

marbob
energy corporation

December 2, 2003

Paul D. Iverson, Jr.
PAI, Incorporated
243 Walnut
Newport Beach, California 92663

**RE: Unsolicited Offer to Purchase
Rights below the base of the
San Andres Formation
Puckett A & B Leases
Sections 12, 13, 24, 25
T-17S, R-31E, N.M.P.M.
Eddy County, New Mexico**

Gentlemen:

Our research indicates that you own 0.9947917 percent of the operating rights of the Puckett A and B lease with an effective net revenue interest of 80 percent on the Puckett A and 87.5 percent on the Puckett B. Marbob Energy Corporation would propose to purchase your interest effective January 1, 2004 for \$38,200.00 based on the above information being correct. This offer is for all of your interest in these rights with you not retaining anything.

\$1,500.00 per net interest in the offer.

U.S. Postal ServiceTM
CERTIFIED MAILTM RECEIPT
(Domestic Mail Only, No Insurance Coverage)

For delivery information visit our website at www.usps.com

OFFICIAL

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$

Sent To **Paul D. Iverson, Jr.**
PAI, Incorporated
243 Walnut
Newport Beach, CA 92663

PS Form 3800, June 2002

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Paul D. Iverson, Jr.
PAI, Incorporated
243 Walnut
Newport Beach, CA 92663

2

PS Form 3811, August 2001

Domestic

COMPLETE THIS SECTION ON DELIVERY

A. Signature **x B. Bonish** ☐ Agent ☒ Addressee

B. Received by (Printed Name) **Brent Bonish** C. Date of Delivery **12/8/03**

D. Is delivery address different from item 1? ☐ Yes ☒ No
If YES, enter delivery address below:

3. Service Type
☒ Certified Mail ☐ Express Mail
☐ Registered ☐ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

Hearing Date: November 18, 2004

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico

Case Nos. **13348** Exhibit No. 3

Submitted by:

Marbob Energy Corporation

1-1540

7002 2030 0001 8346 7180


7002 2030 0001 8346

1,000,000 mcf at \$4.00 per mcf would equal \$4,000,000.00 gross times 92 percent to reflect value after production taxes would be \$3,680,000.00 times the 12.5 percent overriding royalty equals \$460,000.00 times your 0.9947917 percent interest equals \$4,576.04.

That amount would be subject to New Mexico state and federal income tax. The amount would be paid to you over several months during the life of the well. Certainly there is no guarantee a successful well will be drilled as evidenced by the Warhol No. 1 well drilled in Section 13 which was a dry hole.

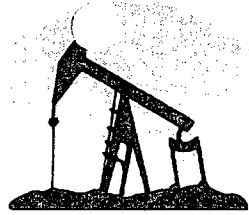
We would be agreeable to close this transaction before or after December 31, 2003, such that you could either show the sale in this tax year or next. With the favorable capital gains, tax treatment currently in effect we believe this offer may be attractive to you. If you have any questions regarding this offer, please contact me. If you are agreeable to accept our offer, please contact me at 505-748-3303 or email us at marbob@marbob.com. Thank you for your consideration.

Sincerely,

A handwritten signature in cursive script that reads "Raye Miller".

Raye Miller
Land Department

RM/mm



marbob
energy corporation

December 12, 2003

Paul D. Iverson, Jr.
PAI, Incorporated
243 Walnut
Newport Beach, California 92663

**RE: Unsolicited Offer
December 2, 2003
Puckett A & B Leases
Sections 12, 13, 24, 25
T-17S, R-31E, NMPM
Eddy County, New Mexico**

Gentlemen:

Our previous proposal to purchase your interest is still in effect. However, we were contacted by one interest owner who asked if we would consider also proposing some additional alternatives which would allow for some overriding royalty to be retained by the selling party. As a result of that request, and in addition to our original proposal, we would offer the following two alternatives for your consideration:

1. Sell your 0.99479170 percent of the operating rights for \$25,466.67 retaining a .00024869 overriding royalty interest in both leases. This offer equates to a \$1000.00 dollar per acre offer retaining a 2.5% overriding royalty proportionately reduced to your interest.
2. Execute a two year term assignment on your interest with a bonus consideration of \$200.00 per acre and delivering a 77.5 percent net revenue lease on the Puckett B and a 75 percent net revenue lease on the Puckett A. This would be an override of 10 percent on the Puckett B and 5 percent on the Puckett A proportionately reduced to your interest. That would equate to \$5,093.33 to you with an override of .00099479 on the Puckett B and .000497395 on the Puckett A. The term assignment would contain a 240 day continuous development

clause for any well drilled below the base of the San Andres formation which had not previously been earned in a producing proration unit. At the end of the primary term or the continuous development clause whichever is later, all rights not contained in a producing proration unit would revert to you.

As stated earlier, these alternative offers are extended to each of you in addition to the original proposal. Our original proposal is valid until January 1, 2004 and these amendments will be valid until that same date.

As a final consideration if you want to do a combination of these offers for your interest, we would be agreeable to that. Also, if you only wanted to tender a portion of your interest to any one offer, that would also be agreeable. We do not want the acreage segregated such that what you decide to do should cover your interest in both leases.

I hope these alternatives will provide you with desirable options and not add to the confusion of this proposal. You may want to consult with your tax accountant as we believe our original proposal would be eligible for long term capital gains treatment while the alternatives contained in this proposal probably do not qualify for that treatment.

If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Raye Miller".

Raye Miller
Land Department

RM/mm



marbob
energy corporation

December 22, 2003

Certified Mail Return Receipt Requested

Edward R. Hudson Trust 2
Edward R. Hudson, Jr. Trustee
616 Texas Street
Fort Worth, Texas 76102

**RE: Unsolicited Offer
December 2, 2003
Puckett A & B Leases
Sections 12, 13, 24, 25
T-17S, R-31E, NMPM
Eddy County, New Mexico**

Gentlemen:

We have received a couple of letters from different interest owners needing more time on the above referenced offer. As a result, we are extending our offer to every one until January 10, 2004.

Thank you for
to contact me should

U.S. Postal Service™
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(Domestic Mail Only; No Insurance Coverage)

For delivery information visit our website at www.usps.com

OFFICIAL U.S. MAIL

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$

Sent To
Edward R. Hudson Trust 2
Edward R. Hudson, Jr. Trustee
616 Texas Street
Fort Worth, Texas 76102

PS Form 3800, June 2002

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Edward R. Hudson Trust 2
Edward R. Hudson, Jr. Trustee
616 Texas Street
Fort Worth, Texas 76102

2.

7002 2030 0001 8346 6725

COMPLETE THIS SECTION ON DELIVERY

A. Signature

Suzanne Box

- ☐ Agent
☐ Addressee

B. Received by (Printed Name)

Suzanne Box

C. Date of Delivery

12-29-03

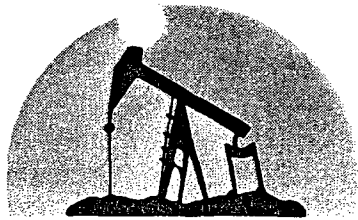
- D. Is delivery address different from item 1?** ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type

- ☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

- ☐ Yes



marbob
energy corporation

January 7, 2004

Mary Hudson Ard
222 West Fourth Street, Suite 313
Fort Worth, Texas 76102

**Re: Unsolicited Offer
December 2, 2003
Revised December 12, 2003
Extended December 22, 2003
Puckett A & B Leases
Section 12, 13, 24, and 25
T-17S, R-31E, N.M.P.M.
Eddy County, New Mexico**

Gentlemen:

We have had several inquiries in the past couple of days requesting additional clarification of our offer and some proposing different trades. We firmly believe that any trade we do with any of you will be offered to all of you.

In a desire to acquire more interest in this area and an expression of desire by some parties to retain more overriding royalty interest, we are agreeable to sweeten our offer on the number one alternative proposed in the letter of December 12, 2003 as follows:

The dollar offer would remain the same (\$1,000.00 per net acre) and the override on the Puckett A lease would remain as proposed (2.5% proportionately reduced) but the override retained on the Puckett B would be double our original proposal which equates to a 5.0% proportionately reduced.

Likewise, because of the short time frame left on the offers we are agreeable to extend the offers until Friday, January 16, 2004.

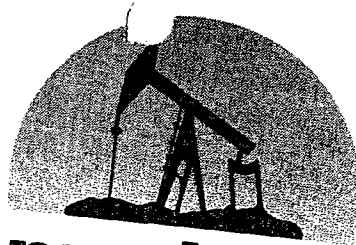
This is our **final offer** and as such, if you are interested, we would request that you respond by the end of next week. If you have any questions regarding this or our previous letters, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Raye Miller".

Raye Miller
Land Department

RM/mm



marbob
energy corporation

June 8, 2004

Certified Mail Return Receipt Requested

S. J. Iverson Trust
H. Greg Holcomb, Trustee
Bank of America NA
Acct. No. 01/0258100
Post Office Box 840738
Dallas, Texas 75284-0738

**RE: Morrow Well Proposal
Puckett Leases
Section 12, 13, 24, 25
T-17S, R-31E, N.M.P.M.
Eddy County, New Mexico**

Gentlemen:

Marbob Energy Corporation would propose that a Morrow test well be drilled at a location 1830 feet from the south line and 1980 feet from the west line in Section 12 of Township 17 South, Range 31 East in Eddy County. We would propose that Hudson Oil Company of Texas be operator of the well. Enclosed for your review is an A.F.E. covering the well and a Joint Operating Agreement.

Compa
this we
the Exh
original

If
the follow

1.

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

S. J. Iverson Trust
H. Greg Holcomb, Trustee
Bank of America NA
Acct. No. 01/0258100
Post Office Box 840738
Dallas, Texas 75284-0738

COMPLETE THIS SECTION ON DELIVERY

A. Signature ☐ Agent
x T Jordan ☐ Addressee

B. Received by (Printed Name) *JUN 14 2004*

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

JUN 21 2004

3. Service Type

- ☒ Certified Mail ☐ Express Mail
- ☐ Registered ☒ Return Receipt for Merchandise
- ☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

Puckett AFE/JOA

P.O. Box 2. **7002 2030 0001 8264 2373**

2. Sell your interest in Section 12 retaining a 5% overriding royalty interest proportionately reduced for \$700.00 per net acre.
3. Grant a two year Term Assignment in Section 12 retaining a 10% overriding royalty interest proportionately reduced for \$140.00 per net acre.
4. Farmout your interest in Section 12 at an 80% net revenue with the option to convert your retained override to a 25% working interest proportionately reduced to your interest.

If you are interested in any of these proposals, please contact me and we will prepare the paper work for your review.

Please recognize that the A.F.E. is only an estimate of cost and if you elect to participate, you will be billed the actual cost incurred in drilling the well. Also, note that under the Operating Agreement, no insurance coverage with respect to liability or well control is charged to or provided for the non operators. Certainly, most of you are knowledgeable about the risk of drilling deep gas wells, but if you elect to participate in the drilling of this well, you should be able to afford the risk or buy insurance to cover that risk.

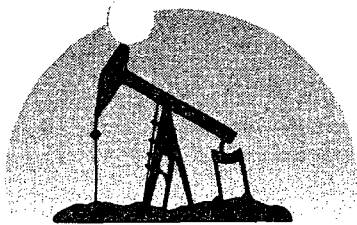
If we are able to get some type of agreement with all of the parties, we would anticipate spudding this well in about sixty days. The alternate offers proposed here are extended to you until June 30, 2004. If you have any questions regarding this proposal, please contact me.

