United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
6251 College Blvd, Suite A
Farmington, New Mexico 87402

In Reply Refer To:
Venado Canyon Unit
NMNM135367X

December 14, 2015

Ms. Mona L. Binion
Encana Oil and Gas (USA) Inc.
370 17th Street, Suite 1700
Denver, Colorado 80202

Dear Ms. Binion:

The Venado Canyon Unit Agreement, Sandoval County, New Mexico was approved December 8, 2015. This agreement has been assigned case recordation number NMNM-135367X. The basic information associated with this unit is as follows:

1. This is an Undivided Unit and only the Mancos Formation is unitized.

2. This unit includes only Federal and Fee mineral interest

3. The leases committed to the Venado Canyon Unit will not be horizontally segregated.

4. The test and initial obligation well will be the Lybrook P03-2206-01H. The (SHL) will be in Federal lease NMNM-109386 in the SESE Section 3, T.22N., R.6W. The entry point will be in Federal lease NMNM-117562 in the NWNE of Section 10, T.22N., R.6W to ending point or (BHL) in Federal lease NMNM-117562 in the SWNE of section 15, T.22N., R.6W., Sandoval County, New Mexico.

5. The following are uncommitted lands within the Venado Canyon Unit:

    a. *NMNM109385 Lots 1-4, S1/2 N1/2 Section 1, T.22N., R.6W.
    b. *NMNM109390 S1/2 Section 24 , T.22N., R.6W.

6. The following Federal leases embrace lands within the Venado Canyon Unit:
    a. NMNM109385* HBP Actual
    b. NMNM117562 HBP Actual
    c. NMNM109385 HBP Actual
    d. NMNM109390* HBP Actual

*These leases contain lands both inside and outside the Venado Canyon Unit, and are subject to lease segregation provisions pursuant to 43CFR 3107.3-2, Segregation of leases commited in part.

The Venado Canyon Unit embraces 4,320.00 acres more or less, of which 4,160.00 acres is Federal mineral estate (96.296296%) and 160.00 acres is Fee lands (3.703704%). Encana USA is assured effective control over unit operations by conveyance of both the lessee of record and working interest owners. All lands embraced within the Venado Canyon Unit are fully committed.

In view of the foregoing commitment status, effective control of the unit area has been established. We are of the opinion that this agreement is in the public interest and for the purpose of more properly conserving natural resources.

This unit provides for drilling of the obligation well (Lybrook P03-2206-011I) and subsequent drilling obligations pursuant to Section 9 of the unit agreement and the Plan of Development. The obligation well is considered to be a contractual commitment on the part of the Unit Operator. No extension of time beyond May 14, 2016 will be granted to commence the obligation well other than Unavoidable Delay (Section 23), where justified. Any extension granted for unavoidable delay requires convincing written justification and documentation prior to the critical date and is limited to 30 days with possible renewal for 30 day periods if the delay is extensive, with timely written documentation for each extension. Two horizontal wells have already been drilled within the Unit and have been producing since March of 2015.

Pursuant to 43 CFR 3183.4(b) and Section 9 of the unit agreement, if the Public Interest Requirement is not fulfilled, the unit will be declared invalid, ab initio and no lease committed to this agreement shall receive the benefits of unititization pursuant to 43 CFR 3107.3-2 and 3107.4.

Approval of this agreement does not warrant or certify that the operator thereof and other holders of operating rights hold legal or equitable title to those rights in the subject leases which are committed hereto.

Copies of the agreement are being distributed to the appropriate Federal and State agencies. You are requested to furnish all interested parties with appropriate evidence of this approval.

See attached Conditons of Approval

Sincerely,

Dave Mankiewicz
Assistant Field Manager, Minerals

12/14/2015

cc: Commissioner of Public Lands, Santa Fe, NM
New Mexico Oil Conservation Division
Office of Natural Resources Revenue (ONRR)

Bcc: Venado Canyon Unit File
AFMSS/LR2000
NMF0111: 12/14/15

Venado Canyon Unit Approval Certification-Determination Page

CERTIFICATE-DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, Under the Act approved February 25, 1920, 41 Stat., 437as amended, 30 U.S.C. sec 181, et seq., and delegated to the Authorized Officer of the Bureau of Land Management, under the authority of 43 CFR 3180, I do hereby certify:

A. Approve the attached agreement for the development and operation of the West Lybrook Unit Area, San Juan County, New Mexico. This approval shall be considered invalid, ab initio if the public interest requirement under 3183.4(b) of this title is not met.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of all Federal leases committed to said Agreement are hereby established, altered, changed or revoked to conform with the terms and conditions of this agreement.

Dated: December 14, 2015

Dave Mankiewicz
Assistant Field Manager, Minerals
Bureau of Land Management

Contract No. 135367X

12/14/2015

Conditions of Approval – Venado Canyon Unit

Approval of Venado Canyon Unit is granted by the Authorized Officer subject to the following conditions:

Within 180 days from the approval date hereof, Encana Oil and Gas (USA) Inc. will submit to Authorized Officer an application for development of the following unleased Federal mineral tracts with Tribal Trust surface ("Offset Mineral Tracts") which are directly offsetting the boundary of the Venado Canyon Unit as approved herein:

Offset Mineral Tracts with Tribal Trust Surface

1) SE/4 section 15 and the adjoining NE/4 N/E of section 22
2) NE/4 section 23
3) NW/4 section 24 all in T22N, R6W

Within 60 days from receipt of the application for development of the Offset Mineral Tracts, Authorized Officer shall provide written approval or rejection of said application. If the application for development of the Offset Mineral Tracts is approved then the Venado Canyon Unit as approved herein shall remain in full force and effect. If the application for development of the Offset Mineral Tracts is not approved, then Authorized Officer shall have the option to terminate the Venado Canyon Unit.

It has been discussed and prearranged by Encana Oil and Gas that additional adjacent unleased Federal mineral tracts with Tribal Trust surface are to be included in other neighboring Federal Units so that all "Offset Mineral Tracts" located in T22N, R6W are included in proposed Encana units.

It is further recognized that these "Offset Mineral Tracts" and other adjacent Tribal Trust surface Federal mineral lands would have a no surface use development stipulation applied to them.

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

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:

CASE NO. 15337
ORDER NO. R-14067

APPLICATION OF ENCANA OIL AND GAS (USA) INC. FOR APPROVAL OF THE VENADO CANYON UNIT, SANDOVAL COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 25, 2015, at Santa Fe, New Mexico, before Examiner Michael McMillan.

NOW, on this 29th day of October, 2015, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) Encana Oil and Gas (USA) Inc. ("Applicant" or "Encana") seeks:

(a) Approval of the Venado Canyon Unit (the "Unit") comprising 4,320 acres, more or less, of Federal and Fee lands in Sandoval County, New Mexico; and

(b) Authority to drill horizontal wells within the Unit such that the completed interval is located no closer than 330 feet to the outer boundary of the Unit.

(3) The Unit comprises the following-described acreage located in Sandoval County, New Mexico:

TOWNSHIP 22 NORTH, RANGE 6 WEST, NMPM

Section 1:	S/2
Section 10:	NE/4 and S/2

Sections 11 through 14:	All
Section 15:	SW/4 and N/2
Section 23:	W/2
Section 24:	NE/4

(4) The Unitized Interval includes all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of the Mesa Verde Group) as defined at a depth of approximately 4330 feet below surface to the stratigraphic equivalent of the base of the Greenhorn Limestone as defined at a depth of approximately 6200 feet below surface as shown on the log run on the Tesoro Petroleum Corporation Double Ought Well No. 1 (API 30-043-20089) located in Section 12, Township 22 North, Range 6 West, NMPM, Sandoval County, New Mexico.

(5) The Unit will be developed and operated as a single Participating Area and will therefore constitute a single Project Area in accordance with Division Rule 19.15.16.7.L(2) NMAC.

(6) There are currently no existing Division-designated Gallup pools within the Unit, or within two miles of the Unit. The two active horizontal wells in the Unit are currently dedicated to the Lybrook-Gallup Oil Pool (pool code 42289) which is subject to Division Rule 19.15.15.9 NMAC, which requires standard 40-acre oil spacing and proration units with wells to be located no closer than 330 feet to the outer boundary of the spacing unit.

(7) Applicant appeared at the hearing through counsel and presented the following testimony:

(a) The Unit is comprised of three separate Federal leases and three separate Fee leases;

(b) All interests in the Unit are expected to be committed to the Unit;

(c) The Unit Agreement was prepared on the form prescribed by the Bureau of Land Management ("BLM"), but has been modified in two significant respects:

  (a) It applies only to horizontal oil wells in the Unitized Interval; and

  (b) The entire Unit is established as a single Participating Area.

(d) The Unit Agreement will be executed by the BLM;

(e) Applicant has discussed the Unit and the Unit development plans with the BLM. Following these discussions, the BLM issued a letter providing preliminary approval of the Unit;

(f) Applicant has provided notice of this application and hearing by certified mail to all working interest owners in the Unit;

(g) The Unit will be developed to produce oil from the Mancos formation;

(h) No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells;

(i) The available well control in the area demonstrates that the Unitized Interval identified in the type log is laterally contiguous across the entire Unit;

(j) Two horizontal wells have been drilled in the proposed Unit. The Encana Lybrook P03 2206 Wells No. 1H (API No. 30-043-21221) and 2H (API No. 30-043-21220), located at surface locations in Section 3 and bottomhole locations in Section 15, Township 22 North, Range 6 West, NMPM, were spud in November, 2014 and both commenced production in March, 2015; and

(k) The effective date of the proposed Unit as stated in the Venado Canyon Unit Agreement is November 1, 2014 which generally corresponds to the spud date of the Lybrook P03 2206 Well No. 1H.

The Division concludes as follows:

(8) The Applicant has provided proper and adequate notice of this application and hearing to the working interest owners in the Unit.

(9) The Unit Agreement provides that the entire Unit shall comprise a single Participating Area, consequently, the Unit constitutes a single horizontal Project Area for horizontal oil wells pursuant to Division Rule 19.15.16.7.L(2) NMAC.

(10) The geologic evidence presented demonstrates that the entire Unit should be productive within the Unitized Interval.

(11) Applicant intends to fully develop the Unit with a sufficient number of horizontal wells to drain the Unitized Interval within the entire Unit. To ensure full development of the Unit, the Unit Agreement contains provisions that: i) require continuous drilling until a well is drilled that is capable of producing in paying quantities, which has already occurred; and ii) require the Unit Operator, subsequent to drilling a well capable of producing in paying quantities, to submit an annual plan of development to the Authorized Officer of the Department of the Interior and the Division for approval.

(12) The correlative rights of all interest owners in the Unit will be protected provided that the Unit is ultimately fully developed in the Unitized Interval.

(13) Approval of the Unit will provide the Applicant the flexibility to locate and drill wells in the Unit in order to maximize the recovery of oil and gas from the Unitized Interval, thereby preventing waste, and will provide the Applicant the latitude to conduct operations in an effective and efficient manner within the Unit.

(14) The provisions contained within the Venado Canyon Unit Agreement are in compliance with Division rules and the Oil and Gas Act. Further, development and operation of the Unit Area, as proposed, complies with the Division's conservation principles.

(15) The Venado Canyon Unit should be approved.

(16) The Unit Operator should be required to submit a Division Form C-102 for each horizontal well drilled in the Unit that shows: i) the drilling block for that particular well (each standard-sized spacing unit penetrated by the well); and ii) the total acreage within the Unit and the Division order number approving the Unit.

(17) Applicant should submit a copy of the annual Venado Canyon Unit Plan of Development to the Division for review and approval.

(18) Wells subsequently drilled in the Venado Canyon Unit should be dedicated to the Lybrook-Gallup Pool, provided however, if a new pool for Mancos development is formed that encompasses the Venado Canyon Unit, the Lybrook-Gallup Pool will be contracted, and the wells in the Venado Canyon Unit incorporated into the new Gallup pool. In that event, the operator of the Venado Canyon Unit should be required to file the necessary forms with the Division to dedicate those wells to the new pool.

(19) The applicant's request for authority to drill horizontal wells within the Unit such that the completed interval is located no closer than 330 feet to the outer boundary of the Unit is not necessary since the wells will be classified within the Lybrook-Gallup Pool, which is currently spaced on 40 acres with 330 foot well setbacks.

(20) This application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The Venado Canyon Unit (the "Unit) consisting of 4,320 acres, more or less, of Federal and Fee lands in Sandoval County, New Mexico, is hereby approved.

(2) The Unit shall comprise the following-described acreage in Sandoval County, New Mexico:

TOWNSHIP 22 NORTH, RANGE 6 WEST, NMPM

Section 1:	S/2
Section 10:	NE/4 and S/2
Sections 11 through 14:	All
Section 15:	SW/4 and N/2

Section 23:	W/2
Section 24:	NE/4

(3) The Unitized Interval shall comprise all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of the Mesa Verde Group) as defined at a depth of approximately 4330 feet below surface to the stratigraphic equivalent of the base of the Greenhorn Limestone as defined at a depth of approximately 6200 feet below surface as shown on the log run on the Tesoro Petroleum Corporation Double Ought Well No. 1 (API 30-043-20089) located in Section 12, Township 22 North, Range 6 West, NMPM, Sandoval County, New Mexico.

(4) Subsequently drilled horizontal wells within the Unitized Interval in the Venado Canyon Unit shall be dedicated to the Lybrook-Gallup Pool, provided however, if a new pool for Mancos development is formed that encompasses the Venado Canyon Unit, the Lybrook-Gallup Pool will be contracted, and the wells in the Venado Canyon Unit shall be incorporated into the new Mancos pool. In that event, the operator of the Venado Canyon Unit shall file the necessary forms with the Division to dedicate those wells to the new pool.

(5) The Unit constitutes a single Project Area for horizontal oil well development pursuant to Division Rule 19.15.16.7.L(2) NMAC. Accordingly, Unit wells may be drilled anywhere within the Unit provided that no portion of the completed interval is closer than 330 feet to the outer boundary of the Unit unless otherwise approved by the Division pursuant to Division Rule 19.15.15.13 NMAC.

(6) Encana Oil and Gas (USA) Inc. (OGRID 282327), is hereby designated the operator of the Unit.

(7) The Unit Operator shall submit a Division Form C-102 for each horizontal well drilled in the Unit that shows: i) the drilling block for that particular well (each standard-sized spacing unit penetrated by the well); and ii) the total acreage within the Unit and the Division order number approving the Unit.

(8) The plan contained within the Venado Canyon Unit Agreement for the development and operation of the Unit is hereby approved in principle as a proper conservation measure, provided however, notwithstanding any of the provisions contained in the Unit Agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty or obligation which is now, or may hereafter be, vested in the Division to supervise and control operations for the Unit and production of oil and gas therefrom.

(9) The Unit operator shall file with the Division an executed original or executed counterpart of the Unit Agreement within 60 days of the date of this order. In the event of subsequent joinder by any other party, or expansion or contraction of the Unit Area, the Unit operator shall file with the Division, within 60 days thereafter, counterparts of the Unit Agreement reflecting the subscription of those interests having joined or ratified.

(10) All plans of development for the Venado Canyon Unit shall be submitted annually to the Division for review and approval.

(11) The Applicant shall provide to the Division a copy of the Bureau of Land Management's final approval of the Venado Canyon Unit.

(12) Division approval of the Venado Canyon Unit shall be effective on the first day of the month following entry of this order OR, the date in which final approval of the Venado Canyon Unit is obtained from the Bureau of Land Management, whichever is later.

(13) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director

FEDERAL / FEE
EXPLORATORY UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

VENADO CANYON UNIT

SANDOVAL COUNTY, NEW MEXICO

NO. NMNM-135367X

FEDERAL / FEE
EXPLORATORY UNIT
Form 2/10/2014

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

VENADO CANYON UNIT AREA

COUNTY OF SANDOVAL
STATE OF NEW MEXICO

NO. _____

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FEDERAL / FEE
EXPLORATORY UNITS

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

VENADO CANYON UNIT AREA

COUNTY OF SAN JUAN
STATE OF NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 1st day of November, 2014 ("Effective Date"), by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

THIS AGREEMENT, is limited in applicability to wells containing a lateral or laterals drilled, completed or recompleted so that horizontal component of the completion interval extends at least one thousand feet (1,000') in the objective formation ("Horizontal Well(s)"). All pre-existing and future vertical wells within the Unit boundary drilled and completed in the Mancos Shale Group (see 3. UNITIZED LAND AND UNITIZED SUBSTANCES) are excluded from this Agreement.

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other oil and gas interests in the unit area subject to this agreement; and

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

WHEREAS, the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division", is authorized by an act of the Legislature (Chapter 70 and 71, NM Statutes 1978 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the **Venado Canyon Unit Area** covering the land hereinafter described to give reasonably effective control of operations therein; and

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

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below-defined unit area, and agree severally among themselves as follows:

1. ENABLING ACT AND REGULATIONS. February 25, 1920, as amended, supra, and all valid pertinent regulations including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

2. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

See map attached hereto marked as Exhibit "A" is hereby designated and recognized as constituting the Unit Area containing, 4,320.00 acres more or less.

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A" and "B" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized officer, hereinafter referred to as "AO" and not less than four (4) copies of the revised Exhibits shall be filed with the proper Bureau of Land Management office and one (1) copy with the New Mexico Oil Conservation Division of the Energy and Minerals Department, hereinafter referred to as "Division.".

The above-described unit area shall, when practicable, be expanded to include therein any additional lands whenever such expansion is deemed to be necessary or advisable to conform with the purposes of this agreement. Such expansion shall be affected in the following manner:

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO), or on demand of the AO (after preliminary concurrence by the AO) shall prepare a Notice of Proposed Expansion describing the contemplated changes in the boundaries of the unit area, the reasons therefore, any plans for additional drilling, and the proposed effective date of the expansion, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the proper Bureau of Land Management office, and the Division, and copies thereof mailed to the last known address of each working interest owner, lessee and lessor whose interest are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the AO, and the Division, evidence of mailing of the Notice of Expansion and a copy of any objections thereto which have been filed with Unit Operator together with an application in triplicate, for approval of such expansion and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion shall, upon approval by the AO and the Division, become effective as of the date prescribed in the notice thereof or such other appropriate date.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land now or hereafter committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in the Mancos Shale Group, including genetically related rocks

from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone as shown in the DOUBLE OUGHT 1 Well (API #30043200890000) in Section 12, Township 22 North, Range 6 West, N.M.P.M. are unitized under the terms of this agreement and herein are called "unitized substances" (see type log attached as Exhibit "C").

4. UNIT OPERATOR. Encana Oil & Gas (USA) Inc., hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest only when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of unitized production or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after notice of intention to resign has been served by Unit Operator on all working interest owners and the AO and the Division, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO as to Federal lands, and the Division as to Fee lands unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time after a producing unit area established hereunder is in existence, but in all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than thirty (30) days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the AO. .

