



December 19, 2016

Via Certified Mail 7016 1370 0000 0983 8881

Black Mountain Operating, LLC
Attn: Land Department
500 Main Street, suite 500
Fort Worth, Texas 76102

Re: Proposed The Squeeze State Com 1H
Lea County, New Mexico

To Whom it May Concern:

GMT Exploration Company, LLC ("GMT") hereby proposes to drill the Pucker Rapid State Com 1H (the "Well"), as a standup proration unit (project area) in the E/2W/2 of Section 2, Township 22 South, Range 34 East. GMT plans to drill into the 2nd Bone Spring formation to a total vertical depth of 10,325' and a total measured depth of 14,925', for a total completed cost of \$5,943,004, as shown on the attached AFE. Also included in the proposal package is the preliminary drilling prognosis along with the survey of the well location and GMT's form of Operating Agreement. GMT plans on drilling the Well in the 4th quarter 2017.

Well Type: New Drill Horizontal
Objective Formation: 2nd Bone Spring Sand
Estimated Total Vertical Depth: 10,325'
Estimated total Measured Depth: 14,925'
Surface Hole Location: 200' FSL, 1,650' FWL
Bottom Hole Location: 330' FNL, 1,650' FWL
Proposed Project Area: E2W2 Section 2

According to preliminary ownership reports it appears that **Black Mountain Operating LLC** ("Black Mountain") owns working interests in and to E2W2 Section 2. Should Black Mountain wish to participate in the drilling of said well, please sign one copy of this letter and the attached AFE and return to the undersigned at the letterhead address within thirty (30) days of receipt of this letter.

If you have any questions regarding the enclosures or proposed operations, please do not hesitate to contact me. Thank you for your careful time and consideration; we look forward to doing business with you.

Respectfully,

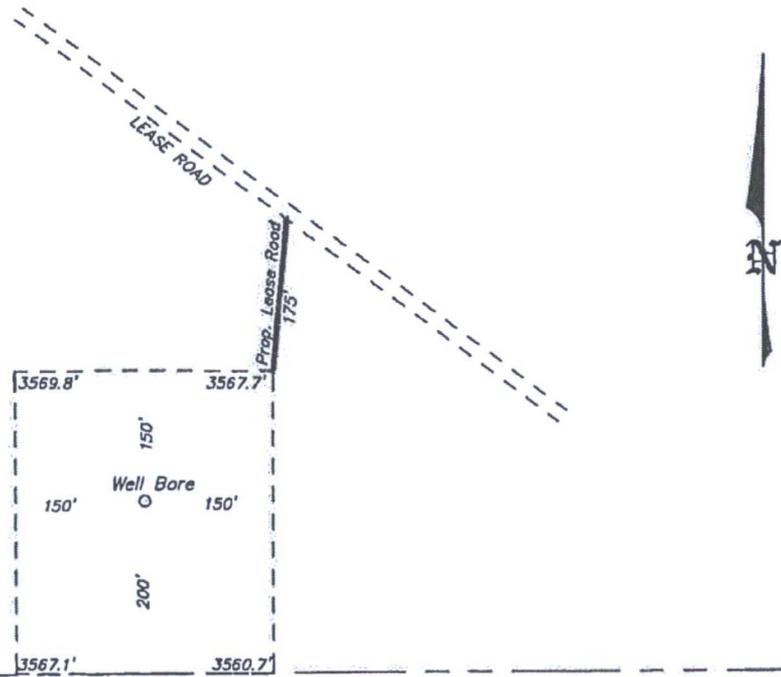
GMT Exploration Company, LLC


Hans Schuster
Landman

NMOCD Case Nos. 15655 and 15656
BLACK MOUNTAIN OPERATING
Exhibit 14
May 11, 2017

Enclosures: AFE; Preliminary Drilling Prognosis; Survey of Well Location

SECTION 2, TOWNSHIP 22 SOUTH, RANGE 34 EAST. N.M.P.M.,
LEA COUNTY, NEW MEXICO.



Sec. 2
Sec. 11

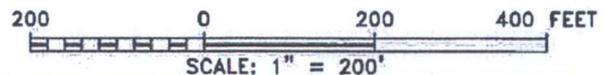
GMT EXPLORATION COMPANY LLC
THE SQUEEZE STATE COM 1H
ELEV. - 3508'

Lat - N 32°24'50.49"
Long - W 103°26'37.95"
NMSPC - N 515495.3
E 815817.9
(NAD-83)

Directions to Location:

FROM MILE MARKER 19 GO SOUTHEAST 1160 FEET ON HIGHWAY 176 TO LEASE ROAD. GO SOUTHWEST 5.3 MILES THEN GO SOUTHEAST 0.9 MILES TO PROPOSED LEASE ROAD.

EUNICE, NM IS ±17 MILES TO THE NORTHEAST OF LOCATION.



GMT EXPLORATION COMPANY LLC

REF: THE SQUEEZE STATE COM 1H / WELL PAD TOPO

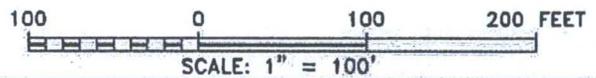
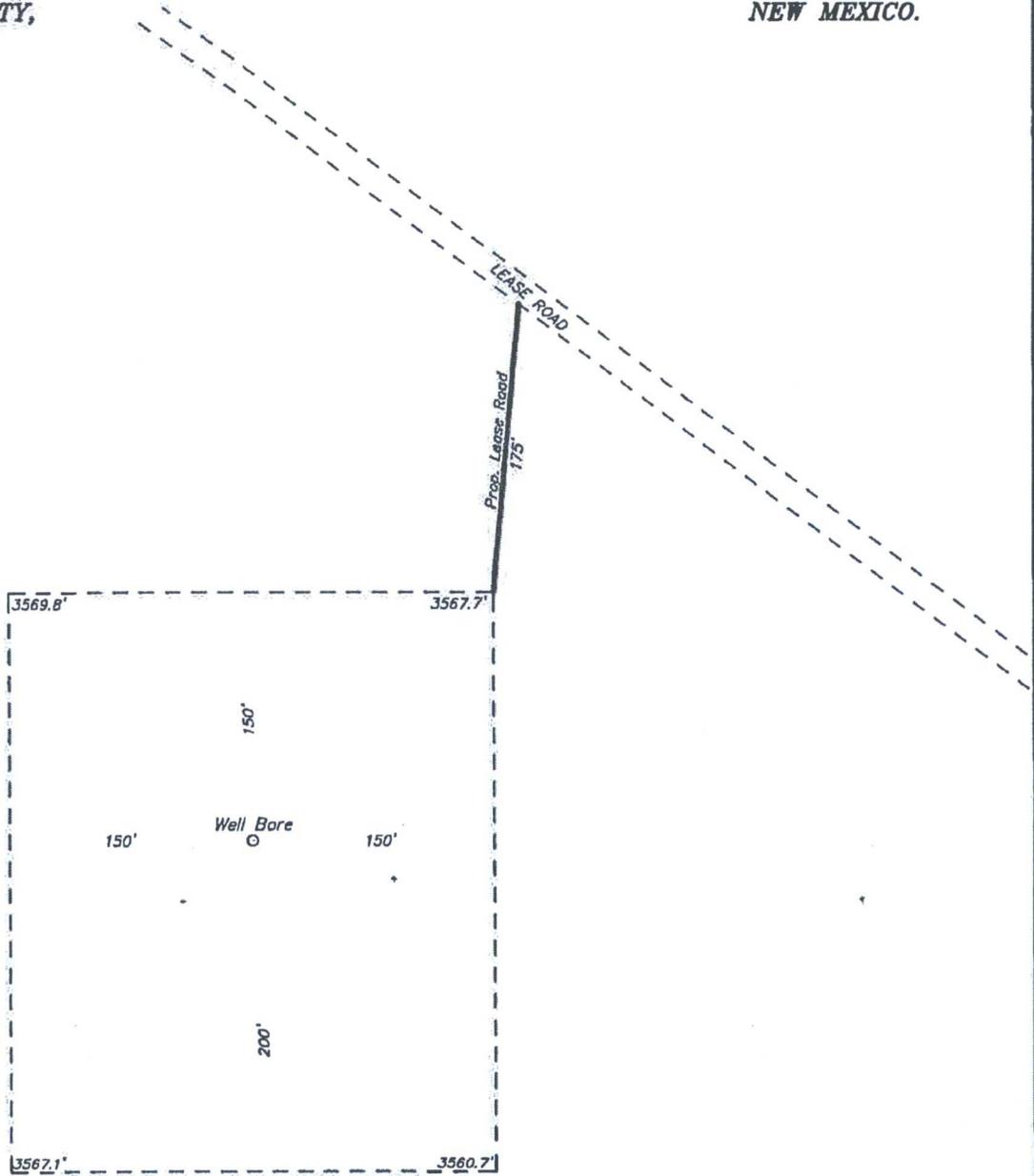
THE SQUEEZE STATE COM 1H LOCATED 200' FROM
THE SOUTH LINE AND 1650' FROM THE WEST LINE OF
SECTION 2, TOWNSHIP 22 SOUTH, RANGE 34 EAST.

N.M.P.M., LEA COUNTY, NEW MEXICO.



P.O. Box 1786 (575) 393-7316 - Office
1120 N. West County Rd. (575) 392-2206 - Fax
Hobbs, New Mexico 88241 basin surveys.com

SECTION 2, TOWNSHIP 22 SOUTH, RANGE 34 EAST. N.M.P.M.,
LEA COUNTY, NEW MEXICO.



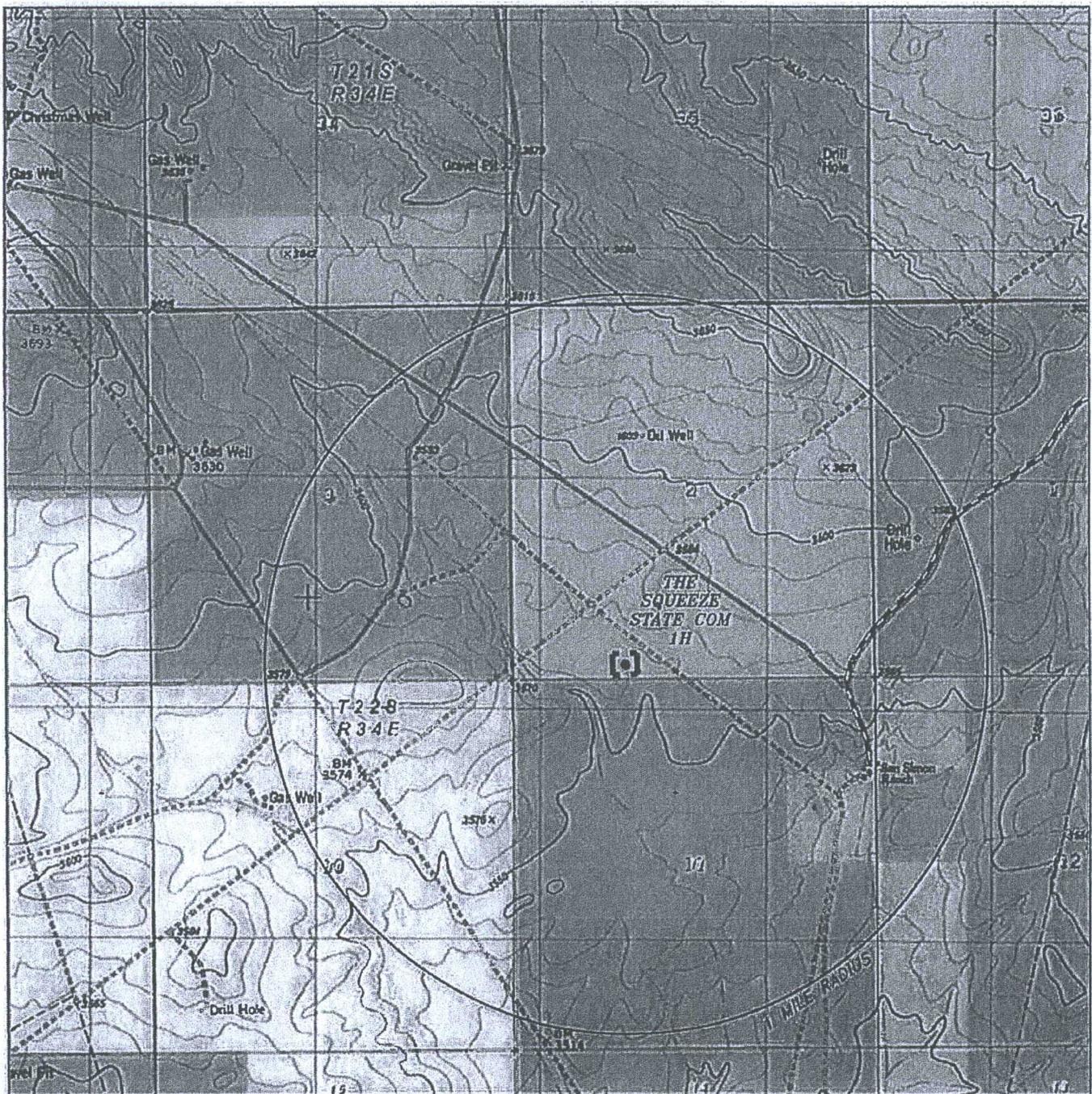
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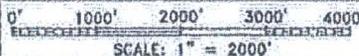


THE SQUEEZE STATE COM 1H

Located 200' FSL and 1650' FWL
 Section 2, Township 22 South, Range 34 East,
 N.M.P.M., Lea County, New Mexico.