Sincerely,



Raye Miller
Land Department

RM/mm
Enclosures



marbob
energy corporation

October 28, 2004

Edward R. Hudson Trust 4
Mary Hudson Ard, Trustee
222 West Fourth Street PH-5
Fort Worth, Texas 76102

**RE: Proposed J.O.A. Knockabout Federal No. 1
1830' FSL – 1980' FWL, Section 12-17S-31E
Eddy County, New Mexico**

Dear Operating Rights Owner:

We have been contacted by Wendell Iverson in regards to some additional changes to the recently proposed J.O.A. I have visited with Hudson Oil Company of Texas regarding the requests and we are agreeable as follows:

Hudson Oil Company of Texas would agree to the enclosed revisions and modifications to the Joint Operating Agreement if all of the remaining unsigned parties would agree to the agreement on or before November 1, 2004. Since the force pooling hearing is scheduled for November 4, 2004, if an agreement is not reached with all of the parties by November 1, 2004, then this offer is withdrawn and the J.O.A. as previously submitted will be presented at the hearing. A faxed signature to Marbob's office (505-746-2523) on or before November 1, 2004 will demonstrate your willingness to participate under the terms of the agreement. Please discuss amongst each other whether everyone is agreeable. We would like to move this project forward and make this offer in an attempt to do so.

If you have any questions regarding this, please contact me.

Sincerely,

Raye Miller
Land Department

RM/mm
Attachment

Proposed modifications and/or revisions to Knockabout Federal Joint Operating Agreement dated October 1, 2004:

1. Article XIII ~ Term of Agreement

Change from Option No. 1 to Option No. 2 with the two blanks being filled in with 180.

2. Article XV C.

Add the following to the beginning of the first sentence:

In relation to Article VI C., (any party.....)

3. New Article XV M.

Upon completion of a well producing hydrocarbons, Operator shall request a division order title opinion (if needed). Upon receipt of such title opinion, Operator shall notify all parties whose interest requires curative work, and shall attempt to resolve any significant title issues with respect to its interest on a timely basis. Upon resolution of all significant title issues, Operator shall request first purchaser(s) to issue division orders.

If first purchaser(s) cannot issue division orders for any reason, Operator will issue division orders. Within 30 days of receipt of a signed division order, Operator shall disburse all previously received funds applicable to such interest owner. All future payments by Operator will be made within 30 days of Operator's receipt of funds from the first purchaser(s).

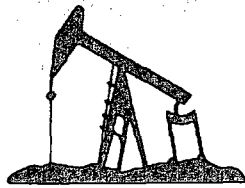
4. New Article XV N.

In addition to the non consent option under Article VI B., but only with respect to any NEW well proposals, meaning the proposed drilling of any well other than that provided for in Article VI A, each non proposing party shall have, in addition to the non-consenting party options and provisions outlined in Article VI B, the option to farmout ALL of its interest under the drilling well proration unit for such proposed new well, subject to the terms outlined below:

If the proposing party completes the well as a well capable of producing oil and/or gas in pay quantities in accordance with all the terms and provisions of this agreement, a non proposing party that elects, or is deemed to have elected, to take this farmout option, shall assign to the proposing party, for a term of ninety (90) days and so long thereafter as oil and/or gas is produced in paying quantities from the assigned premises, all of the non-proposing

party's right, title, and interest, operating rights, and working interest, in the spacing or proration unit for such well as covered by the proposal under this agreement down to total depth drilled. Such assignment shall be requested in writing by the proposing party within sixty (60) days of such completion. As used in this agreement the term "spacing or proration unit" shall mean a drilling or production unit prescribed or established for a particular well for full allowable purposes by or in accordance with the rules of any governmental agency having jurisdiction thereof. This assignment would exclude any production attributable to a producing well in the same proration unit in which the non proposing party has previously participated. In the absence of such rules, a spacing or proration unit shall be considered to contain 40 acres for an oil well and 320 acres for a gas well. The non proposing party shall reserve an overriding royalty interest on all of the oil and gas that may be produced from or attributable to that portion of the assigned interest contained within the aerial boundaries of the spacing or proration unit for such well in an aggregate amount equal to the difference, if any, between twenty-five percent (25%) and the aggregate percentage of lease burdens, including royalty, overriding royalty(ies), production payment(s), and any and all similar lease burdens, created and existing as of the effective date hereof, being free and clear of all costs and expenses of drilling, completing and operating with the exception that the non producing party shall bear its share of excise, production, and severance taxes applicable to such production and shall be subject to proportionate reduction as to the interest assigned.

It is further agreed that, with respect to the proposal of any new well, failure of any non-proposing party to timely respond to the proposing party as outlined in Article VI B shall constitute an irrevocable election by such non-proposing party to be subject to the terms of this additional farmout option.



marbob
energy corporation
November 2, 2004

Certified Mail Return Receipt Requested

The P.I.P. 1990 Trust
S.J.I. Jr. 1990 Trust
W.W.I. 1990 Trust
Mr. Wendell Iverson
Post Office Box 10508
Midland, Texas 79702

S.J. Iverson Trust
H. Greg Holcomb, Trustee
Bank of America NA
Acct. No. 01/0258100
Post Office Box 840738
Dallas, Texas 75284-0738

Mr. Julian Ard
Edward R. Hudson Trust 4
Mary Hudson Ard
222 West Fourth Street PH-5
Fort Worth, Texas 76102

Yates Petroleum Corporation
Ms. Kathy Porter
105 South Fourth Street
Artesia, New Mexico 88210

**RE: Knockabout Federal No. 1
S/2 of Section 12, T-17S, R-31E
Eddy County, New Mexico**

Gentlemen:

Unfortunately, agreement was not reached with all of the parties as proposed under our letter of October 28, 2004. As such, that offer is withdrawn and each of you needs to decide if you are agreeable to participate in the A.F.E. and the J.O.A. as proposed under our letter of October 8, 2004. We have received a signed A.F.E. and J.O.A. page from Yates Petroleum, but not from any of the other force pooling parties. The force pooling hearing was set for November 4, 2004 but council for the objectors requested a continuance for personal reasons. We have agreed and as such, the hearing is now set for November 18, 2004 in Santa Fe, New Mexico. If you want to be removed from the hearing, please send a signed J.O.A. and A.F.E. to my attention prior to November 15, 2004.

I had hopes that we could settle before the hearing but it appears there is no way to do that.

Sincerely,

Raye Miller

Raye Miller
Land Department

RM/mm

AUTHORITY FOR EXPENDITURE

A/E NO.	2004-017	LEASE	Knockabout Federal	WELL NO.	1
DESCRIPTION	1830' FSL & 1980' FWL, Section 12-T17S-R31E		COUNTY	Eddy	
STATE	NM	AREA	OPERATOR	Marbob Energy Corporation	
FORMATION	Morrow		PREPARED BY	Sheryl Baker	
TOTAL DEPTH	12,500'		DATE	May 7, 2004	

DRILLING INTANGIBLES

SUB	DRY HOLE W/O PIPE	COMPLETED WELL	ACTUAL COST	OVER UNDER
100	10,000			
110	35,000	3,500		
200				
210	327,500			
220	35,000			
250	28,000			
260	30,000			
280	32,500			
295				
299	65,000			
300	9,500			
310	21,500			
350	22,500	22,500		
950	5,000			
955	22,750			
	32,213	1,300		
	676,463	27,300		

COMPLETION INTANGIBLES

CEMENT PRODUCTION CASING	400		45,000		
FORMATION FRACTURING	410		125,000		
FORMATION ACIDIZING	420		15,000		
COMPLETION UNIT	450		18,000		
CONTRACT LABOR/PROFESSIONAL SVCS	500		20,000		
COMPLETION WATER, POWER, FUEL	905		4,500		
BATTERY CONST/SER/MATERIALS	910		20,000		
COMPLETION EQUIP RNTS/SERVICES	915		35,000		
DRIL/COM OVERHEAD CHARGE	950		5,000		
DRIL/COM OVERHEAD CHARGE	955		5,000		
MISCELLANEOUS IDC EXPENSES	900		3,500		
CONTINGENCY 5%					
TOTAL COMPLETION			296,000		
TOTAL INTANGIBLES		676,463	323,300		

DRILLING AND COMPLETION TANGIBLES

DRILLING AND COMPLETION TANGIBLES			200	82,000		
SURFACE & INTERMEDIATE CASING			250		148,000	
PRODUCTION CASING			300		83,000	
TUBING & ATTACHMENTS			350			
PUMPING WELL HOOK UP			400	17,500	17,500	
WELLHEAD EQUIPMENT			500			
PUMP JACKS & PUMPS			600		22,500	
TREATER, SEPAR, EQ, METER/ELEC			700		22,500	
TANKS & STORAGE FACILITIES			900		7,500	
MISCELLANEOUS L&W EQUIPMENT				4,975	15,050	
CONTINGENCY 5%				104,475	316,050	
TOTAL EQUIPMENT COST						
TOTAL WELL COST				780,938	639,350	
LEASE	ACRES @	PER ACRE				
TOTAL WELL COST					1,420,288	

APPROVALS:

This AFE is only an estimate. By signing you agree to pay your share of the actual costs incurred.

OPERATOR	Marbob Energy Corporation	BY	WI	DATE	05/07/04
COMPANY		BY	WI	DATE	
PRINT NAME		TITLE			

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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 1st day of June, (year) 2004.

Hudson Oil Company of Texas, 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

ATTEST OR WITNESS:

HUDSON OIL COMPANY OF TEXAS

By: _____
E. Randall Hudson III, Vice President

NON-OPERATORS

MARBOB ENERGY CORPORATION

By: _____
Johnny C. Gray, President

DELMAR'S LIVING TRUST

By: _____
Diane Hanley, Trustee

LINDY'S LIVING TRUST

By: _____
Francis H. Hudson, Trustee

EDWARD R. HUDSON TRUST 4

By: _____
Mary Hudson Ard, Trustee

S.J. IVERSON TRUST

By: _____
H. Greg Holcomb, Trustee

EDWARD R. HUDSON TRUST 2

By: _____
Edward R. Hudson, Jr., Trustee

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

June 1 , 2004 ,
year

OPERATOR Hudson Oil Company of Texas

CONTRACT AREA Township 17 South, Range 31 East

Section 12: All Section 13: All

Section 24: All Section 25: All

Depth Restrictions outlined on Exhibit "A" attached hereto.

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

THIS AGREEMENT, entered into by and between Hudson Oil Company of Texas

, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

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

- (1) Identification of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

☒ F. Exhibit "F", ~~Non-Discrimination and Certification of Non-Segregated Facilities~~ Notice of Joint Operating Agreement Lien, Security Interests, and Financing Statement.

☐ G. Exhibit "G", Tax Partnership.

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.

**ARTICLE III.
INTERESTS OF PARTIES**

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties ~~to the extent of~~ and other lease burdens existing as of 6-01-04 which shall be borne as hereinafter set forth.

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

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

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

**ARTICLE IV.
TITLES**

A. Title Examination:

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

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

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.

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.

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.

16 **B. Loss of Title:**

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.~~

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.~~

63 3. Other Losses: All title 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.

