
From: Gyllenband, Ryan (MRO)
Sent: Tuesday, January 29, 2019 1:04 PM
To: 'Erica Hixson' <ehixson@taprk.com>
Subject: RE: Will Kane Unit

Erica,

If Tap Rock had an issue with us pooling them, we offered to drop Tap Rock from the proceedings if Tap Rock would allow the hearing to go forward. Since MRO and CVX have leases that are expiring we were trying to get the cases heard ASAP so we are not in jeopardy of losing our leases. The idea would be that this would give Tap Rock some comfort and preserve your rights while allowing us to work on a JOA together. If Tap Rock is going to allow the cases to be heard next week without any opposition we would obviously like to keep Tap Rock as a pooled party and still continue to work on the JOA with you.

Other questions answered below.

Thanks,
Ryan

From: Erica Hixson <ehixson@taprk.com>
Sent: Tuesday, January 29, 2019 12:10 PM
To: Gyllenband, Ryan (MRO) <rgyllenband@marathonoil.com>
Subject: [External] Will Kane Unit

Beware of links/attachments.

Hey Ryan,

Last week you'd called about our intentions on the Will Kane unit upcoming hearing. We got work through our attorney that you guys weren't seeking to force pool Tap Rock? We are a little confused about that - can you confirm what you guys are thinking for the 2/7 hearing?

Other questions:

1. What are the anticipated spud and completion dates for each of the Will Kane wells?
Plan to spud the first well mid-June 2019. We have some upcoming lease expirations that we are attempting to hit. Completion expected 60-90 days after the drilling is completed, but these aren't on the frac schedule yet.
2. What are the upcoming lease expirations? I know you mentioned you might have one as well as CVX?

CROSS-EXAM EXHIBIT No. 1
Tap Rock Resources/Will Kane
Case Nos. 20220 and 20221
February 7, 2019 Hearing

Yes that's correct. We have some starting to expire in June 2019, and CVX has a lot that expire in June and July and even a couple that expire in April that probably won't be hit.

3. Are you drilling & completing one by one or in batch style?

Batch, but it is now likely that we will only drill 4 wells, and not drill the 10H and 11H (2 easternmost wells) at this time.

4. Can you please send DTO or DOTO pages (redacted is fine) showing Tap Rock's interest?

I don't have a DTO, just a prelim ownership report. I show Tap Rock with 3 leases: Estate of George Finley III, Mary Kay Cubine, and Scott R. Brown Revocable Trust covering 1.875, 1.875, and 6.67 net acres respectively, which comes to just over 3% of the entire 320.

5. Have modifications to the JOA been proposed by other parties? If so, please send the most up to date version for review.

No requested changes on the JOA yet...CVX and Marathon are working on a couple of other JOAs initiated from generally the same form so I will have some changes based on those forms I bet, but nothing official I can send you today....maybe I will have something by early next week.

6. Are there other wells that will share in the facilities and pad costs?

Doubt it, but confirming.

7. Whose gathering system will these wells use?

Trying to track this one down.

Feel free to give me a call to discuss if that's easier - thanks!

Erica

Erica Hixson

Landman

Office: 720-460-3316

602 Park Point Drive Suite 200

Golden, Colorado 80401

ehixson@taprk.com



SCENARIO 1

| | | | | | | | | |
|---|--------------------------|-------------------------|-------------------------|---------------------------|--------------------------|-------------------------|--------------------------|--------------------------|
| Well Count Proposed to Tap Rock on 10/17/18 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| Well Name | Will Kane 15 WXY Fee #3H | Will Kane 15 WB Fee #4H | Will Kane 15 WA Fee #6H | Will Kane 15 WXY Fee #10H | Will Kane 15 WB Fee #11H | Will Kane 15 TB Fee #7H | Will Kane 15 TBU Fee #2H | Will Kane 15 TBU Fee #9H |
| Horizon | Wolfcamp A | Wolfcamp B | Wolfcamp A | Wolfcamp A | Wolfcamp B | 3rd Bone Spring | 3rd Bone Spring | 3rd Bone Spring |
| Location Cost | \$35,625 | \$35,625 | \$35,625 | \$35,625 | \$35,625 | \$35,625 | \$35,625 | \$35,625 |
| Drilling Intangible | \$2,221,448 | \$2,221,448 | \$2,221,448 | \$2,221,448 | \$2,221,448 | \$2,029,644 | \$2,029,644 | \$2,029,924 |
| Drilling Tangible | \$1,045,000 | \$1,045,000 | \$1,045,000 | \$1,045,000 | \$1,045,000 | \$651,000 | \$651,000 | \$655,000 |
| DRILLING TOTAL | \$3,302,073 | \$3,302,073 | \$3,302,073 | \$3,302,073 | \$3,302,073 | \$2,716,269 | \$2,716,269 | \$2,720,549 |
| Completion Intangible | \$4,179,600 | \$4,179,600 | \$4,179,600 | \$4,179,600 | \$4,179,600 | \$3,815,600 | \$3,815,600 | \$3,815,600 |
| Completion Tangible | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 |
| COMPLETION TOTAL | \$4,194,600 | \$4,194,600 | \$4,194,600 | \$4,194,600 | \$4,194,600 | \$3,830,600 | \$3,830,600 | \$3,830,600 |
| Surface Equipment | \$839,730 | \$839,730 | \$839,730 | \$839,730 | \$839,730 | \$839,730 | \$839,730 | \$839,730 |
| Artificial Lift | \$169,500 | \$169,500 | \$169,500 | \$169,500 | \$169,500 | \$169,500 | \$169,500 | \$169,500 |
| PRODUCTION TOTAL | \$1,009,230 | \$1,009,230 | \$1,009,230 | \$1,009,230 | \$1,009,230 | \$1,009,230 | \$1,009,230 | \$1,009,230 |
| TOTAL AFE | \$8,505,903 | \$8,505,903 | \$8,505,903 | \$8,505,903 | \$8,505,903 | \$7,556,099 | \$7,556,099 | \$7,560,379 |
| Tap Rock Percentage (as communicated in 2/4/19 email) 3.255208% | | | | | | | | |
| Total Estimated Cost to Tap Rock | \$ | 2,122,463.71 | | | | | | |

SCENARIO 2

| | | | | | | |
|---|--------------------------|-------------------------|-------------------------|---------------------------|--------------------------|-------------------------|
| Well Count as filed in Applications 20220 and 20221 | 1 | 2 | 3 | 4 | 5 | 6 |
| Well Name | Will Kane 15 WXY Fee #3H | Will Kane 15 WB Fee #4H | Will Kane 15 WA Fee #6H | Will Kane 15 WXY Fee #10H | Will Kane 15 WB Fee #11H | Will Kane 15 TB Fee #7H |
| Horizon | Wolfcamp A | Wolfcamp B | Wolfcamp A | Wolfcamp A | Wolfcamp B | 3rd Bone Spring |
| Location Cost | \$35,625 | \$35,625 | \$35,625 | \$35,625 | \$35,625 | \$35,625 |
| Drilling Intangible | \$2,221,448 | \$2,221,448 | \$2,221,448 | \$2,221,448 | \$2,221,448 | \$2,029,644 |
| Drilling Tangible | \$1,045,000 | \$1,045,000 | \$1,045,000 | \$1,045,000 | \$1,045,000 | \$651,000 |
| DRILLING TOTAL | \$3,302,073 | \$3,302,073 | \$3,302,073 | \$3,302,073 | \$3,302,073 | \$2,716,269 |
| Completion Intangible | \$4,179,600 | \$4,179,600 | \$4,179,600 | \$4,179,600 | \$4,179,600 | \$3,815,600 |
| Completion Tangible | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 |
| COMPLETION TOTAL | \$4,194,600 | \$4,194,600 | \$4,194,600 | \$4,194,600 | \$4,194,600 | \$3,830,600 |
| Surface Equipment | \$839,730 | \$839,730 | \$839,730 | \$839,730 | \$839,730 | \$839,730 |
| Artificial Lift | \$169,500 | \$169,500 | \$169,500 | \$169,500 | \$169,500 | \$169,500 |
| PRODUCTION TOTAL | \$1,009,230 | \$1,009,230 | \$1,009,230 | \$1,009,230 | \$1,009,230 | \$1,009,230 |
| TOTAL AFE | \$8,505,903 | \$8,505,903 | \$8,505,903 | \$8,505,903 | \$8,505,903 | \$7,556,099 |
| Tap Rock Percentage (as communicated in 2/4/19 email) 3.255208% | | | | | | |
| Total Estimated Cost to Tap Rock | \$ | 1,630,390.91 | | | | |

SCENARIO 3

| | | | | |
|---|--------------------------|-------------------------|-------------------------|-------------------------|
| Well Count as communicated in 1/29/19 Email | 1 | 2 | 3 | 4 |
| Well Name | Will Kane 15 WXY Fee #3H | Will Kane 15 WB Fee #4H | Will Kane 15 WA Fee #6H | Will Kane 15 TB Fee #7H |
| Horizon | Wolfcamp A | Wolfcamp B | Wolfcamp A | 3rd Bone Spring |
| Location Cost | \$35,625 | \$35,625 | \$35,625 | \$35,625 |
| Drilling Intangible | \$2,221,448 | \$2,221,448 | \$2,221,448 | \$2,029,644 |
| Drilling Tangible | \$1,045,000 | \$1,045,000 | \$1,045,000 | \$651,000 |
| DRILLING TOTAL | \$3,302,073 | \$3,302,073 | \$3,302,073 | \$2,716,269 |
| Completion Intangible | \$4,179,600 | \$4,179,600 | \$4,179,600 | \$3,815,600 |
| Completion Tangible | \$15,000 | \$15,000 | \$15,000 | \$15,000 |
| COMPLETION TOTAL | \$4,194,600 | \$4,194,600 | \$4,194,600 | \$3,830,600 |
| Surface Equipment | \$839,730 | \$839,730 | \$839,730 | \$839,730 |
| Artificial Lift | \$169,500 | \$169,500 | \$169,500 | \$169,500 |
| PRODUCTION TOTAL | \$1,009,230 | \$1,009,230 | \$1,009,230 | \$1,009,230 |
| TOTAL AFE | \$8,505,903 | \$8,505,903 | \$8,505,903 | \$7,556,099 |
| Tap Rock Percentage (as communicated in 2/4/19 email) 3.255208% | | | | |
| Total Estimated Cost to Tap Rock | \$ | 1,076,621.24 | | |

CROSS-EXAM EXHIBIT No. 2
Tap Rock Resources/Will Kane
Case Nos. 20220 and 20221
February 7, 2019 Hearing

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED: January 1, 2019

OPERATOR: Marathon Oil Permian LLC

CONTRACT AREA; E/2 of Section 15, Township 24 South - Range 34 East, N.M.P.M.

COUNTY OR PARISH Lea OF STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PETROLEUM

LANDMEN, 4100 FOSSIL CREEK BLVD

FORT WORTH, TEXAS, 76137, APPROVED FORM

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

20

21 **OPERATING AGREEMENT**

22 THIS AGREEMENT, entered into by and between Marathon Oil Permian LLC, hereinafter designated and referred to as "Operator," and
23 the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as
24 "Non-Operators."

25 **WITNESSETH:**

26 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
27 "A," and the parties hereto have reached an agreement to explore and develop these Leases and/or Oil and Gas Interests for the production
28 of Oil and Gas to the extent and as hereinafter provided,

29 NOW, THEREFORE, it is agreed as follows:

30 **I. DEFINITIONS**

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

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

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

37 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
38 operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in
39 Exhibit "A."

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

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

44 F. The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having
45 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
46 drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.

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

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

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

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

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

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

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

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

61 O. The term "Recompletion" or "Recomplete" shall mean an operation whereby ~~after the initial proposed completion, a Completion is~~
62 ~~conducted in the wellbore, a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the~~
63 ~~existing wellbore.~~

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

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

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

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

74 **II. EXHIBITS**

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

- 76 A. Exhibit "A," shall include the following information:
- 77 1. Description of lands subject to this agreement,
- 78 2. Restrictions, if any, as to depths, formations, or substances,
- 79 3. Parties to agreement with addresses and telephone numbers for notice purposes,
- 80 4. Percentages or fractional interests of parties to this agreement,
- 81 5. Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
- 82 6. Burdens on production,
- 83 B. Exhibit "B," Form of Lease.
- 84 C. Exhibit "C," Accounting Procedure.
- 85 D. Exhibit "D," Insurance.
- 86 E. Exhibit "E," Gas Balancing Agreement.
- 87 F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.
- 88 G. Exhibit "G," Tax Partnership.
- 89 H. Other: Memorandum of Operating Agreement and Financing Statement

90 **Fill in if applicable**

91 **I.**

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

94 **III. INTERESTS OF PARTIES**

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

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

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

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

104 Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be payable
105 and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered, all burdens
106 on its share of the production from the Contract Area up to, but not in excess of 25%, and shall indemnify, defend and hold the other parties
107 free from any liability therefor. Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or
108 Interest which is burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts
109 stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend and hold the
110 other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the Drilling Unit for the
111 productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on
112 production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and
113 shall indemnify, defend and hold the other parties free from any liability therefor.