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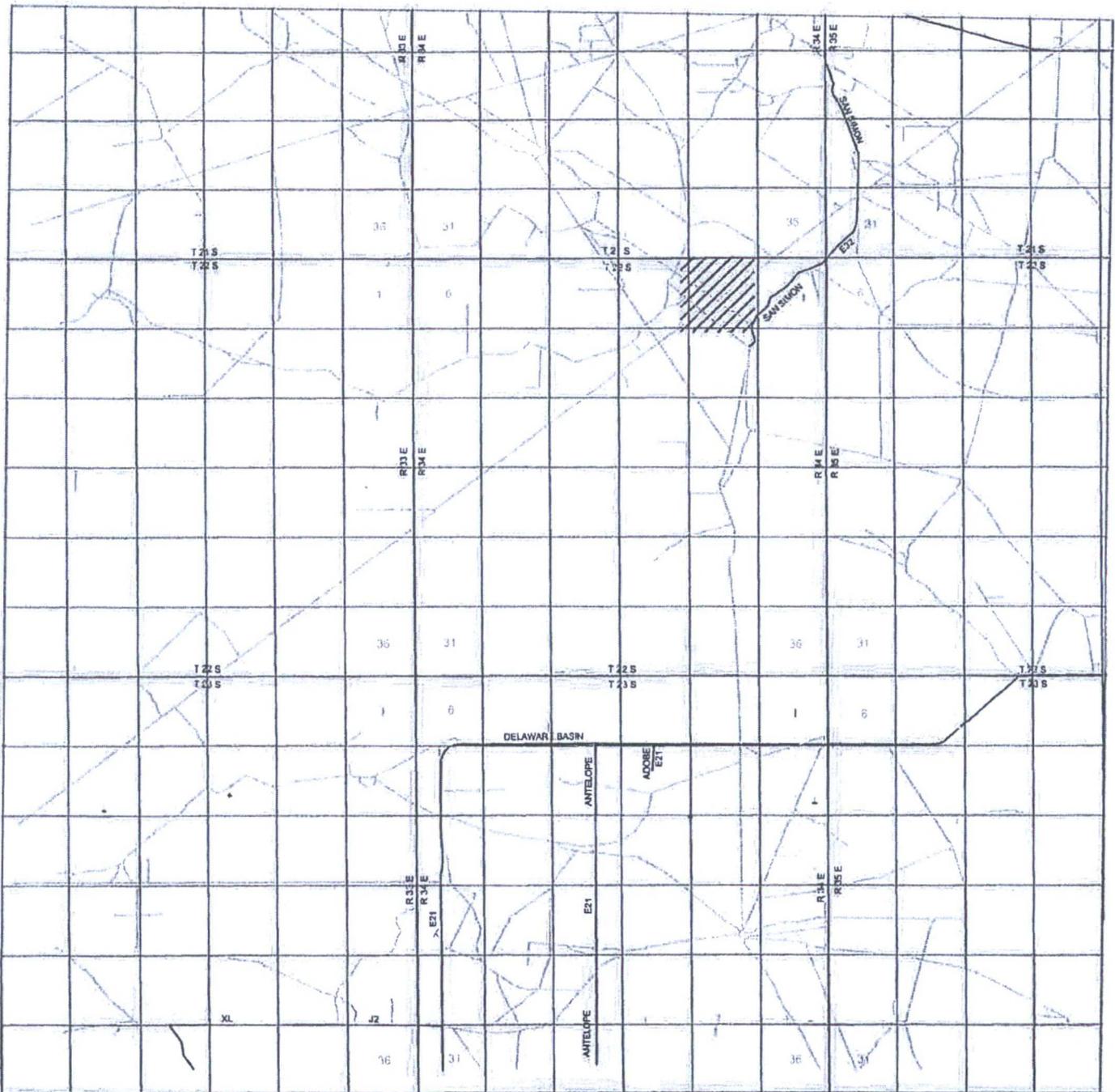
SCALE: 1" = 2000'

W.O. Number: KJG 32480

Survey Date: 09-15-2016

YELLOW TINT - USA LAND
 BLUE TINT - STATE LAND
 NATURAL COLOR - FEE LAND

GMT
 EXPLORATION
 COMPANY LLC



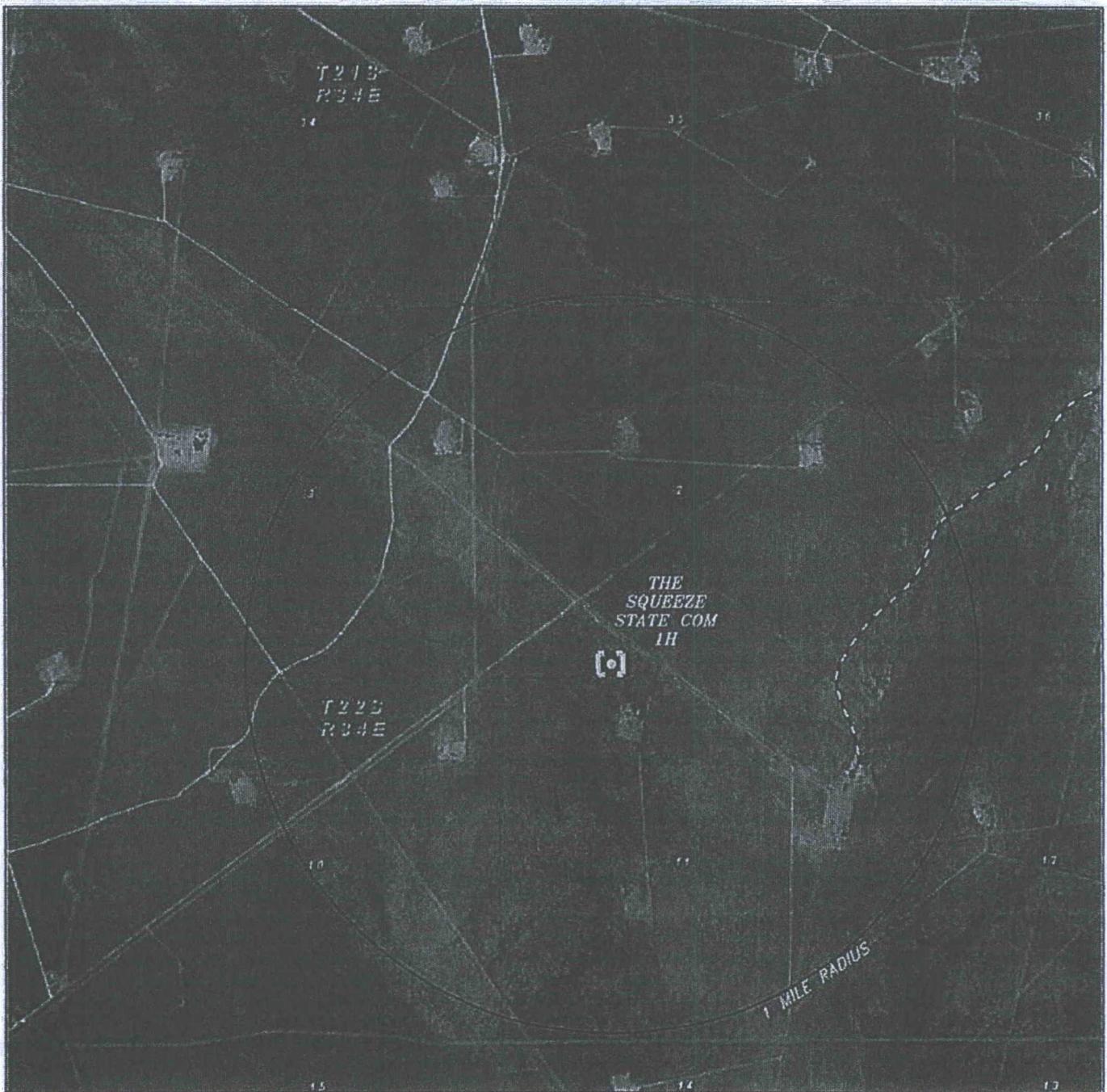
THE SQUEEZE STATE COM 1H
 Located 200' FSL and 1650' FWL
 Section 2, Township 22 South, Range 34 East,
 N.M.P.M., Lea County, New Mexico.



P.O. Box 1786
 1120 N. West County Rd.
 Hobbs, New Mexico 88241
 (575) 393-7316 - Office
 (575) 392-2206 - Fax
 basinsurveys.com

0 1 MI 2 MI 3 MI 4 MI
 SCALE: 1" = 2 MILES
 W.O. Number: KJG 32480
 Survey Date: 09-15-2016
 YELLOW TINT - USA LAND
 BLUE TINT - STATE LAND
 NATURAL COLOR - FEE LAND

GMT
 EXPLORATION
 COMPANY LLC



THE SQUEEZE STATE COM 1H

Located 200' FSL and 1650' FWL
 Section 2, Township 22 South, Range 34 East,
 N.M.P.M., Lea County, New Mexico.