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, materials, and appurtenances used in conducting the unit operations to the newly qualified successor Unit Operator or to the common agent, if no such new Unit Operator is selected, elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator as negotiated by the working interest owners, the owners of the working interests according to their respective acreage interest in all unitized land shall, pursuant to the approval of the parties requirements of the unit operating agreement, select a successor Unit Operator. Such selection shall not become effective until:

(a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and

(b) the selection shall have been approved by the AO

If no successor Unit Operator is selected and qualified as herein provided, the AO at their election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed in the proper Bureau of Land Management office and one true copy with the Division prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. For the purposes of this Unit Agreement, the Encana Lybrook P03-2206-01H well with a surface location in the SESE of Section 3, Township 22 North, Range 6 West, N.M.P.M., and a 7,372 foot horizontal lateral in the Mancos Shale Group located in the W2E2 of Section 10 and the W2NE of Section 15, which Unit Operator commenced on November 14, 2014 and completed on January 16, 2015 shall hereby be approved by the AO as the obligation well necessary to validate this Unit Agreement (Initial Well). In addition, the Encana Lybrook P03-2206-02H well with a surface location in the SESE of Section 3, Township 22 North, Range 6 West, N.M.P.M, and a 7,369 foot horizontal lateral in the Mancos Shale Group located in the E2E2 of Section 10 and the E2NE of Section 15;is also an existing horizontal well located within the boundary of the Unit Agreement which was drilled and completed in the Unitized formation subsequent to the effective date of this Unit Agreement and subsequent to the completion of the Initial Well (Existing Well). Within six (6) months after final approval of this Unit Agreement, the Unit Operator shall submit a paying well determination report for the Initial Well to the AO to determine if the Initial Well can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit). If the Initial Well is not capable of producing in paying quantities, then, Unit Operator shall submit a paying well determination report to the AO for the Existing Well which commenced after the completion of the Initial Well. If paying well determination reports have been submitted for the Initial Well and all of the Existing Wells and none have proven to be capable of producing in paying quantities, then the Unit Operator shall continue drilling one well at a time,

allowing not more than one (1) year between the completion of one well and the commencement of drilling operations for the next well, the first of which shall commence within (1) year from non-paying determination by AO of the last Existing Well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO, if on Federal lands, or the Division if on Fee lands or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.
Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

The AO may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well as provided for in this section within the time allowed including any extension of time granted by the AO, this agreement will automatically terminate. Upon failure to continue drilling diligently any well commenced hereunder, the AO may, after fifteen (15) days notice to the Unit Operator, declare this unit agreement terminated. The parties to this agreement may not initiate a request to voluntarily terminate this agreement during the first six (6) months of its term unless at least one obligation well has been drilled in accordance with the provisions of this section. The failure to commence a well subsequent to the drilling of the initial obligation well, or in the case of multiple well requirements, if specified, subsequent to the drilling of those multiple wells, as provided for in this (these) section(s), within the time allowed including any extension of time granted by the AO shall cause this agreement to terminate automatically. Upon failure to continue drilling diligently any well other than the obligation well(s) commenced hereunder, the AO may, after 15 days notice to the Unit Operator, declare this unit agreement terminated. Failure to commence drilling the initial obligation well, or the first of multiple obligation wells, on time and to drill it diligently shall result in the unit agreement approval being declared invalid ab initio by the AO. In the case of multiple well requirements, failure to commence drilling the required multiple wells beyond the first well, and to drill them diligently, may result in the unit agreement approval being declared invalid ab initio by the AO.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within twelve (12) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the AO and the Division, an acceptable plan of development and operation for the unitized land which, when approved by the AO and the Division, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the AO and the Division, a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calendar year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

Any plan submitted pursuant to this section shall provide for the timely exploration of the unitized area, and for the diligent drilling necessary for determination of the area or areas capable of producing unitized substances in paying quantities. This plan shall be as complete and adequate as the AO and the Division, may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

(a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and

(b) provide a summary of operations and production for the previous year.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development and operation. The AO and the Division are authorized to grant a reasonable extension of the 12-month period herein prescribed for submission of an initial plan of development and on operation where such action is justified because of unusual conditions or circumstances.

After completion of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the AO and the Division shall be drilled except in accordance with an approved plan of development and operation.

11. ALLOCATION OF PRODUCTION. All unitized substances produced under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production or development purposes, or for repressuring or recycling in accordance with a plan of development and operations that has been approved by the AO, or unavoidably lost shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land, unleased Federal, if any. Each such tract shall have allocated to it such percentage of said production as the number of acres of such tract bears to the total acres of unitized land, unleased Federal, if any. There shall be allocated to the working interest owner(s) of each tract of unitized land, in addition, such percentage of the production attributable to the unleased Federal land within the unitized area as the number of acres of such unitized tract included in said unitized area bears to the total acres of unitized land in said unitized area, for the payment of the compensatory royalty specified in section 15 of this agreement. Allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, including compensatory royalty obligations under section 15, shall be prescribed as set forth in the unit operating agreement or as otherwise mutually agreed by the affected parties.

12. ROYALTY SETTLEMENT. The United States and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and Unit Operator, or the working interest owner in case of the operation of a well by a working interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefore under existing contracts, laws and regulations, or by the Unit Operator on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing in this section shall operate to relieve the responsible parties of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into the unit area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery in conformity with a plan of development and operation approved by the AO and the Division, a like amount of gas, after settlement as herein provided for any gas transferred from any other area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of development and operation or as may otherwise be consented to by the AO and the Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this Unit Agreement.

Royalty due on United States lands shall be computed as provided in 30 CFR Group 200 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized land as provided in Section 11 at the rates specified in the respective lease, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though the unitized area were a single consolidated lease.

13. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by appropriate working interest owners under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States, unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

With respect to any lease on non-federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby, or until the unit area establishes production.

14. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

15. DRAINAGE. The Unit Operator shall take such measures as the AO deems appropriate and adequate to prevent drainage of unitized substances for unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO.

16. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary , as to Federal leases, each by his approval hereof, or by the approval hereof by his duly authorized representative, shall and does hereby establish, alter, change, or revoke the drilling, producing, rental minimum royalty, and royalty requirements of Federal, leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of this unit area.

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the AO or his duly authorized representative shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

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

(e) Any Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that a well capable of production of unitized substances in paying quantities is established in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such Federal lease shall be extended for two years, and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Act of February 25, 1920, as amended.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784) (30 U.S.C. 226 (m)): "Any (Federal) lease heretofore or hereafter committed to any such (Unit) plan embracing lands that are in part within and in part outside the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization. Provided, however that any such lease as to non-unitized portion shall continue in force and effect for the term thereof, but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

17. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or lease subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

18. EFFECTIVE DATE AND TERM. This agreement shall become effective on November 1, 2014, when approved by the AO and shall automatically terminate five (5) years from said effective date unless:

(a) Upon application by the Unit Operator such date of expiration is extended by the AO; or

(b) it is reasonably determined prior to the expiration of the fixed terms or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder, and after notice of intention to terminate this agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, this agreement is terminated with approval of the AO; or

(c) a valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long thereafter as unitized substances can be produced as to Federal lands in quantities sufficient to pay for the cost of producing same from wells on unitized land. Should production cease and diligent drilling or re-working operations to restore production or new production are not in progress or reworking within sixty (60) days and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred; or

(d) it is voluntarily terminated as provided in this agreement. Except as noted herein this agreement may be terminated at any time prior to the discovery of unitized substances which can be produced in paying quantities by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the AO. The Unit Operator shall give notice of any such approval to all parties hereto. Voluntary termination may not occur during the first six (6) months of this agreement unless at least one obligation well shall have been drilled in conformance with Section 9.

19. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any State-wide voluntary conservation or allocation program which is established, recognized, and generally adhered to by the majority of operators in such State. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof must be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; and also to any Fee lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

Powers in the section vested in the AO shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

20. APPEARANCES. Unit Operators shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interest affected hereby before the Department of the Interior, and the Division and to appeal from orders issued under the regulations of said Department and the Division or to apply for relief from any of said regulations, or in any proceedings relative to operations before the Department and the Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at its own expense to be heard in any such proceeding.

21. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be in writing and shall be personally delivered to the party or parties, or sent by postpaid registered or certified mail, to the last known address of the party or parties.

22. NO WAIVER OF CERTAIN RIGHTS. Nothing contained in this agreement shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State where unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

23. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling, or to operate on, or produce unitized substances from any of the lands covered by this agreement, shall be suspended while the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

24. NONDISCRIMINATION. In connection with the performance of work under this agreement, the Unit Operator agrees to comply with all the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

25. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto, and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal lands or leases, no payments of funds due the United States should be withheld, but such funds shall be deposited as directed by the AO, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

26. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper Bureau of Land Management office the Division and the Unit Operator prior to the approval of this agreement by the AO. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest, is a working interest, by the owner of such interest only subscribing to the unit operating agreement.

After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, in order for the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO and the Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

27. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above-described unit area.

28. SURRENDER. Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If, as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operation hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If, as a result of any such surrender or forfeiture, working interest rights become vested in the fee owner of the unitized substances, such owner may:

(a) accept those working interest rights subject to this agreement and the unit operating agreement; or

(b) lease the portion of such land subject to this agreement and the unit operating agreement; or

(c) provide for the independent operation of any part of such land.

If the fee owner of the unitized substances does not accept the working interest rights subject to this agreement and the unit operating agreement or lease such lands as above provided within six (6) months after the surrender or forfeited working interest rights become vested in the fee owner, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any monies found to be owing by such an accounting shall be made as between the parties within thirty (30) days.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

29. TAXES. The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered and sold from the land covered by this agreement after its effective date, or upon the proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to royalty owners having interest in said tract, and may currently retain and deduct a sufficient amount of the unitized substances or derivative products, or net proceeds thereof, from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

30. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing contained in this agreement, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

31. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify or change either the special Federal lease stipulations relating to surface management or such special Federal lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

ENCANA OIL & GAS (USA) INC.

By _____
Constance D. Heath
Attorney-In-Fact

Date of Execution 7/2/15

Address 370 17th Street
Denver, Colorado 80202

STATE OF COLORADO)
)ss.
COUNTY OF DENVER)

On this 2nd day of July, 2015 before me appeared Constance D. Heath to me personally known, who, being duly sworn, did say that she is the Attorney-in-Fact, of Encana Oil & Gas (USA) Inc. and said Constance D. Heath acknowledged said instrument to be the free act of deed of said corporation.

My Commission Expires: 2/4/2017

_____
Notary Public

MELISSA M CHAVEZ
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID # 20064060110
MY COMMISSION EXPIRES FEBRUARY 04, 2017

Exhibit "A"

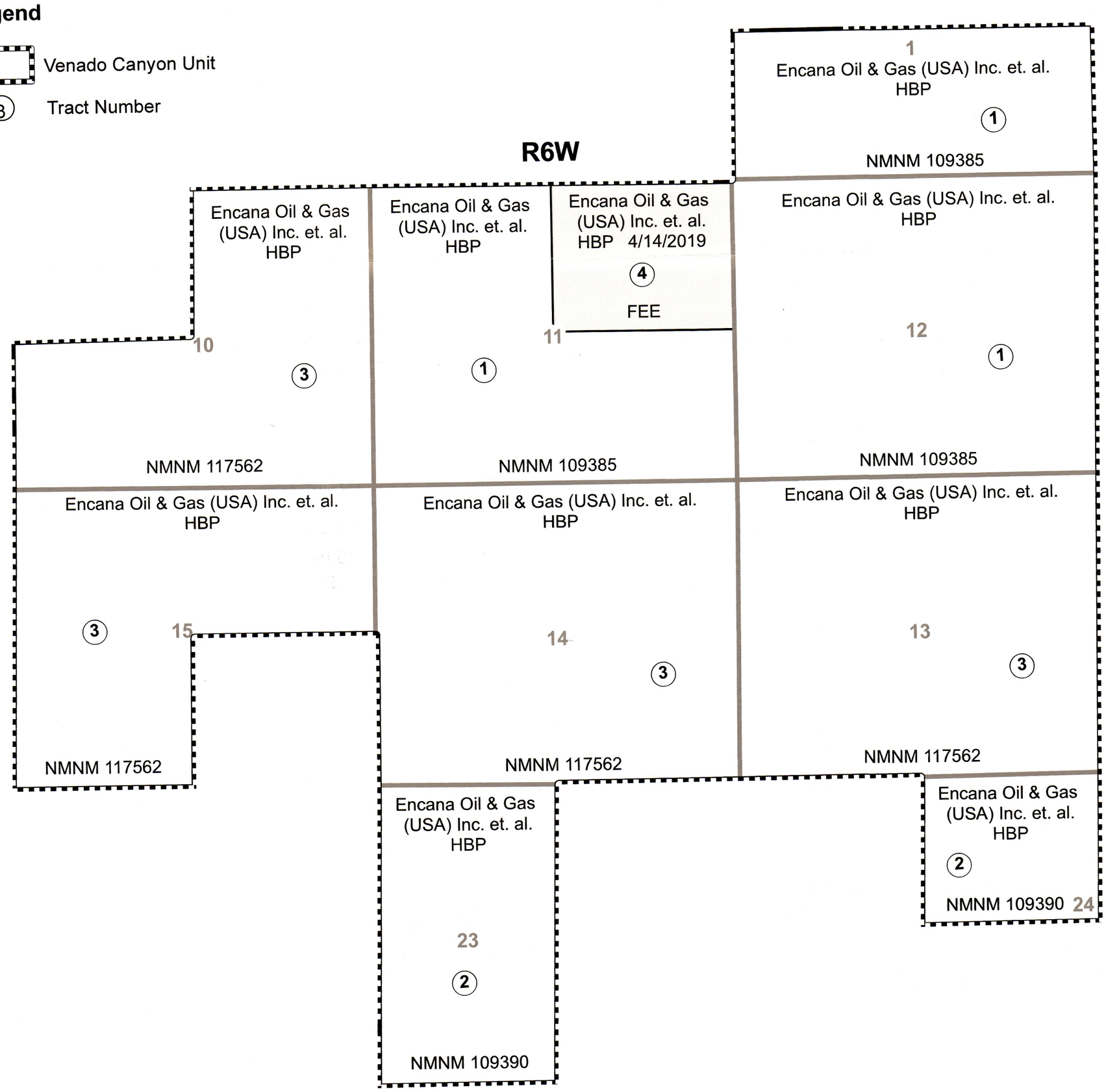
Venado Canyon Unit

Sandoval County, New Mexico

Legend

Venado Canyon Unit

③ Tract Number



	Acreage	Percentage
Federal Lands	4,160.00	96.296296%
Private Lands	160.00	3.703704%
	4,320.00	100.0000%

0 0.25 0.5 1 1.5 2 Miles

encana

05/08/2015

EXHIBIT "B"

Schedule Showing Percentage and Kind of Ownership of Oil and Gas Interests

VENADO CANYON UNIT AREA

Sandoval County, New Mexico

The Oil and Gas Lease ownerships described in this schedule are limited to the stratigraphic equivalent of the interval described as the Mancos Shale Group, including the genetically related rocks from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the stratigraphic equivalent of base of the Greenhorn Limestone as shown in the DOUBLE OUGHT 1 (API #30043200890000).

Tract Number	*Description of Land*	*Number of Acres*	*Serial Number / Lessor and Expiration Date of Lease*	*Mineral Interest*	*Lessee of Record and Percentage*		*Basic Royalty and Percentage*	*Overriding Royalty and Percentage*		*Working Interest and Percentage*	
FEDERAL LANDS:											
1	Township 22 North, Range 6 West, NMPM Section 1 S2 Section 11 W2, SE Section 12 All	1,440.00	NMNM 109385 Effective Date 12/01/2002 Expiration Date HBP	100.000000%	Dugan Production Corp.	100.000000%	USA - All (12.5%)	Dugan Production Corp.	2.500000%	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	50.000000% 50.000000%
2	Township 22 North, Range 6 West, NMPM Section 23 W2 Section 24 NE	480.00	NMNM 109390 Effective Date 12/01/2002 Expiration Date HBP	100.000000%	Dugan Production Corp.	100.000000%	USA - All (12.5%)	Dugan Production Corp.	2.500000%	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	50.000000% 50.000000%
3	Township 22 North, Range 6 West, NMPM Section 10 E2, SW Section 13 All Section 14 All Section 15 N2, SW	2,240.00	NMNM 117562 Effective Date 03/01/2007 Expiration Date HBP	100.000000%	Robert L. Bayless, Producer LLC	100.000000%	USA - All (12.5%)	Bayless Ranches, LLC	7.500000%	Encana Oil & Gas (USA) Inc. Robert L. Bayless, Producer LLC	87.500000% 12.500000%
	3 Federal Tracts Totalling	**4,160.00**	**acres or 96.296296% of Unit Area**								
STATE LANDS:	NONE										
	0 State Tracts Totalling	**-**	**acres or 0.00% of Unit Area**								

Tract Number	Description of Land	Number of Acres	Serial Number / Lessor and Expiration Date of Lease	Mineral Interest	Lessee of Record and Percentage		Basic Royalty and Percentage	Overriding Royalty and Percentage	Working Interest and Percentage	
PATENTED LANDS:										
4	Township 22 North, Range 6 West, NMPM Section 11 NE	160.00	Merrion Oil & Gas Corporation Bk. 417 / Pg. 23460 Effective Date 09/15/2014 Expiration Date 09/15/2019	48.048611%	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%	Merrion Oil & Gas Corporation (20%)	None	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%
			Donald J. Merrion Trust, et al. Bk. 417 / Pg. 21870 Effective Date 09/15/2014 Expiration Date 09/15/2019	39.451389%	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%	Donald J. Merrion Trust, et al. (20%)	None	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%
			Lorna R. Harvey Bk. 417 / Pg. 9813 Effective Date 04/14/2014 Expiration Date 04/14/2019	12.500000%	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%	Lorna R. Harvey (20%)	None	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%
	1 Patented Tract Totalling	**160.00**	**acres or 3.703704% of Unit Area**							
ALLOTTED LANDS	NONE									
	0 Allotted Tracts totalling	**-**	**acres or 0.00% of Unit Area**							

Total Unit Acres	**4,320.00**	
Federal	**4,160.00**	**96.296296%**
State	**-**	**0.000000%**
Patented	**160.00**	**3.703704%**
Allotted	**-**	**0.000000%**
Total Unit Acres	**4,320.00**	**100.000000%**

encana

VENADO CANYON UNIT
SUBMITTAL
November 12, 2015

WORKING INTEREST JOINDERS

Robert L. Bayless Producer, LLC

Dugan Production Corp.

RATIFICATION AND JOINDER OF UNIT AGREEMENT
AND
UNIT OPERATING AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the **Venado Canyon Unit Area**, County of _____, State of _____, dated **November 1, 2014**, in form approved on behalf of the Secretary of the Interior, and in consideration of the execution or ratification by other working interest owners of the contemporary Unit Operating Agreement which relates to said Unit Agreement, the undersigned hereby expressly ratifies, approves and adopts said Unit Agreement, and also said Unit Operating Agreement as fully as though the undersigned had executed the original instrument.