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

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

120 **C. Subsequently Created Interests:**

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

128 The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and alone bear, pay and
129 discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other parties from and against any liability
130 therefor. Further, if the Burdened Party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B.
131 shall be enforceable against the Subsequently Created Interest in the same manner as they are enforceable against the working interest of

132 the Burdened Party. If the Burdened Party is required under this agreement to assign or relinquish to any other party, or parties, all or a
133 portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or
134 production free and clear of said Subsequently Created Interest, and the Burdened Party shall indemnify, defend and hold harmless said
135 other party, or parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created Interest.

136 IV. TITLES

137 A. Title Examination:

138 Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in
139 interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum
140 anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty
141 and production payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the
142 Drillsite or Drilling Unit, if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title
143 papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by
144 the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by
145 attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party upon request. Costs
146 incurred by Operator in procuring abstracts, fees paid outside attorneys, landmen and lease brokers for title examination (including
147 preliminary, supplemental, shut-in royalty opinions and division order title opinions and title curative work) and other direct charges as
148 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
149 interest of all Drilling Parties as such interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff
150 attorneys or other personnel in the performance of the above functions without permission of non-operators.

151 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with Leases or
152 Oil and Gas Interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or
153 declarations and communitization agreements as well as the conduct of hearings before governmental agencies for the securing of spacing
154 or pooling orders or any other orders necessary or appropriate to the conduct of operations hereunder. This shall not prevent any party
155 from appearing on its own behalf at such hearings. Costs incurred by Operator, including fees paid to outside attorneys, which are
156 associated with hearings before governmental agencies, and which costs are necessary and proper for the activities contemplated under this
157 agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in
158 Exhibit "C." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
159 functions without permission of non-operators.

160 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
161 above provided, and (2) the title has been approved by the examining attorney or title has been accepted by the Operator of all of the
162 Drilling Parties in such well.

163 B. Loss or Failure of Title:

164 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
165 reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including,
166 if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a
167 new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and
168 failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas Leases and Interests; and,

169 (a) The party credited with contributing the Oil and Gas Lease or Interest affected by the title failure (including, if applicable, a
170 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
171 parties any development or operating costs which it may have previously paid or incurred, but there shall be no additional liability
172 on its part to the other parties hereto by reason of such title failure;

173 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the Lease or Interest
174 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
175 determined finally that title failure has occurred, so that the interest of the party whose Lease or Interest is affected by the title
176 failure will thereafter be reduced in the Contract Area by the amount of the Lease or Interest failed;

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

182 (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,
183 pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties
184 who bore the costs which are so refunded;

185 (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
186 of title failure shall be borne severally by each party (including a predecessor to a current party) who received production for which
187 such accounting is required based on the amount of such production received, and each such party shall severally indemnify, defend
188 and hold harmless all other parties hereto for any such liability to account;

189 (f) No charge shall be made to the joint account for legal expenses, fees or salaries in connection with the defense of the Lease
190 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
191 expenses in connection therewith; and

192 (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
193 wellbore of any well or wells and the production therefrom, such party's absence of interest in the remainder of the Contract Area
194 shall be considered a Failure of Title as to such remaining Contract Area unless that absence of interest is reflected on Exhibit "A."

195 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well
196 payment, minimum royalty or royalty payment, or other payment necessary to maintain all or a portion of an Oil and Gas Lease or
197 interest is not paid or is erroneously paid, and as a result a Lease or Interest terminates, there shall be no monetary liability against
198 the party who failed to make such payment. Unless the party who failed to make the required payment secures a new Lease or
199 Interest covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which
200 acquisition will not be subject to Article VIII.B., the interests of the parties reflected on Exhibit "A" shall be revised on an acreage
201 basis, effective as of the date of termination of the Lease or Interest involved, and the party who failed to make proper payment will
202 no longer be credited with an interest in the Contract Area on account of ownership of the Lease or Interest which has

203 terminated. If the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from
204 the proceeds of the sale of Oil and Gas attributable to the lost Lease or Interest, calculated on an acreage basis, for the development
205 and operating costs previously paid on account of such Lease or Interest, it shall be reimbursed for unrecovered actual costs
206 previously paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so
207 much of the following as is necessary to effect reimbursement:

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

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

217 (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
218 Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

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

225 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
226 or Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period
227 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
228 offered at cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B. shall not apply to such
229 acquisition.

230 V. OPERATOR

231 A. Designation and Responsibilities of Operator:

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

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

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

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

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

268 3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have
269 resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal
270 bankruptcy laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-
271 Operators and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or assume this
272 agreement pursuant to the Bankruptcy Code, and an election to reject this agreement by Operator as a debtor in possession, or by a
273 trustee in bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators, except the selection of a
274 successor. During the period of time the operating committee controls operations, all actions shall require the approval of two (2)
275 or more parties owning a majority interest based on ownership as shown on Exhibit "A." In the event there are only two (2) parties
276 to this agreement, during the period of time the operating committee controls operations, a third party acceptable to Operator, Non-
277

278 Operator and the federal bankruptcy court shall be selected as a member of the operating committee, and all actions shall require
279 the approval of two (2) members of the operating committee without regard for their interest in the Contract Area based on Exhibit
280 "A."

281 **C. Employees and Contractors:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

346 **VI. DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before January 1, 2021, Operator shall commence the drilling of the Initial Well at the following location:

Located in the Contract Area

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

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

B. Subsequent Operations:

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

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

2. Operations by Less Than All Parties:

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

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

(b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled,

Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking, Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1, Option No. 2, all of such Non-Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other interests not excepted by Article III.C, payable out of or measured by the production from such well accruing with respect to such interest until it reverts), shall equal the total of the following:

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

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

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

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

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

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

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

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

3. Stand-By Costs. When a well which has been drilled or Deepened has reached its authorized depth and all tests have been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6, to

505 resolve competing proposals) shall be charged and borne as part of the drilling or Deepening operation just completed. Stand-by
506 costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to
507 agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of
508 Article VI.B.2, (a), shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn
509 because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each
510 Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.
511

512 In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party may
513 request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in Article VI.B.1.
514 within which to respond by paying for all stand-by costs and other costs incurred during such extended response period; Operator
515 may require such party to pay the estimated stand-by time in advance as a condition to extending the response period. If more than
516 one party elects to take such additional time to respond to the notice, standby costs shall be allocated between the parties taking
517 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
518 total interest as shown on Exhibit "A" of all the electing parties.

519 4. **Deepening:** If less than all parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed pursuant to
520 Article VI.B.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article VI.B.2. shall relate
521 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
522 given notice under Article VI.B.1. ("Initial Objective"). Such well shall not be Deepened beyond the Initial Objective without first
523 complying with this Article to afford the Non-Consenting Parties the opportunity to participate in the Deepening operation.
524

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

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

538 (b) If the proposal is made for a Non-Consent Well that has been previously Completed as a well capable of producing in paying
539 quantities, but is no longer capable of producing in paying quantities, such Non-Consenting Party shall pay (or reimburse
540 Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, Completing, and equipping said well from
541 the surface to the Initial Objective, calculated in the manner provided in paragraph (a) above, less those costs recouped by the
542 Consenting Parties from the sale of production from the well. The Non-Consenting Party shall also pay its proportionate share of all
543 costs of re-entering said well. The Non-Consenting Parties' proportionate part (based on the percentage of such well Non-
544 Consenting Party would have owned had it previously participated in such Non-Consent Well) of the costs of salvable materials and
545 equipment remaining in the hole and salvable surface equipment used in connection with such well shall be determined in
546 accordance with Exhibit "C." If the Consenting Parties have recouped the cost of drilling, Completing, and equipping the well at the
547 time such Deepening operation is conducted, then a Non-Consenting Party may participate in the Deepening of the well with no
548 payment for costs incurred prior to re-entering the well for Deepening.
549

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

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

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

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

563 6. **Order of Preference of Operations.** Except as otherwise specifically provided in this agreement, if any party desires to
564 propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such party
565 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
566 on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, from
567 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
568 all parties entitled to participate in the proposed operation such party's alternative proposal, such alternate proposal to contain the
569 same information required to be included in the initial proposal. Each party receiving such proposals shall elect by delivery of
570 notice to Operator within five (5) days after expiration of the proposal period, or within twenty-four (24) hours (exclusive of
571 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
572 one of the competing proposals. Any party not electing within the time required shall be deemed not to have voted. The proposal
573 receiving the vote of parties owning the largest aggregate percentage interest of the parties voting shall have priority over all other
574 competing proposals; in the case of a tie vote, the initial proposal shall prevail. Operator shall deliver notice of such result to all
575 parties entitled to participate in the operation within five (5) days after expiration of the election period (or within twenty-four (24)
576 hours, exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or
577 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
578 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
579 notice within such period shall be deemed an election not to participate in the prevailing proposal.

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

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

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

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

590 ☒ Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and equipping
591 of the well, including necessary tankage and/or surface facilities.

592 ☒ Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of the well. When such
593 well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results thereof
594 furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to participate in a
595 Completion attempt whether or not Operator recommends attempting to Complete the well, together with Operator's
596 AFE for Completion costs if not previously provided. The parties receiving such notice shall have forty-eight (48) hours
597 (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of notice to Operator to participate in a
598 recommended Completion attempt or to make a Completion proposal with an accompanying AFE. Operator shall deliver
599 any such Completion proposal, or any Completion proposal conflicting with Operator's proposal, to the other parties
600 entitled to participate in such Completion in accordance with the procedures specified in Article VI.B.6. Election to
601 participate in a Completion attempt shall include consent to all necessary expenditures for the Completing and equipping
602 of such well, including necessary tankage and/or surface facilities but excluding any stimulation operation not contained
603 on the Completion AFE. Failure of any party receiving such notice to reply within the period above fixed shall constitute
604 an election by that party not to participate in the cost of the Completion attempt; provided, that Article VI.B.6. shall
605 control in the case of conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a
606 Completion, the provision of Article VI.B.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or
607 Plugging Back" as contained in Article VI.B.2. shall be deemed to include "Completing") shall apply to the operations
608 thereafter conducted by less than all parties; provided, however, that Article VI.B.2. shall apply separately to each
609 separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting Party
610 as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party in
611 subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier Completions or
612 Recompletion have recouped their costs pursuant to Article VI.B.2.; provided further, that any recoupment of costs by a
613 Consenting Party shall be made solely from the production attributable to the Zone in which the Completion attempt is
614 made. Election by a previous Non-Consenting party to participate in a subsequent Completion or Recompletion attempt
615 shall require such party to pay its proportionate share of the cost of salvable materials and equipment installed in the well
616 pursuant to the previous Completion or Recompletion attempt, insofar and only insofar as such materials and equipment
617 benefit the Zone in which such party participates in a Completion attempt. Notwithstanding anything to the contrary,
618 including the selection of Option 2 above, Option 1 shall apply to horizontal wells and Option 2 shall apply to vertical
619 wells.

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

624 **D. Other Operations:**

625 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \$100,000 except in connection
626 with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously
627 authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether
628 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
629 emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator
630 prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project
631 costing in excess of \$50,000. Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform
632 repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to
633 conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines
634 or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties)
635 reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with
636 an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those
637 Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator
638 secures the written consent of any party or parties owning at least 51% of the interests of the parties entitled to participate in such operation,
639 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
640 proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

641 **E. Abandonment of Wells:**

642 1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has been
643 drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and
644 abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any
645 party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the
646 proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells
647 shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who
648 participated in the cost of drilling or Deepening such well. Any party who objects to plugging and abandoning such well by notice
649 delivered to Operator within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the
650 proposed plugging shall take over the well as of the end of such forty-eight (48) hour notice period and conduct further operations
651 in search of Oil and/or Gas subject to the provisions of Article VI.B.; failure of such party to provide proof reasonably satisfactory
652 to Operator of its financial capability to conduct such operations or to take over the well within such period or thereafter to conduct
653 operations on such well or plug and abandon such well shall entitle Operator to retain or take possession of the well and plug and
654 abandon the well. The party taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other
655 abandoning parties against liability for any further operations conducted on such well except for the costs of plugging and
656 abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.

657 2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been conducted
658 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed

659 as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the
660 well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties
661 hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed abandonment shall be deemed an election
662 to consent to the proposal. If, within sixty (60) days after delivery of notice of the proposed abandonment of any well, all parties do
663 not agree to the abandonment of such well, those wishing to continue its operation from the Zone then open to production shall be
664 obligated to take over the well as of the expiration of the applicable notice period and shall indemnify Operator (if Operator is an
665 abandoning party) and the other abandoning parties against liability for any further operations on the well conducted by such
666 parties. Failure of such party or parties to provide proof reasonably satisfactory to Operator of their financial capability to conduct
667 such operations or to take over the well within the required period or thereafter to conduct operations on such well shall entitle
668 operator to retain or take possession of such well and plug and abandon the well.

669
670 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
671 salvageable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging
672 and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event the estimated
673 plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's
674 salvageable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate
675 shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or
676 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
677 related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain
678 production from that wellbore in the Zone then open to production. If the interest of the abandoning party is or includes and Oil and
679 Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore
680 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
681 covered thereby, such lease to be on the form attached as Exhibit "B." The assignments or leases so limited shall encompass the
682 Drilling Unit upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio
683 based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages
684 of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portions of the
685 Contract Area.

