  
26 III. OVERHEAD

27  
28 1. Overhead - Drilling and Producing Operations

29  
30 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge  
31 drilling and producing operations on either:

- 32  
33 ( X ) Fixed Rate Basis, Paragraph 1A, or  
34 ( ) Percentage Basis, Paragraph 1B

35  
36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and  
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under  
38 Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of  
39 taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in  
40 the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are  
41 agreed to by the Parties as a direct charge to the Joint Account.

42  
43 ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant  
44 services and contract services of technical personnel directly employed on the Joint Property:

- 45  
46 ( ) shall be covered by the overhead rates, or  
47 ( X ) shall not be covered by the overhead rates.

48  
49 iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services  
50 and contract services of technical personnel either temporarily or permanently assigned to and directly employed in  
51 the operation of the Joint Property:

- 52  
53 ( X ) shall be covered by the overhead rates, or  
54 ( ) shall not be covered by the overhead rates.

55  
56 A. Overhead - Fixed Rate Basis

57  
58 (1) Operator shall charge the Joint Account at the following rates per well per month:

59  
60 Drilling Well Rate \$ 10,000  
61 (Prorated for less than a full month)

62  
63 Producing Well Rate \$ 1,000

64  
65 (2) Application of Overhead - Fixed Rate Basis shall be as follows:

66  
67 (a) Drilling Well Rate

68  
69 (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date  
70 the drilling rig, completion rig, or other units used in completion of the well is released, whichever

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

- 3  
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5)  
5 consecutive work days or more shall be made at the drilling well rate. Such charges shall be  
6 applied for the period from date workover operations, with rig or other units used in workover,  
7 commence through date of rig or other unit release, except that no charge shall be made during  
8 suspension of operations for fifteen (15) or more consecutive calendar days.

9  
10 (b) Producing Well Rates

- 11  
12 (1) An active well either produced or injected into for any portion of the month shall be considered as  
13 a one-well charge for the entire month.

- 14  
15 (2) Each active completion in a multi-completed well in which production is not commingled down  
16 hole shall be considered as a one-well charge providing each completion is considered a separate  
17 well by the governing regulatory authority.

- 18  
19 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the  
20 production shall be considered as a one-well charge providing the gas well is directly connected to  
21 a permanent sales outlet.

- 22  
23 (4) A one-well charge shall be made for the month in which plugging and abandonment operations  
24 are completed on any well. This one-well charge shall be made whether or not the well has  
25 produced except when drilling well rate applies.

- 26  
27 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease  
28 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- 29  
30 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the  
31 agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying  
32 the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude  
33 Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as  
34 shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published  
35 by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as  
36 published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or  
37 minus the computed adjustment.

38  
39 ~~B. Overhead - Percentage Basis~~

- 40  
41 ~~(1) Operator shall charge the Joint Account at the following rates:~~

42  
43 ~~(a) Development~~

44  
45 ~~\_\_\_\_\_ Percent (\_\_\_\_%) of the cost of development of the Joint Property exclusive of costs~~  
46 ~~provided under Paragraph 10 of Section II and all salvage credits.~~

47  
48 ~~(b) Operating~~

49  
50 ~~\_\_\_\_\_ Percent (\_\_\_\_%) of the cost of operating the Joint Property exclusive of costs provided~~  
51 ~~under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased~~  
52 ~~for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the~~  
53 ~~mineral interest in and to the Joint Property.~~

- 54  
55 ~~(2) Application of Overhead - Percentage Basis shall be as follows:~~

56  
57 ~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III,~~  
58 ~~development shall include all costs in connection with drilling, redrilling, deepening, or any remedial~~  
59 ~~operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing~~  
60 ~~interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and~~  
61 ~~expenditures incurred in abandoning when the well is not completed as a producer, and original cost of~~  
62 ~~construction or installation of fixed assets, the expansion of fixed assets and any other project clearly~~  
63 ~~discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other~~  
64 ~~costs shall be considered as operating.~~

65  
66 **2. Overhead - Major Construction**

67  
68 To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of  
69 fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the  
70 Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

1 Account for overhead based on the following rates for any Major Construction project in excess of \$ \_\_\_\_\_:

- 2  
3 A.  5  % of first \$100,000 or total cost if less, plus  
4  
5 B.  3  % of costs in excess of \$100,000 but less than \$1,000,000, plus  
6  
7 C.  2  % of costs in excess of \$1,000,000.  
8

9 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single  
10 project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be  
11 excluded.  
12

13 **3. Catastrophe Overhead**

14 To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due  
15 to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are  
16 necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the  
17 expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account  
18 for overhead based on the following rates:  
19

- 20  
21 A.  5  % of total costs through \$100,000; plus  
22  
23 B.  3  % of total costs in excess of \$100,000 but less than \$1,000,000; plus  
24  
25 C.  2  % of total costs in excess of \$1,000,000.  
26

27 Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead  
28 provisions of this Section III shall apply.  
29

30 **4. Amendment of Rates**

31 The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement  
32 between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.  
33  
34  
35