**ARTICLE V.
OPERATOR**

A. Designation and Responsibilities of Operator:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

**ARTICLE VI.
DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before the 31st day of December, (year) 2004, Operator shall commence the drilling of a well for oil and gas at the following location:

Section 12 of the Contract Area

and shall thereafter continue the drilling of the well with due diligence to

A depth sufficient in Operator's opinion to test the Morrow Formation

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

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

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.

6 B. Subsequent Operations:

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, ^{sidetrack,} 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, ^{sidetrack,} 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 ^{or fax transmission} 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 ^{irrevocable} 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.

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 accor-
30 dance with the provisions hereof as if no prior proposal had been made.

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.

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.

58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
62 sole cost, risk and expense. If any well drilled, reworked, deepened, ^{sidetracked,} 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,

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, ^{sidetracking,} deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom 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:

2 (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

3 (b) 500 % 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 500 % 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.

4 An election not to participate in the drilling, ^{sidetracking,} 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.

5 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.

6 In the case of any reworking, plugging back, ^{sidetracking,} 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.

7 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, ^{sidetracking,} 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.

8 See Article XV for further provisions relating to Article VI.

ARTICLE VI
continued

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, ~~completing, sidetracking,~~ deepening and plugging back of such initial well 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 production, ceases to produce in paying quantities.

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

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

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

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

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and 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 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party'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 instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

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

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~~ ^{market} 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 ~~a price negotiated in good faith by the Operator.~~ ~~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~~ ^{marketing} 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 **See Below

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

56

57

58 **Notwithstanding any provision to the contrary to this or any other agreement each party shall have the right at all times and from
59 time to time, upon written notice, to audit all of taking party and/or operator's records and accounts related to or in connection with
60 production or allocation of production from the contract area. Auditing of settlement records shall also be applicable if taking party
61 and/or operator distributes proceeds to the auditing party.

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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

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

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

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

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

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

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

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

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

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

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

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-five thousand Dollars (\$ 25,000.00)
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 fifteen thousand
28 Dollars (\$ 15,000.00) 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

14

15

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

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. **This paragraph shall not be applicable to the**
8 **contribution of acreage by purchase, farmout, or term assignment, to the Initial, Substitute, or Option Test Well(s).**

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

16
17 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
18 and shall be made without prejudice to the right of the other parties.

19
20 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
21 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
22 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
23 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
24 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
25 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

26
27 **E. Waiver of Rights to Partition:**

28
29 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
30 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
31 interest therein.

32
33 **F. Preferential Right to Purchase:**

34
35 Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract
36 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the
37 name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms
38 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
39 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-
40 ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-
41 ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to
42 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-
43 pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.
44 See Article XV for further provisions relating to Article VIII.

45
46 **ARTICLE IX.**
47 **INTERNAL REVENUE CODE ELECTION**

48
49 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
50 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
51 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
52 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
53 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-
54 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
55 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
56 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
57 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
58 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
59 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
60 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
61 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
62 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-
63 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
64 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
65 computation of partnership taxable income.

**ARTICLE X.
CLAIMS AND LAWSUITS**

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed fifteen thousand Dollars (\$ 15,000.00) 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 _____ 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 _____ 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

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

A. Priority of Operations

Notwithstanding anything herein to the contrary, it is agreed that when a well drilled under the terms of this Agreement shall have been drilled to the objective formation or depth and the parties participating in the well cannot mutually agree upon the sequence and timing of further operations regarding said well, the proposals shall be considered in the following order:

1. A proposal to attempt to complete the well at either the objective depth or objective formation; including the testing and logging of such well at such depth;
2. A proposal to plug back and attempt to complete said well above the objective formation (if there is more than one proposal to plug back, the proposals will be considered in ascending order);
3. A proposal to deepen said well in order to attempt a completion below the objective formation (if there is more than one proposal to deepen, the proposals shall be considered in descending order);
4. A proposal to sidetrack the well; and
5. A proposal to plug and abandon the well.

B. Loss of Interest

With respect to any proposal to drill, re-enter, or deepen any well subject to this agreement in which the primary objective is Permian in age (being the Wolfcamp and all formations shallower), any Non-Consenting party to such proposal, in addition to being subject to the conditions of Article VI herein shall, upon the successful completion of the proposal well as a well capable of producing hydrocarbons in paying quantities, promptly execute and deliver to the Consenting Parties an assignment of all of its interest down to and including the base of the formation producing in the proposal well, but in no event to be below the base of the Wolfcamp, in a proration unit of equal size to and immediately adjacent to the proration unit for the proposal well, and upon which there is no well bore producing from or capable of producing from an interval below the San Andres, such proration unit to be designated solely by the Consenting Parties.

C. Notwithstanding any language under Article VI.B. to the contrary, in any well in which a completion attempt may be made at more than one depth, each party who participated in the initial operations hereto shall have the right to make a separate election as to each interval in which a completion is proposed. Should a party hereto elect not to participate in a completion attempt as to any one interval, then those parties who elect to participate in the completion attempt as to that interval, shall, in the proportions they have elected to bear, share all costs, risks and expenses of such completion attempt. Any recoupment of said expenses shall be made solely from the production attributable to that interval.

Notwithstanding any provisions to the contrary in this or any other agreement, a Non-Consenting Party, upon notice in the writing to Operator, and/or any party carrying all or part of the non-consenting interest shall have the right at all times and from time to time within two (2) years of the date if received notice that payout has occurred, to audit Operator's and/or carrying party's accounts and record relating to or connected with its operations on the Contract Area or on land pooled therewith, regardless of when such operations were conducted.

D. Any party creating the necessity for separate measurement facilities shall alone bear all costs of such facilities. Any party using separate production measurement facilities shall keep accurate records of such production in accordance with applicable state and federal regulations, and upon Operator's request, under the terms of this agreement or any agreement executed in conjunction with this agreement, true and complete copies of said records shall be furnished to Operator. Said production records supplied to the Operator shall be treated as confidential information and shall be used by Operator only to the extent necessary to fulfill its duties as Operator.

E. All costs and expenses including fees and expenses of attorneys and consultants incurred by Operator in the event Operator must represent the Contract Area in non-standard locations and/or other regulatory matters herein shall be borne by all parties in accordance with their respective interests as set for in Exhibit "A" attached hereto and made a part hereof.

F. The parties hereto agree to execute a Notice of Joint Operating Agreement Lien in the form of Exhibit "F" to this agreement in order to permit perfection of the hereinabove described security interests by placing said NOTICE of record in the county in which the Contract Area is located and in accordance with the Uniform Commercial Code of the State in which the Contract Area is located.

G. Operator shall comply where applicable with the following clauses contained in 41 CFR:

60-1.4(a)	(Equal Employment Opportunity);
1-12.803-10	(Certification of Non-Segregated Facilities);
60-250	(Employment Opportunity for Veterans);
60-741	(Employment Opportunity for Handicapped Individuals);
1-1.710	(Subcontracting With Small Business Concerns);
1-1.805	(Subcontracting With Labor Surplus Area Concerns);
1.1.1310	(Subcontracting With Minority Business Enterprises);
1.1.2302-2	(Environmental Protection).

These clauses are incorporated herein by reference if and to the extent applicable to this contract by law, executive order, or regulation. Operator represents that he is in compliance with the reporting requirements of 41 CFR 60-1.7 and the Affirmative Action Program requirements of 41 CFR 60-1.40 and 60-2.

H. It is agreed that Article VIII, F., "Preferential Right to Purchase", shall not apply to any sale, transfer, or assignment of all or part of the interest of any party hereto, by and between such party and:

- family members of such party or of the beneficiaries of such party
- existing or newly created partnerships, corporations, trusts, or any other entity in which such party, or the beneficiaries or family members of such party, are affiliated.

JUN 02 2004

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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 1st day of June, (year) 2004.

Hudson Oil Company of Texas, 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

ATTEST OR WITNESS:

HUDSON OIL COMPANY OF TEXAS

By: _____
E. Randall Hudson III, Vice President

NON-OPERATORS

MARBOB ENERGY CORPORATION

By: _____
Johnny C. Gray, President

DELMAR'S LIVING TRUST

By: _____
Diane Hanley, Trustee

LINDY'S LIVING TRUST

By: _____
Francis H. Hudson, Trustee

EDWARD R. HUDSON TRUST 4

By: _____
Mary Hudson Ard, Trustee

S.J. IVERSON TRUST

By: _____
H. Greg Holcomb, Trustee

EDWARD R. HUDSON TRUST 2

By: _____
Edward R. Hudson, Jr., Trustee

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EDWARD R. HUDSON TRUST 3

By: _____
William A. Hudson, II, Trustee

JAVELINA PARTNERS

By: _____
E. Randall Hudson III, Managing Partner

ZORRO PARTNERS

By: _____
William A. Hudson, II, Managing Partner

IVERSON III, INC.

By: _____
Steve Iverson

THE P.I.P. 1990 TRUST

By: _____
Wendell W. Iverson, Trustee

S.J.I. JR. 1990 TRUST

By: _____
Wendell W. Iverson, Trustee

W.W.I. 1990 TRUST

By: _____
Wendell W. Iverson, Trustee

WILLIAM A. HUDSON, II

By: _____
William A. Hudson, II

MARY HUDSON ARD

By: _____
Mary Hudson Ard

EXHIBIT "A"

Attached to and made a part of that certain Joint Operating Agreement dated June 1, 2004, between Hudson Oil Company of Texas, as OPERATOR, and Marbob Energy Corporation et al, as NON-OPERATORS.

I. CONTRACT AREA:

Township 17 South, Range 31 East, N.M.P.M., Eddy County, New Mexico

Section 12: ALL
Section 13: ALL
Section 24: ALL
Section 25: ALL

II. DEPTH RESTRICTIONS:

All the acreage in the contract area only as to those depths below the stratigraphic equivalent of the base of the San Andres formation, identified at a depth of 4120 feet on the Compensated Neutron/Litho density log dated October 9, 1988 for the BTA Oil Producers 8809 JV-P Puckett #1 well; such well being located at 1880 feet from the north line and 1880 feet from the east line of Section 25, Township 17 South, Range 31 East, N.M.P.M., Eddy County, New Mexico.