This Ratification and Joinder shall be effective as to the undersigned's interest in any lands and leases, or interests therein, and royalties presently held or which may arise under existing option agreements or other interests in unitized substances, covering any lands within the Unit Area in which the undersigned may be found to have an oil or gas interest.

This Ratification and Joinder shall be binding upon the undersigned, its heirs, devisees, assignees or successors in interest.

EXECUTED this 13th day of JULY, 2015.

By: _____
ROBERT L. BAYLESS, JR.
Executive Manager

Address _____
Robert L. Bayless, Producer LLC
621 17th Street - Suite 2300
Denver, CO 80293

CORPORATE ACKNOWLEDGEMENT

STATE OF COLORADO)
) ss.
COUNTY OF DENVER)

The foregoing instrument was acknowledged before me by ROBERT L. BAYLESS, JR., as EXECUTIVE MANAGER of ROBERT L. BAYLESS, PRODUCER LLC, this 13th day of JULY, 2015.

WITNESS my hand and official seal.

My Commission Expires:
03/09/16

_____
Notary Public

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me by _____,

this _____ day of _____, 20___.

WITNESS my hand and official seal.

My Commission Expires:

_____
Notary Public

RATIFICATION AND JOINDER OF UNIT AGREEMENT
AND
UNIT OPERATING AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the **Venado Canyon Unit Area**, County of Sandoval, State of New Mexico, dated **November 1, 2014**, in form approved on behalf of the Secretary of the Interior, and in consideration of the execution or ratification by other working interest owners of the contemporary Unit Operating Agreement which relates to said Unit Agreement, the undersigned hereby expressly ratifies, approves and adopts said Unit Agreement, and also said Unit Operating Agreement as fully as though the undersigned had executed the original instrument.

This Ratification and Joinder shall be effective as to the undersigned's interest in any lands and leases, or interests therein, and royalties presently held or which may arise under existing option agreements or other interests in unitized substances, covering any lands within the Unit Area in which the undersigned may be found to have an oil or gas interest.

This Ratification and Joinder shall be binding upon the undersigned, its heirs, devisees, assignees or successors in interest.

EXECUTED this 28th day of July, 20 15.

By: Kurt Fagrelius
Kurt Fagrelius, Dugan Production Corp.
Address 709 E. Murray Drive
Farmington, NM 87401

CORPORATE ACKNOWLEDGEMENT

STATE OF New Mexico)
) ss.
COUNTY OF San Juan)

The foregoing instrument was acknowledged before me by Kurt Fagrelius, as Vice President of Dugan Production Corp., this 28th day of July, 20 15

WITNESS my hand and official seal.

My Commission Expires:
9/14/18

OFFICIAL SEAL
ELAINE LOGUE
NOTARY PUBLIC - STATE OF NEW MEXICO
My commission expires: 9-14-18

Elaine Logue
Notary Public

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me by _____,

this _____ day of _____, 20___.

WITNESS my hand and official seal.

My Commission Expires:

_____
Notary Public

VENADO CANYON UNIT
Tract Participation and Commitment Status
November 12, 2015

Unit Tract No.	Lease Name	Land Description				Tract Acres	Tract Participation Factor	Tract Commitment Status						
		Twshp	Rge	Sec	Description			Royalty Onwers	Joinder Status	Overriding Royalty Onwers	Joinder Status	Working Interest Owners	Joinder Status	Tract Commitment Status
1	NMNM-109385	22N	6W	1	S2	1,440.00	33.333333%	BLM	Joined	Dugan Production Corp.	Joined	Encana Oil & Gas (USA) Inc'	Joined	Fully Committed
		22N	6W	11	W2, SE4							Dugan Production Corp.	Joined	
		22N	6W	12	All									
2	NMNM-117562	22N	6W	10	E2, SW4	2,240.00	51.851852%	BLM	Joined	Bayless Ranches LLC	Joined	Encana Oil & Gas (USA) Inc'	Joined	Fully Committed
		22N	6W	13	All							Robert L. Bayless Producer, LLC	Joined	
		22N	6W	14	All									
		22N	6W	15	W2, NE4									
3	NMNM-109390	22N	6W	23	W2	480.00	11.111111%	BLM	Joined	Dugan Production Corp.	Joined	Encana Oil & Gas (USA) Inc'	Joined	Fully Committed
		22N	6W	24	NE4							Dugan Production Corp.	Joined	
4	Fee - Merrion	22N	6W	11	NE	160.00	3.703704%	Merrion Oil & Gas Corporation	Joined[1]	None	N/A	Encana Oil & Gas (USA) Inc'	Joined	Fully Committed
								Donald J. Merrion Trust	Joined[2]			Dugan Production Corp.	Joined	
								Merrion Investment Company	Joined[2]					
								Diana Merrion	Joined[2]					
								Lorna R. Harvey	Joined[3]					
						4,320.00	100.000000%							

[1] Oil & Gas Lease dated September 15, 2014 between Merrion Oil & Gas Corporation and Encana Oil & Gas (USA) Inc. and Dugan Production Corp. provides that "Lessee" may unitize all or part of leased premises:

[2] Oil & Gas Lease dated September 15, 2014 between Merrion Oil & Gas Corporation and Encana Oil & Gas (USA) Inc. and Dugan Production Corp. provides that "Lessee" may unitize all or part of leased premises:

"6. Lessee may at any time or times unitize all or any part of said land and Lease, or any stratum or strata, with other lands and leases in the same field so as to constitute a unit or units whenever, in Lessee's judgment, such unitization is required to prevent waste or promote and encourage the conservation of Oil and Gas by any cooperative or unit plan of development or operation; or by a cycling, pressure-maintenance, repressuring or secondary recovery program. Any such unit formed shall comply with the local. State and Federal laws and with the orders, rules, and regulation of Slate or Federal regulatory or conservation agency having jurisdiction. The size of any such unit may be increased by including acreage believed to be productive, and decreased by excluding acreage believed to be unproductive, or where the owners of which do not join the unit, but any such change resulting in an increase or decrease of Lessor's royalty shall not be retroactive. Any such unit may be established, enlarged or diminished and in the absence of production from the unit area, may be abolished and dissolved by filing of record an instrument so declaring, and mailing or tendering to Lessors, a copy of such instrument. Drilling or re-working operations upon, or production from any part of such units shall be considered for all purposes of this Lease as operations or production from this Lease. Lessee shall allocate to the portion of this Lease included in any such unit a fractional part of production from such unit on any one of the following basis: (a) the ratio between the participating acreage in this Lease in such units and total of ail participating acreage in the unit; or (b) the ratio between the quantity of recoverable production from the land in this Lease in such unit the total of all recoverable production from all such unit; or (c) any basis approved by State or Federal authorities having jurisdiction. Lessor shall be entitled to the royalties in this Lease on the part of the unit production so allocated to that part of this Lease included in such unit and no more."

[3] Oil & Gas Lease dated September 15, 2014 between Merrion Oil & Gas Corporation and Encana Oil & Gas (USA) Inc. and Dugan Production Corp. provides that "Lessee" may unitize all or part of leased premises:

"5. Lessee may at any time or times pool any part or all of said land and Lease or any stratum or sn^ala, with odier lands and Leases, stratum or su^ia, in die same field so as to conslimte a spacing unit (or project area for a horizontal well) to facilitate an orderly or uniform well spacing pattem or to comply with any order, rule or regulation of die State or Federal regulatory or conservation agency having Jurisdiction. Such pooling shall be accomplished or terminated by fding of record a Declaration of Pooling, or Declaration of Termination of Pooling and by mailing or tendering a copy to Lessor. Drilling or re-working operations upon, or production, or wells capable of production from any part of such spacing unit shall be considered for all purposes of diis Lease as operations or production from diis Lease. Lessee shall allocate to this Lease die proportionate share of production which the acreage in this Lease included in any such spacing unit or project area bears to the total acreage in said spacing unit or project area."

Section 19.15.16.6.L.(2) defines a "project area", as an entire voluntary or statutory unit for an approved enhanced recovery or pressure maintenance project, an approved state exploratory unit, or a participating area in a federal unit." This lease pooling clause, therefore, appears to cover the Venado Canyon Unit, being a single "project area" under this Section 19.15.16.6.L(2), however, as confirmation from the Lessor, we have incorporated with this submittal the Ratification and Joinder to Unit Agreement (1 original and 2 copies) executed by Lessor.

FORM 610 - 1989

MODEL FORM OPERATING AGREEMENT

VENADO CANYON UNIT AREA

OPERATING AGREEMENT

DATED

November 1, 2014

OPERATOR: Encana Oil & Gas (USA) Inc.

CONTRACT AREA: VENADO CANYON UNIT AREA

COUNTY **OF** SANDOVAL **STATE OF** NEW MEXICO

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OPERATING AGREEMENT
For the operation of
VENADO CANYON UNIT

THIS AGREEMENT, entered into by and between Encana Oil & Gas (USA) Inc., hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder. An AFE for a Horizontal or Multi-lateral Well shall clearly stipulate that the well being proposed is a Horizontal or Multi-lateral Well and shall include all Completion operations for the proposed Horizontal or Multi-lateral Well.

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

C. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement, which for the purposes of this Agreement is the Unit Area for the **Venado Canyon Unit** approved by the Bureau of Land Management as Contract No.NMNM ( ). ~~Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."~~

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser. When used in connection with a Multi-lateral or Horizontal Well, the term "Deepen" shall mean an operation whereby a ~~Lateral is drilled to a horizontal distance greater than the distance set out in the well proposal approved by the Consenting Parties, or to a horizontal distance greater than the horizontal distance to which the Lateral was previously drilled~~ vertical portion of the wellbore is drilled to an objective Zone below the original objective Zone. (SEE ARTICLE XVI. N. FOR PROVISIONS RELATED TO "DEEPENING")

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

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

G. ~~The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located. The term "Drillsite" when used in connection with a Horizontal or Multi-lateral Well shall mean the surface location and the Oil and Gas Leases or Oil and Gas Interests within the spacing unit on which the wellbores, including all Laterals, are located~~.

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

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

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

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

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

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

N. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. When used in connection with a Horizontal or Multi-lateral Well, the term "Plug Back" shall mean an operation to test or Complete the well at a stratigraphically shallower geological horizon in which the operation has been or is being Completed and which is not within an existing Lateral. (SEE ARTICLE XVI. N. FOR PROVISIONS RELATED TO "PLUG BACK")

O. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore. (SEE ARTICLE XVI. N. FOR PROVISIONS RELATED TO "RECOMPLETION")

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

Q. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or to drill around junk in the hole or to overcome other mechanical difficulties. When used in connection with a Horizontal or Multi-lateral Well, the term "Sidetrack" shall mean the directional control and intentional deviation of a well outside the existing Lateral(s) so as to change the Zone or the direction of a Lateral as originally proposed, unless done to straighten the hole or drill around junk in the hole or to overcome other mechanical difficulties.

R. The term "Zone" shall mean a stratum of earth containing or thought to contain a common accumulation of Oil and Gas separately producible from any other common accumulation of Oil and Gas. The single Zone covered by this Agreement is described in Exhibit "A" as the "unitized substance" covered by the **Venado Canyon Unit**.

S. The term "Lateral" shall mean that portion of a wellbore that deviates from approximate vertical orientation to approximate horizontal orientation and all wellbore beyond such deviation to Total Measured Depth.

T. The term "Horizontal Well" shall mean a well containing a single Lateral which is drilled, Completed or Recompleted in a manner in which the horizontal component of the completion interval (1) extends at least one hundred (100') feet in the objective formation and (2) exceeds the vertical component of the completion interval in the objective formation.

U. The term "Multi-lateral Well" shall mean a well which contains more than one Lateral which is drilled, Completed or Recompleted in a manner in which the horizontal component of the completion interval of each Lateral (1) extends at least one hundred (100') feet in the objective formation(s) and (2) exceeds the vertical component of the completion interval in the objective formation(s).

V. The term "Total Measured Depth", when used in connection with a Multi-lateral or Horizontal Well, shall mean the distance from the surface of the ground to the terminus of the wellbore, as measured along the wellbore. Each Lateral taken together with the common vertical wellbore shall be considered a single wellbore and shall have a corresponding Total Measured Depth. Notwithstanding the foregoing, in the case of a Multi-Lateral Well, if the production from each Lateral is to be commingled in the common vertical wellbore then the Laterals and vertical wellbore shall be considered collectively as one wellbore. When the proposed operation(s) is the drilling of, or operation on, a Horizontal or Multi-Lateral Well, the terms "depth" or "total depth" wherever used in the Agreement shall be deemed to read "Total Measured Depth" insofar as it applies to such well.

W. The term "Vertical Well" shall mean a well drilled, Completed or Recompleted other than a Horizontal or Multi-lateral Well.

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

X. The term "Unit Agreement" shall mean the agreement for the development and operation of the **Venado Canyon Unit** Area as approved by the Bureau of Land Management under Contract No. NMNM( ). The definitions contained in the Unit Agreement are adopted for all purposes of this Agreement and any such term used in this Agreement shall have the same meaning so stated therefor, in the Unit Agreement.

Y. The term "Committed Working Interest" or "Working Interest" shall mean a Working Interest which is shown on Exhibit "B" to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement.

Z. The term "Lease Burdens" shall mean the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment and any similar burden, but does not include a carried working interest, a net profits interest or any other interest which is payable out of profits.

AA. The term "Approval of the Parties" or "Direction of the Parties" shall mean an approval, authorization or direction which receives the affirmative vote of the Parties specified in Article XVI. H.

AB. The term "Operator" shall mean the Operator designated in Article V. herein and shall likewise mean the Unit Operator designated in the Unit Agreement for the development and production of hydrocarbons in the **Venado Canyon Unit** Area approved by the Bureau of Land Management under Contract No. NMNM (_____).

ARTICLE II.
EXHIBITS

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

A. _X_ Exhibit "A," shall include the following information:
   (1) Description of lands subject to this agreement,
   (2) Restrictions, if any, as to depths, formations, or substances,
   (3) Parties to agreement with addresses and telephone numbers for notice purposes,
   (4) Percentages or fractional interests of parties to this agreement,
   (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
   (6) ~~Burdens on production~~.

B. ___ ~~Exhibit "B," Form of Lease~~.

C. _X_ Exhibit "C," Accounting Procedure.

D. _X_ Exhibit "D," Insurance.

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

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

G. ___ ~~Exhibit "G," Tax Partnership~~.

H. _X_ Other: Recording Supplement.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter.

Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered, all Lease bBurdens on its share of the production from the Contract Area ~~up to, but not in excess of, _____ Twenty Percent (20%) _____ and shall indemnify~~which exist of record as of the effective date of the Unit Agreement and are identified on Exhibit B to the Unit Agreement, ~~defend and hold the other parties free from any liability therefor. Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any liability therefor.~~(SEE ARTICLE XVI. F. FOR PROVISIONS RELATED TO "LEASE BURDENS")

No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected Lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby, and in the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in said Leaseholds shall be deemed separate leasehold interests for the purposes of this agreement.

C. Subsequently Created Interests:

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

The party whose interest is burdened with the Subsequently Created ~~Interest~~ Lease Burden (the "Burdened Party") shall assume and alone bear, pay and discharge the Subsequently Created ~~Interest~~ Lease Burden and shall indemnify, defend and hold harmless the other parties from and against any liability therefor. Further, if the Burdened Party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the Subsequently Created ~~Interest~~ Lease Burden in the same manner as they are enforceable against the working interest of the Burdened Party. If the Burdened Party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said Subsequently Created ~~Interest~~Lease Burden, and the Burdened Party shall indemnify, defend and hold harmless said other party, or parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created ~~Interest~~Lease Burden.

ARTICLE IV.
TITLES

A. Title Examination: **(SEE ARTICLE XVI. I. FOR PROVISIONS RELATED TO TITLE INFORMATION)**

Title examination shall be made on the ~~Drillsite of any proposed well~~ Contract Area prior to commencement of drilling operations ~~and, if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum anticipated Drilling Unit~~, of the Initial ~~w~~Well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the ~~Drillsite or Drilling Unit,~~Contract Area if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in procuring abstracts, fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in royalty opinions and division order title opinions) and other direct charges as provided in Exhibit "C" shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with Leases or Oil and Gas Interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or

declarations and communitization agreements as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings. Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Subsequent title examinations or title updates shall be conducted by Operator on the Contract Area in the same manner provided above at periods of no less than twelve (12) months and no more than twenty four (24) months unless other periods has received Approval of the Parties.

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

B. Loss or Failure of Title:

1. Failure of Title: Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, and provided the new Lease receives approval to subsequent joinder to the **Venado Canyon Unit**, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas Leases and Interests; and,

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

B. Resignation or Removal of Operator and Selection of Successor: (SEE ARTICLE XVI. O. FOR PROVISIONS RELATED TO "UNIT OPERATOR")

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

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

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

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

C. Employees and Contractors:

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

D. Rights and Duties of Operator:

1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator has the right to provide materials and services, either directly or indirectly or through Operator or an affiliate of Operator, so long as the rates charged by Operator or any such affiliate do not exceed the current prevailing rates in the area for comparable services and/or equipment. Such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area at competitive rates, pursuant to Exhibit "C", 2005 COPAS Accounting Procedure, Section II.6. *Equipment and Facilities Furnished by Operator*. All work performed or materials supplied by affiliates or related parties of Operator shall be performed or supplied at competitive rates, pursuant to Exhibit "C", 2005 COPAS Accounting Procedure, Section II.7 *Affiliates*.

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

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

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

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

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

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

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

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

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

Any information furnished to or obtained by a Non-Operator pursuant to Articles V.D.5, V.D.6 and V.D.7 shall be maintained as confidential by the Non-Operator and shall not be disclosed by the Non-Operator without the prior written consent of Operator. Notwithstanding anything in this Agreement to the contrary, the rights of a Non-Operator as set forth in Articles V.D.5, V.D.6 and V.D.7 shall only apply in favor of those Non-Operator parties who are Consenting Parties with respect to a proposed operation, until such time as the Consenting Parties are no longer entitled to the Non-Consenting Party's share of production, or the proceeds therefrom, attributable to the proposed operation in which the non-Consenting Parties did not participate.

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

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

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 30th day of November, 2014 Operator shall commence the drilling of the Initial Well at the following location:

SESE Section 3, Township 22 North, Range 6 West, NMPM, Sandoval County, New Mexico,

a Horizontal Well with a single Lateral to a vertical depth of 5,358 feet or a depth sufficient to penetrate the Gallup / Mancos formation, whichever is the lesser,

and shall thereafter continue the drilling of the well horizontally with due diligence into the Gallup / Mancos formation

with a lateral length of 7,985 feet to a target terminus of approximately 13,343 feet Total Measured Depth.