686
687 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the
688 well in the Zone then open other than the royalties retained in any lease made under the terms of this Article. Upon request,
689 Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges
690 contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the
691 assigned well. Upon proposed abandonment of the producing Zone assigned or leased, the assignor or lessor shall then have the
692 option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein
693 subject to the provisions hereof.

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

700 F. Termination of Operations:

701 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing, Completion or
702 plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without consent of parties bearing
703 51% of the costs of such operation, except in the drilling of a Horizontal Well where Operator has the sole right to stop drilling any lateral
704 if it has drilled more than fifty percent (50%) of the length of the total horizontal displacement (displaced from the true vertical) proposed
705 for the operation or has drilled out of the objective formation for a distance equal to five hundred feet (500') and Operator believes it is in
706 the best interest to stop drilling this lateral or; provided, however, that in the event granite or other practically impenetrable substance or
707 condition in the hole is encountered which renders further operations impractical, Operator may discontinue operations and give notice of
708 such condition in the manner provided in Article VI.B.1, and the provisions of Article VI.B. or VLE. shall thereafter apply to such
709 operation, as appropriate.

710 G. Taking Production in Kind:

711 ☒ Option No. 1: Gas Balancing Agreement Attached

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

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

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

730 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances but Operator shall
731 have no duty to share any existing market or to obtain a price equal to that received under any existing market. The sale
732 or delivery by Operator of a non-taking party's share of Oil under the terms of any existing contract of Operator shall not
733 give the non-taking party any interest in or make the non-taking party a party to said contract. No purchase shall be made

734 by Operator without first giving the non-taking party at least ten (10) days written notice of such intended purchase and
735 the price to be paid or the pricing basis to be used.

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

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

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

747 ~~Each party shall take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the~~
748 ~~Contract Area, exclusive of production which may be used in development and producing operations and in preparing~~
749 ~~and treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditures incurred in the~~
750 ~~taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such~~
751 ~~party. Any party taking its share of production in kind shall be required to pay for only its proportionate share of such~~
752 ~~part of Operator's surface facilities which it uses. Each party shall execute such division orders and contracts as may be~~
753 ~~necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall~~
754 ~~be entitled to receive payment directly from the purchaser thereof for its share of all production.~~

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

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

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

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

780 **A. Liability of Parties:**

781 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
782 only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the
783 parties in Article VII.B. are given to secure only the debts of each severally, and no party shall have any liability to third parties hereunder
784 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
785 create, nor shall this agreement be construed as creating, a mining or other partnership, joint venture, agency relationship or association, or
786 to render the parties liable as partners, co-venturers, or principals. In their relations with each other under this agreement, the parties shall
787 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
788 accordance with their own respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings
789 with each other with respect to activities hereunder.

790 **B. Liens and Security Interests:**

791 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
792 Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter
793 acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its
794 obligations under this agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies
795 paid hereunder, the assignment or relinquishment of interest in Oil and Gas Leases as required hereunder, and the proper performance of
796 operations hereunder. Such lien and security interest granted by each party hereto shall include such party's leasehold interests, working
797 interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands
798 pooled or unitized therewith or otherwise becoming subject to this agreement, the Oil and Gas when extracted therefrom and equipment
799 situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and
800 accounts (including, without limitation, accounts arising from gas imbalances or from the sale of Oil and/or Gas at the wellhead), contract
801 rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.

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

810 Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties
811 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
812 acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or under such party. All parties acquiring
813 an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement, whether by assignment, merger, mortgage, operation
814 of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article VII.B. as to all
815 obligations attributable to such interest hereunder whether or not such obligations arise before or after such interest is acquired.

816 To the extent that parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated,
817 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
818 judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security
819 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,
820 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
821 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,
822 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
823 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-
824 defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers
825 for releasing production proceeds as provided in this paragraph.

826 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-
827 defaulting parties, including Operator, shall upon request by Operator, pay the unpaid amount in the proportion that the interest of each
828 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
829 by the liens and security rights described in Article VII.B., and each paying party may independently pursue any remedy available
830 hereunder or otherwise.

831 If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure or execution
832 proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting party waives any available
833 right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior
834 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
835 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
836 property that is subject to the lien and security rights granted hereunder, such power to be exercised in the manner provided by applicable
837 law or otherwise in a commercially reasonable manner and upon reasonable notice.

838 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
839 which the Contract Area is situated to enforce the obligations of each party hereunder. Without limiting the generality of the foregoing,
840 to the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law
841 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
842 performed or materials supplied by Operator.

843 C. Advances:

844 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
845 advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding
846 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
847 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted
848 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within
849 fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount
850 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual
851 expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

852 D. Defaults and Remedies:

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

860 1. **Suspension of Rights:** Any party may deliver to the party in default a Notice of Default, which shall specify the default,
861 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
862 more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such Notice of
863 Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the default is cured,
864 without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of the defaulting party
865 previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the Non-Operators shall have in
866 addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area after excluding the voting interest of
867 Operator, to appoint a new Operator effective immediately. The rights of a defaulting party that may be suspended hereunder at the
868 election of the non-defaulting parties shall include, without limitation, the right to receive information as to any operation
869 conducted hereunder during the period of such default, the right to elect to participate in an operation proposed under Article VI.B.
870 of this agreement, the right to participate in an operation being conducted under this agreement even if the party has previously
871 elected to participate in such operation, and the right to receive proceeds of production from any well subject to this agreement.

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

876 3. Deemed Non-Consent: The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting
877 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
878 billing is for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has
879 been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to
880 have elected not to participate in the operation and to be a Non-Consenting Party with respect thereto under Article VLB, or VLC.,
881 as the case may be, to the extent of the costs unpaid by such party, notwithstanding any election to participate theretofore made. If
882 election is made to proceed under this provision, then the non-defaulting parties may not elect to sue for the unpaid amount
883 pursuant to Article VII.D.2. Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall
884 have the right to cure its default by paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided,
885 however, such payment shall not prejudice the rights of the non-defaulting parties to pursue remedies for damages incurred by the
886 non-defaulting parties as a result of the default. Any interest relinquished pursuant to this Article VII.D.3. shall be offered to the
887 non-defaulting parties in proportion to their interests, and the non-defaulting parties electing to participate in the ownership of such
888 interest shall be required to contribute their shares of the defaulted amount upon their election to participate therein.

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

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

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

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

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

914 F. Taxes:

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

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

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

933 VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

934 A. Surrender of Leases:

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

937 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written notice of the
938 proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after delivery of the notice
939 within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such notice is
940 delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases described in the notice. If all parties do

941 not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
942 such Lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter
943 secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an Oil and Gas Interest, the
944 assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such Oil and
945 Gas Interest for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be
946 on the form attached hereto as Exhibit "B." Upon such assignment or lease, the assigning party shall be relieved from all obligations
947 thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable
948 thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than
949 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
950 the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased
951 acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the
952 estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less than such
953 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
954 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
955 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
956 shall similarly reflect such variances.

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

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

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

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

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

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

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

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

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

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

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

- 1000 1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or
- 1001 2. an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment
1002 and production in the Contract Area.

1003 Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be
1004 made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and Gas Lease or Interest
1005 shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of the transfer of ownership;
1006 provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any
1007 purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof

1008 in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations
1009 previously incurred by such party hereunder with respect to the interest transferred, including without limitation the obligation of a party to
1010 pay all costs attributable to an operation conducted hereunder in which such party has agreed to participate prior to making such
1011 assignment, and the lien and security interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment
1012 of any such obligations. If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its
1013 discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures,
1014 receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-
1015 owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the
1016 right to enter into and execute all contracts or agreements for the disposition of their respective shares of the Oil and Gas produced from the
1017 Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

1018 E. Waiver of Rights to Partition:

1019 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided
1020 interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest
1021 therein.

1022 F. Preferential Right to Purchase:

1023 o (Optional) Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract
1024 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which shall
1025 include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase price, a legal
1026 description sufficient to identify the property, and all other terms of the offer. The other parties shall then have an optional prior right, for a
1027 period of ten (10) days after the notice is delivered, to purchase for the stated consideration on the same terms and conditions the interest
1028 which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the
1029 proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to
1030 purchase in those cases where any party wishes to mortgage its interests, or to transfer title to its interests to its mortgagee in lieu of or
1031 pursuant to foreclosure of a mortgage of its interests, or to dispose of its interests by merger, reorganization, consolidation, or by sale of all
1032 or substantially all of its Oil and Gas assets to any party, or by transfer of its interests to a subsidiary or parent company or to a subsidiary
1033 of a parent company, or to any company in which such party owns a majority of the stock.

1034 IX. INTERNAL REVENUE CODE ELECTION

1035 If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not
1036 otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party hereby affected elects to
1037 be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986,
1038 as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is
1039 authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the
1040 Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation,
1041 all of the returns, statements, and the data required by Treasury Regulation §1.761. Should there be any requirement that each party hereby
1042 affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be
1043 required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or
1044 take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the
1045 Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter
1046 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby
1047 affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states
1048 that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership
1049 taxable income.

1050 X. CLAIMS AND LAWSUITS

1051 Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not
1052 exceed seventy five thousand, USD (\$75,000) and if the payment is in complete settlement of such claim or suit. If the amount required for
1053 settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such
1054 authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be at the
1055 joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any
1056 party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights
1057 given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other
1058 claim or suit involving operations hereunder.

1059 XI. FORCE MAJEURE

1060 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the
1061 obligation to indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the
1062 force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are
1063 affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The term "force
1064 majeure," as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war,
1065 blockade, public riot, lightening, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or
1066 inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not
1067 reasonably within the control of the party claiming suspension.

1068 The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The requirement that
1069 any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor
1070 difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of
1071 the party concerned.

1072 XII. NOTICES

1073 All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically provided,
1074 shall be in writing and delivered in person or by United States mail, courier service, telegram, telex, telecopier or any other form of
1075 facsimile, postage or charges prepaid, and addressed to such parties at the addresses listed on Exhibit "A." All telephone or oral notices

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

XIII. TERM OF AGREEMENT

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

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

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of 180 days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within 120 days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

The termination of this agreement shall not relieve any party hereto from any expense, liability or other obligation or any remedy therefor which has accrued or attached prior to the date of such termination. Upon termination of this agreement and the satisfaction of all obligations hereunder, in the event a memorandum of this Operating Agreement has been filed of record, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon request of Operator, if Operator has satisfied all its financial obligations.

XIV. COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders

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

B. Governing Law:

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

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area. With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

XV. MISCELLANEOUS

A. Execution:

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

1143 Well without the execution hereof by all persons listed on Exhibit "A" as having a current working interest in such well, Operator shall
1144 indemnify Non-Operators with respect to all costs incurred for the Initial Well which would have been charged to such person under this
1145 agreement if such person had executed the same and Operator shall receive all revenues which would have been received by such person
1146 under this agreement if such person had executed the same.

1147 **B. Successors and Assigns:**

1148 This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal
1149 representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or Interests included within the
1150 Contract Area.

1151 **C. Counterparts:**

1152 This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

1153 **D. Severability:**

1154 For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws, this agreement shall
1155 not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to this agreement to comply with all of
1156 its financial obligations provided herein shall be a material default.

1157 **XVI. OTHER PROVISIONS**

1158

1159 **ARTICLE XVI**

1160

1161 **1. Definitions (continued from Article I, Page 1)**

1162

1163 S. The term "lateral" shall mean that portion of the well bore that deviates from approximate
1164 vertical orientation to approximate horizontal orientation and all well bore beyond such deviation
1165 to total depth.

1166

1167 T. The term "horizontal well" shall mean a well containing a single lateral in which the well
1168 bore deviates from approximate vertical orientation in order to drill within and test a specific
1169 geological interval, utilizing deviation equipment, services, and technology. This shall include
1170 similar operations conducted in the re-entry of an existing well bore.

1171

1172 U. The term "multi-lateral well" shall mean a horizontal well which contains more than one
1173 lateral.

1174

1175 V. The term "total depth" shall apply to all horizontal or multi-lateral wells drilled pursuant to
1176 this agreement and shall mean the distance from the surface of the ground to the terminus of the
1177 well bore. Each lateral together with the common vertical well bore shall be considered a single
1178 well bore and shall have a corresponding total depth. If the production from each lateral is to be
1179 commingled in the common vertical well bore then the lateral(s) and vertical well bore shall be
1180 considered collectively as one well bore. When the proposed operation is the drilling of, or
1181 operations on, a well containing a lateral component, the term "depth" wherever used in the
1182 agreement shall be deemed to read "total measured depth" insofar as it applies to such well.

1183

1184 W. The term "deepen" when used in conjunction with a horizontal or multi-lateral well shall
1185 mean an operation whereby a lateral is drilled to a distance greater than the distance set out in
1186 well proposal provided in accordance Article VI in which the proposed operations have
1187 commenced.

1188

1189 X. For the purpose of this agreement, as to a horizontal or multi-lateral well, the term "plug
1190 back" shall mean an operation to test or complete the well at a stratigraphically shallower
1191 geological horizon in which an operation has been or is being completed and which is not within
1192 an existing lateral.