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 1120 N. West County Rd.
 Hobbs, New Mexico 88241
 (575) 393-7316 - Office
 (575) 392-2206 - Fax
 basinsurveys.com

| | | | | |
|--------------------------|-------|-------|-------|-------|
| 0' | 1000' | 2000' | 3000' | 4000' |
| SCALE: 1" = 2000' | | | | |
| W.O. Number: KJG 32480 | | | | |
| Survey Date: 09-15-2016 | | | | |
| YELLOW TINT - USA LAND | | | | |
| BLUE TINT - STATE LAND | | | | |
| NATURAL COLOR - FEE LAND | | | | |



**GMT
 EXPLORATION
 COMPANY LLC**

_____ the undersigned hereby elects to participate in the Squeeze State Com 1H

_____ the undersigned hereby elects to not participate in the Squeeze State Com 1H

BLACK MOUNTAIN OPERATING, LLC

By: _____

Name: _____

Title: _____

Date: _____



Preliminary DRILLING PROGNOSIS

PROSPECT: **Whitewater**

WELL NAME: The Squeeze State Com **DATE:** 12/7/2016

LOCATION: Surface T 22 S R 34 E Sec 2 330' FSL 1650' FWL **API #:**
Lea County, New Mexico **FIELD:** Grama Ridge

Bottom T 22 S R 34 E Sec 2 330' FNL 1650' FWL

ELEVATION: **KB:** 3588 (est) **GL:** 3568

ESTIMATED TD: - 14,925 MD -10,325 TVD

FORMATION AT TD: 2nd Bone Spring **OBJECTIVE FORMATION:** 2nd Bone Spring

DRILLING CONTRACTOR:

| | | | | |
|-------------------------|-----------|-------------|-------|----------|
| DRILLING PROGRAM | Hole Size | Casing Size | Depth | Comments |
| Surface Casing | | | | |
| Intermediate Casing | | | | |
| Production Casing | | | | |

FORMATION TOPS

| FORMATION | DRILL DEPTH (est.) | DATUM (est.) | COMMENTS |
|----------------------------|--------------------|--------------|-----------------------------------|
| Rustler | 1,200 | 2,388 | |
| Salt Top | 1,660 | 1,928 | |
| Salt Base | 3,600 | -12 | |
| Yates | 3,601 | -13 | |
| Capitan Reef | 4,025 | -437 | Possible Loss of circulation zone |
| Delaware Bell Canyon | 5,675 | -2,087 | |
| Delaware Cherry Canyon | 6,060 | -2,472 | |
| Delaware Brushy Canyon | 7,005 | -3,417 | |
| Lower Brushy Canyon Marker | 8,195 | -4,607 | Possible Oil and Gas Show |
| Bone Spring | 8,400 | -4,812 | |
| Avalon Shale Top | 8,570 | -4,982 | Possible Oil and Gas Show |
| Avalon Carbonate | 8,855 | -5,267 | Possible Chert Zone |
| 1st Bone Spring Sand | 9,550 | -5,962 | Possible Oil and Gas Show |
| 1st Bone Spring Carb | 9,735 | -6,147 | Possible Chert Zone |
| 2nd Bone Spring Sand | 10,045 | -6,457 | Possible Oil and Gas Show |
| Horizontal Interval Top | 10,300 | -6,712 | Possible Oil and Gas Show |
| Horizontal Interval Base | 10,350 | -6,762 | Possible Oil and Gas Show |
| NO Pilot | TVD 10,325 | -6,737 | |

LOGGING PROGRAM

| | |
|---|---|
| OPEN HOLE LOGS: NA | MWD/LWD LOGS: Gamma Ray Logging Depth : Intermediate casing to TD |
| LOGGING COMPANY: <i>Schlumberger</i> Denver Contact = Thomas Miller Office: 303-352-1223 Cell: 303-548-5055 Email: TJr1@slb.com | LOGGING COMPANY: <i>Newsco</i> Contact = Ed Sensesich Office: 307-232-6336 Cell: 303-883-7362 Email: ed.sensesich@newsco-drilling.com |
| MUD LOGGER: <i>Morco Geological Services</i> 3603 National Park Highway Carlsbad, New Mexico 88220 | Contacts: Corky Stewart Cell: (575) 361-1270 |

OFFSET WELLS

| WELL NAME | LOCATION | Depth | Date |
|-----------------|------------------------|------------|--------------|
| State 1 | T 22 S R 34 E Sec 11 - | TVD 13,450 | Date 8/1982 |
| Two State 1 | T 22 S R 34 E Sec 2 - | TVD 13,380 | Date 10/1977 |
| Getty 'Z' State | T 22 S R 34 E Sec 2 - | TVD 13,350 | Date 5/1980 |

REMARKS

ANTICIPATED COMPLETION: 2nd Bone Spring

SPECIAL CONSIDERATION: Chert intervals may be encountered - these areas have been denoted in the formation tops section

GMT EXPLORATION CONTACTS

| | | |
|--|---|---|
| Geology <i>Sarah Heger</i> Office: 303-586-9288 Cell: 720-412-2787 email: sheger@gmtexploration.com | Alternate <i>Mike Dilli</i> Office: 303-586-9282 Cell: 303-358-2197 email: mdilli@gmtexploration.com | Alternate <i>William Lancaster</i> Office: 303-586-9278 Cell: 303-808-0857 email: wdl@gmtexploration.com |
| Engineering <i>Keith Kress</i> Office: 303-586-9281 Cell: 720-237-5986 email: kkress@gmtexploration.com | Alternate <i>Hugo Cartaya</i> Office: 720-946-3032 Cell: 303-973-3440 email: hcartaya@gmtexploration.com | Alternate |

This well is a TIGHT hole

DISTRICT I
1825 N. French Dr., Hobbs, NM 88240
Phone (505) 562-6161 Fax (505) 292-0720

DISTRICT II
811 S. First St., Artesia, NM 88210
Phone (505) 748-1253 Fax (505) 748-9780

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410
Phone (505) 534-9178 Fax (505) 534-8170

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505
Phone (505) 478-2553 Fax (505) 478-2483

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised August 1, 2011

Submit one copy to appropriate
District Office

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

| | | |
|---------------------|--|--|
| API Number | Pool Code 97293 | Pool Name Ojo Chiso; Bone Spring, South |
| Property Code | Property Name THE SQUEEZE STATE COM | Well Number 1H |
| OGRID No. 260511 | Operator Name GMT EXPLORATION COMPANY LLC | Elevation 3568' |

Surface Location

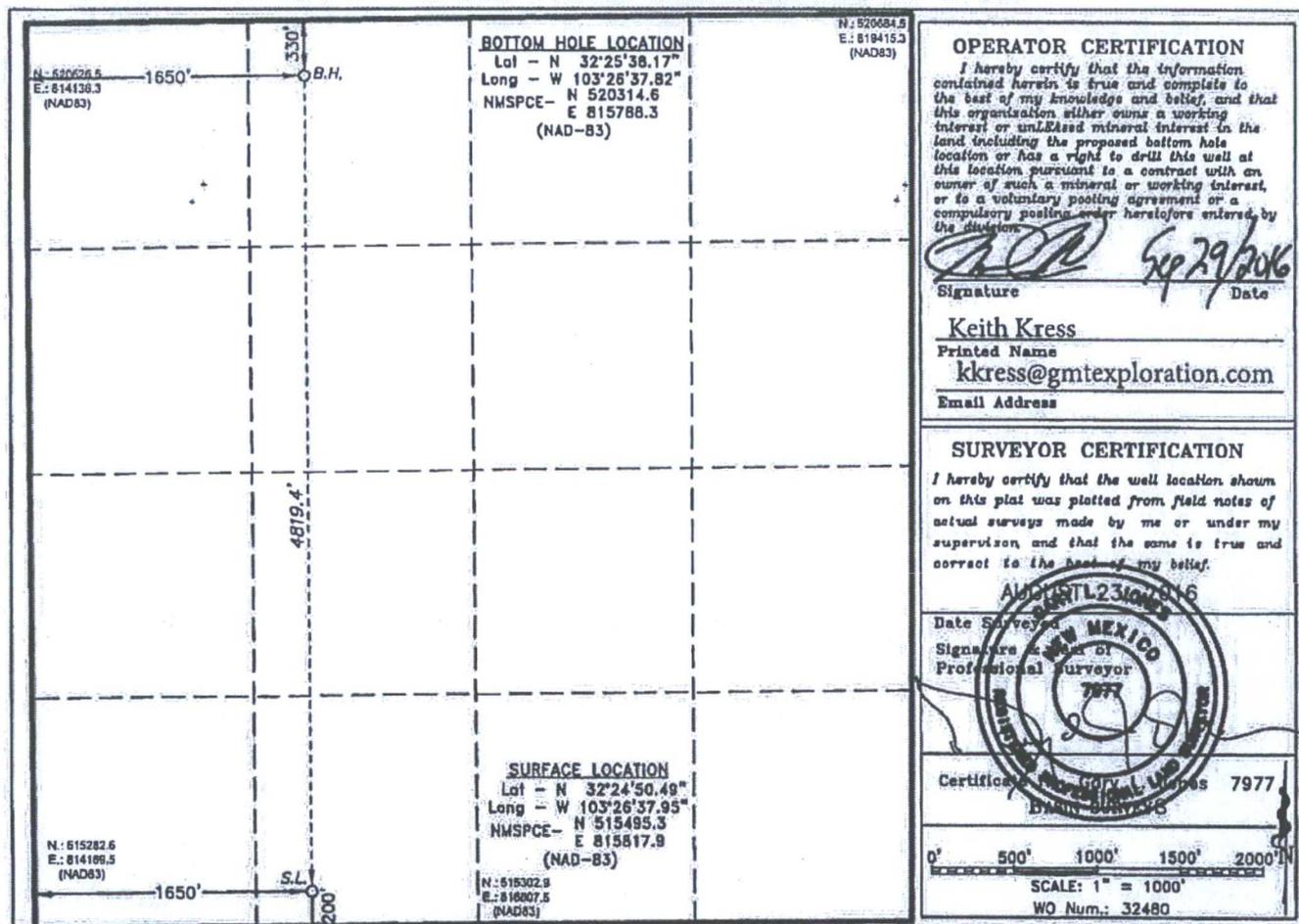
| UL or lot No. | Section | Township | Range | Lot Idn | Feet from the | SOUTH/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| N | 2 | 22 S | 34 E | | 200 | SOUTH | 1650 | WEST | LEA |

Bottom Hole Location If Different From Surface

| UL or lot No. | Section | Township | Range | Lot Idn | Feet from the | SOUTH/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| C | 2 | 22 S | 34 E | | 330 | NORTH | 1650 | WEST | LEA |

| | | | |
|-----------------|-----------------|--------------------|-----------|
| Dedicated Acres | Joint or Infill | Consolidation Code | Order No. |
|-----------------|-----------------|--------------------|-----------|

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



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

**MODEL FORM OPERATING AGREEMENT
HORIZONTAL MODIFICATIONS**

SQUEEZE OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

_____, _____, *Year*

OPERATOR GMT Exploration Company, LLC

CONTRACT AREA Township 22 South, Range 34 East, N.M.P.M.

Section 2: E/2W/2

COUNTY OR PARISH OF Lea, STATE OF New Mexico

COPYRIGHT 2013 - ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PROFESSIONAL
LANDMEN, 4100 FOSSIL CREEK BLVD. FORT
WORTH, TEXAS, 76137, APPROVED FORM.
A.A.P.L. NO. 610 - 1989 (Horz.)

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OPERATING AGREEMENT

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

WITNESSETH:

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

**ARTICLE I.
DEFINITIONS**

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

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder. An AFE is not a contractual commitment. Rather it is only an estimate, made in good faith.

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

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

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser. When used in connection with a Horizontal Well, the term "Deepen" shall mean an operation whereby a Lateral is drilled to a Displacement greater than (i) the Displacement contained in the proposal for such operation approved by the Consenting Parties, or (ii) to the Displacement to which the Lateral was drilled pursuant to a previous proposal.

E. The term "Displacement" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall otherwise mean the length of a Lateral.

F. 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.

G. 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.

H. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located. When used in connection with a Horizontal Well, the term "Drillsite" shall mean (i) the surface hole location, and (ii) the Oil and Gas Leases or Oil and Gas Interests within the Drilling Unit on or under which the wellbore, including the Lateral, is located.

I. The term "Horizontal Rig Move-On Period" shall mean the number of days after the date of rig release of a Spudder Rig until the date a rig capable of drilling a Horizontal Well to its Total Measured Depth has moved on to location.

J. The term "Horizontal Well" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall mean a well containing one or more Laterals which are drilled, Completed or Recompleted in a manner in which the horizontal component of the Completion interval (1) extends at least one hundred feet (100') in the objective formation(s) and (2) exceeds the vertical component of the Completion interval in the objective formation(s).

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

L. 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.

M. 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

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

O. 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.

P. 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.

Q. 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.

R. 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 Well, the term "Plug Back" shall mean an operation to test or Complete the well at a stratigraphically shallower Zone in which the operation has been or is being Completed and which is not in an existing Lateral.

S. 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.

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

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

V. The term "Spudder Rig" shall mean a drilling rig utilized only for drilling all or part of the vertical component of a Horizontal Well; a rig used only for setting conductor pipe shall not be considered a Spudder Rig.

W. The term "Terminus" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction

1 over the Contract Area, in the absence of which the term shall mean the furthest point drilled in the Lateral.

2 X. The term "Total Measured Depth," when used in connection with a Horizontal Well, shall mean the distance from the surface of
3 the ground to the Terminus, as measured along and including the vertical component of the well and Lateral(s). When the proposed
4 operation(s) is the drilling of, or operation on, a Horizontal Well, the terms "depth" or "total depth" wherever used in this agreement shall be
5 deemed to read "Total Measured Depth" insofar as it applies to such well.