Operator shall have the right to cease drilling a Horizontal or Multi-lateral Well at any time, for any reason, and such Horizontal or Multi-lateral Well shall be deemed to have reached its objective depth so long as Operator has drilled such Horizontal or Multi-lateral Well to the objective formation(s) and has drilled horizontally in the objective formation(s) for a distance equal to the "Minimum Lateral" as defined in Section 2.1 of that certain Carry and Earning Agreement between the Parties dated July 1, 2011.

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

B. Subsequent Operations: (SEE ARTICLE XVI. N. FOR PROVISIONS RELATED TO "DEEPENING", "PLUGGING BACK" AND "RECOMPLETION")

1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written notice of the proposed operation to ~~the~~ all parties reflected on Exhibit "A" who have not otherwise relinquished their interest in such objective Zone under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

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

2. Operations by Less Than All Parties:

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

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

(b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking, Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be effective 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 applicable ad valorem, production, severance, and excise taxes, royalty,

overriding royalty and other interests not excepted by Article III.C. 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:

(i) 200 % 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

(ii) 400 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) 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.

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

(c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or 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. Similarly, an election not to participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking 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 amount. Any such Reworking, Recompleting 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 400 % of that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting 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.

(d) Recoupment Matters. 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 ad valorem, 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.C.

In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening 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, Sidetracking, Plugging Back, Recompleting or Deepening, 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.

Within ninety (90) 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, Recompleting, 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.

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 as of 7:00 a.m. on the day following the day on which such recoupment occurs, 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, Sidetracking, Reworking, Deepening, Recompleting 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 Exhibit "C" attached hereto.

3. Stand-By Costs: 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, or when operations on the well have been otherwise terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6. to resolve competing proposals) 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.(a), 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.

In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in Article VI.B.1. within which to respond by paying for all stand-by costs and other costs incurred during such extended response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending the response period. If more than one party elects to take such additional time to respond to the notice, standby 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.

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

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

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

(b) If the proposal is made for a Non-Consent Well that has been previously Completed as a well capable of producing in paying quantities, but is no longer capable of producing in paying quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, Completing, and equipping said well from the surface to the Initial Objective, calculated in the manner provided in paragraph (a) above, less those costs recouped by the Consenting Parties from the sale of production from the well. The Non-Consenting Party shall also pay its proportionate share of all costs of re-entering said well. The Non-Consenting Parties' proportionate part (based on the percentage of such well Non-Consenting Party would have owned had it previously

participated in such Non-Consent Well) of the costs of salvable materials and equipment remaining in the hole and salvable surface equipment used in connection with such well shall be determined in accordance with Exhibit "C." If the Consenting Parties have recouped the cost of drilling, Completing, and equipping the well at the time such Deepening operation is conducted, then a Non-Consenting Party may participate in the Deepening of the well with no payment for costs incurred prior to re-entering the well for Deepening.

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

This Article VI.B.4. shall not apply to Deepening operations within an existing Lateral of a Horizontal or Multi-lateral Well.

5. Sidetracking: Any party having the right to participate in a proposed Sidetracking operation that does not own an interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore 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 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth at which the Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's proportionate share of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking operation is initiated shall be determined in accordance with the provisions of Exhibit "C."

This Article VI.B.5. "Sidetracking" shall not apply to operations in an existing Lateral of a Horizontal or Multi-lateral Well. Drilling operations which are intended to recover penetration of the objective formation(s) which are conducted in a Horizontal or Multi-lateral Well shall be considered as included in the original proposed drilling operations.

6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty-four (24) hours if a rig is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within such period shall be deemed an election not to participate in the prevailing proposal.

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

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

C. Completion of Wells; Reworking and Plugging Back: (SEE ARTICLE XVI. N. FOR PROVISIONS RELATED TO "DEEPENING", "PLUGGING BACK" AND "RECOMPLETION")

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

[X] Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and equipping of a Horizontal or Multi-lateral Well, including necessary tankage and/or surface facilities. For any Horizontal or Multi-lateral Well subject to this Agreement, Completion operations shall be included in the proposed drilling operations for such well.

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

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

D. Other Operations:

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of FIFTY THOUSAND AND NO/100 Dollars ($ 50,000.00) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting, or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of FIFTY THOUSAND AND NO/100 Dollars ($ 50,000.00). Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 51 % of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

E. Abandonment of Wells: (SEE ARTICLE XVI. N. FOR PROVISIONS RELATED TO "DEEPENING", "PLUGGING BACK" AND "RECOMPLETION")

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

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

Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form attached as Exhibit "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 portions 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 Zone 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 Zone 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.; and provided further, that Non-Consenting Parties who own an interest in a portion of the well shall pay their proportionate shares of abandonment and surface restoration costs for such well as provided in Article VI.B.2.(b).

F. Termination of Operations:

Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing, Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without consent of parties bearing 51 % of the costs of such operation; provided, however, that in the event granite or other practically impenetrable substance or condition in the hole is encountered which renders further operations impractical, Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

G. Taking Production in Kind

[X] **Option No. 1: Gas Balancing Agreement Attached:**

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

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

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

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

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

In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

☐ **Option No. 2: No Gas Balancing Agreement:**

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

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

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Security Interests:

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

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

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

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

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

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

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

C. Advances:

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

D. Defaults and Remedies:

If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered only by the Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator, and when the Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator. Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified below or otherwise available to a non-defaulting party.

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

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

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

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

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

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

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

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

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

F. Taxes:

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

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When

any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C."

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases: **(SEE ARTICLE IV. TITLE EXAMINATION)**

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

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

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

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

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

C. Acreage or Cash Contributions:

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

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

D. Assignment; Maintenance of Uniform Interest:

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

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

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

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

E. Waiver of Rights to Partition:

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

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

~~☐ (Optional; Check if applicable.)~~

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This Agreement is not intended to create, and shall not be construed to create an association for profit, a trust, a joint venture, a mining partnership or other relationship of partnership or entity of any kind between the Parties. Notwithstanding anything to the contrary contained herein, the Parties understand and agree, solely as between Dugan and Encana, that the arrangement and undertakings evidenced by this Agreement, taken together, result in a partnership for purposes of federal income taxation and for purposes of certain state income tax laws which incorporate or follow federal income tax principles as to tax partnerships. For these purposes, Dugan and Encana agree to be governed by the tax partnership provisions referenced as Exhibit "E" to the Carry and Earning Agreement with an Effective Date of July 1, 2011, by and between Encana and Dugan (the "Tax Partnership Agreement") which are incorporated herein and made a part of this Agreement by this reference. For every purpose other than the above-described income tax purposes, however, the parties understand and agree that the liabilities of the Parties shall be several, not joint or collective, and that each Party shall be solely responsible for its own obligations. In the event of any conflict or inconsistency between the terms and conditions of the Tax Partnership Agreement and the terms and conditions of this Agreement or any attachment or exhibit hereto, the terms and conditions of the Tax Partnership Agreement shall govern and control.

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 FIFTY THOUSAND AND NO/100 Dollars ($ 50,000.00) 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 indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The term "force majeure," as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

☒ Option No. 1: So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, or so long as the Unit Agreement is in effect, whichever is the later.

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

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

This agreement and all matters pertaining hereto, including but not limited to matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or ore 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 the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

ARTICLE XV.
MISCELLANEOUS

A. Execution:

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

B. Successors and Assigns:

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

C. Counterparts:

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

D. Severability:

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

ARTICLE XVI.
OTHER PROVISIONS

A. Conflict of Terms.

Notwithstanding anything in this Agreement to the contrary, in the event of any conflict between the provisions of Article I through Article XV of this Agreement and the provisions of this Article XVI, the provisions of this Article XVI shall control.

B. Priority of Operations – Horizontal Wells.

Notwithstanding Article VI.B.6 or anything else in this Agreement to the contrary, it is agreed that where a Horizontal or Multi-lateral Well subject to this Agreement has been drilled to the objective formation and the Consenting Parties cannot agree upon the sequence and timing of further operations regarding such Horizontal or Multi-lateral Well, the following elections shall control in the order of priority enumerated hereafter:

1. An election to do additional logging, coring, or testing;
2. An election to attempt to Complete drilling operations of all proposed Laterals;
3. An election to extend or Deepen a Lateral;
4. An election to kick out and drill an additional Lateral in the same formation;
5. An election to Plug Back the well to a formation or Zone above the formation in which a Lateral was drilled; if there is more than one proposal to Plug Back, the proposal to Plug Back to the next deepest prospective Zone or formation shall have priority over a proposal to plug back to a shallower prospective Zone or formation;
6. An election to Sidetrack; and
7. An election to plug and abandon said well as provided for in Article VI.E.

It is provided, however, that if at the time the Consenting Parties are considering any of the above elections, the hole is in such a condition that a reasonably prudent Operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy or losing the hole prior to Completing the Horizontal or Multi-lateral Well in the objective formation, such election shall be eliminated from priorities hereinabove set forth.

C. Undivided Unit Agreement.

It is understood that this Agreement is entered into for the purpose of identifying terms and provisions agreed to among the parties charged with the cost of operations for wells drilled under the **Venado Canyon Unit** Contract No. NMNM (_____), and that the conduct of such operations and the interests of the parties therein are subject to the terms and conditions of the Unit Agreement for the Development and Operation of the **Venado Canyon Unit** Contract No NMNM (_____). Any conflict between he terms of this Agreement and the terms of the Unit Agreement, the terms of the Unit Agreement shall prevail.

D. Existing Agreements.

This Agreement supersedes and replaces any and all other operating agreements existing among the parties to this Agreement as to the leases, lands and depths covered hereby.

E. Compensatory Royalty.

Whenever demand is made in accordance with the Unit Agreement for the drilling of a well for the protection of the Unit Area from drainage, or for the payment of compensatory royalties in lieu thereof, Operator shall give written notice thereof to each Party. If payment of such compensatory royalties receives Approval of the Parties, Operator shall make payment thereof. All payments so made by Operator shall be charged as Costs and borne by the Parties in proportion to their respective Working Interests. If payment of compensatory royalties is not approved by the Parties then the rights and obligations of the Parties shall be governed by Article XVI. G. dealing with Required Wells.

F. Uncommitted Lease Burdens.

If any Lease Burden under Lease covering land within the Contract Area, or any part of such Lease Burden, is not committed to the Unit Agreement, and if operations conducted pursuant to the Unit Agreement result in liability in damages to the owner or owners of such uncommitted Lease Burden, the amounts payable by reason of such liability shall be charged as Costs and borne by the Parties in proportion to their respective Working Interests.

G. Required Wells.

For the purpose of this Article a well shall be deemed a required well if the Drilling thereof is required by the final order of an authorized representative of the Department of Interior. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever Operator receives any such order, it shall promptly mail a copy thereof to each of the other Parties; if any such order is appealed, the Party appealing shall give prompt written notice thereof to each of the other Parties, and upon final disposition of the appeal, Operator shall give each of the other Parties prompt written notice of the result thereof. If the result is action required, Operator shall proceed with one of the following actions which receives Approval of the Parties:

1) Drilling of a well for the account of all parties

2) Remit compensatory royalties as prescribed under Article XVI. E. above

3) Terminate the Unit Agreement if Unitized Substances have not yet been discovered in paying quantities within the Contract Area in accordance with the terms and provisions of the Unit Agreement.

H. Supervision of Operations – Approval of the Parties.

All operations conducted by Operator under this Agreement or the Unit Agreement shall be subject to supervision and control by the Parties acting in accordance with the succeeding provisions of this Article; however, if less than all of the Parties are chargeable with the Costs incurred in the conduct of a particular operation of a well, then, only the Party or Parties obligated to bear such Costs shall have right of supervision over such operation.

Each Party having the right to vote on any matter shall have a vote thereon equal to its Committed Working Interest. Except as provided in the Unit Agreement and except as otherwise specified herein, the affirmative vote of Parties having sixty-five per cent (65%) or more of the voting power on any matter which is proper for action by them shall be binding on all Parties entitled to vote thereon; provided, however, that if one Party voting in the affirmative has sixty-five per cent (65%) or more of the voting power, the affirmative vote of such Party shall not be binding on the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. A Party failing to vote shall not be deemed to have voted either in the affirmative or in the negative. Any approval, authorization or direction provided for in this Agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding on all Parties entitled to vote thereon ("Approval of the Parties"), except where the vote of a larger percentage is specifically required.

Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party written notice by mail, overnight delivery, e-mail, telegraph, or telephone (confirmed in writing not later than the next business day), describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Operator by mail, overnight delivery, e-mail, telegraph, or telephone (confirmed in writing not later than the next business day), within such period, not less than ten (10) nor more than thirty (30) days, as may be designated in the notice given by Operator.

Nothing contained in this Agreement shall be deemed to authorize the Parties, by vote or otherwise, to act on any matter or authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this Agreement.

I. Title Information for Contract Area.

Within 20 days after the effective date of this Agreement, each Party, at its own expense but without responsibility for the accuracy thereof, shall furnish Operator with the following title materials then in its possession or control relating to all lands within the Contract Area in which it owns Committed Working Interests:

(a) Copies of all leases, assignments, options, easements, surface use agreements and other contracts which it has in its possession relating to title to its Committed Working Interests

(b) Abstracts of title based upon the County records, Federal lease file records, State lease file records, Indian lease file records;

(c) All lease papers which the Party has in its possession and which have not been previously furnished to Operator;

(d) Copies of any title opinions which the Party has in its possession;

(e) If Federal lands are involved, status reports, setting forth the entries found in the BLM State Office for such lands, and also certified copies of the serial register pages and case abstracts for the Federal leases involved;

(f) If State lands are involved, status reports, setting forth the entries found in the State records for such lands; and

(g) If Indian lands are involved, status reports, setting forth the entries found in the Bureau of Indian Affairs Agency Realty Office having jurisdiction over such lands and in the Bureau of Indian Affairs Land Titles and Records Office having jurisdiction over such lands.

J. Suppplement to Initial Well.

In the event the Initial Well results in a well capable of production in quantities which does not meet the minimum requirement for discovery of unitized substances in "paying quantities" as required under Article 9 of the Unit Agreement, and a subsequent obligation well is required to prevent termination of **Venado Canyon Unit**, Operator shall notify all parties and each party shall have thirty (30) days in which to respond regarding support of drilling a subsequent obligation well or allowing **Venado Canyon Unit** to terminate. If one or more parties elect to proceed with the drilling of said subsequent obligation well, then Operator shall proceed to plan for and propose the drilling and completion operations under Article VI. B. hereunder, with the exception that any party electing not to participate in a subsequent obligation well which is required to maintain the active status of the Unit, such Non-Drilling party, in lieu of the penalty provisions of Article VI.B.2., shall relinquish to the Drilling Parties all right, title and interest in and to the subsequent obligation well, all personal property and equipment related thereto and all production obtained therefrom.

K. Plans of Development.

In compliance with the terms of the Unit Agreement, Operator shall submit to the Authorized Officer of the Bureau of Land Management and/or such other regulatory agencies ("AO") required by and in accordance with the Unit Agreement, annual plans of development which shall describe such Drilling, Rework or Sidetrack operations and such other projects planned to be conducted in **Venado Canyon Unit** for the upcoming year.

At least ten (10) days before submitting any such proposed plan to the AO, Operator shall give each Party written notice thereof, together with a copy of the proposed plan. If and when a proposed plan has been approved or disapproved by the AO, Unit Operator shall give prompt written notice thereof to each Party. In case of disapproval Operator shall state in such notice the reasons therefor.

Any additional Drilling, Rework or Sidetrack operation proposed or authorized by the Parties, which was not provided for in the then current plan of development as approved by the AO shall be included in an amendment prepared and submitted by Operator to AO for approval in the same manner as the original plan provided above.

Inclusion of an operation in a plan of development submitted and approved by AO shall not be considered an obligation or commitment from Operator or the parties to conduct or participate in each such operation, but rather a representation of general expected unit activity for a specific period. Commitment to conduct or participate in operations are governed by provisions contained in this Agreement covering proposals and elections for same.

L. Subsequent Joinder.

In conjunction with Article 26 of the Unit Agreement, joinders to the Unit Agreement received from owners of Lease Burdens shall be subject to consent of the parties owning the Working Interest who bear such Lease Burden. If the Lease Burden had been treated as Cost and borne by the Committed Working Interests in accordance with Article XVI. F. above and the Lease Burden becomes later committed through Subsequent Joinder, then beginning after the effective date of joinder, the Lease Burden no longer be treated as a Cost to the Committed Working Interests but rather shall thereafter be borne by the parties owning the Working Interest who bear such burden in the chain of title.

M. Withdrawal of Tract.

If the owner of any substantial Lease Burden in a tract within the Unit Area fails to join in the Unit Agreement, upon Direction of the Parties in writing such tract shall be withdrawn from the Unit Area in accordance with Section 26 of the Unit Agreement, provided the time for such withdrawal has not expired. In such event if any Party or Parties owning a Committed Working Interest in such tract provide such indemnity as may be approved in writing by all other Parties, the Party or Parties owning Committed Working Interest in such tract shall not be required to withdraw it from the Unit Area.

N. Deepening / Plugging Back / Recompletions.

The parties recognize that this Agreement is limited to horizontal drilling operations conducted on a single Zone which is the interval defined in and covered by the Unit Agreement. An operation to Deepen, Plug Back or Recomplete in a well governed by this Agreement would, therefore, be a proposal and/or operation conducted in a Zone not covered by this Agreement. A proposal for Deepening, Plug Back or Recompletion operation under this Agreement shall: (i) be valid only if accompanied by a supplemental agreement such as a cost sharing or dual completion agreement that identifies a plan for sharing costs, rights and obligations between Zones or an agreement for the plugging of the Zone covered by this Agreement and the takeover of operations by the owners of the subsequent target zone(s); and, (ii) be subject to Approval of the Parties.

Upon receipt of a proposal to Deepen, Plug Back or Recomplete a well governed by this Agreement, the parties shall have fifteen (15) days in which to respond regarding its approval or rejection of the operation proposed. Approval of the operation does not constitute an approval of the terms and conditions contained in any proposed supplemental agreement submitted with the proposal nor is it deemed an election to participate in the operation.

Upon Approval of the Parties to a proposed Deepening, Plugging Back or Recompletion operation, the parties shall continue to negotiate in good faith the terms of the supplemental agreement. The proposing party shall send notice to all parties upon final execution of the supplemental agreement and each receiving party shall thereafter have thirty (30) days in which to elect regarding its participation in the operation pursuant to the terms of this Agreement and the negotiated supplemental agreement.

O. Unit Operator.

The terms and conditions contained in this Agreement related to the selection and resignation of Operator and the selection of a successor Operator are supplemental and subordinate to the terms and provisions of Unit Agreement Article 4, Article 5 and Article 6 respectively.

P. Unit Termination.

Any well being operated and produced that has been excluded from the Contract Area as a result of the termination of the Unit Agreement or the elimination of lands from the Unit Area shall continue to be operated under the terms of this Agreement so far as applicable, without change in the ownership of the equipment and the production therefrom until a new operating agreement is entered into or the well is plugged and abandoned and settlement has been made for all production and equipment, the site reclaimed and all obligations among and between the parties owning interests in the well have been met or satisfied. In the event the Lease Burdens payable against the production from such eliminated wells are changed as a result of the application of new spacing or proration rules upon elimination from the Unit, the parties shall assume and pay such Lease Burdens in proportion to their respective Working Interests in the applicable well, as prescribed in Article XVI. F. for uncommitted Lease Burdens.

IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of November, 2014

ATTEST OR WITNESS:

OPERATOR

ENCANA OIL & GAS (USA) INC.
By its authorized agent Encana Service Company, Ltd.

By _____
Constance D. Heath,

Title Director Land Negotiations

Date 7/2/15

Tax ID or S.S. No. _____

_____
_____

NON-OPERATORS

EXECUTION OF NON-OPERATORS BY RATIFICATION AND JOINDER

ATTEST OR WITNESS:

_____
_____

By _____

Print _____

Title _____

Date _____

Tax ID or S.S. No. _____

_____
_____

By _____

Print _____

Title _____

Date _____

Tax ID or S.S. No. _____

_____
_____

By _____

Print _____

Title _____

Date _____

Tax ID or S.S. No. _____

_____
_____

By _____

Print _____

Title _____

Date _____

Tax ID or S.S. No. _____

ACKNOWLEDGMENTS

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

Acknowledgment in representative capacity:

STATE OF COLORADO)
) SS
COUNTY OF DENVER)

This instrument was acknowledged before me on July 2, 2015 by Constance D. Heath,

as Director, Land Negotiation for Encana Services Company, Ltd., authorized agent of Encana Oil & Gas (USA) Inc.

My Commission Expires:

Melissa M Chavez
Notary Public

MELISSA M CHAVEZ
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID # 20064050110
MY COMMISSION EXPIRES FEBRUARY 04, 2017

STATE OF _____)
) SS
COUNTY OF _____)

This instrument was acknowledged before me on _____ by _____,

As _____ of _____.

My Commission Expires:

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

This instrument was acknowledged before me on _____ by _____,

As _____ of _____.

My Commission Expires:

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

This instrument was acknowledged before me on _____ by _____,

As _____ of _____.

My Commission Expires:

_____
Notary Public

Exhibit "A"

Attached to and made a part of that certain Operating Agreement dated November 1, 2014 for the development and operation of the **Venado Canyon Unit** BLM Contract No. _____.

I. LANDS SUBJECT TO VENADO CANYON UNIT OPERATING AGREEMENT
Lands covered by **Venado Canyon Unit** Area Contract No. NMNM _____
more specifically described as follows:

Township 22 North, Range 6 West, N.M.P.M.
Section 1: S2
Section 10: E2, SW
Section 11: All
Section 12: All
Section 13: All
Section 14: All
Section 15: N2, SW
Section 23: W2
Section 24: NE
Sandoval County, New Mexico
Containing 4,320 acres, more or less

II. RESTRICTIONS, IF ANY, AS TO DEPTHS OR FORMATIONS:
Limited to Unitized Substances covered by the **Venado Canyon Unit Agreement**, including genetically related rocks from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone as shown in the DOUBLE OUGHT 1 Well (API #30043200890000) in Section 12, Township 22 North, Range 6 West, N.M.P.M. are unitized under the terms of this agreement and herein are called "unitized substances" (see type log attached as Exhibit "A-2")

III. COMMITTED WORKING INTERESTS

Working Interest Owner	% of Costs
Encana Oil & Gas (USA) Inc. (**) 370 17th Street, Suite 1700 Denver, CO 80202	70.370372%
Dugan Production Corp. (**) P. O. Box 420 Farmington, NM 87401	23.148147%
Robert L. Bayless Producer, LLC P. O. Box 168 Farmington, NM 87499	6.481481%

(**)The Parties acknowledge that a portion of the interests committed to this Unit Operating Agreement, are subject to the terms and provisions of that certain Carry & Earning Agreement dated July 1, 2011 by and between Dugan Production Corp. ("Dugan") and Encana Oil & Gas (USA) Inc. ("Encana") ("C&E Agreement"). It is understood that the sharing of costs between Encana and Dugan for all wells defined in the C&E Agreement as "Carry Wells" shall be shared between the parties as prescribed in the C&E Agreement. The Parties agree that solely as to Dugan and Encana committed interests, the terms of the C&E Agreement, shall prevail in the event of a conflict between the terms of the C&E Agreement and this Unit Operating Agreement, including, without limitation, the sharing of costs for "Carry Wells" as defined therein.

IV. OIL & GAS LEASES SUBJECT TO THIS AGREEMENT:

Lessor:	USA Serial No. NMNM-109385
Original Lessee:	Dugan Production Corp.
Lease Date:	December 1, 2002
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 1 S2 Section 11 W2, SE Section 12 All Containing 1,440.00 acres, more or less Sandoval County, NM

Lessor:	USA Serial No. NMNM-109390
Original Lessee:	Dugan Production Corp.
Lease Date:	December 1, 2002
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 23 W2 Section 24 NE Containing 480.00 acres, more or less Sandoval County, NM

Lessor:	USA Serial No. NMNM-117562
Original Lessee:	Robert L. Bayless Producer, LLC
Lease Date:	March 1, 2007
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 10 E2, SW Section 13 All Section 14 All Section 15 N2, SW Containing 2,240.00 acres, more or less Sandoval County, NM

Lessor:	Merrion Oil & Gas Corporation
Original Lessee:	Encana Oil & Gas (USA) Inc. et al
Lease Date:	September 15, 2014
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 11: NE Containing 160.00 acres, more or less Sandoval County, NM

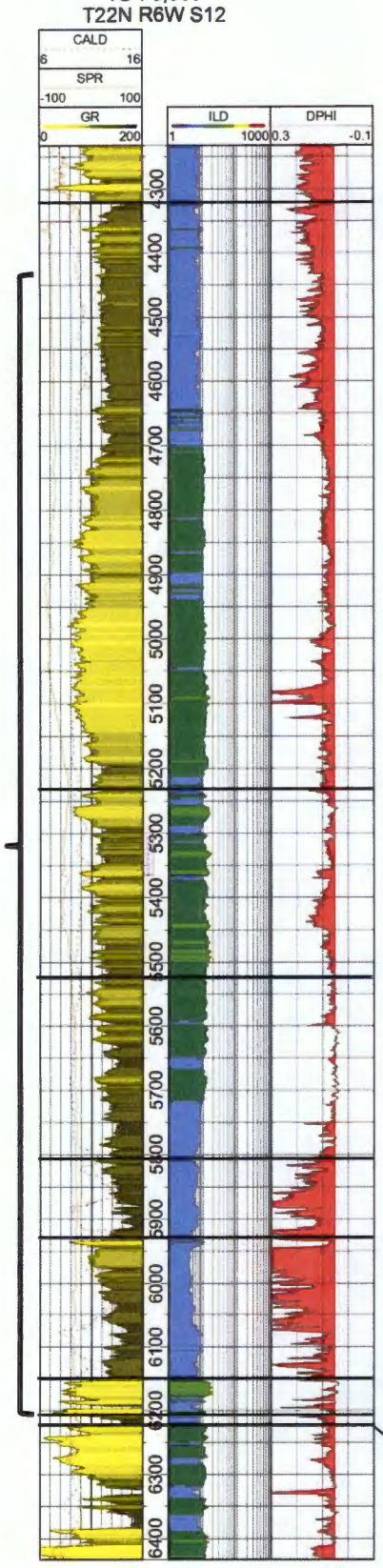
Lessor:	Donald J. Merrion Trust, et al
Original Lessee:	Merrion Oil & Gas Corporation
Lease Date:	September 15, 2014
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 11: NE Containing 160.00 acres, more or less Sandoval County, NM

Lessor:	Lorna R. Harvey
Original Lessee:	Merrion Oil & Gas Corporation
Lease Date:	April 14, 2014
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 11: NE Containing 160.00 acres, more or less Sandoval County, NM

Exhibit "A-2"
Attached to
Unit Operating Agreement
Venado Canyon Unit

30043200890000
DOUBLE OUGHT 1

TESORO PETRO CORP
SPUD_DATE : 4/72
TD : 6,605
T22N R6W S12



Venado Canyon Unit Depths

Mancos Shale
(Base Mesa Verde Group)

Gallup

Base Gallup

Juana Lopez

Carlile

Greenhorn
Graneros Shale (Base Greenhorn)
Dakota Group

Exhibit "B"

Attached to and made a part of that certain Operating Agreement dated November 1, 2014 for the development and operation of the Venado Canyon Unit BLM Contract No. _____

Exhibit "B" is intentionally omitted from this Agreement

EXHIBIT "C"
ACCOUNTING PROCEDURE
JOINT OPERATIONS

Attached to and made part of that certain **Operating Agreement** dated _November 1, 2014, ~~by and between~~ for the development and operation of the Venado Canyon Unit BLM Contract No. _____

I. GENERAL PROVISIONS

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

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

1. DEFINITIONS

All terms used in this Accounting Procedure shall have the following meaning, unless otherwise expressly defined in the Agreement:

"Affiliate" means for a person, another person that controls, is controlled by, or is under common control with that person. In this definition, (a) control means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting securities of a corporation or, for other persons, the equivalent ownership interest (such as partnership interests), and (b) "person" means an individual, corporation, partnership, trust, estate, unincorporated organization, association, or other legal entity.

"Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting Procedure is attached.

"Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

"Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest Railway Receiving Point to the property.

"Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.

"Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable field personnel.

"First Level Supervision" means those employees whose primary function in Joint Operations is the direct oversight of the Operator's field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may include, but are not limited to:

- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations
- Responsibility for day-to-day direct oversight of construction operations
- Coordination of job priorities and approval of work procedures
- Responsibility for optimal resource utilization (equipment, Materials, personnel)
- Responsibility for meeting production and field operating expense targets
- Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental part of the supervisor's operating responsibilities
- Responsibility for all emergency responses with field staff
- Responsibility for implementing safety and environmental practices
- Responsibility for field adherence to company policy
- Responsibility for employment decisions and performance appraisals for field personnel
- Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group or team leaders.

"Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the Agreement.

"Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection, maintenance, repair, abandonment, and restoration of the Joint Property.

"Joint Property" means the real and personal property subject to the Agreement.

"Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted, promulgated or issued.

"Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.

"Non-Operators" means the Parties to the Agreement other than the Operator.

"Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of offshore operations, all of which are located offshore.

"Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.

"On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.

"Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.

"Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as "Party."

"Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees, or is otherwise obligated, to pay and bear.

"Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of the costs and risks of conducting an operation under the Agreement.

"Personal Expenses" means reimbursed costs for travel and temporary living expenses.

"Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual railhead may not exist.

"Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication, scheduling and dispatching center; and other associated functions serving the Joint Property.

"Supply Store" means a recognized source or common stock point for a given Material item.

"Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-Operator, Non-Operator Affiliates, and/or third parties.

2. STATEMENTS AND BILLINGS

The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications. Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.

The Operator may make available to Non-Operators any statements and bills required under Section I.2 and/or Section I.3.A (*Advances and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written notice to the Operator.

3. ADVANCES AND PAYMENTS BY THE PARTIES

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

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

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

4. ADJUSTMENTS

A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section I.5 (*Expenditure Audits*).

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

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

5. EXPENDITURE AUDITS

A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's accounts and records relating to the Joint Account or the Carry and Earning Agreement within the twenty-four (24) month period following the end of such calendar year in which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Section I.4 (*Adjustments*). Any Party that is subject to payout accounting under the Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

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

those Non-Operators approving such audit.

The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month requirement for taking specific detailed written exception as required in Section I.4.A (*Adjustments*) above. All claims shall be supported with sufficient documentation.

A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section I.5.B or I.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations, provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section I.5.B or I.5.C.

B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the Parties*).

C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in Section I.5.E, if the Operator fails to provide substantive response to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the Parties*).

D. If any Party fails to meet the deadlines in Sections I.5.B or I.5.C or if any audit issues are outstanding fifteen (15) months after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution meeting, as set forth in this Section I.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable. The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may be discussed at subsequent meetings until each such issue is resolved.

If the Agreement contains no dispute resolution procedures and the audit issues cannot be resolved by negotiation, the dispute shall be submitted to mediation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute shall choose a mutually acceptable mediator and share the costs of mediation services in proportion to the ownership of the Parties. The Parties shall each have present at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any Party may file a lawsuit or complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60) days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.

~~***E. ☐ (Optional Provision - Forfeiture Penalties)***~~

~~*If the Non-Operators fail to meet the deadline in Section I.5.C, any unresolved exceptions that were not addressed by the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section I.5.B or I.5.C, any unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made, without interest, to the Joint Account.*~~

6. APPROVAL BY PARTIES

A. GENERAL MATTERS

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of this Accounting Procedure and if the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the

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.

This Section I.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for charges from that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure, which are covered by Section I.6.B.

B. AMENDMENTS

If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting Procedure can be amended by an affirmative vote of _____Two_____ (2) or more Parties, one of which is the Operator, having a combined working interest of at least ___Fifty-One___ percent (51%), which approval shall be binding on all Parties, provided, however, approval of at least one (1) Non-Operator shall be required.

C. AFFILIATES

For the purpose of administering the voting procedures of Sections I.6.A and I.6.B, if Parties to this Agreement are Affiliates of each other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating Interest of such Affiliates.

For the purposes of administering the voting procedures in Section I.6.A, if a Non-Operator is an Affiliate of the Operator, votes under Section I.6.A shall require the majority in interest of the Non-Operator(s) after excluding the interest of the Operator's Affiliate.

II. DIRECT CHARGES

The Operator shall charge the Joint Account with the following items, to the extent that a reasonable and prudent operator would typically charge such items to the Joint Account:

1. RENTALS AND ROYALTIES

Lease rentals and royalties paid by the Operator, on behalf of all Parties, for the Joint Operations.

2. LABOR

A. Salaries and wages, including incentive compensation programs as set forth in COPAS MFI-37 ("Chargeability of Incentive Compensation Programs"), for:

(1) Operator's field employees directly employed On-site in the conduct of Joint Operations,

(2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving the Joint Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by Operator*) or are not a function covered under Section III (*Overhead*),

(3) Operator's employees providing First Level Supervision,

(4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded from the overhead rates in Section III (*Overhead*),

(5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded from the overhead rates in Section III (*Overhead*).

Charges for the Operator's employees identified in Section II.2.A may be made based on the employee's actual salaries and wages, or in lieu thereof, a day rate representing the Operator's average salaries and wages of the employee's specific job category.

Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties pursuant to Section I.6.A (*General Matters*).

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 Section II.2.A, excluding severance payments or other termination allowances. Such costs under this Section II.2.B 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 Section II.2.A. 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 that are applicable to costs chargeable to the Joint Account under Sections II.2.A and B.

D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the expenses are incurred in connection with directly chargeable activities.

E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are available.

G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most recently recommended by COPAS.

H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose salaries and wages are chargeable under Section II.2.A.

3. MATERIAL

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

4. TRANSPORTATION

A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.

B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material from the Joint Property to the Operator's warehouse or other storage point shall be paid for by the Joint Property using one of the methods listed below:

(1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall consistently apply the selected alternative.

(2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged directly to the Joint Property and shall not be included when calculating the Equalized Freight.

5. SERVICES

The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").

The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).

6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

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

A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation not to exceed _____twelve_____ percent (____12___%) per annum; provided, however, depreciation shall not be charged when the

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

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

7. AFFILIATES

Charges for services furnished by an Affiliate shall be charged in the same manner as Operator employees, pursuant to Section II.2. Charges for goods furnished by an Affiliate shall be charged in the same manner as charges for equipment and facilities furnished by Operator, pursuant to Section 11.6.

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

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

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

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

8. DAMAGES AND LOSSES TO JOINT PROPERTY

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

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

9. LEGAL EXPENSE

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

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

10. TAXES AND PERMITS

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

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

Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

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

11. INSURANCE

Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are conducted at locations where the Operator acts as self-insurer in regard to its worker's compensation and employer's liability insurance obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the jurisdiction governing the Joint Property. In the case of offshore operations in federal waters, the manual rates of the adjacent state shall be used for personnel performing work On-site, and such rates shall be adjusted for offshore operations by the U.S. Longshoreman and Harbor Workers (USL&H) or Jones Act surcharge, as appropriate.

12. COMMUNICATIONS

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

13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

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

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

14. ABANDONMENT AND RECLAMATION

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

15. OTHER EXPENDITURES

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations. Charges made under this Section II.15 shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

III. OVERHEAD

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

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

- warehousing, other than for warehouses that are jointly owned under this Agreement
- design and drafting (except when allowed as a direct charge under Sections II.13, III.1.A(ii), and III.2, Option B)
- inventory costs not chargeable under Section V (*Inventories of Controllable Material*)
- procurement
- administration
- accounting and auditing
- gas dispatching and gas chart integration

- human resources
- management
- supervision not directly charged under Section II.2 (*Labor*)
- legal services not directly chargeable under Section II.9 (*Legal Expense*)
- taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
- preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings with governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site inspections; reviewing, interpreting, or submitting comments on or lobbying with respect to Laws or proposed Laws.

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

1. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

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

☑ **(Alternative 1)** Fixed Rate Basis, Section III.1.B.
☐ **(Alternative 2)** Percentage Basis, Section III.1.C.

A. TECHNICAL SERVICES

(i) Except as otherwise provided in Section II.13 (*Ecological Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **On-site** Technical Services, including third party Technical Services:

☑ **(Alternative 1 – Direct)** shall be charged **direct** to the Joint Account.

☐ **(Alternative 2 – Overhead)** shall be covered by the **overhead** rates.

(ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **Off-site** Technical Services, including third party Technical Services:

☐ **(Alternative 1 – All Overhead)** shall be covered by the **overhead** rates.

☑ **(Alternative 2 – All Direct)** shall be charged **direct** to the Joint Account.

☐ **(Alternative 3 – Drilling Direct)** shall be charged **direct** to the Joint Account, **only** to the extent such Technical Services are directly attributable to drilling, redrilling, deepening, or sidetracking operations, through completion, temporary abandonment, or abandonment if a dry hole. Off-site Technical Services for all other operations, including workover, recompletion, abandonment of producing wells, and the construction or expansion of fixed assets not covered by Section III.2 (*Overhead - Major Construction and Catastrophe*) shall be covered by the overhead rates.

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

B. OVERHEAD—FIXED RATE BASIS

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

Drilling Well Rate per month $ 7,980.00 (prorated for less than a full month)

Producing Well Rate per month $ 800.00

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

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

(b) Charges for any well undergoing any type of workover, recompletion, and/or abandonment for a period of five (5) or more consecutive work–days shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date operations, with rig or other units used in operations, commence through date of rig or other unit release, except that no charges shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(3) Application of Overhead—Producing Well Rate shall be as follows:

(a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to support operations for any portion of the month shall be considered as a one-well charge for the entire month.

(b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is considered a separate well by the governing regulatory authority.

(c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one-well charge shall be made whether or not the well has produced.