III. NAME, WORKING INTEREST PERCENTAGES, AND ADDRESSES OF THE PARTIES FOR NOTICE PURPOSES:

	<u>Working Interest</u>
Marbob Energy Corporation P.O. Box 227 Artesia, New Mexico 88211-0227	21.06666670%
Delmar's Living Trust Diane Hanley, Trustee 6300 Ridglea Place, Suite 1005-A Fort Worth, TX 76116	16.25156250%
Lindy's Living Trust Francis H. Hudson, Trustee 6300 Ridglea Place, Suite 1005-A Fort Worth, TX 76116	16.25156250%
Edward R. Hudson Trust 4 Mary Hudson Ard, Trustee 222 W. 4th Street PH - 5 Fort Worth, TX 76102	10.50104162%
S.J. Iverson Trust H. Greg Holcomb, Trustee Bank of America NA Act. No. 01/0258100 P.O. Box 840738 Dallas, Texas 75284-0738	8.95312500%
Edward R. Hudson Trust 2 Edward R. Hudson, Jr., Trustee 616 Texas Street Fort Worth, Texas 76102	7.87578127%

Edward R. Hudson Trust 3 William A. Hudson, II, Trustee 616 Texas Street Fort Worth, Texas 76102	7.87578127%
Javelina Partners 616 Texas Street Fort Worth, Texas 76102	3.70468742%
Zorro Partners 616 Texas Street Fort Worth, Texas 76102	2.62526042%
Iverson III, Inc. Steve Iverson 3454 South Zunis Tulsa, Oklahoma 74105	.99479169%
The P.I.P. 1990 Trust Wendell W. Iverson, Trustee P.O. Box 10508 Midland, Texas 79702	.99479167%
S.J.I. Jr. 1990 Trust Wendell W. Iverson, Trustee P.O. Box 10508 Midland, Texas 79702	.99479167%
W.W.I. 1990 Trust Wendell W. Iverson, Trustee P.O. Box 10508 Midland, Texas 79702	.99479167%
William A. Hudson, II 616 Texas Street Fort Worth, Texas 76102	.58203120%
Mary Hudson Ard 222 W. 4th Street PH - 5 Fort Worth, TX 76102	.33333340%
	<hr/> 100.00000000%

IV. **OIL AND GAS LEASES SUBJECT TO THE AGREEMENT:**

Lease Number:	LC-029415A
Lessor:	United State of America
Description:	Township 17 South, Range 31 East Section 13: S/2S/2 Section 24: N/2, N/2S/2 Eddy County, New Mexico
Lease Number:	LC-029415B
Lessor:	United States of America
Description:	Township 17 South, Range 31 East Section 12: ALL Section 13: N/2, N/2S/2 Section 24: S/2S/2 Section 25: ALL

EXHIBIT “B”

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EXHIBIT "C"

Attached to and made a part of
that certain Operating Agreement by and between Hudson Oil Company of Texas, as Operator, and Marbob Energy Corporation, et al, as Non Operators dated June 1, 2004.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within ~~fifteen (15)~~ ^{Thirty (30)} days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank of America of Dallas, Texas on the first day of the month in which delinquency occurs plus 1% or the maximum 2%, or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

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5. Audits

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

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

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

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

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

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

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates, which shall include the salaries and wages of professional employees associated with the sale of gas and/or casinghead gas from any well located in the Contract Area.

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

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

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

4. Employee Benefits

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

5. **Material**

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

6. **Transportation**

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. **Services**

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

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

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed prime rate of interest in effect at Bank of America of Dallas, Texas, on the first day of the month in which usage occurs plus two percent (2 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

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

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

10. **Legal Expense**

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

11. **Taxes**

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,500 for a Morrow or deeper test or \$4,000 for all others.
(Prorated for less than a full month)

Producing Well Rate \$ 550 for a Morrow or deeper producer or \$400 for all others.

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

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

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

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

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

3. Catastrophe Overhead

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

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

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

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts: **Operator shall account for material purchases and transfers in accordance with COPAS Interpretation 23, or the pricing procedure most recently recommended by COPAS. See www.copas.org.**

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

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

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

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

2
3 (e) ~~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 (e) ~~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 ~~Operators actual cost~~
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 ~~Operators actual cost~~
58 ~~At | seventy five percent (75%) of current new price as determined by Paragraph A.~~

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

61
62 C. ~~Other Used Material~~

63
64 (1) ~~Condition C~~

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

(2) Condition D

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

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

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

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made at the expense of the party(s) causing such inventory to occur within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

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

3. Special Inventories

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

4. Expense of Conducting Inventories

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

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

EXHIBIT " D "

ADDITIONAL INSURANCE PROVISIONS

Attached to and made a part of that certain Joint Operating Agreement dated June 1, 2004 between, HUDSON OIL COMPANY OF TEXAS, as Operator, and MARBOB ENERGY CORPORATION, as Non-Operator(s).

1. OPERATOR shall, at all times while conducting operations hereunder, comply with all Workers' Compensation and Occupational Disease Laws including the United States Longshoremen's and Harbor Workers' Compensation Act; provided, however, that OPERATOR may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be OPERATOR'S actual cost but not exceeding an amount equivalent to the premium which would have been paid had such insurance been obtained.
2. No other insurance shall be carried by OPERATOR for the joint account unless agreed to by all the parties hereto.
3. OPERATOR shall require all contractors and subcontractors to carry such insurance in such amounts as OPERATOR deems adequate.
4. Each co-owner may procure such insurance with respect to the jointly owned properties and operations as it deems necessary to protect itself against claims and damages and all insurance policies shall be endorsed to provide that underwriters and insurance carriers of co-owner shall not have any right of subrogation against OPERATOR and other co-owners.

EXHIBIT " E "

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 1ST DAY OF JUNE 2004, BETWEEN HUDSON OIL COMPANY OF TEXAS, AS OPERATOR, AND MARBOB ENERGY CORPORATION, ET AL, AS NON-OPERATORS.

GAS BALANCING AGREEMENT

During the period or periods when any party hereto has no market for, or such party's purchaser is unable to take, or if any party fails to take its share of gas, the other parties shall be entitled to produce, take and deliver each month one hundred percent of the allowable gas production assigned to the unit area by the appropriate governmental entity having jurisdiction, and each of such parties shall be entitled to take its pro-rata share of such production. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interests, but each party taking such gas shall own all of the gas delivered to its purchaser.

Each party unable to market its full share of the gas produced shall be credited with underproduction equal to its share of the gas produced, less its share of gas taken or sold, used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto annual statements showing the total quantity of gas produced, taken or sold, used in lease operations, vented or lost, and the total quantity of condensate recovered. After seventy two (72) hours prior notice to Operator, any party may begin taking or delivering its share of the gas produced.

In addition to its share, each under produced party, until it has recovered its underproduction and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to twenty-five percent (25%) of each overproduced party's share of gas produced. If more than one party is entitled to take additional gas, they shall divide such additional gas in proportion to their unit participation.

It is recognized that the purpose of this Provision is to permit any party not marketing or taking its share of current gas production to defer its production from the reservoir and permit the other party or parties to pass clear title to all gas which is marketed or taken on a current basis. Therefore, in the event production of gas permanently ceases prior to the time that the accounts of the parties have been balanced, the complete balancing shall be made based upon the price actually received by each overproduced party for gas produced and sold in excess of its share, such gas being the last volumes produced from such well or wells.

Each party producing and taking gas shall pay any and all production taxes due on such gas. At all times while gas is produced from the contract area, each party hereto, while producing, taking or delivering any gas to a purchaser, shall pay or cause to be paid, all royalties due on the gas produced, taken or delivered to a purchaser. Such royalty payments shall be paid to all royalty owners in the well spaced unit of the well being produced and shall be for each royalty owner's proportionate share of the royalty due on the production.

If, after one (1) year from the date of first sales and on a quarterly basis thereafter, an out-of-balance condition exists because of any party's inability or failure to take or deliver its share of production, then at the election of either the over-balanced party or the under-balanced party, either may require a cash balancing. The price basis for a cash-balancing pursuant to terms of this paragraph shall be the lower of either the over-balanced party's or parties' average price received during the period for which the cash balancing covers or the under-balanced party's or parties' average gas purchase contract price for such period. In the event an under-balanced party does not have a gas purchase contract, the price basis shall be the average price received by the over-balanced party or parties. This option may be exercised quarterly by either party during the thirty day period immediately following the quarterly anniversary of the date of first sales of gas by the first party selling any gas from the well.

EXHIBIT " F "

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING
AGREEMENT DATED THE 1ST DAY OF JUNE, 2004, BETWEEN HUDSON OIL
COMPANY OF TEXAS, AS OPERATOR, AND MARBOB ENERGY CORPORATION,
ET AL, AS NON-OPERATORS.

NOTICE OF JOINT OPERATING AGREEMENT, LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT

STATE OF NEW MEXICO §
§
COUNTY OF EDDY §

WHEREAS, A Joint Operating Agreement dated June 1, 2004, has been entered into
between Hudson Oil Company of Texas, as Operator, and Marbob Energy Corporation, et al, as
Non-Operators, with respect to the exploration, development and operation of their Working
Interest and Mineral Interest, insofar as said interests pertain to the following described land
(hereinafter called "Contract Area") in Eddy County, New Mexico, to wit:

All of Sections 12, 13, 24 and 25, T-17-S, R-31-E
Eddy County, New Mexico

AND, WHEREAS the said Operating Agreement provides in part that the parties hereto
have granted certain liens and security interests in the above referenced property, fixtures and
production located thereon or produced therefrom, to wit:

"Liens and Payment Defaults"

"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 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 at a
rate provided in Exhibit "C" to the above referenced Operating Agreement. To the extent
that Operator has a security interest under the uniform Commercial Code of the 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 obtaining of judgment by Operator for the secured
indebtedness shall not be deemed as election of remedies or otherwise affect the lien rights
or security interest as security for the payment thereof. In addition, upon default by any
Non-Operator in the payment of its share of expense, Operator shall have the right,
without prejudice to other rights or remedies, to collect from the purchaser the proceeds
from 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 purchaser shall be entitled to rely upon
Operator's written statement concerning the amount of any default. Operator grants a
like lien and security interest to the Non-Operators to secure payment of Operator's
proportionate share of expense."

WHEREAS, it is the intent of the parties to give third parties notice of this instrument by
filing same in the records of Eddy County, New Mexico.

NOW, THEREFORE, the undersigned parties do hereby grant to each other those rights
described in said Agreement regarding liens priority and security interests upon the property
described above insofar as said parties' property is covered by the terms of the Joint Operating
Agreement outlined herein.

Operator and Non-Operator agree that a carbon, photograph or other reproduction of this
Notice shall be sufficient as a financing statement.

For the purpose of filing this Notice of Joint Operating Agreement Lien, Security Interests
and Financing Statement as a financing statement, the mailing address of secured parties and
debtor are set forth on the signature page attached hereto.

ATTENTION OF RECORDING OFFICE: This instrument gives notice of and grants liens and
security interests to both Operator and Non-Operators. Operator is both a secured party and a
debtor. Non-Operators are both a secured party and debtor. This notice, as a financing statement
should be indexed accordingly.

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -2-

The original of the Operating Agreement herein referenced, or a copy thereof, is maintained at Operators office at 616 Texas Street, Fort Worth, Texas 76102.

This instrument may be executed in multi-counterparts, no one of which need be executed by all parties hereto and the same shall be binding upon those parties, as well as their successors and assigns, who execute same, whether or not all named parties joint in execution hereof. Counterparts thus executed shall together constitute but one and the same instrument. In the interest of facilitating, filing or recording this instrument thus executed in multi-counterparts, each executing party hereby authorizes removal of signature and acknowledgement pages and reassembly of the same into a single document composed of one copy of the substantive portions of this instrument attached to multiple, separately executed signature and acknowledgement pages.

This Agreement shall be effective the 1st day of June, 2004.