6 Y. The term "Vertical Well" shall mean a well drilled, Completed or Recompleted other than a Horizontal Well.

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

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

11 **ARTICLE II.**

12 **EXHIBITS**

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

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

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

21 None B. Exhibit "B," Form of Lease.

22 X C. Exhibit "C," Accounting Procedure.

23 X D. Exhibit "D," Insurance.

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

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

26 None G. Exhibit "G," Tax Partnership.

27 X H. Other: Memorandum of Operating Agreement and Financing Statement.

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

30 **ARTICLE III.**

31 **INTERESTS OF PARTIES**

32 **A. Oil and Gas Interests:**

33 If any party owns an Oil and Gas Interest in the Contract Area, that Interest shall be treated for all purposes of this agreement
34 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
35 thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.

36 **B. Interests of Parties in Costs and Production:**

37 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid,
38 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
39 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
40 payment of royalties and other burdens on production as described hereafter.

41 * Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may
42 be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered,
43 all burdens on its share of the production from the Contract Area up to, but not in excess of, 25% (1/4th) of 8/8ths and
44 shall indemnify, defend and hold the other parties free from any liability therefor. Except as otherwise expressly provided in this agreement,
45 if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or
46 other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess
47 obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden.
48 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
49 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
50 has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any liability therefor.

51 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
52 royalty owner, and if such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party
53 contributing the affected Lease shall bear the additional royalty burden attributable to such higher price.

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

57 **C. Subsequently Created Interests:**

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

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

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. ^{Reasonable} costs incurred by Operator in procuring abstracts, fees paid outside attorneys ^{and outside brokers} 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.

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

B. Loss or Failure of Title:

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

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

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

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

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

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

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

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

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

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

1 acreage basis, up to the amount of unrecovered costs;

2 (b) Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed
3 to make payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and marketed
4 (excluding production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination, would be attributable to
5 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
6 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
7 "A"; and,

8 (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
9 Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

10 3. Other Losses. All losses of Leases or Interests committed to this agreement, other than those set forth in Articles
11 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
12 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
13 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
14 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
15 account of any joint loss.

16 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
17 Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period
18 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
19 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:

22 GMT Exploration Company, LLC shall be the Operator of the Contract Area, and shall conduct and direct
23 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
24 performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction
25 of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this
26 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
27 liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonably
28 prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in
29 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
30 liabilities incurred except such as may result from gross negligence or willful misconduct.

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

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

41 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
42 calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-
43 Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator,
44 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
45 structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for
46 removal of Operator.

47 2. Selection of Successor Operator. Upon the resignation or removal of Operator under any provision of this agreement, a
48 successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the
49 Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or
50 more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been
51 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
52 vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting
53 interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and
54 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
55 successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

56 3. Effect of Bankruptcy. If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have
57 resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is
58 filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall
59 comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy
60 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
61 resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating
62 committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on ownership
63 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
64 controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the
65 operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest
66 in the Contract Area based on Exhibit "A."

C. Employees and Contractors:

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

D. Rights and Duties of Operator:

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

8
 9 **2. Discharge of Joint Account Obligations.** Except as herein otherwise specifically provided, Operator shall promptly pay and
 10 discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of
 11 the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C." Operator shall keep an accurate
 12 record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

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

17 **4. Custody of Funds.** Operator shall hold for the account of the Non-Operators any funds of the Non-Operators advanced
 18 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
 19 funds shall remain the funds of the Non-Operators on whose account they are advanced or paid until used for their intended purpose or
 20 otherwise delivered to the Non-Operators or applied toward the payment of debts as provided in Article VII.B. Nothing in this paragraph shall
 21 be construed to establish a fiduciary relationship between Operator and Non-Operators for any purpose other than to account for Non-
 22 Operator funds as herein specifically provided. Nothing in this paragraph shall require the maintenance by Operator of separate accounts for
 23 the funds of Non-Operators unless the parties otherwise specifically agree.

24 **5. Access to Contract Area and Records.** Operator shall, except as otherwise provided herein, permit each Non-Operator
 25 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
 26 every kind and character being conducted for the joint account on the Contract Area and to the records of operations conducted thereon or
 27 production therefrom, including Operator's books and records relating thereto. Such access rights shall not be exercised in a manner
 28 interfering with Operator's conduct of an operation hereunder and shall not obligate Operator to furnish any geologic or geophysical data of an
 29 interpretive nature unless the cost of preparation of such interpretive data was charged to the joint account. Operator will furnish to each Non-
 30 Operator upon request copies of any and all reports and information obtained by Operator in connection with production and related items,
 31 including, without limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding
 32 purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the information. Any
 33 audit of Operator's records relating to amounts expended and the appropriateness of such expenditures shall be conducted in accordance with
 34 the audit protocol specified in Exhibit "C."

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

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

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

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

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

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

50 **9. Insurance.** At all times while operations are conducted hereunder, Operator shall comply with the workers compensation law
 51 of the state where the operations are being conducted, provided, however, that Operator may be a self-insurer for liability under said
 52 compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C." Operator
 53 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
 54 part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workers compensation
 55 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

56 In the event automobile liability insurance is specified in said Exhibit "D," or subsequently receives the approval of the
 57 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:

61 On or before the _____ day of _____, Operator shall commence the drilling of the Initial Well
 62 at the following location (if a Horizontal Well, surface and Terminus/Termini of the Lateral(s)):

63 E/2W/2 of Section 2, T22S-R34E, NMPM, Lea County, NM
 64 **Surface Hole Location:**200' FSL, 1650' FWL
 65 **Bottom Hole Location:**330' FNL, 1650' FWL

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 69 and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to
 70 **Test the 2nd Bone Spring formation**
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2 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
3 Completion operations and Article VI.F. as to termination of operations and Article XI as to occurrence of force majeure.

4 **B. Subsequent Operations:**

5 1. Proposed Operations. If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or if
6 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
7 paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement, the
8 party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written notice of the proposed operation to
9 the parties who have not otherwise relinquished their interest in such objective Zone under this agreement (and to all other parties in the
10 case of a proposal for Sidetracking or Deepening as to a Vertical Well), specifying the work to be performed, the location, proposed depth,
11 objective Zone and the estimated cost of the operation as outlined in an AFE. A proposal for the drilling of or other operations for a
12 Horizontal Well shall: (1) state that the proposed operation is a Horizontal Well operation; (2) include drilling and Completion plans
13 specifying the proposed: (i) Total Measured Depth(s), (ii) surface hole location(s), (iii) Terminus/Termini, (iv) Displacement(s),
14 (v) utilization and scheduling of rig(s) (Spudder Rig, drilling and Completion), and (vi) stimulation operations, staging and sizing; and (3)
15 include estimated drilling and Completion costs as set forth in an AFE. The parties to whom such a notice is delivered shall have thirty (30)
16 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
17 proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be
18 given by telephone and confirmed in writing by any form of facsimile and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays.
19 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
20 participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially
21 proposed shall be delivered to all parties within the time and in the manner provided in Article VIB.6.

22 If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be contractually
23 committed to participate therein provided such operations are commenced within the time period hereafter set forth, and Operator shall, no
24 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
25 forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and thereafter
26 complete it with due diligence at the risk and expense of the parties participating therein; provided, however, said commencement date may
27 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
28 opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including
29 rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or
30 acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as specifically
31 permitted herein or in the force majeure provisions of Article XI) and if any party hereto still desires to conduct said operation, written
32 notice proposing same must be resubmitted to the other parties in accordance herewith as if no prior proposal had been made. Those parties
33 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
34 participate in the proposed Deepening or Sidetracking operation, reimburse the Drilling Parties in accordance with Article VIB.4. in the
35 event of a Deepening operation and in accordance with Article VIB.5. in the event of a Sidetracking operation.

36 2. Operations by Less Than All Parties.

37 (a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VIB.1. or VI.C.1.
38 (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
39 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
40 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
41 a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator
42 shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and
43 if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such
44 proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such
45 work. The rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party
46 designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when conducting
47 operations on the Contract Area pursuant to this Article VIB.2., shall comply with all terms and conditions of this agreement.

48 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
49 notice period, shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the
50 Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of
51 Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to
52 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
53 Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its
54 proportionate part (determined as provided in (ii)) of Non-Consenting Parties' interests together with all or a portion of its proportionate
55 part of any Non-Consenting Parties' interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is
56 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
57 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
58 on location, notice may be given by telephone, and confirmed in writing by any form of facsimile and the time permitted for such a response shall not exceed a total of forty-eight (48) hours
59 (exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is less than
60 100% 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
61 location, following expiration of the applicable response period. If 100% subscription to the proposed operation is obtained, the proposing
62 party shall promptly notify the Consenting Parties of their proportionate interests in the operation and the party serving as Operator shall
63 commence such operation within the period provided in Article VIB.1., subject to the same extension right as provided therein.

64 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by
65 the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties
66 shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising
67 from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VIB.6. and VIE.3., the
68 Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however,
69 that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall
70 pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs
71 were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened,
72 Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying

1 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
 2 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
 3 Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, Recompleting, Deepening or Plugging
 4 Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed
 5 to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective
 6 interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking,
 7 Sidetracking, Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-
 8 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate.
 9 Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or market value thereof if such
 10 share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other
 11 interests not excepted by Article III.C. payable out of or measured by the production from such well accruing with respect to such interest
 12 until it reverts), shall equal the total of the following:

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

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

23 Notwithstanding anything to the contrary in this Article VIB., if the well does not reach the deepest objective Zone described in
 24 the notice proposing the well for reasons other than the encountering of granite or practically impenetrable substance or other condition in
 25 the hole rendering further operations impracticable, Operator shall give notice thereof to each Non-Consenting Party ~~who submitted or~~
 26 ~~voted for an alternative proposal under Article VIB.6 to drill the well to a shallower Zone than the deepest objective Zone proposed in the~~
 27 ~~notice under which the well was drilled, and each such Non-Consenting Party shall have the option to participate in the initial proposed~~
 28 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
 29 VIB.4 (a). If any such Non-Consenting Party does not elect to participate in the first Completion proposed for such well, the
 30 relinquishment provisions of this Article VIB.2. (b) shall apply to such party's interest.

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

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

46 In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening operation, the Consenting Parties shall
 47 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
 48 unchanged; and upon abandonment of a well after such Reworking, Sidetracking, Plugging Back, Recompleting or Deepening, the
 49 Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in
 50 value, less cost of salvage.

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

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

71 3. ~~Stand-By Costs~~: When a well which has been drilled or Deepened has reached its authorized depth and all tests have been
 72 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, Re-completing, 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 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 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 Well.

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, ^{inclusive,} 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 alternate 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.~~ ^{alternate proposal} 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

***See Note 1 in Article XVI - Other Provisions**

shall be deemed an election not to participate in the prevailing proposal.

7. Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VIB.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 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 ^{the party or parties owning at least 60% of the interest of the parties} all parties that have not relinquished interests in the well at the time of such operation.

9. Spudder Rigs

(a) Within Approved Horizontal Well proposals (i.e. proposals which include an approved AFE) If an approved Horizontal Well proposal provides that a Spudder Rig shall be utilized, and Operator desires to extend the proposed Horizontal Rig Move-On-Period, Operator may obtain one or more extensions, each for a period of time not to exceed _____ days only upon notice and the affirmative vote of not less than _____% in interest of the Consenting Parties to the drilling of the proposed well.

(b) Not Within Approved Horizontal Well proposals If an approved Horizontal Well proposal does not provide that a Spudder Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to the Drilling Parties (which notice shall include a Horizontal Rig Move-On-Period) and the affirmative vote of not less than _____% in interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On-Period may be requested by Operator in the same manner as provided in Article VI-B.9.(a) immediately above.