1193

1194 Y. Notwithstanding the provisions of Article VI.B. (5), "Sidetracking", such paragraph shall
1195 not be applicable to operations in the lateral portion of a horizontal or multi-lateral well. Drilling
1196 operations which are intended to recover penetration of the target interval which are conducted in
1197 a horizontal or multi-lateral well shall be considered as included in the original proposed drilling
1198 operations.

1199

1200 **2. Access to Information and Non-Operator Confidentiality**

1201 Notwithstanding any provision of Article V.D to the contrary, if a party elects not to participate
1202 to any proposed operations, the Non-Consenting Party shall not be entitled to access to the
1203 wellsite or any technical information with respect to the operations not consented to in said
1204 well. Non-Operators agree not to disclose any information relative to the drilling, completion
1205 operations, or data obtained while a well is in confidential status to any third party without the
1206 express written consent of the Operator, except as required by law or court order, including
1207 among others, disclosures required for filings with the Securities and Exchange Commission. If
1208 any Non-Operator desires or believes it is required to release or disclose information relating to
1209 operations on the Contract Area, it shall provide Operator and the Consenting Parties with prior
1210 written notice of the request and the efforts it is undertaking to protect the information. Without
1211 limiting any remedies which may be available by statute, law or in equity, failure to comply with
1212 this paragraph shall entitle Operator to withhold data and information related or obtained from
1213 such operations on the Contract Area until adequate assurances of performance are tendered.

1214

1215 **3. Conflict of Terms**

1216 In the event of a conflict of terms between the other provisions of this agreement including its
1217 exhibits, and the provisions of this Article XVI, the provisions of this Article XVI shall prevail,
1218 but only to the extent of the conflict.

1219

1220 **4. Memorandum of Operating Agreement and Financing Statement**

1221 The parties hereto agree to execute simultaneously herewith the Memorandum of Operating
1222 Agreement and Financing Statement in the form and language set forth in Exhibit "H", which is
1223 attached hereto and made a part hereof for all purposes. The parties agree to execute
1224 amendments of same, from time to time, to accurately reflect the area covered by this agreement
1225 and the current working interests of the parties hereto.

1226

1227 **5. Separate Measurement Facilities**

1228 In the event of any transfer, sale, encumbrance or other disposition of interest within the Contract
1229 Area which creates the necessity of separate measurement of production, the party creating the
1230 necessity for such measurement shall alone bear the cost of purchase, installation and operation
1231 of such facilities.

1232

1233 **6. U.S. Prohibited Parties List**

1234 Notwithstanding anything to the contrary in this agreement, should any party to this agreement
1235 (Prohibited Party), its principals, including but not limited to its shareholders, members and
1236 owners ("Principals"), or its directors be placed on any prohibited parties list established under
1237 U.S. laws or regulations, including but not limited to those referred to in Executive Order 13224
1238 ("Prohibited Parties List"), or should a party to this agreement other than Prohibited Party (Other
1239 Party) determine that Prohibited Party, its Principals or directors, contrary to U.S. laws or
1240 regulations, employ or do business, directly or indirectly, with a party appearing on any
1241 Prohibited Parties List, Other Party shall have the right hereunder to terminate this agreement
1242 immediately upon written notice without any further obligation to Prohibited Party. With respect
1243 to rights which may have been earned under this agreement as of the time of such termination,
1244 Other Party shall have the right to take any and all steps necessary to comply with any applicable
1245 laws or regulations, including, but not limited to, turning over any property to which Prohibited
1246 Party is entitled, including payments due and assignments of real property, to the applicable
1247 agency or court with jurisdiction if required by such laws or regulations. No party to this
1248 agreement shall transfer any of its rights under this agreement to a person who is, or any of
1249 whose Principals or directors are, on the Prohibited Parties List. Should such a transfer occur,
1250 the non-transferring party or parties shall have the same right to terminate this agreement as is set
1251 out above in this paragraph.

1252

1253 **7. Prior Existing Operating Agreements**

1254 This agreement shall supersede any and all prior operating agreements governing the Contract
1255 Area and depths covered thereby as set forth on Exhibit "A" attached hereto.

1256

1257 **8. Required Operation.**

1258 If any well proposed to be drilled, Reworked, Sidetracked, Deepened, Recompleted or Plugged
1259 Back is necessary (i) to maintain a Lease (or a portion thereof) covered by this agreement in
1260 force or (ii) pursuant to an agreement to earn a lease(s) (or portion thereof) which would
1261 otherwise expire unless such operation is conducted, then in lieu of Article VI.B.2., each Non-
1262 Consenting Party shall assign to the Consenting Parties all of such Non-Consenting Party's
1263 interest in and to the Lease(s) or a portion thereof which would be lost or not earned if such well
1264 were not drilled or such operation was not conducted. Said assignment shall be promptly due
1265 upon commencement of said operation by the Consenting Parties and if the assignment is in
1266 favor of more than one party the assigned interest shall be shared by the Consenting Parties in the
1267 proportions that the interest that each bears to the interest of all Consenting Parties unless
1268 otherwise agreed to in writing. Except for burdens allowed under Article III.B. or referenced in
1269 Exhibit "A," such assignment shall be free and clear of all overriding royalty interest, production
1270 payments, mortgage, liens or other encumbrances placed thereon by or resulting from the Non-
1271 Consenting Party's ownership but shall otherwise be without warranty of title, express or
1272 implied. For purposes of defining required operations to maintain a lease or agreement in force
1273 which would otherwise expire, such operations shall be deemed necessary if proposed at or after
1274 one hundred twenty (120) days prior to the date on which any such Lease or agreement (or other
1275 portions thereof) would expire in the absence of drilling or reworking of such well and only if
1276 such well is designated as a "required well" or "required operation" the proposal letter
1277 accompanying the AFE.

1278

1279 **9. Taking Production in Kind**

1280 Each party electing to take in kind or separately dispose of its proportionate share of production
1281 in the Contract Area shall keep accurate records of the volume, selling price, royalty and taxes,
1282 relative to its share of production and shall promptly provide copies of same to Operator on
1283 request.

1284

1285 **10. Priority of Horizontal Well Operations**

1286 If at any time there is more than one operation proposed in connection with any horizontal well
1287 subject to this agreement, then unless all Consenting Parties agree on the sequence of such
1288 operations, such proposals shall be undertaken in the following order of priority:

- 1289 (1) Completion of drilling operations on all proposed laterals;
1290 (2) Extension or Deepening of any lateral;
1291 (3) Kick out and drill additional lateral in the same formation;
1292 (4) Attempt a Completion in a lateral, including testing and logging;
1293 (5) Plug Back the well to another formation in ascending order; and
1294 (6) Plug and abandon a well.

1295

1296 It is provided, however, that if at any time said Consenting Parties are considering the above
1297 elections, the hole is in such a condition that, in the opinion of the Consenting Party(ies) owning
1298 a majority cost-bearing interest as set forth in Exhibit "A" hereto, a reasonably prudent operator
1299 would not conduct the operations contemplated by the particular election involved for fear of
1300 placing the hole in jeopardy or of losing same prior to completing the well in the objective depth
1301 or objective Zone, such election shall not be given priority hereinabove set forth. In such event,
1302 the operation which, in the opinion of the Consenting Party(ies) owning the majority cost-
1303 bearing interest as set forth in Exhibit "A" hereto, is less likely to jeopardize the well, will be
1304 conducted.

1305

1306 **11. Marketing of Production**

1307 The parties to this agreement shall have no obligation to participate in the marketing
1308 arrangements obtained by any other party hereto, nor shall they incur any liability or
1309 consequence for not doing so.

1310

1311 **12. Transfer of Interest**

1312 Any assignment, conveyance or other transfer of an Oil and Gas Lease or Oil and Gas Interest
1313 that is subject to this Operating Agreement shall relieve the transferor from liability for the cost
1314 and expense of any operation attributable to the transferred interest which is conducted
1315 thereafter, including plugging and abandonment of any well now or hereafter located on the
1316 lands and leases assigned hereby and the remediation, reclamation, dismantling or salvage of any
1317 wellsite or facility constructed or to be constructed thereon; provided that, the transferor shall
1318 remain liable for and shall cause to be paid its proportionate part of the cost and expense of all
1319 drilling and completion operations and construction of any ancillary facilities for which it was
1320 obligated to pay and were commenced prior to the actual transfer, except costs and expenses
1321 arising out of or directly related to a specific operation in which the transferor elected (or was
1322 deemed to have elected) not to participate pursuant to Article VI. From and after the effective
1323 date of the said assignment, conveyance or other transfer, the transferee shall be deemed to be a
1324 party to this Operating Agreement.

1325

1326 **13. Covenants Running with the Land**

1327 The terms and provisions of this agreement shall be deemed covenants running with the land,
1328 which, for purposes hereof, shall be considered the lands included in the Contract Area.

1329

1330 **14. Disbursement of Royalties**

1331 If a purchaser of any oil, gas or other hydrocarbons produced from the Contract Area declines to
1332 make disbursements of all royalties, overriding royalties and other payments out of or with
1333 respect to production from the Contract Area, and Operator agrees to make such disbursements
1334 on behalf of Non-Operators, each Non-Operator shall execute such documents as may be
1335 necessary in the opinion of Operator to enable Operator to receive all payment for oil, gas or
1336 other hydrocarbons directly from said purchaser. In that event, Operator will use reasonable
1337 efforts to make disbursements correctly, but will be liable for incorrect disbursements only in the
1338 event of gross negligence. Any expenses incurred by Operator in performing this function shall
1339 be deemed to be administration services included in the overhead charges set forth in ARTICLE
1340 III of the Accounting Procedure attached hereto as Exhibit "C". In no event will Operator be held
1341 liable as an agent or fiduciary of any party hereto by reason of services performed pursuant to
1342 this paragraph.

1343

1344 **15. AFE**

1345 An AFE is a cost estimate only. In no way shall an AFE provided pursuant to this agreement
1346 operate to limit the liability of any party hereto.

1347

1348 **16. Miscellaneous Costs**

1349 All reasonable costs incurred by Operator, necessary in its sole judgment, for outside engineers,
1350 geologists, consultants, landmen, attorneys and other third party services in obtaining spacing,
1351 pooling, environmental or other orders or rulings from state or federal regulatory bodies,
1352 agencies, and courts regarding the Contract Area shall be charged to the Joint Account as
1353 provided in Exhibit "C" and shall not be included as overhead – drilling and producing
1354 operations as set forth in part III of Exhibit "C."

1355

1356 **17. Facilities**

1357 In the event that either the Operator or Non-Operator(s), or any affiliate or subsidiary of the
1358 Operator or Non-Operator(s), constructs or participates in the construction of a gathering system,
1359 pipeline, or flow line to transport the gas or casing head gas, or a facility to process gas and/or to
1360 strip liquids from the gas from the Contract Area, it is agreed that all parties shall be entitled to
1361 participate in the construction and ownership of said gas lines and facilities by paying their
1362 proportionate share of the expense based on the respective ownership of each in the system or
1363 facility. The proposing party shall furnish the other parties an AFE for such construction and the
1364 parties shall elect to participate or not (and re-elect in the event any party elects not to
1365 participate) in the same time and manner as in proposals under Article VI.B., except that the
1366 participating parties shall be entitled to receive from any non-participating party a fee to be
1367 negotiated in good faith between the parties for use of such system or facility, but not less than
1368 the reasonable market value of the service to be performed.

1369

1370 **18. Operator is not a Fiduciary**

1371 Operator in handling funds furnished to it by Non-Operators for any purpose shall act in good
1372 faith as a reasonable, prudent operator in connection therewith and shall not be held liable as a
1373 trustee or fiduciary with respect to the application of such funds.

1374

1375 **19. Interpretation**

1376 Each party hereto declares that they have each contributed to the drafting of this agreement or
1377 have had it reviewed by their counsel before signing it. It is expressly agreed that this agreement
1378 shall not be construed for or against any party on the basis of who drafted this agreement or who
1379 supplied the form of agreement.

1380

1381 **20. Venue**

1382 Operating and Non-Operators agree that the exclusive venue and forum for any action brought in
1383 connection with this agreement shall be initiated and maintained in any state or federal court
1384 located in Harris County, Texas and hereby irrevocably waives any right such Party may have to
1385 object to such venue and forum.

1386

1387 **21. Lease Contributions**

1388 Notwithstanding anything contained herein to the contrary, in the event any party hereto
1389 contributes to this agreement an interest in an oil and gas lease or leases with a new revenue
1390 interest greater than 75% on a 100% basis (the "lease(s)"), then that party shall be deemed to
1391 have reserved from the leases(s) a proportionately reduced overriding royalty interest equal to the
1392 positive difference between twenty-five percent (25%) of all of the oil, gas and other liquid and
1393 gaseous hydrocarbons produced and saved and the total of all royalties, overriding royalties,
1394 production payments and similar burdens of record as of the date of this agreement and
1395 attributable to the lease(s). Such overriding royalty interest shall only be due and payable when
1396 and if the lease(s) or any portion thereof is included in a spacing unit or project area for a well
1397 drilled pursuant to this agreement. The overriding royalty interest so reserved shall be free and
1398 clear of all costs of exploring, drilling and producing such oil, gas and other liquid or gaseous
1399 hydrocarbons but shall be subject to a proportionate part of applicable taxes. Such overriding
1400 royalty interests shall be proportionately reduced in the proportion that the contributed interest in
1401 the lease(s) bears to the full interest in a spacing unit or project area for a well drilled
1402 hereunder. This provision shall only apply and the contributing party shall only receive said
1403 overriding royalty interest if they are a Consenting Party in the subject well.