(d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.

(e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a producing overhead charge.

(4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement; provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the effective date of such rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").

~~C. OVERHEAD - PERCENTAGE BASIS~~

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

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

~~(b) Operating Rate _____ percent (_____%) of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1 (*Rentals and Royalties*) and II.9 (*Legal Expense*); all Material salvage credits; the value of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that 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:~~

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

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

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

2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE

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

Major Construction shall mean 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, or in the dismantlement, abandonment, removal, and restoration of platforms, production equipment, and other operating facilities.

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

A. If the Operator absorbs the engineering, design and drafting costs related to the project:

(1) 6 % of total costs if such costs are less than $100,000; plus

(2) 4 % of total costs in excess of $100,000 but less than $1,000,000; plus

(3) 3 % of total costs in excess of $1,000,000.

B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:

(1) 5 % of total costs if such costs are less than $100,000; plus

(2) 3 % of total costs in excess of $100,000 but less than $1,000,000; plus

(3) 2 % of total 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 Major Construction project shall not be treated separately, and the cost of drilling and workover wells and purchasing and installing pumping units and downhole artificial lift equipment shall be excluded. For Catastrophes, the rates shall be applied to all costs associated with each single occurrence or event.

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

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

In the event of any conflict between the provisions of this Section III.2 and the provisions of Sections II.2 (*Labor*), II.5 (*Services*), or II.7 (*Affiliates*), the provisions of this Section III.2 shall govern.

3. AMENDMENT OF OVERHEAD RATES

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

IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and dispositions. The Operator shall provide all Material for use in the conduct of Joint Operations; however, Material may be supplied by the Non-Operators, at the Operator's option. Material furnished by any Party shall be furnished without any express or implied warranties as to quality, fitness for use, or any other matter.

1. DIRECT PURCHASES

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

2. TRANSFERS

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

A. PRICING

The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties pursuant to Section I.6.A (*General Matters*). Transfers of new Material will be priced using one of the following pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

(1) Using published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS).

(a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill carload base prices (Houston, Texas, for special end) adjusted as of date of movement, plus transportation cost as defined in Section IV.2.B (*Freight*).

(b) For other Material, the published price shall be the published list price in effect at date of movement, as listed by a Supply Store nearest the Joint Property where like Material is normally available, or point of manufacture plus transportation costs as defined in Section IV.2.B (*Freight*).

(2) Based on a price quotation from a vendor that reflects a current realistic acquisition cost.

(3) Based on the amount paid by the Operator for like Material in the vicinity of the Joint Property within the previous twelve (12) months from the date of physical transfer.

(4) As agreed to by the Participating Parties for Material being transferred to the Joint Property, and by the Parties owning the Material for Material being transferred from the Joint Property.

B. FREIGHT

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

(1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFI-38 ("Material Pricing Manual") and other COPAS MFIs in effect at the time of the transfer.

(2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per weight of tubing transferred to the Railway Receiving Point.

(3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston, Texas, to the Railway Receiving Point.

(4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point

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

C. TAXES

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

D. CONDITION

(1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties owning such Material, pursuant to Section I.6.A (*General Matters*). All refurbishing costs required or necessary to return the Material to original condition or to correct handling, transportation, or other damages will be borne by the divesting property. The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material for the receiving property.

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

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

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

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

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

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

(4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for items with different specifications, is considered Condition "D" Material. Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing, tubing, or drill pipe used as higher pressure service lines than standard line pipe, 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. For other items, the price used should result in the Joint Account being charged or credited with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A (*General Matters*).

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

E. OTHER PRICING PROVISIONS

(1) Preparation Costs

Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be provided to the Non-Operators upon request to support the cost of service. New coating and/or wrapping shall be considered a component of the Materials and priced in accordance with Sections IV.1 (*Direct Purchases*) or IV.2.A (*Pricing*), as applicable. No charges or credits shall be made for used coating or wrapping. Charges and credits for inspections shall be made in accordance with COPAS MFI-38 ("Material Pricing Manual").

(2) Loading and Unloading Costs

Loading and unloading costs related to the movement of the Material to the Joint Property shall be charged in accordance with the methods specified in COPAS MFI-38 ("Material Pricing Manual").

3. DISPOSITION OF SURPLUS

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

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

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

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

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

- Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material, based on the pricing methods set forth in Section IV.2 (*Transfers*).

- Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value of the Materials, based on the pricing methods set forth in Section IV.2 (*Transfers*), is less than or equal to the Operator's expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting the classification of the Material as Condition C.

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

4. SPECIAL PRICING PROVISIONS

A. PREMIUM PRICING

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

B. SHOP-MADE ITEMS

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

C. MILL REJECTS

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

V. INVENTORIES OF CONTROLLABLE MATERIAL

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

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

1. DIRECTED INVENTORIES

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

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

A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel performing the inventory or a rate agreed to by the Parties pursuant to Section I.6.A (*General Matters*). The per diem rate shall also be applied to a reasonable number of days for pre-inventory work and report preparation.

B. Actual transportation costs and Personal Expenses for the inventory team.

C. Reasonable charges for report preparation and distribution to the Non-Operators.

2. NON-DIRECTED INVENTORIES

A. OPERATOR INVENTORIES

Physical inventories that are not requested by the Non-Operators may be performed by the Operator, at the Operator's discretion. The expenses of conducting such Operator-initiated inventories shall not be charged to the Joint Account.

B. NON-OPERATOR INVENTORIES

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

C. SPECIAL INVENTORIES

The expense of conducting inventories other than those described in Sections V.1 (*Directed Inventories*), V.2.A (*Operator Inventories*), or V.2.B (*Non-Operator Inventories*), shall be charged to the Party requesting such inventory; provided, however, inventories required due to a change of Operator shall be charged to the Joint Account in the same manner as described in Section V.1 (*Directed Inventories*).

EXHIBIT D

Attached to and made a part of that certain Operating Agreement dated November 1, 2014 for the development and operation of the Venado Canyon Unit BLM Contract No. _____.

INSURANCE

1. Operator shall, at all times while performing any operation permitted under this Agreement carry and charge to the Joint Account insurance for such Non-Operators electing to be covered under Operator's insurance, which, unless otherwise agreed, shall comprise of the following coverage:

   A. Commercial General Liability

      $10,000,000. Each occurrence and in the aggregate

   B. Operator's Extra Expense (Control of Well)

      $20,000,000. Combined Single Limit and any one accident or occurrence

2. Operator and Non-operators, in relation to their respective employees and motor vehicles, shall at all times while performing under this Agreement carry the following minimum amounts of insurance:

   A: Workmen's Compensation in accordance with Federal law and the laws of the State in which operations will be conducted and/or other applicable jurisdiction.

   B. Employer's Liability

a.	Bodily Injury by Accident	$1,000,000 each accident
b.	Bodily Injury by Disease	$1,000,000 policy limit
c.	Bodily Injury by Disease	$1,000,000 each employee

   C. Comprehensive Automobile Public Liability

a.	Bodily Injury	$2,000,000 per occurrence
b.	Property Damage	$2,000,000 per occurrence

3. Operator may obtain additional insurance as deemed appropriate in addition to that set forth above, and Non-Operator's participation is subject to Non-Operator's approval. Premiums associated with the insurance for the benefit of the Joint Account herein shall be charged to the Joint Account.

4. the insurance provided for herein for the benefit of the Joint Account provides for certain deductibles to be borne by the insured parties. In the event of a claim is made by the Operator on behalf of the Joint Account, and the insurance proceeds are subject to reduction as a result of a deductible provision, said deductible amount shall be a direct charge to the Joint Account.

5. in the event a Non-Operator elects to carry its own insurance and waive the insurance coverage set forth above (including any additional insurance obtained by the Operator), then the Non-Operator shall notify Operator seven days prior to any operation proposed under this Agreement wherein the applicable premiums shall not be charged to the Joint Account. **If Non-Operator elects to carry its own insurance, or at any time upon request of Operator, Non-Operator shall provide Certificate of Insurance confirming its insurance coverage.**

-END-

NOTE: Instructions For Use of Gas Balancing Agreement MUST be reviewed before finalizing this document.

EXHIBIT "E"

GAS BALANCING AGREEMENT ("AGREEMENT")

ATTACHED TO AND MADE PART OF THAT CERTAIN

OPERATING AGREEMENT DATED NOVEMBER 1, 2014 BY AND BETWEEN ENCANA OIL & GAS (USA) INC. AND DUGAN PRODUCTION CORP. ET AL. AS NON-OPERATORS ("OPERATING AGREEMENT") RELATING TO THE VENADO CANYON UNIT CONTRACT AREA, SANDOVAL COUNTY, STATE OF NEW MEXICO .

1. DEFINITIONS

The following definitions shall apply to this Agreement:

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

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

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

☑ all of the acreage and depths subject to the Operating Agreement, subject to the further provisions of Section 14.1.

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

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

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

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

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

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

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

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

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

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

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

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

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

1.16 ☑ **(Optional)** "Winter Period" shall mean the month(s) of November and December in one calendar year and the month(s) of January, February and March in the succeeding calendar year.

2. BALANCING AREA

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

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

3. RIGHT OF PARTIES TO TAKE GAS

3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this Agreement.

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

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

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

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

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

4. IN-KIND BALANCING

4.1 Effective the first day of any calendar month following atleast thirty (30) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying fifty percent (50%) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than fifty percent (50%) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

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

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

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

5. STATEMENT OF GAS BALANCES

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

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

6. PAYMENTS ON PRODUCTION

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

6.2 ☐ **(Alternative 1 - Entitlements)** Each Party shall pay or cause to be paid all Royalty due with respect to Royalty owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of Current Production.

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

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

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

7. CASH SETTLEMENTS

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

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

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

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

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

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

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

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

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

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

7.5.2 ☑ **(Optional - Valuation for Processed Gas - Option 2)** For Overproduction processed for the account of the Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash settlement will include the proceeds received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from the Overproduction, less the actual reasonable costs incurred by the Overproduced Party to process the Overproduction and to

transport, fractionate and handle the liquid hydrocarbons extracted therefrom prior to sale.

7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be based on the spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing bulletin.

7.7 Interest compounded at the rate of ZERO percent (0 %) per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1 beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.

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

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

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

8. TESTING

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

9. OPERATING COSTS

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

10. LIQUIDS

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

11. AUDIT RIGHTS

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

12. MISCELLANEOUS

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

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

12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or

willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party, (other than Operator) to pay any amounts owed pursuant to the terms hereof.

12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

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

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

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

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

12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all Parties, each Party agrees to compute and report income to the Internal Revenue Service **(select one)** ☐ as if such Party were taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same relate to entitlement method tax computations; or ☐ based on the quantity of Gas taken for its account in accordance with such regulations, insofar as same relate to sales method tax computations. See section 14.2 below.

13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

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

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

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

14. OTHER PROVISIONS

14.1 If a well is completed in two (2) or more producing intervals where the working interests and royalty ownership are not uniform as to all such intervals, those producing intervals having uniform working interests and royalty ownership shall be considered a separate Balancing Area. If a well or group of wells have uniform working interest and royalty ownership, but any such well or wells are considered to be in a different State and/or Federal Communitized Area, State and Federal Unit, or pooled unit, each such well or group of wells shall be considered a separate Balancing Area.

14.2 In accordance with I.R.S. Regulations Section 1.761-2(d)(2)(i), all parties agree to use the cumulative gas balancing method as described in the I.R.S. Regulations Section 1.761–2(d)(3), to compute and report taxable income.

15. COUNTERPARTS

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

IN WITNESS WHEREOF, this Agreement shall be effective as of the 1st day of November, 2014.

ATTEST OR WITNESS:

OPERATOR

ENCANA OIL & GAS (USA) INC.
Acting by and through its authorized Agent,
Encana Service Company Ltd.

_____ BY: _____

_____ Constance D. Heath
Type or print name

Title: Director of Land Negotiation

Date: _____

Tax ID or S.S. No. _____

EXECUTION OF NON-OPERATOR BY RATIFICATION AND JOINDER

NON-OPERATORS

_____

_____ BY: _____

_____
Type or print name

Title: _____

Date: _____

Tax ID or S.S. No. _____

_____

_____ BY: _____

_____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

ACKNOWLEDGMENTS

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

Acknowledgment in representative capacity:

State of _____)
) ss.
County of _____)

This instrument was acknowledged before me on _____

By Constance D. Heath as Director of Land Negotiation of Encana Services Company Ltd., authorized agent for Encana Oil & Gas (USA) Inc.,

(Seal, if any)

_____

Title (and Rank) _____

My commission expires: _____

Acknowledgment in representative capacity:

State of _____)
) ss.
County of _____)

This instrument was acknowledged before me on _____

_____ by _____ as _____ of _____.

(Seal, if any)

Title (and Rank) _____

My commission expires: _____

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated November 1, 2014 for the development and operation of Venado Canyon Unit BLM Contract No. _____.

Non-Discrimination and Equal Opportunity

In the performance of this Agreement, Operator shall not engage in any conduct or practice which violates any applicable law, order or regulation prohibiting discrimination against any person by reason of race, religion, color, sex, national origin or age. Operator, unless exempt therefrom, further agrees to comply fully with the non-discrimination provisions of Section 202 of Executive Order No. 11246 (30 CFR 12319) which are included in this Agreement as fully as if copied herein.

End of Exhibit "F"

Exhibit "G"

Attached to and made a part of that certain Operating Agreement dated November 1, 2014 for the development and operation of the Venado Canyon Unit BLM Contract No. _____

Exhibit "G" is intentionally omitted from this Agreement

AAPL – FORM 610RS – 1989

Exhibit "H"

Attached to and made a part of that certain Operating Agreement dated November 1, 2014 for the development and operation of the Venado Canyon Unit BLM Contract No. _____.

MODEL FORM RECORDING SUPPLEMENT TO OPERATING AGREEMENT AND FINANCING STATEMENT

THIS AGREEMENT, entered into by and between **Encana Oil & Gas (USA) Inc.**, hereinafter referred to as "Operator," and the signatory party or parties other than Operator, hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

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

WHEREAS, the parties hereto have executed an Operating Agreement dated **November 1, 2014** (herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and,

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

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

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

2. The parties do hereby agree that:

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

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

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

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

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

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

   G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. Other provisions.

AAPL – FORM 610RS – 1989

ENCANA OIL & GAS (USA) INC. who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exceptions(s) listed below, is identical to the AAPL Form 610RS-1989 Model Form Recording Supplement to Operating Agreement and Financing Statement, as published in computerized form by Forms-On-A-Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles ___, have been made to the form

IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of November, 2014.

OPERATOR

ATTEST OR WITNESS

_____

_____

Encana Oil & Gas (USA) Inc.,
acting by and through its authorized agent
Encana Services Company Ltd.

By _____
Constance D. Heath

Title: Director, Land Negotiations

Date: _____

Address: 370 17th Street, Suite 1700, Denver, CO 80202

NON -OPERATORS

ATTEST OR WITNESS

_____

_____

DUGAN PRODUCTION CORP.

By _____

Title: _____

Date: _____

Address: _____

ATTEST OR WITNESS

_____

_____

ROBERT L. BAYLESS PRODUCER, LLC

By _____

Title: _____

Date: _____

Address: _____

ATTEST OR WITNESS

_____

_____

By _____

Title: _____

Date: _____

Address: _____

ATTEST OR WITNESS

_____

_____

By _____

Title: _____

Date: _____

Address: _____

STATE OF COLORADO)
) SS
COUNTY OF DENVER)

This instrument was acknowledged before me on _____ by Constance D. Heath,

as Director, Land Negotiation for Encana Services Company, Ltd., authorized agent of Encana Oil & Gas (USA) Inc..

My Commission Expires:

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

This instrument was acknowledged before me on _____ by _____,

As _____ of _____.

My Commission Expires:

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

This instrument was acknowledged before me on _____ by _____,

As _____ of _____.

My Commission Expires:

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

This instrument was acknowledged before me on _____ by _____,

As _____ of _____.

My Commission Expires:

_____
Notary Public

Exhibit A

Attached to and made a part of that certain Recording Supplement to Operating Agreement and Financing Statement dated November 1, 2014 entered into for the development and operation of the Venado Canyon Unit BLM Contract No. _____

I. LANDS SUBJECT TO UNIT OPERATING AGREEMENT

Lands covered by Venado Canyon Unit Area Contract No. _____, more specifically described as follows:

Township 22 North, Range 6 West, N.M.P.M.
Section 1: S2
Section 10: E2, SW
Section 11: All
Section 12: All
Section 13: All
Section 14: All
Section 15: N2, SW
Section 23: W2
Section 24: NE
Sandoval County, New Mexico
Containing 4,320 acres, more or less

II. RESTRICTIONS, IF ANY, AS TO DEPTHS OR FORMATIONS:

Limited to Unitized Substances covered by the **Venado Canyon Unit Agreement**, including genetically related rocks from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the stratigraphic equivalent of the base of the Greenhorn Limestone as shown in the DOUBLE OUGHT 1 Well (API #30043200890000) in Section 12, Township 22 North, Range 6 West, N.M.P.M. are unitized under the terms of this agreement and herein are called "unitized substances" (see type log attached as Exhibit "A-2")

III. OIL & GAS LEASES SUBJECT TO THIS AGREEMENT:

Lessor:	USA Serial No. NMNM-109385
Original Lessee:	Dugan Production Corp.
Lease Date:	December 1, 2002
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 1 S2 Section 11 W2, SE Section 12 All Containing 1,440.00 acres, more or less Sandoval County, NM

Lessor:	USA Serial No. NMNM-109390
Original Lessee:	Dugan Production Corp.
Lease Date:	December 1, 2002
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 23 W2 Section 24 NE Containing 480.00 acres, more or less Sandoval County, NM

Lessor:	USA Serial No. NMNM-117562
Original Lessee:	Robert L. Bayless Producer, LLC
Lease Date:	March 1, 2007
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 10 E2, SW Section 13 All Section 14 All Section 15 N2, SW Containing 2,240.00 acres, more or less Sandoval County, NM

Lessor:	Merrion Oil & Gas Corporation
Original Lessee:	Encana Oil & Gas (USA) Inc. et al
Lease Date:	September 15, 2014
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 11: NE Containing 160.00 acres, more or less Sandoval County, NM