(c) Failure to meet Horizontal Rig Move-On-Period If a rig capable of drilling a Horizontal Well to its Total Measured Depth has not commenced operations within the Horizontal Rig Move-On-Period, or any approved extension(s) thereof, unless _____% in interest of the Consenting Parties agree to abandon the operation, Operator shall re-propose the well in the manner provided in Article VI-B of this agreement. Any party who was a Non-Consenting Party to the original drilling proposal shall be entitled to a new election. Costs of the operation, incurred both before and after such re-proposal, shall be borne as follows:

(1) Operator shall promptly reimburse all unused funds previously advanced for the drilling of the well to each party who advanced such unused funds;

(2) If the well's drilling operations are subsequently resumed, all costs, whether incurred before or after the re-proposal, shall be borne by the Consenting Parties to the re-proposed well, and the Consenting Parties shall proportionately reimburse each party who consented to the original proposal but did not consent to the re-proposal such party's share of costs incurred prior to the re-proposal;

(3) If the well's drilling operations are not subsequently resumed pursuant to a re-proposal as herein provided, all costs incurred prior to the re-proposal, and all costs of abandonment, shall be borne and paid by the original Consenting Parties.

(4) Commencement of Operations For purposes of Article VI-B, and subject to the provisions of this sub-section 9, the date a Spudder Rig commences actual drilling operations shall be considered the commencement of drilling operations of the proposed well.

10. Multi-well Pads. If multiple Horizontal Wells are drilled or proposed to be drilled from a single pad or location, the costs of such pad or location shall be allocated, and/or reallocated as necessary, to the Consenting Parties of each of the wells thereon.

C. Completion of Wells; Reworking and Plugging Back:

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 VIB.2. of this agreement. Consent to the drilling, Deepening or Sidetracking shall include:

Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completion and equipping of the Well, including tankage and/or surface facilities.

Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of a Vertical Well. When such well has reached its authorized 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 VIB.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 VIB.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 VIB.2, hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or Plugging Back" as contained in Article VIB.2. shall be deemed to include "Completing") shall apply to the operations thereafter conducted by less than all parties; provided, however, that Article VIB.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 VIB.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.

Notwithstanding anything to the contrary, including the selection of Option 2 above, or anything else in this agreement, Option 1 shall apply to all Horizontal Wells.

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 VIB.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 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 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 VLD (except in connection with an operation required to be proposed under Articles VLB.1. or VIC.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 60.00 % 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:

1. **Abandonment of Dry Holes:** Except for any well drilled or Deepened pursuant to Article VLB.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 VLB.; 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)~~ ^{thirty (30)} days of delivery of notice of proposed abandonment shall be deemed an election to consent to the proposal. Any party to this Agreement may propose that a currently producing or former producing well be plugged and abandoned, following which the provisions of this Article VLE.2 shall be applicable. If, within ~~sixty (60)~~ ^{thirty (30)} 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 have the option, at its sole discretion, to ~~shall~~ ^{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 VLE.1. or VLE.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 VLE.; 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 cost for such well as provided in Article VLB.2.(b).

1 **F. Termination of Operations:**

2 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,
3 Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without consent of
4 parties bearing 100 % of the costs of such operation, provided, however, that in the event granite or other practically impenetrable
5 substance or condition in the hole is encountered which renders further operations impractical, Operator may discontinue operations and
6 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
7 such operation, as appropriate.

8 **G. Taking Production in Kind:**

9 **Option No. 1: Gas Balancing Agreement Attached**

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

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

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

27 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances but Operator shall have no
28 duty to share any existing market or to obtain a price equal to that received under any existing market. The sale or delivery by
29 Operator of a non-taking party's share of Oil and Gas under the terms of any existing contract of Operator shall not give the non-taking
30 party any interest in or make the non-taking party a party to said contract. No purchase shall be made by Operator without first
31 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
32 basis to be used.

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

37 In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines
38 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
39 total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing
40 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement. Operator
41 shall give notice to all parties of the first sales of Gas from any well under this agreement.

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

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

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

51 If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil
52 and/or Gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it,
53 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
54 non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice
55 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
56 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
57 delivered to a purchaser, provided, however, that the effective date of any such revocation may be deferred at Operator's election
58 for a period not to exceed ninety (90) days if Operator has committed such production to a purchase contract having a term
59 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
60 only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular
61 circumstances, but in no event for a period in excess of one (1) year.

62 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances, but Operator shall have no
63 duty to share any existing market or transportation arrangement or to obtain a price or transportation fee equal to that received
64 under any existing market or transportation arrangement. The sale or delivery by Operator of a non-taking party's share of
65 production under the terms of any existing contract of Operator shall not give the non-taking party any interest in or make the non-
66 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
67 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
68 used. Operator shall give notice to all parties of the first sale of Gas from any well under this Agreement.

69 All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following month, excluding
70 price, and shall notify Operator immediately in the event of a change in such arrangements. Operator shall maintain records of all
71 marketing arrangements, and of volumes actually sold or transported, which records shall be made available to Non-Operators
72 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 VIII.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 VIII.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 effect 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 VIII.B, and each paying party may independently pursue any remedy available hereunder or otherwise.~~

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

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

C. Advances:

Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate

1 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
2 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual
3 expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

4 **D. Defaults and Remedies:**

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

12 1. **Suspension of Rights:** Any party may deliver to the party in default a Notice of Default, which shall specify the default,
13 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
14 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
15 of the defaulting party granted by this agreement may upon notice be suspended until the default is cured, without prejudice to the right of
16 the non-defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing
17 under this agreement. If Operator is the party in default, the Non-Operators shall have in addition the right, by vote of Non-Operators
18 owning a majority in interest in the Contract Area after excluding the voting interest of Operator, to appoint a new Operator effective
19 immediately. The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include,
20 without limitation, the right to receive information as to any operation conducted hereunder during the period of such default, the right to
21 elect to participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being conducted
22 under this agreement even if the party has previously elected to participate in such operation, and the right to receive proceeds of
23 production from any well subject to this agreement.

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

28 3. **Deemed Non-Consent:** The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting
29 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
30 for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has been plugged as a
31 dry hole, or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to have elected not to
32 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
33 extent of the costs unpaid by such party, notwithstanding any election to participate theretofore made. If election is made to proceed under
34 this provision, then the non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

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

41 4. **Advance Payment:** If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or Non-
42 Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting party of such defaulting party's
43 anticipated share of any item of expense for which Operator, or Non-Operators, as the case may be, would be entitled to reimbursement
44 under any provision of this agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not
45 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
46 participate in drilling or Completion has been made. If the defaulting party fails to pay the required advance payment, the non-defaulting
47 parties may pursue any of the remedies provided in this Article VII.D. or any other default remedy provided elsewhere in this agreement.
48 Any excess of funds advanced remaining when the operation is completed and all costs have been paid shall be promptly returned to the
49 advancing party.

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

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

54 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
55 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
56 contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
57 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
58 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment
59 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
60 Article IV.B.2.

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

66 **F. Taxes:**

67 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
68 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
69 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be
70 limited to, royalties, overriding royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator.
71 If the assessed valuation of any Lease is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or
72 production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease,

1 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
 2 in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges
 3 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
 4 Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

5 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
 6 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final
 7 determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and
 8 any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint
 9 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
 10 provided in Exhibit "C."

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

13 **ARTICLE VIII.**

14 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

15 **A. Surrender of Leases:**

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

18 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written
 19 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
 20 the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such
 21 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
 22 parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its
 23 interest in such Lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
 24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an Oil and Gas Interest,
 25 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
 26 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~~
 27 ~~be on the form attached hereto as Exhibit "B."~~ Upon such assignment or lease, the assigning party shall be relieved from all obligations
 28 thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable
 29 thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than
 30 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
 31 the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased
 32 acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the
 33 estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less than such
 34 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
 35 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
 36 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
 37 shall similarly reflect such variances.

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

42 **B. Renewal or Extension of Leases:**

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

51 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
 52 by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the
 53 Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such
 54 renewal or replacement Lease. The acquisition of a renewal or replacement Lease by any or all of the parties hereto shall not cause a
 55 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
 56 participate shall not be subject to this agreement but shall be deemed subject to a separate Operating Agreement in the form of this
 57 agreement.

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

60 The provisions of this Article shall apply to renewal or replacement Leases whether they are for the entire interest covered by
 61 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
 62 its predecessor Lease, or taken or contracted for or becoming effective within six (6) months after the expiration of the existing Lease, shall
 63 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
 64 Lease becomes effective, but any Lease taken or contracted for more than six (6) months after the expiration of an existing Lease shall not
 65 be deemed a renewal or replacement Lease and shall not be subject to the provisions of this agreement.

66 The provisions in this Article shall also be applicable to extensions of Oil and Gas Leases ^{located within the Contract Area}.

67 **C. Acreage or Cash Contributions:**

68 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
 69 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
 70 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
 71 contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions
 72 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be

1 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it
2 may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional
3 rights to earn acreage outside the Contract Area which are in support of well drilled inside the Contract Area.

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

6 **D. Assignment-Maintenance of Uniform Interest**

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

11 ~~1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or~~

12 ~~2. an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment~~
13 ~~and production in the Contract Area.~~

14 Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and
15 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
16 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;
17 provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any
18 purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof
19 in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations
20 previously incurred by such party hereunder with respect to the interest transferred, including without limitation the obligation of a party to
21 pay all costs attributable to an operation conducted hereunder in which such party has agreed to participate prior to making such
22 assignment, and the lien and security interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment of
23 any such obligations.

24 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
25 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
26 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
27 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
28 and execute all contracts or agreements for the disposition of their respective shares of the Oil and Gas produced from the Contract Area
29 and they shall have the right to receive, separately, payment of the sale proceeds thereof.

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

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

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

35 ~~E. (Optional-Check if Applicable)~~

36 ~~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,~~
37 ~~it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which shall include the~~
38 ~~name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase price, a legal description~~
39 ~~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~~
40 ~~ten (10) days after notice is delivered, to purchase for the stated consideration on the same terms and conditions the interest which the other~~
41 ~~party proposes to sell, and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that~~
42 ~~the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those~~
43 ~~cases where any party wishes to mortgage its interests, or to transfer title to its interest to its mortgagee in lieu of or pursuant to foreclosure~~
44 ~~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~~
45 ~~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~~
46 ~~any company in which such party owns a majority of the stock.~~

47 **ARTICLE IX.**

48 **INTERNAL REVENUE CODE ELECTION**

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

64 **ARTICLE X.**

65 **CLAIMS AND LAWSUITS**

66 Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure
67 does not exceed thirty five thousand Dollars (\$ 35,000.00) and if
68 the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties
69 hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and
70 expenses of handling settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the
71 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
72 from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party

1 shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

2 **ARTICLE XI.**

3 **FORCE MAJEURE**

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

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

16 **ARTICLE XII.**

17 **NOTICES**

18 All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically
19 provided, shall be in writing and delivered in person or by United States mail, courier service, telegram, telex, telecopier or any other form
20 of facsimile, postage or charges prepaid, and addressed to such parties at the addresses listed on Exhibit "A." All telephone or oral notices
21 permitted by this agreement shall be confirmed immediately thereafter by written notice. The originating notice given under any provision
22 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
23 any notice in response thereto shall run from the date the originating notice is received. "Receipt" for purposes of this agreement with
24 respect to written notice delivered hereunder shall be actual delivery of the notice to the address of the party to be notified specified in
25 accordance with this agreement, or to the telecopy, facsimile or telex machine of such party. The second or any responsive notice shall be
26 deemed delivered when deposited in the United States mail or at the office of the courier or telegraph service, or upon transmittal by telex,
27 telecopy or facsimile, or when personally delivered to the party to be notified, provided, that when response is required within 24 or 48
28 hours, such response shall be given orally or by telephone, telex, telecopy or other facsimile within such period. Each party shall have the
29 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
30 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
31 may be delivered in writing by any other method specified herein and shall be deemed delivered in the same manner provided above for
32 any responsive notice.

33 **ARTICLE XIII.**

34 **TERM OF AGREEMENT**

35 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
36 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
37 any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

38 ~~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~~
39 ~~of the Contract Area, whether by production, extension, renewal or otherwise~~

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

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

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

58 **ARTICLE XIV.**

59 **COMPLIANCE WITH LAWS AND REGULATIONS**

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

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

64 **B. Governing Law:**

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

69 **C. Regulatory Agencies:**

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

1 or adjacent to the Contract Area.