1404

1405 **22. Amendment**

1406 Operator and Non-Operators hereby agree that this agreement may be amended by written
1407 consent of the parties owning 85% of the working interest in the agreement shown on the
1408 ownership as shown in Exhibit "A", as updated from time-to-time.

1409

1410

1411

1412

1413

1414

1415 IN WITNESS WHEREOF, this agreement shall be effective as of Monday, January 1, 2018. Marathon Oil Permian LLC, who has prepared
1416 and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below, is
1417 identical to the AAPL Form 610-1989 Model Form Operating Agreement, as published in computerized form by **Forms On-A-Disk, Inc.**
1418 No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as
1419 changes in Articles A-H, have been made to the form.

ATTEST OR WITNESS:

OPERATOR: Marathon Oil Permian LLC

By _____

By

Name: Matthew D. Brown

By: _____

Title Attorney-In-Fact

Date _____

TaxID _____

1420

1421

NON-OPERATORS

ATTEST OR WITNESS:

NON-OPERATOR NAME: _____

By _____

By

Name _____

By: _____

Title _____

Date _____

TaxID _____

1422

ATTEST OR WITNESS:

NON-OPERATOR NAME: _____

By _____

By

Name _____

Title _____

Date _____

TaxID _____

1423

ATTEST OR WITNESS:

NON-OPERATOR NAME: _____

By _____

By

Name _____

Title _____

Date _____

TaxID _____

1424

1425

1426

1427

1428

1429

ACKNOWLEDGMENTS

1430

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

1431

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

1432

1433

Individual acknowledgment:

1434

1435

1436

State of _____)

1437

) ss.

1438

County of _____)

1439

1440

This instrument was acknowledged before me on

1441

_____ by Matthew D. Brown as Attorney-In-Fact for Marathon Oil Permian LLC.

1442

1443

(Seal, if any)

1444

1445

Title (and Rank) _____

1446

My commission expires: _____

1447

1448

Acknowledgment in representative capacity:

1449

1450

State of _____)

1451

) ss.

1452

County of _____)

1453

1454

This instrument was acknowledged before me on

1455

1456

_____ by _____ as
_____ of _____

1457

1458

(Seal, if any)

1459

1460

Title (and Rank) _____

1461

My commission expires: _____

1462

1463

State of _____)

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_____) ss.
County of _____)

This instrument was acknowledged before me on _____
_____ by _____ as
_____, of _____

(Seal, if any)

Title (and Rank) _____
My commission expires: _____
State of _____)
_____) ss.
County of _____)

This instrument was acknowledged before me on _____
_____ by _____ as
_____, of _____

(Seal, if any)

Title (and Rank) _____
My commission expires: _____

EXHIBIT “A”

Attached to and made a part of that certain Operating Agreement covering E/2 of Section 15, T24S-R34E, Lea County, New Mexico, effective January 1, 2019, by and between Marathon Oil Permian LLC, as Operator and The Other Signatory Parties as Non-Operators.

1) Description of lands subject to this agreement:

E/2 Section 15, Township 24 South, Range 34 East, Lea County, New Mexico

2) Restrictions as to depth: All Depths

3) Parties Working Interest Ownership within the Contract Area:

| NAME & ADDRESS | GROSS WORKING INTEREST (%) |
|--|----------------------------|
| Marathon Oil Permian LLC 5555 San Felipe Street Houston, TX 77056 | |
| Chevron USA, Inc. 6301 Deauville Blvd. Midland, TX 79706 | |
| Synergy Land Group, LLC P.O. Box 82009 Lafayette, LA 70598 | |
| Tap Rock Resources, LLC 602 Park Point Drive, Suite 200 Golden, CO 80401 | |
| Energen Resources Corporation 605 Richard Arrington Jr. Blvd. North Birmingham, AL 35203 | |
| Jetstream Oil & Gas Partners, LP 105 Nursery Ln, Suite 220 Fort Worth, TX 76114 | |
| Safemark Companies, LLC 802 Lake Creek Dr. McKinney, TX 75070 | |
| Alpha Permian Resources, LLC P.O. Box 10701 Midland, TX 79702 | |

** Subject to revision based on title examination and leasing.

4) Oil and Gas Leases Subject to this Agreement:

| | | |
|-----|--|--|
| OGL | | |
| (1) | Date: Lessor: Number: Contributed by: | |

| | | |
|------|--|--|
| (2) | Date: Lessor: Recorded: Contributed by: | |
| (3) | Date: Lessor: Recorded: Contributed by: | |
| (4) | Date: Lessor: Recorded: Contributed by: | |
| (5) | Date: Lessor: Recorded: Contributed by: | |
| (6) | Date: Lessor: Recorded: Contributed by: | |
| (7) | Date: Lessor: Recorded: Contributed by: | |
| (8) | Date: Lessor: Recorded: Contributed by: | |
| (9) | Date: Lessor: Recorded: Contributed by: | |
| (10) | Date: Lessor: Recorded: Contributed by: | |
| (11) | Date: Lessor: Recorded: Contributed by: | |
| (12) | Date: Lessor: Recorded: Contributed by: | |
| (13) | Date: Lessor: Recorded: Contributed by: | |
| (14) | Date: Lessor: Recorded: Contributed by: | |

End of Exhibit A

EXHIBIT "B"

Attached to and made a part of that certain Operating Agreement covering E/2 of Section 15, T24S-R34E, Lea County, New Mexico, effective January 1, 2019, by and between Marathon Oil Permian LLC, as Operator and The Other Signatory Parties as Non-Operators.

OIL & GAS LEASE

THIS LEASE (the "Lease") is made this _____ day of _____, (the "Effective Date") between _____ (the "Lessor") (whether one or more), whose address is _____, and, _____ (the "Lessee"), whose address is _____.

1. Lessor, in consideration of TEN DOLLARS and other consideration, the receipt and sufficiency of which is acknowledged, and of the royalties and agreements of the Lessee provided for in this Lease, grants, leases, and lets exclusively to Lessee for the purpose of investigating, by geological, geophysical, seismic and other means, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things to produce, save, take care of, treat, process, store and transport said minerals, the following land in Lea County, New Mexico:

The land is estimated to comprise _____ acres, whether it actually comprises more or less, and are referred to as the "Land" or the "Leased Premises."

2. Subject to the other provisions, this Lease shall remain in force for a term of _____ from the Effective Date (the "Primary Term") and as long thereafter as oil or gas is produced from the land or from land with which the land is pooled.

3. Lessor reserves as royalty, and Lessee agrees to pay Lessor as royalty on oil, other liquid hydrocarbons, and non-gaseous minerals produced and saved from the Leased Premises (the "oil"), 1/4th part of the net amount received by Lessee for the sale of the oil at the time it is run from the storage tanks, or into the pipeline to which the well or wells on the Leased Premises are connected. In either case, Lessor's interest shall bear the stated part of all taxes, and costs of treating the oil to render it marketable. Lessee shall pay Lessor as royalty on gas and casinghead gas produced from the Leased Premises 1/4th of the net amount received by Lessee for the gas if sold at the wellhead, at a location on the Leased Premises, or on lands with which the Leased Premises are pooled, with Lessor's share of those proceeds to bear its proportionate share of all taxes and costs incurred by Lessee in delivering, processing, compressing, or otherwise making the gas merchantable or enhancing its marketability. On all other gas and casinghead gas, Lessee shall pay Lessor as royalty 1/4th of the net amount received by Lessee for the gas so sold, less its proportionate share of all taxes, costs of transportation, compression, processing, treating, and all other costs of marketing. For all gas sold, Lessor shall bear its proportionate share of all adjustments for heating content, shrinkage, and deductions for impurities. If, at the expiration of the Primary Term or at any later time or times, there is a well or wells on the Land or on Lands with which the Land or any portion of it are pooled, or unitized, capable of producing oil or gas, and all the wells are shut-in, this Lease shall, nevertheless, continue in force as though operations were being conducted on the Land for so long as the wells are shut-in, and Lessee pays the shut-in royalty provided below, and this Lease may be continued in force as if no shut-in had occurred. Lessee agrees to use reasonable diligence to produce, utilize, or market the oil and gas capable of being produced from the wells, but in the exercise of diligence, Lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, shall not be required to settle labor trouble, or to market oil or gas on terms unacceptable to Lessee. If, at any time after the expiration of the Primary Term of this Lease, all the wells, oil or gas, on the Leased Premises, or lands pooled with it, are shut in and this Lease is not otherwise maintained in effect, Lessee may pay or tender, by its check or draft, as shut in royalty, an amount equal to One Dollar (\$1.00) for each acre of land then covered by this Lease (the "shut-in royalty") on or before the end of each 12 month period during which all wells on the Leased Premises, or lands pooled with it, are shut in and oil or gas is not being produced, sold, or used, and this Lease is not otherwise being maintained. Each payment or tender shall be made to the parties, who at the time of payment, would be entitled to receive the royalties which would be paid under this Lease if the wells were producing, and may be paid directly to each party entitled to a payment, or deposited in _____, or its successors, which shall continue as the depository bank for the parties, regardless of changes in the ownership of shut-in royalty. If at any time Lessee pays or tenders shut-in royalty, two or more parties are, or claim to be, entitled to receive payments, Lessee may, at its election, in lieu of any other method of payment, pay or tender the shut-in royalty, in the manner specified above, either jointly to the parties, or separately to each in accordance with their respective ownership. Any payment may be made by Lessee's check or draft, deposited in the mail or delivered to the party entitled to receive payment or to the depository bank provided for above, on or before the last date for payment. Lessee's failure to pay, or tender, or to properly pay or tender any sum due as shut in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this Lease. Nothing shall impair Lessee's right to deliver a release as provided in paragraph 5, below. In the event of an assignment of this Lease, in whole or in part, liability for any payments of any sums which may be due under this Lease, shall rest exclusively on the then owner or owners of this Lease, severally, as to the acreage owned by each, and the original Lessee, or an assignee will have no obligation for royalties payable on production after an assignment to a subsequent or successor lessee or assignee.

4. This is a Paid-Up Lease and Lessee shall not be obligated during the Primary Term to commence or continue any operations of any character or to make any payments in order to maintain this Lease in force during the Primary Term; however, this provision is not intended to relieve Lessee of the obligation to pay royalties on actual production pursuant to the provision or paragraph 3 above.

5. Lessee is granted the right and power, from time to time, to pool or combine this Lease, the land covered by it, or any part, subsurface depth, or horizon of the land with any other land, leases or mineral estates, for the production of oil or gas. Units pooled by the terms of this Lease shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which the Land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the Lease Premises are located and the units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any unit shall be considered for all purposes, except the payment of royalty, as operations conducted on or production from the Land subject to this Lease. There shall be allocated to the Land covered by this Lease included in any unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in Lease or unit operations, which the net oil or gas acreage in the Land covered by this Lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of the Land covered by this Lease and included in a unit in the same manner as though produced from the Land under the terms of this Lease. Any pooled unit designated by Lessee, may be dissolved by Lessee by recording an appropriate instrument in the county where the Land is situated at any time.

6. If at the expiration of the Primary Term there is no well on the Land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking, this Lease shall remain in force so long as operations are prosecuted with no cessation of more than 90 consecutive days, whether the operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from the Land. If, after the expiration of the Primary Term, all wells on the Land should become incapable of producing for any cause, this Lease shall not terminate if Lessee commences operations for additional drilling or reworking within 90 days. If any drilling, additional drilling, or reworking operations result in production, then this Lease shall remain in full force so long thereafter as oil or gas is produced.

7. Lessee shall have free use of oil, gas and water from the Land, except water from Lessor's wells and tanks, for all operations under this Lease, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this Lease to remove all property and fixtures placed by Lessee on the Land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on the Land without Lessor's consent.

8. The rights of Lessor or Lessee to this Lease may be assigned in whole or in part and the provisions of this Lease shall extend to their respective heirs, executors, administrators, successors and assigns; but no change in the ownership of the Land or in the ownership of, or rights to receive, royalties or shut in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division shall be binding on Lessee for any purpose until 60 days after Lessee has been furnished by certified mail at Lessee's principal place of business with acceptable instruments or certified copies of them constituting the chain of title from the original Lessor. If any such change in ownership occurs through death of an owner, Lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to the deceased's estate or heirs, executor, or administrator until the time Lessee has been furnished with evidence satisfactory to Lessee as to the persons entitled to the sums. An assignment of this Lease in whole or in part shall, to the extent of the assignment, relieve and discharge Lessee of any obligations under this Lease and, if Lessee or an assignee of a part or parts of this Lease shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from the Lessee or an assignee or fail to comply with any of the provisions of this Lease, the default shall not affect this Lease insofar as it covers a part of the lands on which Lessee or any assignee shall properly comply or make the payments.

9. Should Lessee be prevented from complying with any express or implied covenant of this Lease, or from conducting drilling or reworking operations on this Lease, or from producing oil or gas by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's duties under this Lease shall be suspended, and Lessee shall not be liable for failure to comply with the terms of this Lease; and, this Lease shall be extended while and so long as Lessee is prevented by any cause from conducting drilling or reworking operations or from producing oil or gas; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this Lease to the contrary notwithstanding.