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

37  
38 Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material  
39 movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at  
40 Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or  
41 surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to  
42 outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition  
43 A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.  
44

45 **1. Purchases**

46 Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of  
47 Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account  
48 when adjustment has been received by the Operator.  
49

50  
51 **2. Transfers and Dispositions**

52 Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator,  
53 unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:  
54  
55

56 A. New Material (Condition A)

57 (1) Tubular Goods Other than Line Pipe

- 58 (a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill  
59 published carload base prices effective as of date of movement plus transportation cost using the 80,000  
60 pound carload weight basis to the railway receiving point nearest the Joint Property for which  
61 published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound  
62 or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio  
63 and casing from Youngstown, Ohio.  
64  
65

- 66 (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus  
67 transportation cost from that mill to the railway receiving point nearest the Joint Property as provided  
68 above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000  
69  
70

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 3/4 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 3/4 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 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular  
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,  
21 Ohio.

22  
23 (c) Line pipe 24 inch OD and over and 3/4 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.

70

1 (2) Condition D

2  
3 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose  
4 shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material  
5 under procedures normally used by Operator without prior approval of Non-Operators.  
6

7 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe  
8 of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be  
9 priced at used line pipe prices.  
10

11 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g.  
12 power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe.  
13 Upset tubular goods shall be priced on a non upset basis.  
14

15 (3) Condition E

16  
17 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under  
18 procedures normally utilized by Operator without prior approval of Non-Operators.  
19

20 D. Obsolete Material

21  
22 Material which is serviceable and usable for its original function but condition and/or value of such Material  
23 is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by  
24 the Parties. Such price should result in the Joint Account being charged with the value of the service  
25 rendered by such Material.  
26

27 E. Pricing Conditions

28  
29 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢)  
30 per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs  
31 sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year  
32 following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in  
33 Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and  
34 shall be the rate in effect until the first day of April next year. Such rate shall be published each year  
35 by the Council of Petroleum Accountants Societies.  
36

37 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down  
38 price of new Material.  
39

40 3. Premium Prices

41  
42 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other  
43 unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required  
44 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it  
45 to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing  
46 Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within  
47 ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use  
48 and acceptable to Operator.  
49

50 4. Warranty of Material Furnished By Operator

51  
52 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint  
53 Account until adjustment has been received by Operator from the manufacturers or their agents.  
54  
55

56 V. INVENTORIES

57  
58 The Operator shall maintain detailed records of Controllable Material.  
59

60 1. Periodic Inventories, Notice and Representation

61  
62 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice  
63 of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that  
64 Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an  
65 inventory shall bind Non-Operators to accept the inventory taken by Operator.  
66

67 2. Reconciliation and Adjustment of Inventories

68  
69 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six  
70 months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

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

2  
3 **3. Special Inventories**

4  
5 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint  
6 Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of  
7 interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases  
8 involving a change of Operator, all Parties shall be governed by such inventory.  
9

10 **4. Expense of Conducting Inventories**

11  
12 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the  
13 Parties.  
14

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

**Attached to and made a part of that certain Operating Agreement  
Dated \_\_\_\_\_, by and between BEPCO, L.P., as Operator, and  
Nearburg Exploration Company, L.L.C., et al, as Non-Operator**

### INSURANCE

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

- (a) Workmen's Compensation insurance in accordance with the requirements of the laws of the State where the work is conducted and Employers Liability insurance of One Million Dollars (\$1,000,000) bodily injury by accident and One Million Dollars (\$1,000,000) bodily injury by disease per employee, with a policy limit of One Million Dollars (\$1,000,000) for bodily injury by disease;
- (b) Commercial General Liability insurance with limits of One Million Dollars (\$1,000,000) each occurrence, and One Million Dollars (\$1,000,000) aggregate;
- (c) Commercial Automobile Liability insurance with a combined single limit of One Million Dollars (\$1,000,000) per accident.

Each policy of insurance issued pursuant to the provisions of (b) or (c) of this section shall provide by endorsement or otherwise that the provisions of the policy are extended to cover as an additional insured the interest of the Non-Operator for whom the insured is acting as Operator, agent or contractor under contract, but only with respect to operations conducted by named insured, and shall charge the premiums for all such insurance to the joint account. As respects the coverage shown in (a) above, a Waiver of Subrogation shall be granted in favor of the Non-Operator.

Operator shall furnish, upon request, to Non-Operators a certificate covering each policy of insurance issued pursuant to this section.

1 NOTE: Instructions For Use of Gas Balancing  
2 Agreement MUST be reviewed before finalizing  
3 this document.  
4  
5  
6

7 **EXHIBIT "E"**  
8 **GAS BALANCING AGREEMENT ("AGREEMENT")**  
9 **ATTACHED TO AND MADE PART OF THAT CERTAIN**

10 **OPERATING AGREEMENT DATED** March 6, 2006

11 **BY AND BETWEEN** BEPCO, L.P., **as Operator**  
12 **AND** DEVON ENERGY, INC., et al, as Non-Operator ("**OPERATING AGREEMENT**")  
13 **RELATING TO THE** All Sections 24, 25 and 36, T23S-R29E, less W/2 SE/4 Section 24, T23S-R29E **AREA,**  
14 Eddy **COUNTY/PARISH, STATE OF** New Mexico

15  
16 **1. DEFINITIONS**

17 The following definitions shall apply to this Agreement:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

62 1.16  (Optional) "Winter Period" shall mean the month(s) of November & December in one  
63 calendar year and the month(s) of January & February in the succeeding calendar year.