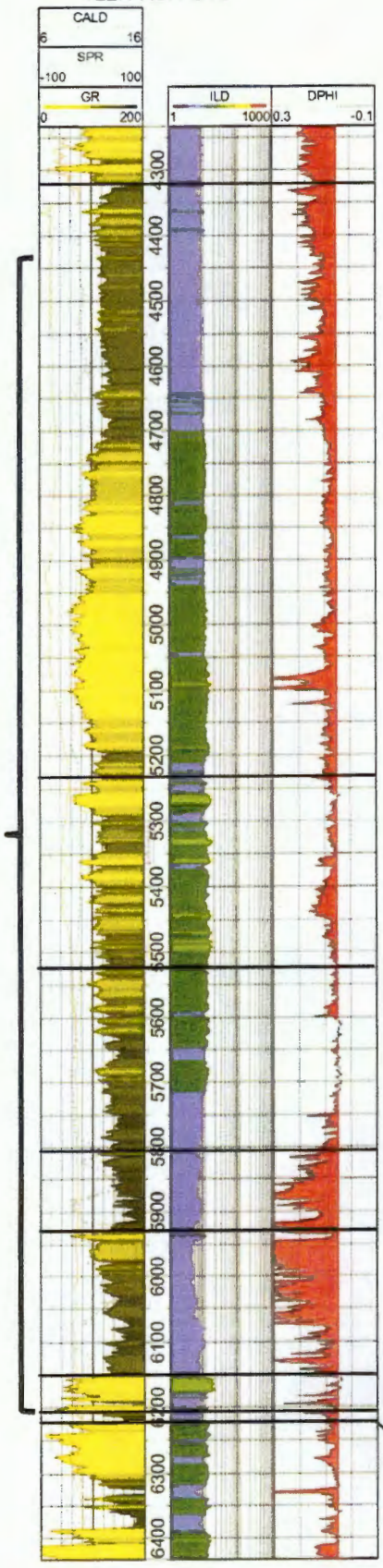
Lessor:	Donald J. Merrion Trust, et al
Original Lessee:	Merrion Oil & Gas Corporation
Lease Date:	September 15, 2014
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 11: NE Containing 160.00 acres, more or less Sandoval County, NM

Lessor:	Lorna R. Harvey
Original Lessee:	Merrion Oil & Gas Corporation
Lease Date:	April 14, 2014
Description:	Township 22 North, Range 6 West, N.M.P.M. Section 11: NE Containing 160.00 acres, more or less Sandoval County, NM

Exhibit "A-2"
Attached to
Unit Operating Agreement
Venado Canyon Unit
Recording Supplement

30043200890000
DOUBLE OUGHT 1

TESORO PETRO CORP
SPUD_DATE : 4/72
TD : 6,605
T22N R6W S12



Venado Canyon Unit Depths

Mancos Shale
(Base Mesa Verde Group)

Gallup

Base Gallup

Juana Lopez

Carlile

Greenhorn
Graneros Shale (Base Greenhorn)

Dakota Group

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Field Office
6251 College Blvd, Suite A
Farmington, New Mexico 87402

In Reply Refer To:
Venado Canyon Unit
NMNM135367X

December 14, 2015

Ms. Mona L. Binion
Encana Oil and Gas (USA) Inc.
370 17th Street, Suite 1700
Denver, Colorado 80202

Dear Ms. Binion:

The Venado Canyon Unit Agreement, Sandoval County, New Mexico was approved December 8, 2015. This agreement has been assigned case recordation number NMNM-135367X. The basic information associated with this unit is as follows:

1. This is an Undivided Unit and only the Mancos Formation is unitized.

2. This unit includes only Federal and Fee mineral interest

3. The leases committed to the Venado Canyon Unit will not be horizontally segregated.

4. The test and initial obligation well will be the Lybrook P03-2206-01H. The (SHL) will be in Federal lease NMNM-109386 in the SESE Section 3, T.22N., R.6W. The entry point will be in Federal lease NMNM-117562 in the NWNE of Section 10, T.22N., R.6W to ending point or (BHL) in Federal lease NMNM-117562 in the SWNE of section 15, T.22N., R.6W., Sandoval County, New Mexico.

5. The following are uncommitted lands within the Venado Canyon Unit:

   a. *NMNM109385 Lots 1-4, S1/2 N1/2 Section 1, T.22N., R.6W.
   b. *NMNM109390 S1/2 Section 24 , T.22N., R.6W.

6. The following Federal leases embrace lands within the Venado Canyon Unit:
   a. NMNM109385* HBP Actual
   b. NMNM117562 HBP Actual
   c. NMNM109385 HBP Actual
   d. NMNM109390* HBP Actual

*These leases contain lands both inside and outside the Venado Canyon Unit, and are subject to lease segregation provisions pursuant to 43CFR 3107.3-2, Segregation of leases commited in part.

The Venado Canyon Unit embraces 4,320.00 acres more or less, of which 4,160.00 acres is Federal mineral estate (96.296296%) and 160.00 acres is Fee lands (3.703704%). Encana USA is assured effective control over unit operations by conveyance of both the lessee of record and working interest owners. All lands embraced within the Venado Canyon Unit are fully committed.

In view of the foregoing commitment status, effective control of the unit area has been established. We are of the opinion that this agreement is in the public interest and for the purpose of more properly conserving natural resources.

This unit provides for drilling of the obligation well (Lybrook P03-2206-01H) and subsequent drilling obligations pursuant to Section 9 of the unit agreement and the Plan of Development. The obligation well is considered to be a contractual commitment on the part of the Unit Operator. No extension of time beyond May 14, 2016 will be granted to commence the obligation well other than Unavoidable Delay (Section 23), where justified. Any extension granted for unavoidable delay requires convincing written justification and documentation prior to the critical date and is limited to 30 days with possible renewal for 30 day periods if the delay is extensive, with timely written documentation for each extension. Two horizontal wells have already been drilled within the Unit and have been producing since March of 2015.

Pursuant to 43 CFR 3183.4(b) and Section 9 of the unit agreement, if the Public Interest Requirement is not fulfilled, the unit will be declared invalid, ab initio and no lease committed to this agreement shall receive the benefits of unititization pursuant to 43 CFR 3107.3-2 and 3107.4.

Approval of this agreement does not warrant or certify that the operator thereof and other holders of operating rights hold legal or equitable title to those rights in the subject leases which are committed hereto.

Copies of the agreement are being distributed to the appropriate Federal and State agencies. You are requested to furnish all interested parties with appropriate evidence of this approval.

See attached Conditons of Approval

Sincerely,

Dave Mankiewicz
Assistant Field Manager, Minerals

12/14/2015

cc: Commissioner of Public Lands, Santa Fe, NM
New Mexico Oil Conservation Division
Office of Natural Resources Revenue (ONRR)

Bcc: Venado Canyon Unit File
AFMSS/LR2000
NMF0111: 12/14/15

Venado Canyon Unit Approval Certification-Determination Page

CERTIFICATE-DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, Under the Act approved February 25, 1920, 41 Stat., 437as amended, 30 U.S.C. sec 181, et seq., and delegated to the Authorized Officer of the Bureau of Land Management, under the authority of 43 CFR 3180, I do hereby certify:

A. Approve the attached agreement for the development and operation of the West Lybrook Unit Area, San Juan County, New Mexico. This approval shall be considered invalid, ab initio if the public interest requirement under 3183.4(b) of this title is not met.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of all Federal leases committed to said Agreement are hereby established, altered, changed or revoked to conform with the terms and conditions of this agreement.

Dated: December 14, 2015

Dave Mankiewicz
Assistant Field Manager, Minerals
Bureau of Land Management

Contract No. 135367X

12/14/2015

Conditions of Approval – Venado Canyon Unit

Approval of Venado Canyon Unit is granted by the Authorized Officer subject to the following conditions:

Within 180 days from the approval date hereof, Encana Oil and Gas (USA) Inc. will submit to Authorized Officer an application for development of the following unleased Federal mineral tracts with Tribal Trust surface ("Offset Mineral Tracts") which are directly offsetting the boundary of the Venado Canyon Unit as approved herein:

Offset Mineral Tracts with Tribal Trust Surface

1) SE/4 section 15 and the adjoining NE/4 N/E of section 22
2) NE/4 section 23
3) NW/4 section 24 all in T22N, R6W

Within 60 days from receipt of the application for development of the Offset Mineral Tracts, Authorized Officer shall provide written approval or rejection of said application. If the application for development of the Offset Mineral Tracts is approved then the Venado Canyon Unit as approved herein shall remain in full force and effect. If the application for development of the Offset Mineral Tracts is not approved, then Authorized Officer shall have the option to terminate the Venado Canyon Unit.

It has been discussed and prearranged by Encana Oil and Gas that additional adjacent unleased Federal mineral tracts with Tribal Trust surface are to be included in other neighboring Federal Units so that all "Offset Mineral Tracts" located in T22N, R6W are included in proposed Encana units.

It is further recognized that these "Offset Mineral Tracts" and other adjacent Tribal Trust surface Federal mineral lands would have a no surface use development stipulation applied to them.

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

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:

CASE NO. 15337
ORDER NO. R-14067

APPLICATION OF ENCANA OIL AND GAS (USA) INC. FOR APPROVAL OF THE VENADO CANYON UNIT, SANDOVAL COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 25, 2015, at Santa Fe, New Mexico, before Examiner Michael McMillan.

NOW, on this 29th day of October, 2015, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) Encana Oil and Gas (USA) Inc. ("Applicant" or "Encana") seeks:

(a) Approval of the Venado Canyon Unit (the "Unit") comprising 4,320 acres, more or less, of Federal and Fee lands in Sandoval County, New Mexico; and

(b) Authority to drill horizontal wells within the Unit such that the completed interval is located no closer than 330 feet to the outer boundary of the Unit.

(3) The Unit comprises the following-described acreage located in Sandoval County, New Mexico:

TOWNSHIP 22 NORTH, RANGE 6 WEST, NMPM

Section 1:	S/2
Section 10:	NE/4 and S/2

Sections 11 through 14:	All
Section 15:	SW/4 and N/2
Section 23:	W/2
Section 24:	NE/4

(4) The Unitized Interval includes all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of the Mesa Verde Group) as defined at a depth of approximately 4330 feet below surface to the stratigraphic equivalent of the base of the Greenhorn Limestone as defined at a depth of approximately 6200 feet below surface as shown on the log run on the Tesoro Petroleum Corporation Double Ought Well No. 1 (API 30-043-20089) located in Section 12, Township 22 North, Range 6 West, NMPM, Sandoval County, New Mexico.

(5) The Unit will be developed and operated as a single Participating Area and will therefore constitute a single Project Area in accordance with Division Rule 19.15.16.7.L(2) NMAC.

(6) There are currently no existing Division-designated Gallup pools within the Unit, or within two miles of the Unit. The two active horizontal wells in the Unit are currently dedicated to the Lybrook-Gallup Oil Pool (pool code 42289) which is subject to Division Rule 19.15.15.9 NMAC, which requires standard 40-acre oil spacing and proration units with wells to be located no closer than 330 feet to the outer boundary of the spacing unit.

(7) Applicant appeared at the hearing through counsel and presented the following testimony:

(a) The Unit is comprised of three separate Federal leases and three separate Fee leases;

(b) All interests in the Unit are expected to be committed to the Unit;

(c) The Unit Agreement was prepared on the form prescribed by the Bureau of Land Management ("BLM"), but has been modified in two significant respects:

(a) It applies only to horizontal oil wells in the Unitized Interval; and

(b) The entire Unit is established as a single Participating Area.

(d) The Unit Agreement will be executed by the BLM;

(e) Applicant has discussed the Unit and the Unit development plans with the BLM. Following these discussions, the BLM issued a letter providing preliminary approval of the Unit;

(f) Applicant has provided notice of this application and hearing by certified mail to all working interest owners in the Unit;

(g) The Unit will be developed to produce oil from the Mancos formation;

(h) No faults, pinch-outs or other geologic impediments exist to prevent the Unitized Interval from being developed by horizontal oil wells;

(i) The available well control in the area demonstrates that the Unitized Interval identified in the type log is laterally contiguous across the entire Unit;

(j) Two horizontal wells have been drilled in the proposed Unit. The Encana Lybrook P03 2206 Wells No. 1H (API No. 30-043-21221) and 2H (API No. 30-043-21220), located at surface locations in Section 3 and bottomhole locations in Section 15, Township 22 North, Range 6 West, NMPM, were spud in November, 2014 and both commenced production in March, 2015; and

(k) The effective date of the proposed Unit as stated in the Venado Canyon Unit Agreement is November 1, 2014 which generally corresponds to the spud date of the Lybrook P03 2206 Well No. 1H.

The Division concludes as follows:

(8) The Applicant has provided proper and adequate notice of this application and hearing to the working interest owners in the Unit.

(9) The Unit Agreement provides that the entire Unit shall comprise a single Participating Area, consequently, the Unit constitutes a single horizontal Project Area for horizontal oil wells pursuant to Division Rule 19.15.16.7.L(2) NMAC.

(10) The geologic evidence presented demonstrates that the entire Unit should be productive within the Unitized Interval.

(11) Applicant intends to fully develop the Unit with a sufficient number of horizontal wells to drain the Unitized Interval within the entire Unit. To ensure full development of the Unit, the Unit Agreement contains provisions that: i) require continuous drilling until a well is drilled that is capable of producing in paying quantities, which has already occurred; and ii) require the Unit Operator, subsequent to drilling a well capable of producing in paying quantities, to submit an annual plan of development to the Authorized Officer of the Department of the Interior and the Division for approval.

(12) The correlative rights of all interest owners in the Unit will be protected provided that the Unit is ultimately fully developed in the Unitized Interval.

(13) Approval of the Unit will provide the Applicant the flexibility to locate and drill wells in the Unit in order to maximize the recovery of oil and gas from the Unitized Interval, thereby preventing waste, and will provide the Applicant the latitude to conduct operations in an effective and efficient manner within the Unit.

(14) The provisions contained within the Venado Canyon Unit Agreement are in compliance with Division rules and the Oil and Gas Act. Further, development and operation of the Unit Area, as proposed, complies with the Division's conservation principles.

(15) The Venado Canyon Unit should be approved.

(16) The Unit Operator should be required to submit a Division Form C-102 for each horizontal well drilled in the Unit that shows: i) the drilling block for that particular well (each standard-sized spacing unit penetrated by the well); and ii) the total acreage within the Unit and the Division order number approving the Unit.

(17) Applicant should submit a copy of the annual Venado Canyon Unit Plan of Development to the Division for review and approval.

(18) Wells subsequently drilled in the Venado Canyon Unit should be dedicated to the Lybrook-Gallup Pool, provided however, if a new pool for Mancos development is formed that encompasses the Venado Canyon Unit, the Lybrook-Gallup Pool will be contracted, and the wells in the Venado Canyon Unit incorporated into the new Gallup pool. In that event, the operator of the Venado Canyon Unit should be required to file the necessary forms with the Division to dedicate those wells to the new pool.

(19) The applicant's request for authority to drill horizontal wells within the Unit such that the completed interval is located no closer than 330 feet to the outer boundary of the Unit is not necessary since the wells will be classified within the Lybrook-Gallup Pool, which is currently spaced on 40 acres with 330 foot well setbacks.

(20) This application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The Venado Canyon Unit (the "Unit) consisting of 4,320 acres, more or less, of Federal and Fee lands in Sandoval County, New Mexico, is hereby approved.

(2) The Unit shall comprise the following-described acreage in Sandoval County, New Mexico:

TOWNSHIP 22 NORTH, RANGE 6 WEST, NMPM

Section 1:	S/2
Section 10:	NE/4 and S/2
Sections 11 through 14:	All
Section 15:	SW/4 and N/2

Section 23:	W/2
Section 24:	NE/4

(3) The Unitized Interval shall comprise all formations from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of the Mesa Verde Group) as defined at a depth of approximately 4330 feet below surface to the stratigraphic equivalent of the base of the Greenhorn Limestone as defined at a depth of approximately 6200 feet below surface as shown on the log run on the Tesoro Petroleum Corporation Double Ought Well No. 1 (API 30-043-20089) located in Section 12, Township 22 North, Range 6 West, NMPM, Sandoval County, New Mexico.

(4) Subsequently drilled horizontal wells within the Unitized Interval in the Venado Canyon Unit shall be dedicated to the Lybrook-Gallup Pool, provided however, if a new pool for Mancos development is formed that encompasses the Venado Canyon Unit, the Lybrook-Gallup Pool will be contracted, and the wells in the Venado Canyon Unit shall be incorporated into the new Mancos pool. In that event, the operator of the Venado Canyon Unit shall file the necessary forms with the Division to dedicate those wells to the new pool.

(5) The Unit constitutes a single Project Area for horizontal oil well development pursuant to Division Rule 19.15.16.7.L(2) NMAC. Accordingly, Unit wells may be drilled anywhere within the Unit provided that no portion of the completed interval is closer than 330 feet to the outer boundary of the Unit unless otherwise approved by the Division pursuant to Division Rule 19.15.15.13 NMAC.

(6) Encana Oil and Gas (USA) Inc. (OGRID 282327), is hereby designated the operator of the Unit.

(7) The Unit Operator shall submit a Division Form C-102 for each horizontal well drilled in the Unit that shows: i) the drilling block for that particular well (each standard-sized spacing unit penetrated by the well); and ii) the total acreage within the Unit and the Division order number approving the Unit.

(8) The plan contained within the Venado Canyon Unit Agreement for the development and operation of the Unit is hereby approved in principle as a proper conservation measure, provided however, notwithstanding any of the provisions contained in the Unit Agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty or obligation which is now, or may hereafter be, vested in the Division to supervise and control operations for the Unit and production of oil and gas therefrom.

(9) The Unit operator shall file with the Division an executed original or executed counterpart of the Unit Agreement within 60 days of the date of this order. In the event of subsequent joinder by any other party, or expansion or contraction of the Unit Area, the Unit operator shall file with the Division, within 60 days thereafter, counterparts of the Unit Agreement reflecting the subscription of those interests having joined or ratified.

(10) All plans of development for the Venado Canyon Unit shall be submitted annually to the Division for review and approval.

(11) The Applicant shall provide to the Division a copy of the Bureau of Land Management's final approval of the Venado Canyon Unit.

(12) Division approval of the Venado Canyon Unit shall be effective on the first day of the month following entry of this order OR, the date in which final approval of the Venado Canyon Unit is obtained from the Bureau of Land Management, whichever is later.