10. Lessor warrants and agrees to defend the title to the Land and agrees that Lessee at its option may discharge any tax, mortgage or other lien on the Land. In the event Lessee does so, it shall be subrogated to the lien with the right to enforce same and to apply royalties and shut-in royalties payable under the terms of this Lease toward satisfying same. Without impairment of Lessee's rights under the warranty, if this Lease covers a lesser interest in the oil or gas in all or any part of the Land than the entire and undivided fee simple estate (whether Lessor's interest is specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this Lease covers less than the full interest, shall be paid only in the proportion which the interest, if any, covered by this Lease, bears to the whole and undivided fee simple estate in the Land. Should any one or more of the parties named above as Lessors fail to execute this Lease, it shall nevertheless be binding on the party or parties executing the Lease.

11. Lessee and Lessee's successors, heirs and assigns, shall have the right at any time to surrender this Lease, in whole or in part, to Lessor or Lessor's heirs, successors, and assigns by delivering or mailing a release to the Lessor, or by placing a release of record in the county in which the Land is situated. Then, Lessee shall be relieved from all obligations, expressed or implied of this Lease as to acreage surrendered, and then the shut-in royalty payable under the terms of this Lease shall be reduced in the proportion that the acreage covered by this Lease is reduced by the release or releases.

This Lease is executed by the Lessor as of the date of the acknowledgment below, but shall be deemed effective as of the Effective Date stated above.

Lessor

By: _____

Print Name: _____

Title: _____

ACKNOWLEDGMENT

STATE OF _____
COUNTY OF _____

Before me, the undersigned, a Notary Public in and said County and State, on this _____ day of _____, _____, personally appeared _____ as _____ of _____ known to me to be the identical person(s) who executed the within and foregoing instrument, and acknowledged to me that he/she/they executed the same as his/her/their free and voluntary act and deed, for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my official seal the day and year first above written.

Notary Public, State of _____



COPAS 2005 ACCOUNTING PROCEDURE

EXHIBIT C

ACCOUNTING PROCEDURE JOINT OPERATIONS

Attached to and made a part of that certain Operating Agreement covering E/2 of Section 15, T24S-R34E, Lea County, New Mexico, effective January 1, 2019, by and between Marathon Oil Permian LLC, as Operator and The Other Signatory Parties as Non-Operators.

I. GENERAL PROVISIONS – ACCOUNTING PROCEDURE

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

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

1. DEFINITIONS

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

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

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

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

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

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

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

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

- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations

- 42 ● Responsibility for day-to-day direct oversight of construction operations
- 43 ● Coordination of job priorities and approval of work procedures
- 44 ● Responsibility for optimal resource utilization (equipment, Materials, personnel)
- 45 ● Responsibility for meeting production and field operating expense targets
- 46 ● Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an
- 47 incidental part of the supervisor's operating responsibilities
- 48 ● Responsibility for all emergency responses with field staff
- 49 ● Responsibility for implementing safety and environmental practices
- 50 ● Responsibility for field adherence to company policy
- 51 ● Responsibility for employment decisions and performance appraisals for field personnel
- 52 ● Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may
- 53 have group or team leaders.

54 **"Joint Account"** means the account showing the charges paid and credits received in the conduct of the Joint Operations that are

55 to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the

56 Agreement.

57 **"Joint Operations"** means all operations necessary or proper for the exploration, appraisal, development, production, protection,

58 maintenance, repair, abandonment, and restoration of the Joint Property.

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

60 **"Laws"** means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other

61 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the

62 transactions contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter

63 amended, enacted, promulgated or issued.

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

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

66 **"Offshore Facilities"** means platforms, surface and subsea development and production systems, and other support systems such

67 as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water

68 storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities

69 necessary in the conduct of offshore operations, all of which are located offshore.

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

71 **"On-site"** means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that

72 portion of Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are

73 conducted, or other facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned

74 by the Joint Account.

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

76 **"Parties"** means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to

77 individually as "Party."

78 **"Participating Interest"** means the percentage of the costs and risks of conducting an operation under the Agreement that a

79 Party agrees, or is otherwise obligated, to pay and bear.

80 **"Participating Party"** means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear

81 a share of the costs and risks of conducting an operation under the Agreement.

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

83 **"Railway Receiving Point"** means the railhead nearest the Joint Property for which freight rates are published, even though an

84 actual railhead may not exist.

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

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

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

94 2. STATEMENTS AND BILLINGS

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

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

110 3. ADVANCES AND PAYMENTS BY THE PARTIES

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

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

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

139 **4. ADJUSTMENTS**

- 140 A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof;
141 however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively
142 be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end
143 of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a
144 claim for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an
145 audit report, within the time periods prescribed in Section I.5 (*Expenditure Audits*).
- 146 B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section I.4.B, are
147 limited to the twenty-four (24) month period following the end of the calendar year in which the original charge
148 appeared or should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that
149 may be made beyond the twenty-four (24) month period are limited to adjustments resulting from the following:
- 150 (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable*
151 *Material*), or
- 152 (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception
153 granted by the Operator relating to another property, or
- 154 (3) a government/regulatory audit, or
- 155 (4) a working interest ownership or Participating Interest adjustment.

156 **5. EXPENDITURE AUDITS**

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

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

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

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

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

- 189 C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and
190 the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided,
191 however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's
192 position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in
193 Section I.5.E, if the Operator fails to provide substantive response to an exception within this ninety (90) day period,

194 the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the
195 audit report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and Payments by the*
196 *Parties*).

197 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)
198 months after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the
199 right to call a resolution meeting, as set forth in this Section I.5.D or it may invoke the dispute resolution procedures
200 included in the Agreement, if applicable. The meeting will require one month's written notice to the Operator and all
201 Non-Operators participating in the audit. The meeting shall be held at the Operator's office or mutually agreed
202 location, and shall be attended by representatives of the Parties with authority to resolve such outstanding issues. Any
203 Party who fails to attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead
204 audit company will make good faith efforts to coordinate the response and positions of the Non-Operator participants
205 throughout the resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will
206 make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive
207 information supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues
208 unresolved at one meeting may be discussed at subsequent meetings until each such issue is resolved.

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

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

226 6. APPROVAL BY PARTIES

227 A. General Matters

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

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

235 B. Amendments

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

240 C. Affiliates

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

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

247 **II. DIRECT CHARGES**

248 The Operator shall charge the Joint Account with the following items:

249 **1. RENTALS AND ROYALTIES**

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

251 **2. LABOR**

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

- 254 (1) Operator's field employees directly employed On-site in the conduct of Joint Operations,
- 255 (2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving
256 the Joint Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by*
257 *Operator*) or are not a function covered under Section III (*Overhead*),
- 258 (3) Operator's employees providing First Level Supervision,
- 259 (4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded
260 from the overhead rates in Section III (*Overhead*),
- 261 (5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded
262 from the overhead rates in Section III (*Overhead*).

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

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

269 B. Operator's cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to
270 employees whose salaries and wages are chargeable to the Joint Account under Section II.2.A, excluding severance
271 payments or other termination allowances. Such costs under this Section II.2.B may be charged on a "when and as-
272 paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under
273 Section II.2.A. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

274 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority that are applicable to
275 costs chargeable to the Joint Account under Sections II.2.A and B.

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

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

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

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

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

295 **3. MATERIAL**

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

300 4. TRANSPORTATION

- 301 A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.
- 302 B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other
303 storage point to the Joint Property, shall be charged to the receiving property using one of the methods listed
304 below. Transportation of Material from the Joint Property to the Operator's warehouse or other storage point shall be
305 paid for by the Joint Property using one of the methods listed below:
- 306 (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual
307 trucking cost or a theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the
308 theoretical charge is the per hundred weight charge plus fuel surcharges from the Railway Receiving Point to the
309 Joint Property. The Operator shall consistently apply the selected alternative.
- 310 (2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized
311 Freight. Accessorial charges such as loading and unloading costs, split pick-up costs, detention, call out charges,
312 and permit fees shall be charged directly to the Joint Property and shall not be included when calculating the
313 Equalized Freight.

314 5. SERVICES

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

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

321 6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

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

- 324 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not
325 limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate
326 with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices
327 provide direct service to personnel who are chargeable pursuant to Section II.2.A (Labor). Such rates may include
328 labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation
329 method, and interest on gross investment less accumulated depreciation not to exceed 12% per annum; provided,
330 however, depreciation shall not be charged when the equipment and facilities investment have been fully depreciated.
331 The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates
332 shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.
- 333 B. In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the
334 immediate area of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this
335 Section II.6.B, the Operator shall adequately document and support commercial rates and shall periodically review
336 and update the rate and the supporting documentation. For automotive equipment, the Operator may elect to use rates
337 published by the Petroleum Motor Transport Association (PMTA) or such other organization recognized by COPAS
338 as the official source of rates.

339 7. AFFILIATES

- 340 A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the
341 Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate
342 goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such
343 Affiliate's goods and services billed to such individual project do not exceed \$75,000. If the total costs for an
344 Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or
345 authorization or exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to
346 Section I.6.A (*General Matters*).

- 347 B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-
348 Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section
349 I.6.A (General Matters), if the charges exceed \$50,000 in a given calendar year.
- 350 C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the
351 Joint Property, unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately
352 document and support commercial rates and shall periodically review and update the rate and the supporting
353 documentation; provided however, documentation of commercial rates shall not be required if the Operator obtains
354 Non-Operator approval of its Affiliate's rates or charges prior to billing Non-Operators for such Affiliates goods and
355 services. Notwithstanding the foregoing, direct charges for Affiliate-owned communication facilities or systems shall
356 be made pursuant to Section II.12 (*Communications*). If the Parties fail to designate an amount in Sections II.7.A or
357 II.7.B, in each instance the amount deemed adopted by the Parties as a result of such omission shall be the amount
358 established as the Operator's expenditure limitation in the Agreement. If the Agreement does not contain an
359 Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be zero
360 dollars (\$ 0.00).

361 **8. DAMAGES AND LOSSES TO JOINT PROPERTY**

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

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

367 **9. LEGAL EXPENSE**

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

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

376 **10. TAXES AND PERMITS**

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

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

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

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

392 **11. INSURANCE**

393 Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint
394 Operations are conducted at locations where the Operator acts as self-insurer in regard to its worker's compensation
395 and employer's liability insurance obligation, the Operator shall charge the Joint Account manual rates for the risk
396 assumed in its self-insurance program as regulated by the jurisdiction governing the Joint Property. In the case of

397 offshore operations in federal waters, the manual rates of the adjacent state shall be used for personnel performing
398 work On-site, and such rates shall be adjusted for offshore operations by the U.S. Longshoreman and Harbor Workers
399 (USL&H) or Jones Act surcharge, as appropriate.

400 12. COMMUNICATIONS

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

410 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

411 Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or
412 standards recommended by Occupational Safety and Health Administration (OSHA) or other regulatory
413 authorities. All other labor and functions incurred for ecological, environmental and safety matters, including
414 management, administration, and permitting, shall be covered by Sections II.2 (*Labor*), II.5 (*Services*), or Section III
415 (*Overhead*), as applicable. Costs to provide or have available pollution containment and removal equipment plus
416 actual costs of control and cleanup and resulting responsibilities of oil and other spills as well as discharges from
417 permitted outfalls as required by applicable Laws, or other pollution containment and removal equipment deemed
418 appropriate by the Operator for prudent operations, are directly chargeable.

419 14. ABANDONMENT AND RECLAMATION

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

422 15. OTHER EXPENDITURES

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

427 III. OVERHEAD

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

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

- 432 • warehousing, other than for warehouses that are jointly owned under this Agreement
- 433 • design and drafting (except when allowed as a direct charge under Sections II.13, III.1.A(ii), and III.2, Option B)
- 434 • inventory costs not chargeable under Section V (*Inventories of Controllable Material*)
- 435 • procurement
- 436 • administration
- 437 • accounting and auditing
- 438 • gas dispatching and gas chart integration
- 439 • human resources
- 440 • management
- 441 • supervision not directly charged under Section II.2 (*Labor*)
- 442 • legal services not directly chargeable under Section II.9 (*Legal Expense*)

- 443 • taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
- 444 • preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings
- 445 with governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site
- 446 inspections; reviewing, interpreting, or submitting comments on or lobbying with respect to Laws or proposed
- 447 Laws.

448 Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses

449 of personnel performing overhead functions, as well as office and other related expenses of overhead functions.

450 **1. DRILLING AND PRODUCING OPERATIONS**

451 As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other

452 provisions of this Section III, the Operator shall charge on either: *Fixed Rate Basis, Section III.1.B*

453 **A. Technical Services**

- 454 (1) Except as otherwise provided in Section II.13 (*Ecological Environmental, and Safety*) and Section III.2
- 455 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A
- 456 (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **On-site**
- 457 Technical Services, including third party Technical Services: shall be charged direct to the Joint Account.
- 458 (2) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2
- 459 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A
- 460 (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **Off-site**
- 461 Technical Services, including third party Technical Services: shall be covered by the overhead rates.