2 With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries,
3 claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules,
4 rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies
5 to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further
6 agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that
7 Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon
8 owing by Operator as a result of such incorrect interpretation or application

9 **ARTICLE XV.**
10 **MISCELLANEOUS**

11 **A. Execution:**

12 This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by
13 such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is
14 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
15 Area. Operator may, however, by written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any
16 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
17 commencement of the Initial Well, terminate this agreement if Operator in its sole discretion determines that there is insufficient
18 participation to justify commencement of drilling operations. In the event of such a termination by Operator, all further obligations of the
19 parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other
20 costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest. Except as otherwise provided in Article
21 IV.B, in the event operations on a well shall be commenced without execution of this agreement by all persons listed on Exhibit "A" as
22 having a current interest in such well, or in the event that subsequent to the commencement of operations on the well previously unknown
23 or undisclosed persons owning working interests in a well are discovered, or both, the parties executing this agreement agree to one of the
24 following:

25 **Option No. 1:** Operator shall indemnify executing Non-Operators with respect to all costs incurred for the well which would
26 have been charged to each such person under this agreement as if such person had executed the same and Operator shall receive
27 all revenues which would have been received by each such person under this agreement as if such person had executed the same.

28 **Option No. 2:** The Operator shall advise all parties of the total interest of the parties that have executed this agreement. Each
29 party executing this agreement, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery
30 of such notice, shall advise the Operator of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or
31 (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interest of all
32 parties executing this agreement) of non-executing persons' interests, or (iii) carry its proportionate part (determined as provided
33 in (ii)) of non-executing persons' interests together with all or a portion of its proportionate part of any non-executing persons
34 interests that any executing party did not elect to take. Any interest of non-executing persons that is not carried by an executing
35 party shall be deemed to be carried by the Operator. Failure to advise the Operator within the time required shall be deemed an
36 election under (i).

37 **B. Successors and Assigns:**

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

41 **C. Counterparts:**

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

43 **D. Severability:**

44 For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws, this
45 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
46 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 XV of this agreement and the provisions of this Article XVI, the provisions of this Article XVI shall govern.

B. Operator's Duty:

Unless drilling operations are terminated pursuant to Article VI.F, Operator shall drill a Horizontal Well to the objective Zone(s) and drill the Lateral in the Zone(s) at least to a Displacement to which a reasonably prudent operator would deem further drilling is neither justified nor required.

C. 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 Well subject to this agreement has been drilled to the objective Displacement and the Consenting Parties cannot agree upon the sequence and timing of further operations regarding such Horizontal Well, the following elections shall control the order of priority enumerated hereafter:

- | | | |
|----|----------|---|
| 14 | First: | Testing, coring or logging; |
| 15 | Second: | Complete drilling operations of all proposed Laterals; |
| 16 | Third: | Extend or Deepen a Lateral; |
| 17 | Fourth: | Kick out and drill an additional Lateral in the same Zone; |
| 18 | Fifth: | Plug Back the well to a Zone above the Zone 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 shall have priority over a proposal to Plug Back to a shallower prospective Zone; |
| 21 | Sixth: | Sidetrack; and |
| 22 | Seventh: | Plug and abandon as provided for in Article VI.E |

Provided, however, that if, at the time the Consenting Parties are considering any of the above, the hole is in such a condition that a reasonably prudent operator would not conduct the particular contemplated operation involved for fear of placing the hole in jeopardy or losing the hole prior to Completing the Horizontal Well in the objective Zone, such operation shall be eliminated from the priorities set forth above.

D. It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the lease which it contributed to the Contract Area, such party agrees to pay or cause to be paid the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

F. If any party hereto creates the necessity of separate measurement facilities by reason of assignments or other mortgages or conveyances within the Contract Area, such party shall alone bear the entire costs of purchasing, installing, and operating such separate measurement facility, which facility may be constructed and operated by operator, at Operator's elections, for the account of said party, and shall be subject to all other provisions of this Operating Agreement including, without limitation, those provisions relating to advance for costs and offsets for unpaid expenses.

G. If, following the granting of relief under the Bankruptcy Code to any party hereto as debtor thereunder, this agreement should be held to be an executory contract within the meaning of the 11 U.S.C. Section 365, then Operator or, if the Operator is the debtor in bankruptcy, the other parties shall be entitled to a determination by the debtor or any trustee of the debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code, as to the rejection or assumption of this agreement. In the event of an assumption, Operator or the other parties shall be entitled to adequate assurances as to future performance of debtor's obligations hereunder and the protection of the interest of all other parties.

H. Email shall be an acceptable means of conferring notice under Article XII of this agreement and shall be effective upon receipt by the recipient in the case of an originating notice or upon the transmission of the Email in the case of responsive notice, provided in each instance that the Email transmission is addressed to the parties at the Email address set forth on the attached Exhibit "A", and creates a record that may be retained, retrieved, and reviewed by the recipient and may not be directly reproduced in paper form by recipient through an automated process.

I. This agreement shall never be construed for or against any party on the basis of which party drafted this agreement or any particular provision herein, or which party supplied the form of Operating Agreement. Each party agrees that this agreement has been purposefully drawn and correctly reflects its understanding of the transactions that it contemplates.

J. Except as it relates to handling of funds as specified in Article V.D.4, the parties shall not be considered fiduciaries or to have established a confidential relationship but rather the parties shall be free to act on an arms-length basis in accordance with their own respective self-interests.

K. Any Non-operator shall have the right to market its share of oil and gas production and oil and gas products free of charge through Operator, on the same terms and conditions as Operator and, in such event, Operator will handle and account for the payment of Non-Operator's share of royalties and production taxes. When requested by Non-Operator in writing, Operator shall represent any such electing Non-operator's share of production in any marketing negotiations.

L. Any assignment, conveyance or other transfer of an Oil and Gas Lease or Oil and Gas Interest that is subject to this Operating Agreement shall relieve the transferor from liability for the cost and expense of operations attributable to the transferred interest which are conducted thereafter provided that the transferor shall remain liable for an shall cause to be paid its proportionate part of the costs and expenses of all operations for which it was obligated to pay and were commenced prior to the actual transfer, except costs and expenses arising out of or directly related to a specific operation in which the transferor elected (or was deemed to have elected) not to participate pursuant to Article VI. From and after the effective date of said assignment, conveyance or other transfer, the transferee shall be deemed to be a party to this Operating Agreement.

M. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operations that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals which may be owned by a third party for which, failing in such operation, may revert to a third party, or (4) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following would apply: Should less than all of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the right to do so at their sole cost, risk and expense. Promptly following the conclusion of such operation, each of those parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-participating party in and to the lease, leases, or rights which would have terminated or which otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights within the balance of the drilling unit upon which the well was drilled, excepting, however, wells theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they bore in the expense attributable to the non-participating party's interest. For the purpose of defining a required operation under this provision, such operation will be deemed required if proposed within six (6) months prior to the date such rights would terminate (including Plug-Backs or Continuous Development Clause) or any extension thereof.

N. This Operating Agreement shall supersede any and all existing operating agreements as to the Contract Lands for the duration of this Agreement. At such time this Agreement terminates, the superseded operating agreements, if any, shall be controlling.

Note 1. It is agreed that the sequence of operations affecting a Horizontal Well subject to this agreement which has been drilled to the objective Displacement in the objective Zone, and is affected by an alternate proposal, shall be determined pursuant to Article XVI.C.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989 (Horz.)

IN WITNESS WHEREOF, this agreement shall be effective as of the _____ day of _____, _____
GMT Exploration Company, LLC, who has prepared and circulated this form for execution, represents and warrants
that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form Operating
Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those made
by strikethrough and/or insertion and that are clearly recognizable as changes in Articles _____
have been made to the form.

ATTEST OR WITNESS:

OPERATOR

GMT Exploration Company, LLC

By _____

Philip G. Wood

Type or print name

Title Vice-President

Date _____

Tax ID or S.S. No. 20-2185409

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. _____

By _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THE OPERATING AGREEMENT DATED _____
BETWEEN GMT EXPLORATION COMPANY, LLC (Operator)
AND _____ (Non-Operator)

1. LANDS SUBJECT TO CONTRACT:

TOWNSHIP 22 SOUTH, RANGE 34 EAST
SECTION 2: E2W2
LEA COUNTY, NEW MEXICO

2. PARTIES TO THIS AGREEMENT:

GMT EXPLORATION COMPANY, LLC
1560 Broadway, Suite 2000
Denver, Colorado 80202
Attn: Philip G. Wood, Vice President
Phone: (720) 946-3028

3. INITIAL WELL LOCATION:

Initial Well Project Area (horizontal well spacing unit):
E2W2 of Section 2, T22S-R34E, NMPM, Lea County, New Mexico

Initial Well Surface and Bottom Hole Locations:

Surface Hole Location:200' FSL, 1650' FWL
Bottom Hole Location:330' FNL, 1650' FWL

4. INITIAL WELL OWNERSHIP:

| <u>Owner</u> | <u>Working Interest</u> |
|--------------|-------------------------|
| TOTALS | 100.000000% |

3. OIL & GAS LEASES AND/OR OIL & GAS INTERESTS SUBJECT TO THIS AGREEMENT:

- A. **Lessor:**
Current Lessee:
Current Owner(s):
Date:
Recording Information:
Lease Royalty:
Existing Overriding Royalty of Record:
Other Burdens on Production:
Description:
Gross Acres:
County & State:

Exhibit " "
ACCOUNTING PROCEDURE
JOINT OPERATIONS

1 Attached to and made part of _____
2 _____
3 _____
4 _____

I. GENERAL PROVISIONS

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

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

17 **1. DEFINITIONS**

18
19 All terms used in this Accounting Procedure shall have the following meaning, unless otherwise expressly defined in the Agreement:

20
21 "Affiliate" means for a person, another person that controls, is controlled by, or is under common control with that person. In this
22 definition, (a) control means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting securities
23 of a corporation or, for other persons, the equivalent ownership interest (such as partnership interests), and (b) "person" means an
24 individual, corporation, partnership, trust, estate, unincorporated organization, association, or other legal entity.

25
26 "Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting
27 Procedure is attached.

28
29 "Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified
30 in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS)

31
32 "Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest
33 Railway Receiving Point to the property.

34
35 "Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.

36
37 "Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is
38 to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable
39 field personnel

40
41 "First Level Supervision" means those employees whose primary function in Joint Operations is the direct oversight of the Operator's
42 field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may
43 include, but are not limited to:

- 44
- 45 • Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance,
46 construction, well remedial work, equipment movement and drilling
 - 47 • Responsibility for day-to-day direct oversight of rig operations
 - 48 • Responsibility for day-to-day direct oversight of construction operations
 - 49 • Coordination of job priorities and approval of work procedures
 - 50 • Responsibility for optimal resource utilization (equipment, Materials, personnel)
 - 51 • Responsibility for meeting production and field operating expense targets
 - 52 • Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental
53 part of the supervisor's operating responsibilities
 - 54 • Responsibility for all emergency responses with field staff
 - 55 • Responsibility for implementing safety and environmental practices
 - 56 • Responsibility for field adherence to company policy
 - 57 • Responsibility for employment decisions and performance appraisals for field personnel
 - 58 • Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group
59 or team leaders
- 60

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

63
64 "Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection,
65 maintenance, repair, abandonment, and restoration of the Joint Property.