OPERATOR

HUDSON OIL COMPANY OF TEXAS

**616 Texas Street
Fort Worth, Texas 76102**

By: _____
E. Randall Hudson III, Vice President

NON-OPERATORS

MARBOB ENERGY CORPORATION

**P.O. Box 227
Artesia, New Mexico 88211-0227**

By: _____
Johnny C. Gray, President

DELMAR'S LIVING TRUST

**6300 Ridglea Place, Suite 1005-A
Fort Worth, Texas 76116**

By: _____
Diane Hanley, Trustee

LINDY'S LIVING TRUST

**6300 Ridglea Place, Suite 1005-A
Fort Worth, Texas 76116**

By: _____
Francis H. Hudson, Trustee

EDWARD R. HUDSON TRUST 4

**616 Texas Street
Fort Worth, Texas 76102**

By: _____
Mary Hudson Ard, Trustee

S.J. IVERSON TRUST

**Bank of America
Account No. 01/0258100
P.O. Box 840738
Dallas, Texas 75284-0738**

By: _____
H. Greg Holcomb, Trustee

616 Texas Street
Fort Worth, Texas 76102

EDWARD R. HUDSON TRUST 2

By: _____
Edward R. Hudson, Jr., Trustee

616 Texas Street
Fort Worth, Texas 76102

EDWARD R. HUDSON TRUST 3

By: _____
William A. Hudson, II, Trustee

616 Texas Street
Fort Worth, Texas 76102

JAVELINA PARTNERS

By: _____
E. Randall Hudson III, Managing Partner

616 Texas Street
Fort Worth, Texas 76102

ZORRO PARTNERS

By: _____
William A. Hudson, II, Managing Partner

3454 South Zunis
Tulsa, Oklahoma 74105

IVERSON III, INC.,

By: _____
Steve Iverson

P.O. Box 10508
Midland, Texas 79702

THE P.I.P. 1990 TRUST

By: _____
Wendell W. Iverson, Trustee

P.O. Box 10508
Midland, Texas 79702

S.J.I. Jr. 1990 Trust

By: _____
Wendell W. Iverson, Trustee

P.O. Box 10508
Midland, Texas 79702

W.W.I. 1990 TRUST

By: _____
Wendell W. Iverson, Trustee

616 Texas Street
Fort Worth, Texas 76102

WILLIAM A. HUDSON, II

By: _____
William A. Hudson, II

222 W. 4th Street, PH-5
Fort Worth, Texas 76102

MARY HUDSON ARD

By: _____
Mary Hudson Ard

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -3-

STATE OF TEXAS §
§
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by E. RANDALL HUDSON III, as VICE PRESIDENT OF HUDSON OIL COMPANY OF TEXAS, a Texas CORPORATION, on behalf of said CORPORATION.

Suzanne E. Box – Notary Public

My Commission Expires:
May 20, 2006

STATE OF NEW MEXICO §
§
COUNTY OF _____ §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by JOHNNY C. GRAY as PRESIDENT of MARBOB ENERGY CORPORATION, a New Mexico _____ on behalf of said _____.

Notary Public State of New Mexico

My Commission Expires:

STATE OF TEXAS §
§
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by DIANE HANLEY as TRUSTEE of DELMAR'S LIVING TRUST, a Texas TRUST on behalf of said TRUST.

Notary Public State of Texas

My Commission Expires:

1 STATE OF TEXAS §
2 COUNTY OF TARRANT §
3
4

5 The foregoing instrument was acknowledged before me on this the ____ day of
6 _____, 2004, by FRANCIS H. HUDSON as TRUSTEE of LINDY'S LIVING
7 TRUST, a Texas TRUST on behalf of said TRUST.
8
9

10
11
12 _____
13 Notary Public State of Texas

14 My Commission Expires:
15 _____
16
17
18

19 STATE OF TEXAS §
20 COUNTY OF TARRANT §
21
22
23
24

25 The foregoing instrument was acknowledged before me on this the ____ day of
26 _____, 2004, by MARY HUDSON ARD as TRUSTEE of THE EDWARD R.
27 HUDSON TRUST 4, a Texas TRUST on behalf of said TRUST.
28
29
30

31
32 _____
33 Notary Public State of Texas

34 My Commission Expires:
35 _____
36
37
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39 STATE OF TEXAS §
40 COUNTY OF _____ §
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44 The foregoing instrument was acknowledged before me on this the ____ day of
45 _____, 2004, by H. GREG HOLCOMB as TRUSTEE of S.J. IVERSON
46 TRUST, a Texas TRUST on behalf of said TRUST.
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51 _____
52 Notary Public State of Texas

53 My Commission Expires:
54 _____
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58 STATE OF TEXAS §
59 COUNTY OF TARRANT §
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64 The foregoing instrument was acknowledged before me on this the ____ day of
65 _____, 2004, by EDWARD R. HUDSON, JR. as TRUSTEE of THE EDWARD
66 R. HUDSON TRUST 2, a Texas TRUST on behalf of said TRUST.
67
68
69

70 _____
Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006

STATE OF TEXAS §

COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by WILLIAM A. HUDSON, II as TRUSTEE of THE EDWARD R. HUDSON TRUST 3, a Texas TRUST on behalf of said TRUST.

Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006

STATE OF TEXAS §

COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by E. RANDALL HUDSON III as MANAGING PARTNER of JAVELINA PARTNERS, a Texas PARTNERSHIP on behalf of said PARTNERSHIP.

Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006

STATE OF TEXAS §

COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by WILLIAM A. HUDSON, II as MANAGING PARTNER of ZORRO PARTNERS, a Texas PARTNERSHIP on behalf of said PARTNERSHIP.

Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006

STATE OF OKLAHOMA §

COUNTY OF _____ §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by STEVE IVERSON as _____ of IVERSON III, INC. an Oklahoma _____ on behalf of said _____.

Notary Public State of Oklahoma

My Commission Expires:

1 STATE OF TEXAS §
2 §
3 COUNTY OF _____ §
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6 The foregoing instrument was acknowledged before me on this the _____ day of
7 _____, 2004, by WENDELL W. IVERSON as TRUSTEE of THE P.I.P. 1990
8 TRUST a Texas TRUST on behalf of said TRUST.
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12 _____
13 Notary Public State of Texas

14 My Commission Expires:
15 _____
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21 STATE OF TEXAS §
22 §
23 COUNTY OF _____ §
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26 The foregoing instrument was acknowledged before me on this the _____ day of
27 _____, 2004, by WENDELL W. IVERSON as TRUSTEE of S.J.I. JR. 1990
28 TRUST, a Texas TRUST on behalf of said TRUST.
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32 _____
33 Notary Public State of Texas

34 My Commission Expires:
35 _____
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41 STATE OF TEXAS §
42 §
43 COUNTY OF _____ §
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46 The foregoing instrument was acknowledged before me on this the _____ day of
47 _____, 2004, by WENDELL W. IVERSON as TRUSTEE of W.W.I. 1990
48 TRUST, a Texas TRUST on behalf of said TRUST.
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53 Notary Public State of Texas

54 My Commission Expires:
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1 STATE OF TEXAS §

2 COUNTY OF TARRANT §

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5 The foregoing instrument was acknowledged before me on this the ____ day of
6 _____, 2004, by WILLIAM A. HUDSON, II, individually, and known to me to
7 be the person whose name is subscribed to the foregoing instrument and acknowledged to me that
8 he executed the same for the purposes therein expressed and in the capacity therein stated.
9

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13 _____
14 Suzanne E. Box - Notary Public

15 My Commission Expires:
16 May 20, 2006
17
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19
20

21 STATE OF TEXAS §

22 COUNTY OF TARRANT §

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26
27 The foregoing instrument was acknowledged before me on this the ____ day of
28 _____, 2004, by MARY HUDSON ARD, individually, and known to me to be
29 the person whose name is subscribed to the foregoing instrument and acknowledged to me that she
30 executed the same for the purposes therein expressed and in the capacity therein stated.
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32
33
34 _____
35 Notary Public State of Texas
36

37 My Commission Expires:
38 _____
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marbob
energy corporation

July 19, 2004

Delmar's Living Trust
Diane Hanley, Trustee
6300 Ridglea Place, Suite 1005-A
Ft. Worth, Texas 76116

RE: Well Proposal
Knockabout Federal No. 1
1830' FSL – 1980' FWL
Section 12-17S-31E
Eddy County, New Mexico

Dear Ms. Hanley:

On June 8, 2004, we submitted a well proposal covering the referenced to each of you. To date, we have only received a few phone calls about this proposal, and no one, except for Marbob and the Hudson Oil Company interests, has signed the AFE and JOA or indicated another option that would be acceptable. We believe that this well should be drilled and, regardless of its success, we anticipate that additional wells will need to be drilled, too.

We have received a request for our best farmout offer. As a result, in addition to our previous offers, we hereby propose that we would be agreeable to farming in all or a portion of your interest under the following terms:

1. Farmout your interest in the Puckett Leases for a 180 day period, retaining a 5.0% override on the Puckett A Lease and a 12.5% override on the Puckett B Lease, proportionately reduced to your interest.
2. Option to convert your retained override to a 25% proportionately reduced working interest on a proration unit basis upon the payout of each proration unit.
3. A 180 day continuous development clause from the day total depth is reached in a proration unit to the spudding of a well on a separate proration unit.

4. Depth earned would be 100 feet below depth drilled for the proration unit as designated by OCD for a commercial well.
5. If you convert your override to a working interest, it would be subject to the JOA executed by Marbob Energy Corporation and naming Hudson Oil Company of Texas as Operator.
6. If you initially only farmout a portion of your interest, then as to subsequent well proposals on separate proration units, you could farmout more of your interest under the same terms, thereby allowing you to further reduce or eliminate your risk investment, but the reverse would not be allowed, meaning you could never add to or increase your initially retained participating working interest.

If this proposal is of interest to you, please advise us so we can have our attorney prepare a formal farmout agreement to be executed.

If we have not received responses from all of the parties by August 15, 2004, then we will request our attorney to begin a force pooling process. I hope we do not have to go that route, but we do want to drill the well this year and the lack of meaningful communication is not helping us achieve that goal.

Sincerely,



Raye Miller
Land Department

RM/mm

List of Working Interest Owners

Delmar's Living Trust
Diane Hanley, Trustee
6300 Ridglea Place, Suite 1005-A
Ft. Worth, Texas 76116

Lindy's Living Trust
Francis H. Hudson, Trustee
6300 Ridglea Place, Suite 1005-A
Ft. Worth, Texas 76116

Edward R. Hudson Trust 4
Mary Hudson Ard, Trustee
222 W. 4th St., PH - 5
Ft. Worth, Texas 76102

S. J. Iverson Trust
H. Greg Holcomb, Trustee
Bank of America NA
Account No. 01/0258100
Post Office Box 840738
Dallas, Texas 75284-0738

Edward R. Hudson Trust 2
Edward R. Hudson, Jr., Trustee
616 Texas Street
Ft. Worth, Texas 76102

Edward R. Hudson Trust 3
Edward R. Hudson, Jr., Trustee
616 Texas Street
Ft. Worth, Texas 76102

Javelina Partners
616 Texas Street
Ft. Worth, Texas 76102

Zorro Partners
616 Texas Street
Ft. Worth, Texas 76102

Iverson III, Inc.
Steve Iverson
3454 South Zunis
Tulsa, Oklahoma 74105

The P.I.P. 1990 Trust
Wendell W. Iverson, Trustee
Post Office Box 10508
Midland, Texas 79702

S. J. I. Jr. 1990 Trust
Wendell W. Iverson, Trustee
Post Office Box 10508
Midland, Texas 79702

W.W.I. 1990 Trust
Wendell W. Iverson, Trustee
Post Office Box 10508
Midland, Texas 79702

William A. Hudson, II
616 Texas Street
Ft. Worth, Texas 76102

Mary Hudson Ard
222 W. 4th Street PH-5
Ft. Worth, Texas 76102



marbob
energy corporation

July 26, 2004

Bank of America
Post Office Box 830308
Dallas, Texas 75283-0308

Attention: Mr. H. Greg Holcomb

**RE: Knockabout Federal J.O.A.
Sections 12, 13, 24, 25
T-17S, R-31E, N.M.P.M.
Eddy County, New Mexico**

Dear Mr. Holcomb:

I appreciate your letter of July 13, 2004, regarding the proposed Joint Operating Agreement covering the referenced.