462 Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are

463 subject to limitations set forth in Section II.7 (Affiliates). Charges for Technical personnel performing non-technical

464 work shall not be governed by this Section III.1.A, but instead governed by other provisions of this Accounting

465 Procedure relating to the type of work being performed.

466 **B. Fixed Rate Basis**

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

468 Drilling Well Rate per month \$7,500 (prorated for less than a full month)

469 Producing Well Rate per month \$750

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

- 471 (a) Charges for onshore drilling wells shall begin on the spud date and terminate on the date the drilling and/or
- 472 completion equipment used on the well is released, whichever occurs later. Charges for offshore and
- 473 inland waters drilling wells shall begin on the date the drilling or completion equipment arrives on location
- 474 and terminate on the date the drilling or completion equipment moves off location, or is released,
- 475 whichever occurs first. No charge shall be made during suspension of drilling and/or completion
- 476 operations for fifteen (15) or more consecutive calendar days.
- 477 (b) Charges for any well undergoing any type of workover, recompletion, and/or abandonment for a period of
- 478 five (5) or more consecutive workdays shall be made at the Drilling Well Rate. Such charges shall be
- 479 applied for the period from date operations, with rig or other units used in operations, commence through
- 480 date of rig or other unit release, except that no charges shall be made during suspension of operations for
- 481 fifteen (15) or more consecutive calendar days.

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

- 483 (a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to
- 484 support operations for any portion of the month shall be considered as a one-well charge for the entire
- 485 month.
- 486 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each
- 487 completion is considered a separate well by the governing regulatory authority.
- 488 (c) A one well charge shall be made for the month in which plugging and abandonment operations are
- 489 completed on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b).
- 490 This one well charge shall be made whether or not the well has produced.

- 491 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to
492 take production shall be considered as a one-well charge provided the gas well is directly connected to a
493 permanent sales outlet.
- 494 (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
495 producing overhead charge.
- 496 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement;
497 provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting
498 under a farmout agreement, the rates shall be adjusted on the first day of April each year following the effective
499 date of such farmout agreement. The adjustment shall be computed by applying the adjustment factor most
500 recently published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties
501 increased or decreased by the adjustment factor described herein, for each year from the effective date of such
502 rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").

503 C. ~~Percentage Basis~~

- 504 (1) ~~Operator shall charge the Joint Account at the following rates:~~
- 505 (a) ~~Development Rate of the cost of development of the Joint Property, exclusive of costs provided under~~
506 ~~Section II.9 (Legal Expense) and all Material salvage credits.~~
- 507 (b) ~~Operating Rate of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1~~
508 ~~(Rentals and Royalties) and II.9 (Legal Expense); all Material salvage credits; the value of substances~~
509 ~~purchased for enhanced recovery; all property and ad valorem taxes; and any other taxes and assessments~~
510 ~~that are levied, assessed, and paid upon the mineral interest in and to the Joint Property.~~
- 511 (2) ~~Application of Overhead — Percentage Basis shall be as follows:~~
- 512 (a) ~~The Development Rate shall be applied to all costs in connection with:~~
- 513 i. ~~drilling, redrilling, sidetracking, or deepening of a well~~
- 514 ii. ~~a well undergoing plugback or workover operations for a period of five (5) or more consecutive~~
515 ~~work days~~
- 516 iii. ~~preliminary expenditures necessary in preparation for drilling~~
- 517 iv. ~~expenditures incurred in abandoning when the well is not completed as a producer~~
- 518 v. ~~construction or installation of fixed assets; the expansion of fixed assets and any other project clearly~~
519 ~~discernible as a fixed asset, other than Major Construction or Catastrophe as defined in Section III.2~~
520 ~~(Overhead Major Construction and Catastrophe).~~
- 521 (b) ~~The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those~~
522 ~~subject to Section III.2 (Overhead Major Construction and Catastrophe).~~

523 2. MAJOR CONSTRUCTION AND CATASTROPHE

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

530 Major Construction shall mean the construction and installation of fixed assets, the expansion of fixed assets, and any
531 other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, or in
532 the dismantlement, abandonment, removal, and restoration of platforms, production equipment, and other operating
533 facilities.

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

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

- 539 (1) 5% of total costs if such costs are less than \$100,000; plus
- 540 (2) 3% of total costs in excess of \$100,000 but less than \$1,000,000; plus

541 (3) 2% of total costs in excess of \$1,000,000.

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

543 (1) 5% of total costs if such costs are less than \$100,000; plus

544 (2) 3% of total costs in excess of \$100,000 but less than \$1,000,000; plus

545 (3) 2% of total costs in excess of \$1,000,000.

546 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a
547 single Major Construction project shall not be treated separately, and the cost of drilling and workover wells and
548 purchasing and installing pumping units and downhole artificial lift equipment shall be excluded. For Catastrophes,
549 the rates shall be applied to all costs associated with each single occurrence or event.

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

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

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

557 3. AMENDMENT OF OVERHEAD RATES

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

560 IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

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

566 1. DIRECT PURCHASES

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

577 2. TRANSFERS

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

585 A. PRICING

586 The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of
587 physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators

588 sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are
589 used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well
590 design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties
591 pursuant to Section I.6.A (*General Matters*). Transfers of new Material will be priced using one of the following
592 pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between
593 methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

- 594 (1) Using published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price
595 Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS).
- 596 (a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill carload base
597 prices (Houston, Texas, for special end) adjusted as of date of movement, plus transportation cost as
598 defined in Section IV.2.B (*Freight*).
- 599 (b) For other Material, the published price shall be the published list price in effect at date of movement, as
600 listed by a Supply Store nearest the Joint Property where like Material is normally available, or point of
601 manufacture plus transportation costs as defined in Section IV.2.B (*Freight*).
- 602 (2) Based on a price quotation from a vendor that reflects a current realistic acquisition cost.
- 603 (3) Based on the amount paid by the Operator for like Material in the vicinity of the Joint Property within the
604 previous twelve (12) months from the date of physical transfer.
- 605 (4) As agreed to by the Participating Parties for Material being transferred to the Joint Property, and by the Parties
606 owning the Material for Material being transferred from the Joint Property.

607 **B. FREIGHT**

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

- 611 (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill
612 to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFI-38
613 ("Material Pricing Manual") and other COPAS MFIs in effect at the time of the transfer.
- 614 (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway
615 Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate
616 shall be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per
617 weight of tubing transferred to the Railway Receiving Point.
- 618 (3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from
619 Houston, Texas, to the Railway Receiving Point.
- 620 (4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated
621 from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point.
622 Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the
623 Railway Receiving Point to the Joint Property are in addition to the foregoing, and may be charged to the Joint
624 Account based on actual costs incurred. All transportation costs are subject to Equalized Freight as provided in
625 Section II.4 (Transportation) of this Accounting Procedure.

626 **C. TAXES**

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

631 **D. CONDITION**

- 632 (1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred
633 percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C
634 (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged
635 without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a
636 direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the
637 vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the
638 price originally charged to the Joint Account provided such price is approved by the Parties owning such
639 Material, pursuant to Section I.6.A (*General Matters*). All refurbishing costs required or necessary to return the

640 Material to original condition or to correct handling, transportation, or other damages will be borne by the
641 divesting property. The Joint Account is responsible for Material preparation, handling, and transportation costs
642 for new and unused Material charged to the Joint Property either through a direct purchase or transfer. Any
643 preparation costs incurred, including any internal or external coating and wrapping, will be credited on new
644 Material provided these services were not repeated for such Material for the receiving property.

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

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

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

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

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

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

660 (4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other
661 purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other
662 applications as a substitute for items with different specifications, is considered Condition "D" Material. Casing,
663 tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and
664 weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing,
665 tubing, or drill pipe used as higher pressure service lines than standard line pipe, e.g., power oil lines, shall be
666 priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a
667 non-upset basis. For other items, the price used should result in the Joint Account being charged or credited with
668 the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A
669 (*General Matters*).

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

671 E. OTHER PRICING PROVISIONS

672 (1) Preparation Costs

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

681 (2) Loading and Unloading Costs

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

684 3. DISPOSITION OF SURPLUS

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

687 Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the
688 Joint Property to either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus

689 Material, the Operator should make good faith efforts to dispose of surplus within twelve (12) months through
690 buy/sale agreements, trade, sale to a third party, division in kind, or other dispositions as agreed to by the Parties.

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

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

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

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

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

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

707 4. SPECIAL PRICING PROVISIONS

708 A. PREMIUM PRICING

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

715 B. SHOP-MADE ITEMS

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

721 C. MILL REJECTS

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

725 V. INVENTORIES OF CONTROLLABLE MATERIAL

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

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

733 1. DIRECTED INVENTORIES

734 Physical inventories shall be performed by the Operator upon written request of a majority in working interests of the
735 Non-Operators (hereinafter, "directed inventory"); provided, however, the Operator shall not be required to perform

736 directed inventories more frequently than once every five (5) years. Directed inventories shall be commenced within
737 one hundred eighty (180) days after the Operator receives written notice that a majority in interest of the Non-
738 Operators has requested the inventory. All Parties shall be governed by the results of any directed inventory.

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

- 744 A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of
745 the personnel performing the inventory or a rate agreed to by the Parties pursuant to Section I.6.A (*General*
746 *Matters*). The per diem rate shall also be applied to a reasonable number of days for pre-inventory work and report
747 preparation.
- 748 B. Actual transportation costs and Personal Expenses for the inventory team.
- 749 C. Reasonable charges for report preparation and distribution to the Non-Operators.

750 **2. NON-DIRECTED INVENTORIES**

751 **A. OPERATOR INVENTORIES**

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

755 **B. NON-OPERATOR INVENTORIES**

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

760 **C. SPECIAL INVENTORIES**

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

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement covering E/2 of Section 15, T24S-R34E, Lea County, New Mexico, effective January 1, 2019, by and between Marathon Oil Permian LLC, as Operator and The Other Signatory Parties as Non-Operators.

MARATHON OIL PERMIAN LLC, OPERATOR

INSURANCE

1. At all times while operations are conducted hereunder, Operator shall carry for the benefit of all Parties hereto Worker's Compensation and Employer's Liability insurance as required by the laws applicable to operations conducted hereunder. Where allowed under the controlling state statute, the Operator, at its option, may self-insure for liability in accordance with said compensation laws. Losses or claims that are self-insured shall be charged to the Joint Account.
2. Operator shall not be required to provide any other insurance for the benefit of the Joint Account unless required by law. Any Party hereto may procure and maintain at its own cost and expense such other insurance as it shall determine and any such insurance shall be solely for the benefit of such Party procuring the insurance. An insured party shall indemnify and hold harmless each Party hereto not named as an insured in such insurance policy against any claim of the insurance carrier arising against an uninsured Party by subrogation or otherwise.
3. All losses damages, expenses, and other liabilities and financial consequences resulting from Joint Operations and not covered by insurance obtained and maintained for the benefit of all Parties hereto, shall be borne by the Parties hereto in proportion to their respective obligations to bear such costs.
4. Operator may elect to administer insurance on behalf of the non-operating working interest owners. Such insurance administration would be voluntary on behalf of the Operator and election to participate will be voluntary on behalf of the non-operating working interest owners. An election to participate in the Operator Administered program will be noticed in writing to Operator by any applicable non-operating working interest owners whom wish to participate. Administration of such insurance by Operator is in no way a guarantee of the sufficiency of the provided limits to protect non-operating working interest owners against all risk assumed via this joint operating agreement nor is it a warrant of the financial health of any insurer or underwriter providing the coverage. The voluntary participation in such Operator administered program is at the sole risk and benefit of the non-operating working interest owners. If Operator administers any such program, the provided limits will be in line with reasonably acceptable industry standard for similar operations in the area.
5. Operator shall require all contractors engaged in operations under this agreement to comply with all applicable Workers' Compensation laws and to maintain such other insurance in such amounts as is deemed necessary by Operator.

EXHIBIT "E"

GAS BALANCING AGREEMENT ("AGREEMENT")

ATTACHED TO AND MADE PART OF THAT CERTAIN

OPERATING AGREEMENT DATED January 1, 2019

BY AND BETWEEN, Marathon Oil Permian LLC

AND ("OPERATING AGREEMENT")

RELATING TO THE AREA, E/2 Section 15, Township 24 South - Range 34 East, N.M.P.M.

COUNTY/PARISH, Lea STATE OF NEW MEXICO.

1. DEFINITIONS

The following definitions shall apply to this Agreement:

1.1. "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.

1.2. "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.

Notwithstanding anything contained herein to the contrary, the Parties agree to the following: i. Non-Operator's authorize and agree that Operator will always market Non-Operator's share of the Gas from the Balancing Area pursuant to the terms of the Operating Agreement; and ii. Operator will market Non-Operator's share of the Gas from the Balancing Area on the same terms as Operator's Gas from the Balancing Area.

1.3. "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.

1.4. "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.

1.5. "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.

1.6. "Mc" 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.

1.7. "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.

1.8. "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.

1.9. "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 calendar 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 Mcfs.

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

3. RIGHT OF PARTIES TO TAKE GAS

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

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

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

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

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

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

4. IN-KIND BALANCING

4.1. Effective the first day of any calendar month following at least 60 days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying 25% of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than 25% of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

4.2. (Optional—Seasonal Limitation on Makeup—Option 1) Notwithstanding the provisions of Section 4.1, the average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 3.3 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the _____ months immediately preceding the Winter Period.