(13) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director

Exhibit "C"
Type Log Showing
Venado Canyon Unit
Depths

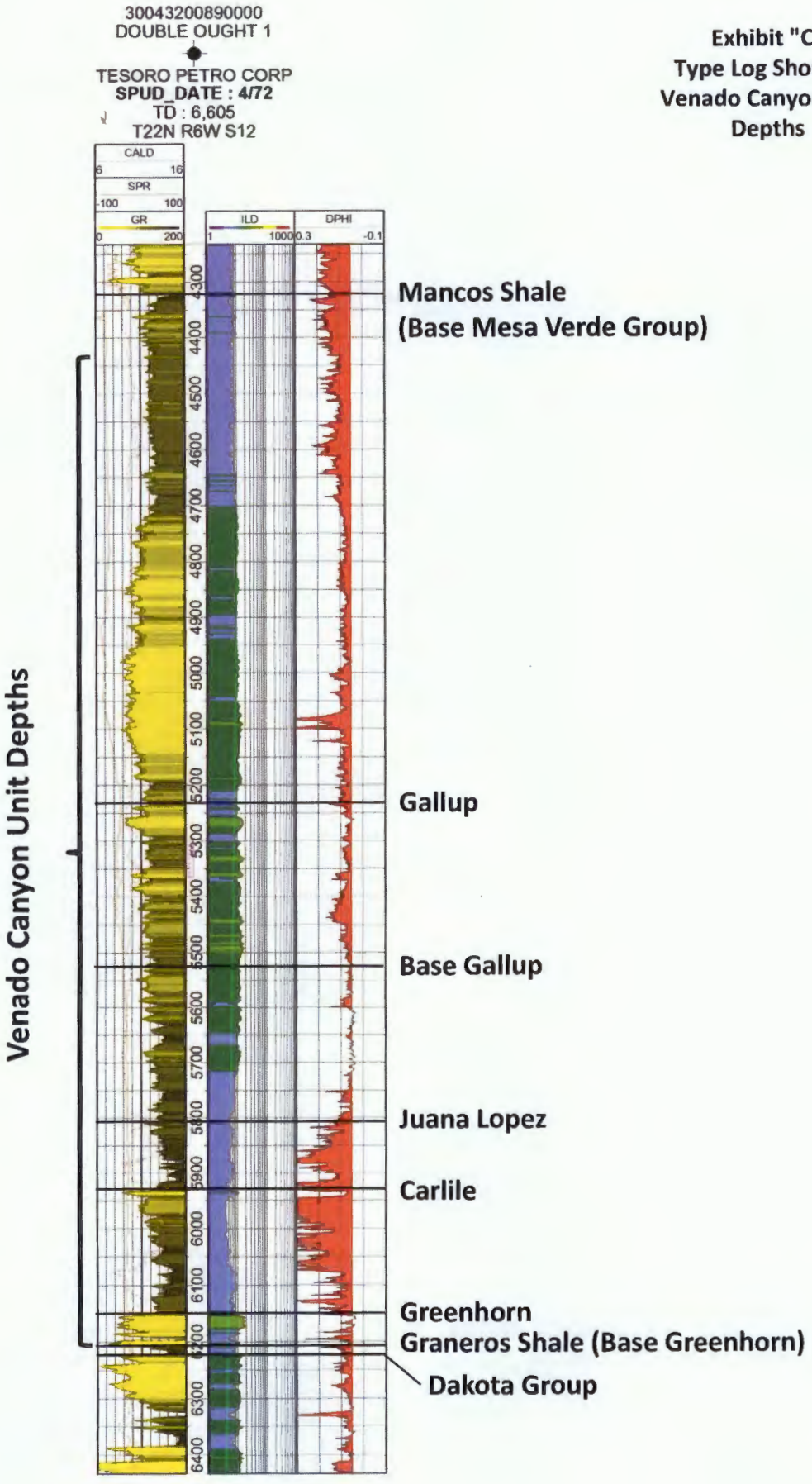


EXHIBIT "B"

Schedule Showing Percentage and Kind of Ownership of Oil and Gas Interests

VENADO CANYON UNIT AREA

Sandoval County, New Mexico

The Oil and Gas Lease ownerships described in this schedule are limited to the stratigraphic equivalent of the interval described as the Mancos Shale Group, including the genetically related rocks from 100 feet below the stratigraphic equivalent of the top of the Mancos Shale (base of Mesa Verde Group) to the stratigraphic equivalent of base of the Greenhorn Limestone as shown in the DOUBLE OUGHT 1 (API #30043200890000).

Tract Number	*Description of Land*	*Number of Acres*	*Serial Number / Lessor and Expiration Date of Lease*	*Mineral Interest*	*Lessee of Record and Percentage*		*Basic Royalty and Percentage*	*Overriding Royalty and Percentage*		*Working Interest and Percentage*	
FEDERAL LANDS:											
1	Township 22 North, Range 6 West, NMPM Section 1 S2 Section 11 W2, SE Section 12 All	1,440.00	NMNM 109385 Effective Date 12/01/2002 Expiration Date HBP	100.000000%	Dugan Production Corp.	100.000000%	USA - All (12.5%)	Dugan Production Corp.	2.500000%	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	50.000000% 50.000000%
2	Township 22 North, Range 6 West, NMPM Section 23 W2 Section 24 NE	480.00	NMNM 109390 Effective Date 12/01/2002 Expiration Date HBP	100.000000%	Dugan Production Corp.	100.000000%	USA - All (12.5%)	Dugan Production Corp.	2.500000%	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	50.000000% 50.000000%
3	Township 22 North, Range 6 West, NMPM Section 10 E2, SW Section 13 All Section 14 All Section 15 N2, SW	2,240.00	NMNM 117562 Effective Date 03/01/2007 Expiration Date HBP	100.000000%	Robert L. Bayless, Producer LLC	100.000000%	USA - All (12.5%)	Bayless Ranches, LLC	7.500000%	Encana Oil & Gas (USA) Inc. Robert L. Bayless, Producer LLC	87.500000% 12.500000%
	3 Federal Tracts Totalling	**4,160.00**	**acres or 96.296296% of Unit Area**								
STATE LANDS:	NONE										
	0 State Tracts Totalling	**-**	**acres or 0.00% of Unit Area**								

Tract Number	Description of Land	Number of Acres	Serial Number / Lessor and Expiration Date of Lease	Mineral Interest	Lessee of Record and Percentage		Basic Royalty and Percentage		Overriding Royalty and Percentage	Working Interest and Percentage	
PATENTED LANDS:											
4	Township 22 North, Range 6 West, NMPM Section 11 NE	160.00	Merrion Oil & Gas Corporation Bk. 417 / Pg. 23460 Effective Date 09/15/2014 Expiration Date 09/15/2019	48.048611%	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%	Merrion Oil & Gas Corporation (20%)	None		Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%
			Donald J. Merrion Trust, et al. Bk. 417 / Pg. 21870 Effective Date 09/15/2014 Expiration Date 09/15/2019	39.451389%	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%	Donald J. Merrion Trust, et al. (20%)	None		Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%
			Lorna R. Harvey Bk. 417 / Pg. 9813 Effective Date 04/14/2014 Expiration Date 04/14/2019	12.500000%	Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%	Lorna R. Harvey (20%)	None		Encana Oil & Gas (USA) Inc. Dugan Production Corp.	75.000000% 25.000000%
	1 Patented Tract Totalling	**160.00**	**acres or 3.703704% of Unit Area**								
ALLOTTED LANDS	NONE										
	0 Allotted Tracts totalling	**-**	**acres or 0.00% of Unit Area**								

Total Unit Acres	**4,320.00**	
Federal	**4,160.00**	**96.296296%**
State	**-**	**0.000000%**
Patented	**160.00**	**3.703704%**
Allotted	**-**	**0.000000%**
Total Unit Acres	**4,320.00**	**100.000000%**

encana

VENADO CANYON UNIT
SUBMITTAL
November 12, 2015

OVERRIDING ROYALTY INTEREST JOINDER
Bayless Ranches, LLC

RATIFICATION AND JOINDER OF UNIT AGREEMENT

In consideration of the execution of the Unit Agreement for the development and operation of the **Venado Canyon Unit Area**, San Juan County, New Mexico, dated effective November 1, 2014 in form approved on behalf of the Secretary of the Interior, the undersigned (whether one or more) hereby expressly joins said Unit Agreement and ratifies, approves, adopts and confirms said Unit Agreement as fully as though the undersigned had executed this original Agreement.

This Ratification and Joinder shall be effective as to the undersigned's interests in any lands and leases, or interests therein, and royalties presently held or which may arise under existing option agreements or other interests in unitized substances, covering the lands within the Unit Area in which the undersigned may be found to have an oil or gas interest.

This Ratification and Joinder shall be binding upon the undersigned, his, her, or its heirs, devises, executors, assigns or successors in interest.

EXECUTED this 9th day of November, 2015.

By: _____

Tract(s): 3

Address: 621 17th Street Suite 2300
Denver, CO 80293

INDIVIDUAL ACKNOWLEDGMENT

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledgment before me by _____
_____ this _____ day of _____, 20___.

WITNESS my hand and official seal.

My commission expires:

_____ _____
Notary Public

CORPORATE & TRUSTEE ACKNOWLEDGMENT

STATE OF Colorado)
) ss.
COUNTY OF Denver)

The foregoing instrument was acknowledged before me by Robert L. Bayless, Jr.
as Manager of Bayless Ranches LLC this 9th
day of November, 2015.

WITNESS my hand and official seal.

My commission expires:

6-23-18 _____
Notary Public

CRANFORD DELANO NEWELL JR.
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 20104017096
MY COMMISSION EXPIRES JUNE 23, 2018

encana

VENADO CANYON UNIT
SUBMITTAL
November 12, 2015

ROYALTY INTEREST JOINDER

Lorna R. Harvey

RATIFICATION AND JOINDER OF UNIT AGREEMENT

In consideration of the execution of the Unit Agreement for the development and operation of the **Venado Canyon Unit Area**, San Juan County, New Mexico, dated effective November 1, 2014 in form approved on behalf of the Secretary of the Interior, the undersigned (whether one or more) hereby expressly joins said Unit Agreement and ratifies, approves, adopts and confirms said Unit Agreement as fully as though the undersigned had executed this original Agreement.

This Ratification and Joinder shall be effective as to the undersigned's interests in any lands and leases, or interests therein, and royalties presently held or which may arise under existing option agreements or other interests in unitized substances, covering the lands within the Unit Area in which the undersigned may be found to have an oil or gas interest.

This Ratification and Joinder shall be binding upon the undersigned, his, her, or its heirs, devises, executors, assigns or successors in interest.

EXECUTED this 12 day of November, 2015.

Tract(s): _____

By: Lorna R. Harvey

Address: 2948 N. View Dr
Grand Jct. CO 81504

INDIVIDUAL ACKNOWLEDGMENT

STATE OF Colorado)
) ss.
COUNTY OF Mesa)

The foregoing instrument was acknowledgment before me by Lorna A. Harvey this 12th day of November, 2015.

WITNESS my hand and official seal.

My commission expires:

Sept 10, 2016

Jeff J. Ross
Notary Public

JEFF J. ROSS
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID #20124058263
My Commission Expires September 10, 2016

encana

VENADO CANYON UNIT
SUBMITTAL
November 12, 2015

WORKING INTEREST JOINDERS

Robert L. Bayless Producer, LLC
Dugan Production Corp.

RATIFICATION AND JOINDER OF UNIT AGREEMENT
AND
UNIT OPERATING AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the **Venado Canyon Unit Area**, County of _____, State of _____, dated **November 1, 2014**, in form approved on behalf of the Secretary of the Interior, and in consideration of the execution or ratification by other working interest owners of the contemporary Unit Operating Agreement which relates to said Unit Agreement, the undersigned hereby expressly ratifies, approves and adopts said Unit Agreement, and also said Unit Operating Agreement as fully as though the undersigned had executed the original instrument.

This Ratification and Joinder shall be effective as to the undersigned's interest in any lands and leases, or interests therein, and royalties presently held or which may arise under existing option agreements or other interests in unitized substances, covering any lands within the Unit Area in which the undersigned may be found to have an oil or gas interest.

This Ratification and Joinder shall be binding upon the undersigned, its heirs, devisees, assignees or successors in interest.

EXECUTED this 13th day of JULY, 2015.

By: _____
ROBERT L. BAYLESS, JR.
Executive Manager

Address _____
Robert L. Bayless, Producer LLC
621 17th Street - Suite 2300
Denver, CO 80293

CORPORATE ACKNOWLEDGEMENT

STATE OF COLORADO)
) ss.
COUNTY OF DENVER)

The foregoing instrument was acknowledged before me by ROBERT L. BAYLESS, JR., as EXECUTIVE MANAGER of ROBERT L. BAYLESS, PRODUCER LLC, this 13th day of JULY, 2015.

WITNESS my hand and official seal.

My Commission Expires:
03/09/16

JAY MUNOZ NOTARY PUBLIC STATE OF COLORADO

_____
Notary Public

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me by _____,

this _____ day of _____, 20___.

WITNESS my hand and official seal.

My Commission Expires:

_____
Notary Public

RATIFICATION AND JOINDER OF UNIT AGREEMENT
AND
UNIT OPERATING AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the **Venado Canyon Unit Area**, County of Sandoval, State of New Mexico, dated **November 1, 2014**, in form approved on behalf of the Secretary of the Interior, and in consideration of the execution or ratification by other working interest owners of the contemporary Unit Operating Agreement which relates to said Unit Agreement, the undersigned hereby expressly ratifies, approves and adopts said Unit Agreement, and also said Unit Operating Agreement as fully as though the undersigned had executed the original instrument.

This Ratification and Joinder shall be effective as to the undersigned's interest in any lands and leases, or interests therein, and royalties presently held or which may arise under existing option agreements or other interests in unitized substances, covering any lands within the Unit Area in which the undersigned may be found to have an oil or gas interest.

This Ratification and Joinder shall be binding upon the undersigned, its heirs, devisees, assignees or successors in interest.

EXECUTED this 28th day of July, 20 15.

By: Kurt Fagrelius
Kurt Fagrelius, Dugan Production Corp.
Address 709 E. Murray Drive
Farmington, NM 87401

CORPORATE ACKNOWLEDGEMENT

STATE OF New Mexico)
) ss.
COUNTY OF San Juan)

The foregoing instrument was acknowledged before me by Kurt Fagrelius, as Vice President of Dugan Production Corp., this 28th day of July, 20 15

WITNESS my hand and official seal.

My Commission Expires:
9/14/18

OFFICIAL SEAL
ELAINE LOGUE
NOTARY PUBLIC - STATE OF NEW MEXICO
My commission expires: 9-14-18

Elaine Logue
Notary Public

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me by _____,

this _____ day of _____, 20___.

WITNESS my hand and official seal.

My Commission Expires:

_____
Notary Public

VENADO CANYON UNIT
Tract Participation and Commitment Status
November 12, 2015

Unit Tract No.	Lease Name	Land Description					Tract Participation Factor	Tract Commitment Status						
		Twshp	Rge	Sec	Description	Tract Acres		Royalty Onwers	Joinder Status	Overriding Royalty Onwers	Joinder Status	Working Interest Owners	Joinder Status	Tract Commitment Status
1	NMNM-109385	22N	6W	1	S2	1,440.00	33.333333%	BLM	Joined	Dugan Production Corp.	Joined	Encana Oil & Gas (USA) Inc'	Joined	Fully Committed
		22N	6W	11	W2, SE4							Dugan Production Corp.	Joined	
		22N	6W	12	All									
2	NMNM-117562	22N	6W	10	E2, SW4	2,240.00	51.851852%	BLM	Joined	Bayless Ranches LLC	Joined	Encana Oil & Gas (USA) Inc'	Joined	Fully Committed
		22N	6W	13	All							Robert L. Bayless Producer, LLC	Joined	
		22N	6W	14	All									
		22N	6W	15	W2, NE4									
3	NMNM-109390	22N	6W	23	W2	480.00	11.111111%	BLM	Joined	Dugan Production Corp.	Joined	Encana Oil & Gas (USA) Inc'	Joined	Fully Committed
		22N	6W	24	NE4							Dugan Production Corp.	Joined	
4	Fee - Merrion	22N	6W	11	NE	160.00	3.703704%	Merrion Oil & Gas Corporation	Joined[1]	None	N/A	Encana Oil & Gas (USA) Inc'	Joined	Fully Committed
								Donald J. Merrion Trust	Joined[2]			Dugan Production Corp.	Joined	
								Merrion Investment Company	Joined[2]					
								Diana Merrion	Joined[2]					
								Lorna R. Harvey	Joined[3]					
						4,320.00	100.000000%							

[1] Oil & Gas Lease dated September 15, 2014 between Merrion Oil & Gas Corporation and Encana Oil & Gas (USA) Inc. and Dugan Production Corp. provides that "Lessee" may unitize all or part of leased premises:

[2] Oil & Gas Lease dated September 15, 2014 between Merrion Oil & Gas Corporation and Encana Oil & Gas (USA) Inc. and Dugan Production Corp. provides that "Lessee" may unitize all or part of leased premises:

"6. Lessee may at any time or times unitize all or any part of said land and Lease, or any stratum or strata, with other lands and leases in the same field so as to constitute a unit or units whenever, in Lessee's judgment, such unitization is required to prevent waste or promote and encourage the conservation of Oil and Gas by any cooperative or unit plan of development or operation; or by a cycling, pressure-maintenance, repressuring or secondary recovery program. Any such unit formed shall comply with the local. State and Federal laws and with the orders, rules, and regulation of Slate or Federal regulatory or conservation agency having jurisdiction. The size of any such unit may be increased by including acreage believed to be productive, and decreased by excluding acreage believed to be unproductive, or where the owners of which do not join the unit, but any such change resulting in an increase or decrease of Lessor's royalty shall not be retroactive. Any such unit may be established, enlarged or diminished and in the absence of production from the unit area, may be abolished and dissolved by filing of record an instrument so declaring, and mailing or tendering to Lessors, a copy of such instrument. Drilling or re-working operations upon, or production from any part of such units shall be considered for all purposes of this Lease as operations or production from this Lease. Lessee shall allocate to the portion of this Lease included in any such unit a fractional part of production from such unit on any one of the following basis: (a) the ratio between the participating acreage in this Lease in such units and total of ail participating acreage in the unit; or (b) the ratio between the quantity of recoverable production from the land in this Lease in such unit the total of all recoverable production from all such unit; or (c) any basis approved by State or Federal authonties having jurisdiction. Lessor shall be entitled to the royalties in this Lease on the part of the unit production so allocated to that part of this Lease included in such unit and no more."

[3] Oil & Gas Lease dated September 15, 2014 between Merrion Oil & Gas Corporation and Encana Oil & Gas (USA) Inc. and Dugan Production Corp. provides that "Lessee" may unitize all or part of leased premises:

"5. Lessee may at any time or times pool any part or all of said land and Lease or any stratum or sn^ala, with odier lands and Leases, stratum or su^ia, in die same field so as to conslimte a spacing unit (or project area for a honzontal well) to facilitate an orderly or uniform well spacing pattem or to comply with any order, rule or regulation of die State or Federal regulatory or conservation agency having Jurisdiction. Such pooling shall be accomplished or terminated by fding of record a Declaration of Pooling, or Declaration of Termination of Pooling and by mailing or tendering a copy to Lessor. Dnlling or re-working operations upon, or production, or wells capable of production from any part of such spacing unit shall be considered for all purposes of diis Lease as operations or production from diis Lease. Lessee shall allocate to this Lease die proportionate share of production which the acreage in this Lease included in any such spacing unit or project area bears to the total acreage in said spacing unit or project area."

Section 19.15.16.6.L.(2) defines *a* "project area", as an entire voluntary or statutory unit for an approved enhanced recovery or pressure maintenance project, an approved state exploratory unit, or a participating area in a federal unit." This lease pooling clause, therefore, appears to cover the Venado Canyon Unit, being *a* single "project area" under this Section 19.15.16.6.L(2), however, as confirmation from the Lessor, we have incorporated with this submittal the Ratification and Joinder to Unit Agreement (1 original and 2 copies) executed by Lessor.