I have discussed all ten of your proposed changes and additions with Hudson Oil Company, and in an effort to move this prospect forward, offer the following:

We will agree with the changes proposed in **1.** and **2.**

Regarding **3.**, as I discussed with you, the most recent Morrow JOA that we entered into as a non-operated partner contained a 500% non-consent penalty. One was with Yates Petroleum Corporation and the other with Chesapeake. In an effort to appear reasonable, we will agree to 400%.

We will agree to the changes proposed in **4.** and **5.** Personally, Marbob would have liked to retain **5.** to protect us from any future sale of Hudson Oil Company to another entity. We have had some very good results exercising preferential rights where we have had them, but I know a lot of companies that don't like them, so we'll agree to the change.

Regarding the changes proposed in **6.** through **10.**, Marbob does not agree with any of them. Items **6.** & **9.** pertain to our 'loss of interest' provision. If a shallow well is proposed, drilled, and completed as a commercial well under the JOA, any party who elected to non-consent the drilling of the well

forfeits their shallow rights not only in the proration unit for the well just drilled, but also in an adjacent proration unit. Shallow development is very expensive and based on existing knowledge appears to offer only marginal reserves and returns. If a party is willing to undertake this risk, they should not be burdened with non-consent payout statements forever and should be able to put at least two wells in the same battery facility. If you need more information on this, please contact me.

As for **7.** and **8.**, I see no reason for not having the JOA cover all of both leases as to all depths commonly owned by the parties. The ability to conduct prudent exploration of these leases while prices are favorable is being severely hindered by the absence of a JOA.

I certainly cannot agree with any of the changes in **10.** First, I do not like supplemental AFE provisions. Second, some of the Term Assignments we have acquired for this prospect contain continuous development provisions which would be almost impossible to comply with under the language you have proposed.

We believe we have made very good offers to the parties that have indicated they did not want to take on the financial risks associated with drilling on these leases, but are interested in seeing exploration proceed. I am surprised that given your fiduciary responsibility you are considering participating and taking on such risks, but you know your responsibilities better than I do.

Thank you for your help and please call me with any questions.

Sincerely,



Raye Miller
Land Department

RM/mm

cc: Iverson III, Inc.
Mary Hudson Ard
Wendell W. Iverson, Trustee



marbob
energy corporation

October 8, 2004

Edward R. Hudson Trust 4
Mary Hudson Ard, Trustee
222 West 4th St., PH - 5
Ft. Worth, Texas 76102

**RE: Knockabout Federal Well No. 1
1830' FSL – 1980' FWL
Section 12-17S-31E, N.M.P.M.
Eddy County, New Mexico**

Dear Ms. Ard:

Enclosed is a revised Joint Operating Agreement and original Authority for Expenditures for the above referenced well. If you are agreeable, please sign the extra copies and notarize if needed and return them to me. If we receive these before the end of the month we will dismiss you from the compulsory pooling hearing rescheduled for November 4, 2004. If you do not want to participate, please contact me to see if we can work out some other type of agreement.

If you have any questions, please contact me.

U.S. Postal Service TM		ACTION ON DELIVERY	
CERTIFIED MAILTM RECEIPT (Domestic Mail Only; No Insurance Coverage Provided)		<input type="checkbox"/> Agent <input type="checkbox"/> Addressee	
For delivery information, visit our website at www.usps.com		Signature: <i>[Signature]</i>	
OFFICIAL USE		C. Date of Delivery: <i>10-14-04</i>	
Postage	\$	different from item 1? <input type="checkbox"/> Yes	
Certified Fee		every address below: <input type="checkbox"/> No	
Return Receipt Fee (Endorsement Required)		<input type="checkbox"/> Express Mail	
Restricted Delivery Fee (Endorsement Required)		<input type="checkbox"/> Return Receipt for Merchandise	
Total Postage & Fees	\$ <i>1.00</i>	<input type="checkbox"/> C.O.D.	
Sent To: Edward R. Hudson Trust 4		y? (Extra Fee) <input type="checkbox"/> Yes	
Street, Apt. No., or PO Box No. 222 W. 4th St. PH-5		102595-02-M-1540	
City, State, ZIP+4 [®] Fort Worth, Texas 76102		PS Form 3800, June 2002 See Reverse for Instructions	

(505) 746-3303 • Fax (505) 746-2523

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

MODEL FORM OPERATING AGREEMENT

Knockabout Federal #1

OPERATING AGREEMENT

DATED

October 1 , 2004 ,
year

OPERATOR Hudson Oil Company of Texas

CONTRACT AREA Township 17 South, Range 31 East

Section 12: S/2

Depth Restrictions outlined on Exhibit "A" attached hereto.

COUNTY OR PARISH OF Eddy STATE OF New Mexico

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Hudson Oil Company of Texas, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

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

- (1) Identification of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

☒ F. Exhibit "F", ~~Non-Discrimination and Certification of Non-Segregated Facilities~~ Notice of Joint Operating Agreement Lie, Security Interests, and Financing Statement

☐ G. Exhibit "G", Tax Partnership.

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.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

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

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

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

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 31st day of December, (year) 2004, Operator shall commence the drilling of a well for oil and gas at the following location:

1830' FSL 1980' FWL, Section 12, T-17S, R-31E

and shall thereafter continue the drilling of the well with due diligence to

A depth sufficient in Operator's opinion to test the Morrow Formation

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

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

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.

6 **B. Subsequent Operations:**

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.

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 accor-
30 dance with the provisions hereof as if no prior proposal had been made.

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.

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.

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

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 / ~~sidetracking~~ or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom 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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10
11
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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19
20
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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26
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28 An election not to participate in the drilling / ~~sidetracking~~ 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.

36
37
38
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.

43
44
45
46 In the case of any reworking, plugging back / ~~sidetracking~~ 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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51
52
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, / ~~sidetracking~~ 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.

66 See Article XV for further provisions relating to Article VI.

ARTICLE VI
continued

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, ~~completing, sidetracking~~ deepening and plugging back of such initial well 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 production, ceases to produce in paying quantities.

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

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

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

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

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and 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 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party'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 instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

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

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~~ ^{market} 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 ~~a price negotiated in good faith by the Operator.~~ ~~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~~ ^{marketing} 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 ***See Below

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.

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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

56

57

58

59 ****Notwithstanding any provision to the contrary to this or any other agreement each party shall have the right at all times and from**
60 **time to time, upon written notice, to audit all of taking party and/or operator's records and accounts related to or in connection with**
61 **production or allocation of production from the contract area. Auditing of settlement records shall also be applicable if taking party**
62 **and/or operator distributes proceeds to the auditing party.**

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ARTICLE VI
continued

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

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from 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 request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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 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 at the rate provided in Exhibit “C”. To the extent that Operator has a security interest under the Uniform Commercial Code of the 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 obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from 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 purchaser shall be entitled to rely upon Operator’s written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator’s proportionate share of expense.

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

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-five thousand Dollars (\$ 25,000.00)
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 fifteen thousand
28 Dollars (\$ 15,000.00) 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.

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

14

15

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**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. **This paragraph shall not be applicable to the**
8 **contribution of acreage by purchase, farmout, or term assignment, to the Initial, Substitute, or Option Test Well(s).**

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

16
17 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
18 and shall be made without prejudice to the right of the other parties.

19
20 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
21 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
22 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
23 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
24 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
25 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

26
27 **E. Waiver of Rights to Partition:**

28
29 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
30 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
31 interest therein.

32
33 **F. Preferential Right to Purchase:**

34
35 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~
36 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~
37 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~
38 ~~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~~
39 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~
40 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~
41 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~
42 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~
43 ~~pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

44
45 **ARTICLE IX.**
46
47 **INTERNAL REVENUE CODE ELECTION**
48
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.

**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 fifteen thousand Dollars (\$ 15,000.00) 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 _____ 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 _____ 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

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

A. Priority of Operations

Notwithstanding anything herein to the contrary, it is agreed that when a well drilled under the terms of this Agreement shall have been drilled to the objective formation or depth and the parties participating in the well cannot mutually agree upon the sequence and timing of further operations regarding said well, the proposals shall be considered in the following order:

1. A proposal to attempt to complete the well at either the objective depth or objective formation, including the testing and logging of such well at such depth;
2. A proposal to plug back and attempt to complete said well above the objective formation (if there is more than one proposal to plug back, the proposals will be considered in ascending order);
3. A proposal to deepen said well in order to attempt a completion below the objective formation (if there is more than one proposal to deepen, the proposals shall be considered in descending order);
4. A proposal to sidetrack the well; and
5. A proposal to plug and abandon the well.

1 B. Notwithstanding any language under Article VI.B. to the contrary, in any well in which a completion attempt may be made at
2 more than one depth, each party who participated in the initial operations hereto shall have the right to make a separate election
3 as to each interval in which a completion is proposed. Should a party hereto elect not to participate in a completion attempt as
4 to any one interval, then those parties who elect to participate in the completion attempt as to that interval, shall, in the
5 proportions they have elected to bear, share all costs, risks and expenses of such completion attempt. Any recoupment of said
6 expenses shall be made solely from the production attributable to that interval.

7 Notwithstanding any provisions to the contrary in this or any other agreement, a Non-Consenting Party, upon notice in the
8 writing to Operator, and/or any party carrying all or part of the non-consenting interest shall have the right at all times and
9 from time to time within two (2) years of the date if received notice that payout has occurred, to audit Operator's and/or
10 carrying party's accounts and record relating to or connected with its operations on the Contract Area or on land pooled
11 therewith, regardless of when such operations were conducted.

12 C. Any party creating the necessity for separate measurement facilities shall alone bear all costs of such facilities. Any party using
13 separate production measurement facilities shall keep accurate records of such production in accordance with applicable state
14 and federal regulations, and upon Operator's request, under the terms of this agreement or any agreement executed in
15 conjunction with this agreement, true and complete copies of said records shall be furnished to Operator. Said production
16 records supplied to the Operator shall be treated as confidential information and shall be used by Operator only to the extent
17 necessary to fulfill its duties as Operator.

18 D. All costs and expenses including fees and expenses of attorneys and consultants incurred by Operator in the even Operator must
19 represent the Contract Area in non-standard locations and/or other regulatory matters herein shall be borne by all parties in
20 accordance with their respective interests as set forth in Exhibit "A" attached hereto and made a part hereof.

21 E. The parties hereto agree to execute a Notice of Joint Operating Agreement Lien in the form of Exhibit "F" to this agreement in
22 order to permit perfection of the hereinabove described security interests by placing said NOTICE of record in the county in
23 which the Contract Area is located and in accordance with the Uniform Commercial Code of the State in which the Contract
24 Area is located.

25 F. Operator shall comply where applicable with the following clauses contained in 41 CFR:

28	60-1.4(a)	(Equal Employment Opportunity);
29	1-12.803-10	(Certification of Non-Segregated Facilities);
30	60-250	(Employment Opportunity for Veterans);
31	60-741	(Employment Opportunity for Handicapped Individuals);
32	1-1.710	(Subcontracting With Small Business Concerns);
33	1-1.805	(Subcontracting With Labor Surplus Area Concerns);
34	1.1.1310	(Subcontracting With Minority Business Enterprises);
35	1.1.2302-2	(Environmental Protection).