66

1 "Joint Property" means the real and personal property subject to the Agreement
2
3 "Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other
4 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions
5 contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted,
6 promulgated or issued
7
8 "Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property
9
10 "Non-Operators" means the Parties to the Agreement other than the Operator.
11
12 "Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and
13 gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping,
14 heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of
15 offshore operations, all of which are located offshore.
16
17 "Off-site" means any location that is not considered On-site as defined in this Accounting Procedure
18
19 "On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of
20 Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other
21 facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.
22
23 "Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.
24
25 "Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as
26 "Party."
27
28 "Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees,
29 or is otherwise obligated, to pay and bear.
30
31 "Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of
32 the costs and risks of conducting an operation under the Agreement.
33
34 "Personal Expenses" means reimbursed costs for travel and temporary living expenses.
35
36 "Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual
37 railhead may not exist.
38
39 "Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a
40 receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication,
41 scheduling and dispatching center, and other associated functions serving the Joint Property.
42
43 "Supply Store" means a recognized source or common stock point for a given Material item.
44
45 "Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by
46 engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint
47 Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second
48 paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-
49 Operator, Non-Operator Affiliates, and/or third parties.
50

51 2. STATEMENTS AND BILLINGS

52

53 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
54 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all
55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified
56 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.
57 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.
58

59 The Operator may make available to Non-Operators any statements and bills required under Section 12 and/or Section 13 A (*Advances*
60 *and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper
61 copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and
62 bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of
63 weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via
64 email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings
65 electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written
66 notice to the Operator.

1 3. ADVANCES AND PAYMENTS BY THE PARTIES

2
3 A Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of the estimated
4 cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of
5 the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances
6 received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the
7 subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator
8 shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.

9
10 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
11 payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the
12 *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum
13 contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court
14 costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or
15 discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the
16 Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment
17 was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed.
18 Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the
19 Operator at the time payment is made, to the extent such reduction is caused by:

- 20
21 (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working
22 interest or Participating Interest, as applicable; or
23 (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved
24 or is not otherwise obligated to pay under the Agreement; or
25 (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has
26 furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator
27 shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty
28 (30) day period following the Operator's receipt of such written notice; or
29 (4) charges outside the adjustment period, as provided in Section I 4 (*Adjustments*)

30 4. ADJUSTMENTS

31
32 A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills
33 and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct,
34 with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said
35 period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response
36 to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section I 5 (*Expenditure*
37 *Audits*).

38
39 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
40 twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared
41 on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month
42 period are limited to adjustments resulting from the following:

- 43
44 (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*), or
45 (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
46 Operator relating to another property, or
47 (3) a government/regulatory audit, or
48 (4) a working interest ownership or Participating Interest adjustment.

49
50 5. EXPENDITURE AUDITS

51
52 A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's
53 accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in
54 which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the
55 adjustment of accounts as provided for in Section I 4 (*Adjustments*). Any Party that is subject to payout accounting under the
56 Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of
57 the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the
58 volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting
59 required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the
60 twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

61
62 Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a
63 manner that will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of the Non-Operators'
64 audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year
65 without prior approval of the Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of
66

1 those Non-Operators approving such audit.

2
3 The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after
4 completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month
5 requirement for taking specific detailed written exception as required in Section I.4.A (*Adjustments*) above. All claims shall be
6 supported with sufficient documentation.

7
8 A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to
9 the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator
10 hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to
11 comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with
12 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
13 the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations,
14 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
15 I.5.C.

16
17 B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator
18 receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive
19 response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion
20 thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section
21 I.3.B (*Advances and Payments by the Parties*).

22
23 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
24 shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator
25 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
26 adequately fulfilling its duties. Unless otherwise provided for in Section I.5.E, if the Operator fails to provide substantive response
27 to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately
28 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
29 Payments by the Parties*).

30
31 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
32 Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution
33 meeting, as set forth in this Section I.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable.
34 The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting
35 shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with
36 authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution
37 reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the
38 Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself.
39 Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information
40 supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may
41 be discussed at subsequent meetings until each such issue is resolved.

42
43 If the Agreement contains no dispute resolution procedures and the audit issues cannot be resolved by negotiation, the dispute shall
44 be submitted to mediation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute
45 shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties shall each have present
46 at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to
47 ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any
48 Party may file a lawsuit or complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60)
49 days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other
50 provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or
51 to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.

52
53 E. (*Optional Provision - Forfeiture Penalties*)
54 If the Non-Operators fail to meet the deadline in Section I.5.C, any unresolved exceptions that were not addressed by the Non-
55 Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been
56 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
57 were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response
58 of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made,
59 without interest, to the Joint Account.

60 **6. APPROVAL BY PARTIES**

61 **A. GENERAL MATTERS**

62
63 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of this Accounting
64 Procedure and if the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the
65
66

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 sixty-two percent (62 %), 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:

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 MF1-37 ("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.

- 1 D Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the
2 expenses are incurred in connection with directly chargeable activities.
- 3
4 E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the
5 Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a
6 Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation
7 costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the
8 Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).
- 9
10 F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and
11 wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal
12 Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly
13 benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are
14 available.
- 15
16 G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable
17 to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account
18 under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most
19 recently recommended by COPAS.
- 20
21 H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose
22 salaries and wages are chargeable under Section II.2.A

23
24 **3. MATERIAL**

25
26 Material purchased or furnished by the Operator for use on the Joint Property in the conduct of Joint Operations as provided under Section
27 IV (*Material Purchases, Transfers, and Dispositions*). Only such Material shall be purchased for or transferred to the Joint Property as
28 may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The accumulation
29 of surplus stocks shall be avoided.

30
31 **4. TRANSPORTATION**

- 32
33 A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.
- 34
35 B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point
36 to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material
37 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
38 methods listed below.
- 39
40 (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a
41 theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per
42 hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall
43 consistently apply the selected alternative.
- 44
45 (2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial
46 charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged
47 directly to the Joint Property and shall not be included when calculating the Equalized Freight.

48
49 **5. SERVICES**

50
51 The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and
52 utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to
53 contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").

54
55 The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).

56
57 **6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR**

58
59 In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:

- 60
61 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to
62 production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership
63 and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who
64 are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense,
65 insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation
66 not to exceed eight percent (8 %) per annum, provided, however, depreciation shall not be charged when the

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

- 4
5 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
6 of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this Section II.6.B, the Operator shall
7 adequately document and support commercial rates and shall periodically review and update the rate and the supporting
8 documentation. For automotive equipment, the Operator may elect to use rates published by the Petroleum Motor Transport
9 Association (PMTA) or such other organization recognized by COPAS as the official source of rates.

10 **7. AFFILIATES**

- 11
12 A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators
13 may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are
14 specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed
15 to such individual project do not exceed \$_____. If the total costs for an Affiliate's goods and services charged to such
16 individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such
17 Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

- 18
19 B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators,
20 charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*), if the
21 charges exceed \$_____ in a given calendar year.

- 22
23 C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property,
24 unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support
25 commercial rates and shall periodically review and update the rate and the supporting documentation, provided, however,
26 documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or
27 charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing, direct charges for
28 Affiliate-owned communication facilities or systems shall be made pursuant to Section II.12 (*Communications*).

29
30 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
31 result of such omission shall be the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement
32 does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be
33 zero dollars (\$ 0.00).

34
35 **8. DAMAGES AND LOSSES TO JOINT PROPERTY**

36
37 All costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred, except to the
38 extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties
39 shall be solely liable.

40
41 The Operator shall furnish the Non-Operator written notice of damages or losses incurred as soon as practicable after a report has been
42 received by the Operator.

43
44 **9. LEGAL EXPENSE**

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

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

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56 **10. TAXES AND PERMITS**

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

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62 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
63 notwithstanding any contrary provisions, the charges to the Parties will be made in accordance with the tax value generated by each Party's
64 working interest.

1 Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other
2 tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section 16.A (*General Matters*)

3 Charges to the Joint Account resulting from sales/use tax audits, including extrapolated amounts and penalties and interest, are permitted,
4 provided the Non-Operator shall be allowed to review the invoices and other underlying source documents which served as the basis for
5 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
6 review such documentation, the sales/use tax amount shall not be directly charged unless the Operator can conclusively document the
7 amount owed by the Joint Account

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10 **11. INSURANCE**

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

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19 **12. COMMUNICATIONS**

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

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30 **13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY**

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

35
36 Costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting
37 responsibilities of oil and other spills as well as discharges from permitted outfalls as required by applicable Laws, or other pollution
38 containment and removal equipment deemed appropriate by the Operator for prudent operations, are directly chargeable.

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41 **14. ABANDONMENT AND RECLAMATION**

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

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44 **15. OTHER EXPENDITURES**

45 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III
46 (*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
47 Joint Operations. Charges made under this Section II.15 shall require approval of the Parties, pursuant to Section 16.A (*General Matters*).
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52 **III. OVERHEAD**

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

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

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

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- 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 1.6.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 1.6.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, re-drilling, 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 \$ 8000 (prorated for less than a full month)
- Producing Well Rate per month \$ 800

(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.

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- (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.4 (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

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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) 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.

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.

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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 1.6.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 1.6.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").

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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.

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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 1.6 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"

INSURANCE REQUIREMENTS ATTACHED TO AND MADE A PART OF THE OPERATING
AGREEMENT DATED _____ BETWEEN
GMT EXPLORATION COMPANY, LLC (Operator) AND
(Non-Operator)

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

- (a) Workmen's compensation insurance in accordance with the requirements of the laws of the State or States where work is conducted and employers liability insurance of Five Hundred Thousand Dollars (\$500,000.00) bodily injury by accident and Five Hundred Thousand Dollars (\$500,000.00) bodily injury by disease per employee, with a policy limit of Five Hundred Thousand Dollars (\$500,000.00) for bodily injury by disease.
- (b) Public liability insurance with limits of One Million Dollars (\$1,000,000) as to any one person, and One Million Dollars (\$1,000,000) as to any one occurrence.
- (c) Automobile public liability insurance with a combined single limit of up to One Million Dollars (\$1,000,000) per accident.
- (d) Umbrella catastrophe liability of Ten Million Dollars (\$10,000,000) each occurrence and Ten Million Dollars (\$10,000,000) aggregate.

Each policy of insurance issued pursuant to the provisions of (a), (b), (c) or (d) of this section shall provide by endorsement or otherwise that the provisions of the policy are extended to cover the interest of the Non-Operator for whom the assured is acting as Operator, agent, or contractor under contract, but only with respect to operations conducted by named assured, and shall charge the premiums for all such insurance to the joint account.

Operator carries Control of Well Insurance covering his proportionate share of expenses involved in controlling a blowout, the expense of redrilling, ongoing producing operations and certain other related costs. Coverage under this insurance is available to non-operating working interest owners. Such insurance is optional, however, and if not rejected by the non-operating working interest owners prior to spud date, they will be billed accordingly. Any working interest owner rejecting above coverage shall be responsible for his proportionate share of such loss, anything in this agreement to the contrary notwithstanding.

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

END

INSTRUCTIONS FOR USE OF GAS BALANCING AGREEMENT FORM

7 GENERAL

8 This Gas Balancing Agreement form is intended to be used as Exhibit "E" to the 1977, 1982 and 1989 A.A.P.L. Form
9 610 Model Form Operating Agreements. It is also generally suitable for use with other forms of operating agreements.
10 However, before using this form, both it and the operating agreement in question should be reviewed and revised as required
11 to ensure consistency.

12 If this form is used as an exhibit to an A.A.P.L. Form 610 Model Form Operating Agreement or other operating
13 agreement, the provisions in Section 15 (Counterparts), the "IN WITNESS WHEREOF" paragraph on page 6 and the
14 signature lines and acknowledgments on page 7 should be omitted.

15 This Gas Balancing Agreement may also be executed as a separate agreement for properties covered by an existing
16 operating agreement where there is no gas balancing agreement or where the one employed is deemed inadequate. In that
17 event, the properties subject to the form will have to be described, and the provisions of Section 15 (Counterparts), the "IN
18 WITNESS WHEREOF" on page 6 and the signature lines and acknowledgments will have to be employed.

19 The description of the area covered by the Agreement may be included in the definition of the Balancing Area in Section
20 1.02. Care should be taken in drafting this description, however, because it may be desirable to cover more than one Balancing
21 Area. Such a definition might, for example, read as follows:

Each well subject to that Operating Agreement dated _____
covering the Contract Area _____ that produces gas or is allocated a share of gas
production. If a single well is completed in two or more reservoirs, such well shall be
considered a separate well with respect to, but only with respect to, each reservoir from
which the gas production is not commingled in the wellbore.