64 **2. BALANCING AREA**

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

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

71 **3. RIGHT OF PARTIES TO TAKE GAS**

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

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

3 3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the  
4 extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to  
5 preserve correlative rights, or to maintain oil production.

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

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

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

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

#### 35 4. IN-KIND BALANCING

36 4.1 Effective the first day of any calendar month following atleast Thirty (30) days' prior  
37 written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current  
38 Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined  
39 by multiplying Twenty-Five percent (25%) of the Full Shares of Current Production of all Overproduced Parties by  
40 a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which  
41 is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an  
42 Overproduced Party be required to provide more than Twenty-Five percent (25%) of its Full Share of Current  
43 Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced  
44 Party to begin taking Makeup Gas.

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

49 4.2  (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no  
50 Overproduced Party will be required to provide more than Twenty-Five percent (25%) of its Full Share  
51 of Current Production for Makeup Gas during the Winter Period.

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

#### 57 5. STATEMENT OF GAS BALANCES

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

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

#### 71 6. PAYMENTS ON PRODUCTION

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

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

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

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

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

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

## 16 7. CASH SETTLEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

5 7.7 Interest compounded at the rate of Twelve & One-Half percent (12.5 %) per annum or the maximum lawful  
6 rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1 beginning  
7 the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any  
8 Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3  
9 contributed to the accrual of the interest.

10 7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party  
11 an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the  
12 Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be  
13 furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by  
14 agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an  
15 in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties  
16 fail to reach agreement on an in-kind settlement.

17 7.9  (Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an  
18 Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or  
19 other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such  
20 governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced  
21 Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental  
22 authority.

23 7.10  (Optional - Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party  
24 may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas  
25 imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative  
26 imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once  
27 every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash  
28 settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30)  
29 days after the settlement is made.

30 **8. TESTING**

31 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to  
32 produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s)  
33 required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to  
34 conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only  
35 after See Article 14.2) Thirty (30) days' prior written notice to the Operator and shall last no longer than  
36 Seventy-Two (72) hours. (See Article 14.2)

37 **9. OPERATING COSTS**

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

42 **10. LIQUIDS**

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

45 **11. AUDIT RIGHTS**

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

58 **12. MISCELLANEOUS**

59 12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of  
60 any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the  
61 Operating Agreement, the provisions of this Agreement shall govern.

62 12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for  
63 any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such  
64 indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under  
65 the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages  
66 sustained and costs incurred in connection therewith.

67 12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this  
68 Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in  
69 connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or  
70 willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party, (other  
71 than Operator) to pay any amounts owed pursuant to the terms hereof.

72 12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and  
73 effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to  
74 the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives

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

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

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

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

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

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

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

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

39 13.2  (**Optional - Cash Settlement Upon Assignment**) Notwithstanding anything in this Agreement (including but not  
 40 limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions  
 41 of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its  
 42 interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are  
 43 Parties hereto in such Balancing Area of such fact at least Thirty (30) days prior to closing the  
 44 transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within  
 45 Thirty (30) days after receipt of the Overproduced Party's notice, a cash settlement of its  
 46 Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement  
 47 pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash  
 48 settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60)  
 49 days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced  
 50 Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in  
 51 Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days  
 52 after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not  
 53 paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the  
 54 Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the  
 55 Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance  
 56 with the provisions of Section 13.1 hereof.

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

60 **14. OTHER PROVISIONS**

61 **14.1 An overproduced party shall not be required to provide any make-up gas during any month in the Winter Period to the extent that said**  
 62 **party's share of current production is committed to firm delivery under its marketing agreement.**

63 **14.2 Consent of all producing parties shall be required to conduct testing during peak Winter Period months.**  
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1 **15. COUNTERPARTS**

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

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

8  
9

10 **ATTEST OR WITNESS:**

**OPERATOR**

11

\_\_\_\_\_

12

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

13

\_\_\_\_\_

14

Type or print name

15

Title \_\_\_\_\_

16

Date \_\_\_\_\_

17

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

18

**NON-OPERATORS**

20

\_\_\_\_\_

21

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

22

\_\_\_\_\_

23

Type or print name

24

Title \_\_\_\_\_

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Date \_\_\_\_\_

26

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

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\_\_\_\_\_

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

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\_\_\_\_\_

31

Type or print name

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Title \_\_\_\_\_

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Date \_\_\_\_\_

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

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ACKNOWLEDGMENTS

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

Individual acknowledgment:

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

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

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

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

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

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

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

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

Acknowledgment in representative capacity:

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

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

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

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

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

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

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

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

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

**THERE IS NO EXHIBIT "F"**

**THERE IS NO EXHIBIT "G"**