36 These clauses are incorporated herein by reference if and to the extent applicable to this contract by law, executive order, or
37 regulation. Operator represents that he is in compliance with the reporting requirements of 41 CFR 60-1.7 and the Affirmative
38 Action Program requirements of 41 CFR 60-1.40 and 60-2.

39 G. The parties hereby acknowledge that the contract area for this Operating Agreement is limited to those depths shown in Exhibit
40 A II. Any operations within the Contract Area that involve the evaluation and/or testing in those formations outside the
41 contract depths shall be at the sole expense of the parties requesting such test. The wellbore of any well drilled under the terms
42 and provisions of this Operating Agreement shall be owned by the parties participating in the drilling of such well. In the event
43 any party desires to complete an abandoned well drilled under this agreement for any other purpose all the participating parties
44 must consent to that use.

45 H. Drilling Well Information – Notwithstanding anything to the contrary in this agreement, Operator shall provide all participating
46 Non-Operators with timely daily drilling reports, well logs, mud logs, testing information obtained by Operator during the
47 drilling of such well, and shall make available samples of any core or cuttings. Operator shall also provide all Non-Operators,
48 whether or not they participate, all regulatory filings.

49 I. Completed Well Information – Notwithstanding to the contrary in this agreement, Operator shall supply all participating Non-
50 Operators with timely daily production reports for a period of thirty days from the date of first production from each well.
51 Operator shall also provide all Non-Operators, whether or not they participate, copies of the monthly C-115 if so requested.

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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 1st day of October, (year) 2004.

Hudson Oil Company of Texas, 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

ATTEST OR WITNESS: HUDSON OIL COMPANY OF TEXAS

By: E. Randall Hudson, III, Vice President

NON-OPERATORS

MARBOB ENERGY CORPORATION

By: Raye Miller
Raye Miller, Attorney-in-Fact

YATES PETROLEUM CORPORATION

By: _____

EDWARD R. HUDSON TRUST 4

By: Mary Hudson Ard, Trustee

S.J. IVERSON TRUST

By: H. Greg Holcomb, Trustee

EDWARD R. HUDSON TRUST 2

By: Edward R. Hudson, Jr., Trustee

EDWARD R. HUDSON TRUST 3

By: William A. Hudson, II, Trustee

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JAVELINA PARTNERS

By: E. Randall Hudson III, Managing Partner

ZORRO PARTNERS

By: William A. Hudson, II, Managing Partner

IVERSON III, INC.

By: Steve Iverson

THE P.I.P. 1990 TRUST

By: Wendell W. Iverson, Trustee

S.J.I. JR. 1990 TRUST

By: Wendell W. Iverson, Trustee

W.W.I. 1990 TRUST

By: Wendell W. Iverson, Trustee

WILLIAM A. HUDSON, II

By: William A. Hudson, II

MARY HUDSON ARD

By: Mary Hudson Ard

EXHIBIT "A"

Attached to and made a part of that certain Joint Operating Agreement dated October 1, 2004, between Hudson Oil Company of Texas, as OPERATORS, and Marbob Energy Corporation et al, as NON-OPERATORS.

I. CONTRACT AREA:

Township 17 South, Range 31 East, N.M.P.M., Eddy County, New Mexico

Section 12: S/2

II. DEPTH RESTRICTIONS:

Acreage in the contract area only as to those depths below the stratigraphic equivalent of the base of the San Andres formation, identified at a depth of 4230 feet on the Compensated Neutron /Litho density log dated October 9, 1988 for the BTA Oil Producers 8809 JV-P Puckett #1 well; such well being located at 1880 feet from the north line and 1880 feet from the east line of Section 25, Township 17 South, Range 31 East, N.M.P.M., Eddy County, New Mexico, to the base of the Morrow formation.

III. NAME, WORKING INTEREST PERCENTAGES, AND ADDRESSES OF THE PARTIES FOR NOTICE PURPOSES:

	<u>Working Interest</u>
Marbob Energy Corporation P.O. Box 227 Artesia, New Mexico 88211-0227	21.06666670%
Yates Petroleum Corporation 105 South Fourth Street Artesia, New Mexico 88210	32.50312500%
Edward R. Hudson Trust 4 Mary Hudson Ard, Trustee 222 W. 4 th Street PH-5 Fort Worth, Texas 76102	10.50104162%
S.J. Iverson Trust H. Greg Holcomb, Trustee Bank of America NA Act. No. 01/0258100 P.O. Box 840738 Dallas, Texas 75284-0738	8.95312500%
Edward R. Hudson Trust 2 Edward R. Hudson, Jr., Trustee 616 Texas Street Fort Worth, Texas 76102	7.87578127%
Edward R. Hudson Trust 3 Edward R. Hudson, Jr., Trustee 616 Texas Street Fort Worth, Texas 76102	7.87578127%
Javelina Partners 616 Texas Street Fort Worth, Texas 76102	3.70468742%

Zorro Partners 616 Texas Street Fort Worth, Texas 76102	2.62526042%
Iverson III, Inc. Steve Iverson 3454 South Zuni Tulsa, Oklahoma 74105	.99479169%
The P.I.P. 1990 Trust Wendell W. Iverson, Trustee P.O. Box 10508 Midland, Texas 79702	.99479167%
S.J.I. Jr. 1990 Trust Wendell W. Iverson, Trustee P.O. Box 10508 Midland, Texas 79702	.99479167%
W.W.I. 1990 Trust Wendell W. Iverson, Trustee P.O. Box 10508 Midland, Texas 79702	.99479167%
William A. Hudson, II 616 Texas Street Fort Worth, Texas 76102	.58203120%
Mary Hudson Ard 222 W. 4 th Street PH-5 Fort Worth, Texas 76102	.33333340%

IV. OIL AND GAS LEASES SUBJECT TO THE AGREEMENT:

Lease Number:	LC-029415B
Lessor:	United States of America
Description:	Township 17 South, Range 31 East Section 12: S/2 Eddy County, New Mexico

EXHIBIT "B"

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EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement by and between Hudson Oil Company of Texas,
as Operator, and Marbob Energy Corporation, et al, as Non Operators dated October 1, 2004

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within ~~fifteen (15)~~ ^{thirty (30)} days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank of America of Dallas, TX on the first day of the month in which delinquency occurs ~~plus 1% / or the maximum 2%~~ ^{or the maximum 2%} permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

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5. **Audits**

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

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

6. **Approval By Non-Operators**

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Ecological and Environmental**

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

2. **Rentals and Royalties**

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

3. **Labor**

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

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

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

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation or the Joint Property if such charges are excluded from the overhead rates, **which shall include the salaries and wages of professional employees associated with the sale of gas and/or casinghead gas from any well located in the Contract Area.**

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

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

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

4. **Employee Benefits**

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

5. **Material**

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

6. **Transportation**

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. **Services**

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

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

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed prime rate of interest in effect at Bank of America of Dallas, Texas, on the first day of the month in which usage occurs plus two percent (2%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

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

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

10. **Legal Expense**

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

11. **Taxes**

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,500 for a Morrow or deeper test or \$4,000 for all others
(Prorated for less than a full month)

Producing Well Rate \$ 550 for a Morrow or deeper producer or \$400 for all others

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

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no

charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

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

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached by the percent increase or decrease published by COPAS.

~~B. Overhead - Percentage Basis~~

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

~~(a) Development~~

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

~~(b) Operating~~

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$_____:

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

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

3. Catastrophe Overhead

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

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

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

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts: **Operator shall account for material purchases and transfers in accordance with COPAS Interpretation 23, or the pricing procedure most recently recommended by COPAS. See www.copas.org.**

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- ~~(a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.~~
- ~~(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.~~
- ~~(c) Special end finish tubular goods shall be priced at the lowest published out of stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.~~
- ~~(d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out of stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.~~

(2) Line Pipe

(a) ~~Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.~~

(b) ~~Line Pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus the percent most recently recommended by COPAS, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.~~

(c) ~~Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.~~

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

Operator's actual cost
~~At / seventy-five percent (75%) of current new price, as determined by Paragraph A.~~

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

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

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

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

Operator's actual cost
~~At / seventy-five percent (75%) of current new price as determined by Paragraph A.~~

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

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

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

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of ~~a physical inventory~~ **at the expense of the party(s) causing such inventory to occur** shall be made / within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

4. Expense of Conducting Inventories

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

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

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated October 1, 2004, between **HUDSON OIL COMPANY OF TEXAS**, as Operator, and **MARBOB ENERGY CORPORATION**, et al, as Non-Operators.

1. **OPERATOR** shall, at all times while conducting operations hereunder, comply with all Workers' Compensation and Occupational Disease Laws including the United States Longshoremen's and Harbor Workers' Compensation Act; provided, however, that **OPERATOR** may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be **OPERATOR'S** actual cost but not exceeding an amount equivalent to the premium which would have been paid had such insurance been obtained.
2. No other insurance shall be carried by **OPERATOR** for the joint account unless agreed to by all the parties hereto.
3. **OPERATOR** shall require all contractors and subcontractors to carry such insurance in such amounts as **OPERATOR** deems adequate.
4. Each co-owner may procure such insurance with respect to the jointly owned properties and operations as it deems necessary to protect itself against claims and damages and all insurance policies shall be endorsed to provide that underwriters and insurance carriers of co-owner shall not have any right of subrogation against **OPERATOR** and other co-owners.

EXHIBIT " E "

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 1ST DAY OF OCTOBER 2004, BETWEEN HUDSON OIL COMPANY OF TEXAS, AS OPERATOR, AND MARBOB ENERGY CORPORATION, ET AL, AS NON-OPERATORS.

GAS BALANCING AGREEMENT

During the period or periods when any party hereto has no market for, or such party's purchaser is unable to take, or if any party fails to take its share of gas, the other parties shall be entitled to produce, take and deliver each month one hundred percent of the allowable gas production assigned to the unit area by the appropriate governmental entity having jurisdiction, and each of such parties shall be entitled to take its pro-rata share of such production. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interests, but each party taking such gas shall own all of the gas delivered to its purchaser.

Each party unable to market its full share of the gas produced shall be credited with underproduction equal to its share of the gas produced, less its share of gas taken or sold, used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto annual statements showing the total quantity of gas produced, taken or sold, used in lease operations, vented or lost, and the total quantity of condensate recovered. After seventy two (72) hours prior notice to Operator, any party may begin taking or delivering its share of the gas produced.

In addition to its share, each under produced party, until it has recovered its underproduction and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to twenty-five percent (25%) of each overproduced party's share of gas produced. If more than one party is entitled to take additional gas, they shall divide such additional gas in proportion to their unit participation.

It is recognized that the purpose of this Provision is to permit any party not marketing or taking its share of current gas production to defer its production from the reservoir and permit the other party or parties to pass clear title to all gas which is marketed or taken on a current basis. Therefore, in the event production of gas permanently ceases prior to the time that the accounts of the parties have been balanced, the complete balancing shall be made based upon the price actually received by each overproduced party for gas produced and sold in excess of its share, such gas being the last volumes produced from such well or wells.