27 This Gas Balancing Agreement contains both "alternative" and "optional" provisions. In the case of alternative
28 provisions, it will generally be necessary to select one alternative in order to make the Gas Balancing Agreement effective.
29 Provisions which are designated as optional (or as Option 1, 2, etc.) may or may not be used. Note that, in order for an
30 Alternative or Option to be selected and effective, it must be checked. If, however, an Alternative is not selected,
31 "Alternative 1" in each instance will be deemed to have been adopted by the Parties, but if an Option is not selected, it
32 will not form a part of the Gas Balancing Agreement. See Section 12.6.

33 **HEADING** - Indicate the applicable Operating Agreement and other information. If the Gas Balancing Agreement is to be
34 used without an Operating Agreement, the heading on page 1 should be modified appropriately, and the following references
35 to the "Operating Agreement" should be deleted or modified appropriately: Section 1.12; Section 7.1; Section 9; Section 12.4;
36 Section 13.1; and Section 13.2.

37 **SECTION 1.02** - Select the Balancing Area to be used, or insert a description of the Balancing Area. As a general rule, the
38 use of a mineral lease as a Balancing Area will only be appropriate in certain situations involving offshore wells.

39 **SECTION 1.16** - This definition should be used only if one of the optional seasonal limitation provisions in Section 4.2 is
40 employed. The specific months during which makeup is to be restricted should be included, e.g., "the months of November,
41 December, and the following January and February."

42 **SECTION 2.1** - The parties should decide whether the basis of balancing in the Balancing Area will be in Mcfs or MMBtus.
43 One of the two Alternatives stipulated MUST be selected to avoid an automatic election that Alternative 1 applies.

44 **SECTION 2.2** - Since most gas is now decontrolled, the primary purpose of this provision is to provide for separate
45 application of the form to different price categories in the event that price controls are imposed in the future by
46 governmental entity.

47 **SECTION 3.5** - This provision is intended to limit Overproduction in order to keep a Party from getting too far out of
48 balance. It should be noted that this Section will only have an impact if a Party owns less than a 1/3 working interest in the
49 Balancing Area, since under it a party owning a 1/3 interest will be entitled to take 300%, $\times 1/3 = 100\%$.

50 **SECTION 4.1** - Select the number of days' notification that an Underproduced Party must give prior to making up Gas. Also,
51 indicate the percentage of each Overproduced Parties' Gas that Underproduced Parties will be allowed to make up. The
52 percentages should be identical.

53 **SECTION 4.2** - The form sets out two Options for imposing seasonal limitations on making up Gas. It should be noted that
54 it is NOT required that any seasonal limitation be included. If Option 1 is selected, select the number of months prior to the
55 Winter Period that will be used to determine how much Gas an Underproduced Party may make up during the Winter
56 Period. This number and the number of months in the Winter Period (as defined in Section 1.16) should add up to 12 or
57 less. If Option 2 is selected, indicate the percentage of an Overproduced Party's Gas that an Underproduced Party may make
58 up during the Winter Period. This percentage should be lower than the percentage set out in Section 4.1.

59 **SECTION 4.3** - Select the percentage of an Overproduced Party's Gas which it should be required to make available for make
60 up once it has produced all of its share of ultimately recoverable reserves. This percentage should be greater than the
61 percentage set out in Section 4.1.

62 **SECTION 6.2** - One of the two Alternatives stipulated MUST be selected as the basis upon which Royalty is to be calculated
63 and paid in order to avoid an automatic election that Alternative 1 applies.

64 **SECTION 7.3** - One of the two Alternatives stipulated for payment of amounts due under a cash settlement MUST be
65 selected in order to avoid an automatic election that Alternative 1 applies. Note that Section 7.3.1 is optional, and may
66 ONLY be used with Section 7.3, Alternative 2.

67 **SECTION 7.4** - One of the two alternatives stipulated for determining proceeds received by an Overproduced Party for cash
68 settlement purposes MUST be selected in order to avoid an automatic election that Alternative 1 applies.

69 **SECTION 7.5.1 through 7.5.2** - Before selecting any of these provisions, the Parties should review the relevant gas processing
70 arrangements for the Gas. Section 7.5.2, Option 1, contemplates that all wellhead MMBtus of Overproduction will be valued
71 at the gas price per MMBtu received by the Overproduced Party, without regard to whether any of the gas may have been
72 processed. Section 7.5.2, Option 2, on the other hand, would include any enhanced or impaired values resulting from
73 processing in calculating a valuation for the Overproduction. Note that if Section 7.5.2, Option 1, is selected, and residue gas
74 to be sold on an MMBtu basis, it will be necessary to measure the number of MMBtus produced at the well (even if the

A.A.P.L. FORM 610-E - GAS BALANCING AGREEMENT - 1992

1 parties have elected to balance on Mcfs), in order to determine the total value of Overproduction.
2 SECTION 7.7 - Select the interest rate payable for unpaid amounts owed pursuant to a cash settlement.
3 SECTION 7.9 - In the event that the parties anticipate that Overproduction may be subject to a potential refund by an
4 appropriate governmental authority, the Parties may choose this provision.
5 SECTION 7.10 - If the Parties adopt this provision, an Overproduced Party may make a cash settlement with Underproduced
6 Parties for all or part of outstanding gas imbalances as often as once every twenty-four (24) months.
7 SECTION 8 - Select the number of days' prior notification required for well tests, as well as the length of such tests.
8 SECTION 12.9 - Select the appropriate method for computing and reporting income to the Internal Revenue Service based
9 on the "entitlements" or "sales" methods
10 SECTION 13 - The purpose of this Section is to stipulate the rights of Parties in the event that any Party sells, exchanges,
11 transfers or assigns its interest in the Balancing Area. Section 13.2 gives the Underproduced Party an option to demand a
12 cash settlement if an Overproduced Party sells its interest, and the number of days' notice and response should be selected to
13 implement this procedure.
14 SECTION 14 - This provision is intended to provide the Parties an opportunity to modify or supplement any of the Gas
15 balancing Agreement's provisions
16 SECTION 15 - This provision is to be utilized ONLY if the Gas Balancing Agreement is NOT agreed to contemporaneously
17 with the execution of an A.A.P.L. Form 610 Model Form Operating Agreement or another suitable operating agreement. If
18 the Gas Balancing Agreement is agreed to contemporaneously with any such operating agreement, Section 15 should be
19 omitted. Otherwise, the Parties must determine the appropriate Percentage Interest which must execute the form to make it
20 effective and the date by which such interests must execute it
21 SIGNATURE ELEMENT - The "IN WITNESS WHEREOF," signature and attest/witness elements are ONLY to be utilized
22 if the Gas Balancing Agreement is NOT agreed to contemporaneously with the execution of an A.A.P.L. Form 610 Model
23 Form Operating Agreement or another suitable operating agreement. If the Gas Balancing Agreement is agreed to
24 contemporaneously with any such operating agreement, the "IN WITNESS WHEREOF," signature and attest/witness
25 elements should be omitted. Otherwise, these items should be completed in an appropriate fashion, and any appropriate
26 amendment made to the heading of the Gas Balancing Agreement

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

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EXHIBIT "E"
GAS BALANCING AGREEMENT ("AGREEMENT")
ATTACHED TO AND MADE PART OF THAT CERTAIN
OPERATING AGREEMENT DATED _____

BY AND BETWEEN GMT EXPLORATION COMPANY, LLC, AS OPERATOR
AND _____ ("OPERATING AGREEMENT")
RELATING TO THE _____ AREA,
LEA _____ COUNTY/PARISH, 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.

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 _____ in one~~

~~entire year and the month(s) of _____ 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

1 requirements, but in no event will advance notice of less than thirty (30) days be deemed sufficient for Operator to meet such requirements.
 2 Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the
 3 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
 4 extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to
 5 preserve correlative rights, or to maintain oil production.

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

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

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

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

4. IN-KIND BALANCING

4.1 Effective the first day of any calendar month following at least thirty (30) days prior
 37 written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current
 38 Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined
 39 by multiplying twenty-five percent (25%) of the Full Shares of Current Production of all Overproduced Parties by
 40 a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which
 41 is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an
 42 Overproduced Party be required to provide more than twenty-five percent (25%) of its Full Share of Current
 43 Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced
 44 Party to begin taking Makeup Gas. See Section 14: Additional Provisions, Note 1.

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

4.3 (Optional Seasonal Limitation on Makeup Option 2) Notwithstanding the provisions of Section 4.1, no
 49 Overproduced Party will be required to provide more than percent (%) of its Full Share
 50 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
 53 (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced
 54 Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may
 55 be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to
 56 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
 59 Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within ninety (90) days
 60 after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of
 61 Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between
 62 the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or
 63 Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum
 64 Accountants Societies Bulletin No.24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to
 65 the Operator any data required by the Operator for preparation of the statements required hereunder.

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

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
 73 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 ^{(thirty-six (36))} ~~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

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

5 7.7 Interest compounded at the rate of twelve percent (12 %) per annum or the maximum lawful
6 rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1 beginning
7 the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any
8 Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3
9 contributed to the accrual of the interest.

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

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

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

30 8. TESTING

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

37 9. OPERATING COSTS

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

42 10. LIQUIDS

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

45 11. AUDIT RIGHTS

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

58 12. MISCELLANEOUS

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

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

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

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

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.~~

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 thirty (30) days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within fifteen (15) 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

Note 1: The election of an underproduced party to commence taking makeup gas under the provisions of this paragraph shall remain in effect until such underproduced party gives Operator thirty (30) days' notice of its election to cease taking makeup gas, or until such party's underproduction is eliminated, whichever occurs first. In the event an underproduced party provides notice to Operator of its intent to cease taking makeup gas, such underproduced party shall not thereafter be allowed to request to makeup gas again until one (1) year from the last day of the month in which they last took makeup gas. This section does not apply to permanent overproduction situations. Please see Section 4.3 regarding situations where an Overproduced Party has produced its entire share of the ultimately recoverable reserves in the Balancing Area.

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1 15. COUNTERPARTS

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

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

10 ATTEST OR WITNESS:

OPERATOR

11 GMT Exploration Company, LLC _____

12 _____ BY: _____

13 _____

14 Type or print name

15 Title _____

16 Date _____

17 Tax ID or S.S. No. _____

18 _____

19 NON-OPERATORS

20 _____

21 _____ BY: _____

22 _____

23 Type or print name

24 Title _____

25 Date _____

26 Tax ID or S.S. No. _____

27 _____

28 _____

29 _____ BY: _____

30 _____

31 Type or print name

32 Title _____

33 Date _____

34 Tax ID or S.S. No. _____

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ACKNOWLEDGMENTS

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Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The

validity and effect of these forms in any state will depend upon the statutes of that state

Individual acknowledgment:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

Acknowledgment in representative capacity:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____

_____ of _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

EXHIBIT "F"

NON-DISCRIMINATION CLAUSE ATTACHED TO AND MADE A PART OF THE
OPERATING AGREEMENT DATED _____ BETWEEN
GMT EXPLORATION COMPANY LLC (Operator) AND
(Non-Operator)

GMT Exploration Company LLC, hereinafter referred to as "Operator," agrees, unless exempt therefrom, to comply with all provisions of Executive Order 11246, which are incorporated herein by reference, and if Operator has more than 50 employees, Operator must file Standard Form 100 (EEO-1) and develop a written "Affirmative Action Compliance Program" for each of its establishments according to the Rules and Regulations published by the United States Department of Labor in 41 C.F.R., Chapter 60. Operator further hereby certifies that it does not now and will not maintain any facilities provided for its employees in a segregated manner or permit its employees to perform their services at any location under its control where segregated facilities are maintained, as such segregated facilities are defined in Title 41, Chapter 60-1.8, Code of Federal Regulations, revised as of January 1, 1969, unless exempt therefrom.

Unless exempt by rules, regulations or orders of the United States Secretary of Labor, issued pursuant to Section 204 of the Executive Order 11246 dated September 24, 1965, during the performance of this contract, the Operator agrees as follows:

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
- (3) The Operator will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- (6) In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be canceled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

- (7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each sub contractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; provided however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

END