Each party producing and taking gas shall pay any and all production taxes due on such gas. At all times while gas is produced from the contract area, each party hereto, while producing, taking or delivering any gas to a purchaser, shall pay or cause to be paid, all royalties due on the gas produced, taken or delivered to a purchaser. Such royalty payments shall be paid to all royalty owners in the well spaced unit of the well being produced and shall be for each royalty owner's proportionate share of the royalty due on the production.

If, after one (1) year from the date of first sales and on a quarterly basis thereafter, an out-of-balance condition exists because of any party's inability or failure to take or deliver its share of production, then at the election of either the over-balanced party or the under-balanced party, either may require a cash balancing. The price basis for a cash-balancing pursuant to terms of this paragraph shall be the lower of either the over-balanced party's or parties' average price received during the period for which the cash balancing covers or the under-balanced party's or parties' average gas purchase contract price for such period. In the event an under-balanced party does not have a gas purchase contract, the price basis shall be the average price received by the over-balanced party or parties. This option may be exercised quarterly by either party during the thirty day period immediately following the quarterly anniversary of the date of first sales of gas by the first party selling any gas from the well.

EXHIBIT " F "

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT
DATED THE 1ST DAY OF OCTOBER, 2004, BETWEEN HUDSON OIL COMPANY OF
TEXAS, AS OPERATOR, AND MARBOB ENERGY CORPORATION, ET AL, AS NON-
OPERATORS.

NOTICE OF JOINT OPERATING AGREEMENT, LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT

STATE OF NEW MEXICO §
 §
COUNTY OF EDDY §

WHEREAS, A Joint Operating Agreement dated October 1, 2004, has been entered into between
Hudson Oil Company of Texas, as Operator, and Marbob Energy Corporation, et al, as Non-Operators,
with respect to the exploration, development and operation of their Working Interest and Mineral Interest,
insofar as said interests pertain to the following described land (hereinafter called "Contract Area") in
Eddy County, New Mexico, to wit:

S/2 of Section 12, T-17-S, R-31-E
Eddy County, New Mexico

AND, WHEREAS the said Operating Agreement provides in part that the parties hereto have
granted certain liens and security interests in the above referenced property, fixtures and production
located thereon or produced therefrom, to wit:

"Liens and Payment Defaults"

"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 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 at a rate provided in Exhibit
"C" to the above referenced Operating Agreement. To the extent that Operator has a security
interest under the uniform Commercial Code of the 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 obtaining of
judgment by Operator for the secured indebtedness shall not be deemed as election of remedies or
otherwise affect the lien rights or security interest as security for the payment thereof. In
addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall
have the right, without prejudice to other rights or remedies, to collect from the purchaser the
proceeds from 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 purchaser shall be entitled to rely upon
Operator's written statement concerning the amount of any default. Operator grants a like lien
and security interest to the Non-Operators to secure payment of Operator's proportionate share of
expense."

WHEREAS, it is the intent of the parties to give third parties notice of this instrument by filing
same in the records of Eddy County, New Mexico.

NOW, THEREFORE, the undersigned parties do hereby grant to each other those rights
described in said Agreement regarding liens priority and security interests upon the property described
above insofar as said parties' property is covered by the terms of the Joint Operating Agreement outlined
herein.

Operator and Non-Operator agree that a carbon, photograph or other reproduction of this Notice
shall be sufficient as a financing statement.

For the purpose of filing this Notice of Joint Operating Agreement Lien, Security Interests and
Financing Statement as a financing statement, the mailing address of secured parties and debtor are set
forth on the signature page attached hereto.

ATTENTION OF RECORDING OFFICE: This instrument gives notice of and grants liens and security
interests to both Operator and Non-Operators. Operator is both a secured party and a debtor. Non-
Operators are both a secured party and debtor. This notice, as a financing statement should be indexed
accordingly.

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -2-

The original of the Operating Agreement herein referenced, or a copy thereof, is maintained at Operators office at 616 Texas Street, Fort Worth, Texas 76102.

This instrument may be executed in multi-counterparts, no one of which need be executed by all parties hereto and the same shall be binding upon those parties, as well as their successors and assigns, who execute same, whether or not all named parties joint in execution hereof. Counterparts thus executed shall together constitute but one and the same instrument. In the interest of facilitating, filing or recording this instrument thus executed in multi-counterparts, each executing party hereby authorizes removal of signature and acknowledgement pages and reassembly of the same into a single document composed of one copy of the substantive portions of this instrument attached to multiple, separately executed signature and acknowledgement pages.

This Agreement shall be effective the 1st day of October, 2004.

OPERATOR

HUDSON OIL COMPANY OF TEXAS

616 Texas Street
Fort Worth, Texas 76102

By: _____
E. Randall Hudson III, Vice President

NON-OPERATORS

MARBOB ENERGY CORPORATION

P.O. Box 227
Artesia, New Mexico 88211-0227

By: Raye Miller
Raye Miller, Attorney-in-Fact

YATES PETROLEUM CORPORATION

105 South Fourth Street
Artesia, New Mexico 88210

By: _____
Its: _____

EDWARD R. HUDSON TRUST 4

616 Texas Street
Fort Worth, Texas 76102

By: _____
Mary Hudson Ard, Trustee

S.J. IVERSON TRUST

Bank of America
Account No. 01/0258100
P.O. Box 840738
Dallas, Texas 75284-0738

By: _____
H. Greg Holcomb, Trustee

EDWARD R. HUDSON TRUST 2

616 Texas Street
Fort Worth, Texas 76102

By: _____
Edward R. Hudson, Jr., Trustee

EDWARD R. HUDSON TRUST 3

616 Texas Street
Fort Worth, Texas 76102

By: _____
William A. Hudson, II, Trustee

EXHIBIT "F"

NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -3-

JAVELINA PARTNERS

616 Texas Street
Fort Worth, Texas 76102

By: _____
E. Randall Hudson III, Managing Partner

ZORRO PARTNERS

616 Texas Street
Fort Worth, Texas 76102

By: _____
William A. Hudson, II, Managing Partner

IVERSON III, INC.

3454 South Zuni
Tulsa, Oklahoma 74105

By: _____
Steve Iverson

THE P.I.P. 1990 TRUST

P.O. Box 10508
Midland, Texas 79702

By: _____
Wendell W. Iverson, Trustee

S.J.I. JR. 1990 TRUST

P.O. Box 10508
Midland, Texas 79702

By: _____
Wendell W. Iverson, Trustee

W.W.I. 1990 TRUST

P.O. Box 10508
Midland, Texas 79702

By: _____
Wendell W. Iverson, Trustee

WILLIAM A. HUDSON, II

616 Texas Street
Fort Worth, Texas 76102

By: _____
William A. Hudson, II

MARY HUDSON ARD

222 W. 4th Street, PH-5
Fort Worth, Texas 76102

By: _____
Mary Hudson Ard

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -4-

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by E. RANDALL HUDSON III, as VICE PRESIDENT OF HUDSON OIL COMPANY OF TEXAS, a Texas CORPORATION, on behalf of said CORPORATION.

Suzanne E. Box – Notary Public

My Commission Expires:
May 20, 2006

STATE OF NEW MEXICO §
 §
COUNTY OF Eddy §

The foregoing instrument was acknowledged before me on this the 8th day of October, 2004, by RAYE MILLER as ATTORNEY-IN-FACT of MARBOB ENERGY CORPORATION, a New Mexico corporation on behalf of said corporation



OFFICIAL SEAL
Melanie J. Parker
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: Oct 26, 2004

Melanie J. Parker
Notary Public State of New Mexico

STATE OF NEW MEXICO §
 §
COUNTY OF EDDY §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by _____ as _____ of YATES PETROLEUM CORPORATION on behalf of said corporation.

Notary Public State of New Mexico

My Commission Expires:

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -5-

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of
_____, 2004, by MARY HUDSON ARD as TRUSTEE of THE EDWARD R.
HUDSON TRUST 4, a Texas TRUST on behalf of said TRUST.

Notary Public State of Texas

My Commission Expires:

STATE OF TEXAS §
 §
COUNTY OF _____ §

The foregoing instrument was acknowledged before me on this the ____ day of
_____, 2004, by H. GREG HOLCOMB as TRUSTEE of S.J. IVERSON TRUST, a
Texas TRUST on behalf of said TRUST.

Notary Public State of Texas

My Commission Expires:

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of
_____, 2004, by EDWARD R. HUDSON, JR. as TRUSTEE of THE EDWARD R.
HUDSON TRUST 2, a Texas TRUST on behalf of said TRUST.

Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -6-

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by WILLIAM A. HUDSON, II as TRUSTEE of THE EDWARD R. HUDSON TRUST 3, a Texas TRUST on behalf of said TRUST.

Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by E. RANDALL HUDSON III as MANAGING PARTNER of JAVELINA PARTNERS, a Texas PARTNERSHIP on behalf of said PARTNERSHIP.

Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2004, by WILLIAM A. HUDSON, II as MANAGING PARTNER of ZORRO PARTNERS, a Texas PARTNERSHIP on behalf of said PARTNERSHIP.

Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -7-

STATE OF OKLAHOMA §
 §
COUNTY OF _____§

The foregoing instrument was acknowledged before me on this the _____ day of _____, 2004, by STEVE IVERSON as _____ of IVERSON III, INC. an Oklahoma _____ on behalf of said _____.

Notary Public State of Oklahoma

My Commission Expires:

STATE OF TEXAS §
 §
COUNTY OF _____§

The foregoing instrument was acknowledged before me on this the _____ day of _____, 2004, by WENDELL W. IVERSON as TRUSTEE of THE P.I.P. 1990 TRUST a Texas TRUST on behalf of said TRUST.

Notary Public State of Texas

My Commission Expires:

STATE OF TEXAS §
 §
COUNTY OF _____§

The foregoing instrument was acknowledged before me on this the _____ day of _____, 2004, by WENDELL W. IVERSON as TRUSTEE of S.J.I. JR. 1990 TRUST, a Texas TRUST on behalf of said TRUST.

Notary Public State of Texas

My Commission Expires:

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6 STATE OF TEXAS §
7 §
8 COUNTY OF _____ §
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11 The foregoing instrument was acknowledged before me on this the _____ day of
12 _____, 2004, by WENDELL W. IVERSON as TRUSTEE of W.W.I. 1990
13 TRUST, a Texas TRUST on behalf of said TRUST.
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18 _____
19 Notary Public State of Texas

20 My Commission Expires:
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25 STATE OF TEXAS §
26 §
27 COUNTY OF TARRANT §
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31 The foregoing instrument was acknowledged before me on this the _____ day of
32 _____, 2004, by WILLIAM A. HUDSON, II, individually, and known to me to be
33 the person whose name is subscribed to the foregoing instrument and acknowledged to me that he
34 executed the same for the purposes therein expressed and in the capacity therein stated.
35
36

37
38 _____
39 Suzanne E. Box - Notary Public

40 My Commission Expires:
41 May 20, 2006
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44

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46 STATE OF TEXAS §
47 §
48 COUNTY OF TARRANT §
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52 The foregoing instrument was acknowledged before me on this the _____ day of
53 _____, 2004, by MARY HUDSON ARD, individually, and known to me to be the
54 person whose name is subscribed to the foregoing instrument and acknowledged to me that she executed
55 the same for the purposes therein expressed and in the capacity therein stated.
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59 _____
60 Notary Public State of Texas

61 My Commission Expires:
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