4.3. (Optional—Seasonal Limitation on Makeup—Option 2) Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than _____ of its Full Share of Current Production for Makeup Gas during the Winter Period.

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

5. STATEMENT OF GAS BALANCES

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

5.2. ~~If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the required data. See Article 14, OTHER PROVISIONS, Note 5.1 & 5.2.~~

6. PAYMENTS ON PRODUCTION

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

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

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

6.3. ~~(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.~~

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

7. CASH SETTLEMENTS

7.1. ~~Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area. See Article 14, OTHER PROVISIONS, Note 7.1.~~

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.~~

~~(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.~~

~~(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.~~

~~(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.~~

~~(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.~~

195 7.5.2 (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the Overproduced Party at a
196 gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash settlement will include the proceeds
197 received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from the Overproduction, less the actual reasonable
198 costs incurred by the Overproduced Party to process the Overproduction and to transport, fractionate and handle the liquid hydrocarbons
199 extracted therefrom prior to sale.

200 7.6. To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash settlement will be
201 based on the weighted average price received by the Overproduced Party for any gas sold from the Balancing Area under Arm's Length
202 Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were
203 made during any such month, the cash settlement for such month will be based on the spot sales prices published for the applicable
204 geographic area during such month in a mutually acceptable pricing bulletin.

205 7.7. ~~Interest compounded at the rate of per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is~~
206 ~~less, will accrue for all amounts due under Section 7.1 beginning the first day following the date payment is due pursuant to Section 7.3.~~
207 ~~Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines~~
208 ~~set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.~~

209 7.8. In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party an offer to
210 settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the Underproduced Party. If the
211 Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished within sixty (60) days after the
212 Overproduced Party's offer to settle in kind, which period may be extended by agreement of said Parties, the Overproduced Party shall
213 make a cash settlement as provided in Section 7.3. The making of an in-kind settlement offer under this Section 7.8 will not delay the
214 accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.

215 7.9. That portion of any monies collected by an Overproduced Party for Overproduction which is subject to refund by orders of the
216 Federal Energy Regulatory Commission or other governmental authority may be withheld by the Overproduced Party until such prices are
217 fully approved by such governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the
218 Overproduced Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental
219 authority.

220 7.10. (Optional - Interim Cash Balancing) ~~At any time during the term of this Agreement, any Overproduced Party may, in its sole~~
221 ~~discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas imbalance, provided that~~
222 ~~such settlements must be made with all Underproduced Parties proportionately based on the relative imbalances of the Underproduced~~
223 ~~Parties, and provided further that such settlements may not be made more often than once every twenty-four (24) months. Such settlements~~
224 ~~will be calculated in the same manner provided above for final cash settlements. The Overproduced Party will provide Operator a detailed~~
225 ~~accounting of any such cash settlement within thirty (30) days after the settlement is made.~~

226 8. TESTING

227 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one
228 hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the
229 right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be
230 conducted in accordance with prudent operating practices only after 60 days' prior written notice to the Operator and shall last no longer than 48
231 hours.

232 9. OPERATING COSTS

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

236 10. LIQUIDS

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

239 11. AUDIT RIGHTS

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

250 12. MISCELLANEOUS

251 12.1. As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales
252 contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the Operating Agreement, the
253 provisions of this Agreement shall govern.

254 12.2. Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for any claims,
255 which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and
256 which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and
257 does further agree to save the other Parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

258 12.3. Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall
259 have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of
260 Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable
261 to any Underproduced Party for the failure of any Overproduced Party, (other than Operator) to pay any amounts owed pursuant to the
262 terms hereof.

263 12.4. This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the
264 Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding
265 upon the Parties hereto, and their respective heirs, successors, legal representatives and assigns, if any. The Parties hereto agree to give
266 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
267 bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also
268 subject to the terms of this Agreement.

269 12.5. Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the singular, and the
270 neuter gender includes the masculine and the feminine.

271 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
272 handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be made concerning the intent of the
273 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
274 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
275 an Optional provision may be used only if a specific Alternative is selected: (i) an election to include said Optional provision shall not be
276 effective unless the Alternative in question is selected; and (ii) the election to include said Optional provision must be expressly indicated
277 hereon, it being understood that the selection of an Alternative either expressly or by default as provided herein shall not, in and of itself,
278 constitute an election to include an associated Optional provision.

279 12.7. This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed or interpreted
280 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.

281 12.8. If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party execute an
282 appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and submits same for execution
283 in recordable form, such memorandum or notice shall be duly executed by the Party to which such request is made and delivered promptly
284 thereafter to the Party making the request. Upon receipt, the Party making the request shall cause the memorandum or notice to be duly
285 recorded in the appropriate real property or other records affecting the Balancing Area.

286 12.9. In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all Parties, each Party
287 agrees to compute and report income to the Internal Revenue Service (select one) o as if such Party were taking its Full Share of Current
288 Production during each relevant tax period in accordance with such regulations, insofar as same relate to entitlement method tax
289 computations; or o based on the quantity of Gas taken for its account in accordance with such regulations, insofar as same relate to sales
290 method tax computations.

291 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

292 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
293 Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its working interest in the
294 Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other act of transfer shall, insofar as the
295 Parties hereto are concerned, include all interest of the assigning or transferring Party in the Gas, all rights to receive or obligations to
296 provide or take Makeup Gas and all rights to receive or obligations to make any monetary payment which may ultimately be due hereunder,
297 as applicable. Operator and each of the other Parties hereto shall thereafter treat the assignment accordingly, and the assigning or
298 transferring Party shall look solely to its assignee or other transferee for any interest in the Gas or monetary payment that such Party may
299 have or to which it may be entitled, and shall cause its assignee or other transferee to assume its obligations hereunder.

300 13.2. (Optional - Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement (including but not limited to the
301 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
302 the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such
303 Overproduced Party shall notify in writing the other working interest owners who are Parties hereto in such Balancing Area of such fact at
304 least 60 days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing,
305 within 60 days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area. The
306 Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 13, and the Overproduction and
307 Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 13 shall be paid by the
308 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
309 closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area
310 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,
311 beginning sixty (60) days after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any
312 amounts not paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from
313 the Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the Overproduced
314 Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance with the provisions of
315 Section 13.1 hereof.

316 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
317 merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which
318 any parent or subsidiary of such Party owns a majority of the stock of such company.

319 14. OTHER PROVISIONS

320 5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the total volume of Gas and the total
321 volume of Gas actually taken or sold. Within forty-five (45) days after the month of production, the Operator will furnish a production statement
322 for such month. In an imbalance occurs during such month, Operator shall provided a statement showing (1) each Party's Full Share of Current
323 Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party
324 and that Party's Full Share of Current Production, (4) the Overproduction of Underproduction of each Party, and (5) other data as recommended
325 by the provisions of the Council of Petroleum Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party taking
326 Gas will promptly provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

327 5.2 If any Party fails to provide the data required herein for four (4) consecutive production months after an imbalance occurs, Operator or the
328 other Party, may audit the production and gas sales and transportation volumes on the non-reporting Party to provided the required data. Such
329 audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited.
330 All costs associated with such audit will be charged to the account of the Party requesting the audit.

331 7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, or the termination of the Operating
332 Agreement or any pooling or unit agreement covering the Balancing Area, any Party may give written notice calling for cash settlement of the
333 Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

335 **15. COUNTERPARTS**

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

340

341

342

343 IN WITNESS WHEREOF, this Agreement shall be effective as of March 1, 2018.

ATTEST OR WITNESS:

OPERATOR

NON-OPERATORS

344

345 **ACKNOWLEDGMENTS**

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

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

348 Individual acknowledgment:

349 State of _____)

350 _____) ss.

351 County of _____)

352 This instrument was acknowledged before me on _____

353 by _____

354 (Seal, if any) _____

355 Title (and Rank) _____

356 My commission expires: _____

357

358 Acknowledgment in representative capacity:

359 State of _____)

360 _____) ss.

361 County of _____)

362

363 This instrument was acknowledged before me on _____

364 by _____

365 (Seal, if any) _____

366 Title (and Rank) _____

367 My commission expires: _____

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement covering E/2 of Section 15, T24S-R34E, Lea County, New Mexico, effective January 1, 2019, by and between Marathon Oil Permian LLC, as Operator and The Other Signatory Parties as Non-Operators.

NON-DISCRIMINATION

A. During performance of this Agreement, Operator hereby agrees as follows:

- (1) Operator will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin. Operator will take affirmative action to insure that applicants are employed, and that employees are treated during employment, without regard to their race, creed, color 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. Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices in the form specified in the Regulations published in Title 41, Chapter 60 of the Code of Federal Regulations, as amended, setting forth the provisions of this non-discrimination clause.
- (2) Operator will, in all solicitations or advertisements for employees placed by or on behalf of Operator, state that all qualified applicants will receive consideration for employment without regard to race, creed, color or national origin.
- (3) Operator will send to each labor union or representative of workers with which Operator has a collective bargaining agreement or other contract or understanding, a notice in the form prescribed by the Regulations published in Title 41, Chapter 60 of the Code of, Federal Regulations advising the labor union or workers' representative of Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965 and shall post copies of notices in conspicuous places available to employees and applicants for employment.
- (4) Operator will comply with all provisions of Executive Order 11246 of September 24, 1965 and of the rules and regulations and relevant orders of the Secretary of Labor.
- (5) Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965 and by the rules, regulations and order of the Secretary of Labor or pursuant thereto, and will permit access to its books, records and accounts by the contracting agency (as defined in the Regulations published under Title 41, Chapter 60 of the Code of Federal Regulations) and by the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- (6) In the event of Operator's noncompliance with the non-discrimination clauses of this Agreement or with any of such rules, regulations or orders, 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, regulations or order of the Secretary of Labor or as otherwise provided by law.
- (7) Operator will include the provisions of these 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 provision will

be binding upon each subcontractor or vendor. Operator will take action with respect to any subcontractor or vendor as the contracting agency may direct as a means of enforcing such provisions including sanction for noncompliance; provided, however, that in the event Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, Operator may request the United States to enter into such litigation to protect the interests of the United States.

B. Certificate of non-segregated facilities:

- (1) Operator and each Non-Operator assures the other that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location under its control where segregated facilities are maintained. For this purpose it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.
- (2) Operator and each Non-Operator understands and agrees that the breach of the assurance herein contained subjects the breaching party to the provisions of the order at 41 CFR Chapter 60 of the Secretary of Labor, dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and the assured.
- (3) Operator and each Non-Operator agrees that whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 USC Par. 1001.
- (4) Operator and each Non-Operator, respectively, reserves to itself the benefit of all exemptions, qualifications and limitations contained in and which it may claim under 41 CFR Chapter 60 and this certification is qualified to the extent and so that Operator and each Non-Operator, respectively, shall have the full benefit thereof.

END OF EXHIBIT "F"

EXHIBIT "G"

Attached to and made a part of that certain Operating Agreement covering E/2 of Section 15, T24S-R34E, Lea County, New Mexico, effective January 1, 2019, by and between Marathon Oil Permian LLC, as Operator and The Other Signatory Parties as Non-Operators.

***THERE IS NO EXHIBIT "G" TO THIS AGREEMENT.**

1
2 **MODEL FORM RECORDING SUPPLEMENT TO**

3 **OPERATING AGREEMENT AND FINANCING STATEMENT**

4 THIS AGREEMENT, entered into by and between Marathon Oil Permian LLC, hereinafter referred to as "Operator," and the signatory party or
5 parties other than Operator, hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

6 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"
7 (said land, Leases and Interests being hereinafter called the "Contract Area"), and in any instance in which the Leases or Interests of a party are
8 not of record, the record owner and the party hereto that owns the interest or rights therein are reflected on Exhibit "A";

9 WHEREAS, the parties hereto have executed an Operating Agreement dated 1/1/19 (herein the "Operating Agreement"), covering the Contract
10 Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

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

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

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

16 2. The parties do hereby agree that:

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

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

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

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

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

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

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

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

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

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

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

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

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

55 A. Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil
56 and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or
57 hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance
58 of all of its obligations under this agreement and the Operating Agreement including but not limited to payment of expense, interest
59 and fees, the proper disbursement of all monies paid under this agreement and the Operating Agreement, the assignment or
60 relinquishment of interest in Oil and Gas Leases as required under this agreement and the Operating Agreement, and the proper
61 performance of operations under this agreement and the Operating Agreement. Such lien and security interest granted by each party
62 hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests

- 63 in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this
64 agreement and the Operating Agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or
65 obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including,
66 without limitation, accounts arising from the sale of production at the wellhead), contract rights, inventory and general intangibles
67 relating thereto or arising therefrom, and all proceeds and products of the foregoing.
- 68 B. Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other
69 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
70 persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement and the Operating Agreement by,
71 through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this
72 agreement and the Operating Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed
73 to have taken subject to the lien and security interest granted by the Operating Agreement and this instrument as to all obligations
74 attributable to such interest under this agreement and the Operating Agreement whether or not such obligations arise before or after
75 such interest is acquired.
- 76 C. To the extent that the parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is
77 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
78 obtaining of judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
79 rights or security interest as security for the payment thereof. In addition, upon default by any party in the payment of its share of
80 expenses, interest or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice
81 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
82 until the amount owed by such party, plus interest, has been received, and shall have the right to offset the amount owed against the
83 proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of
84 default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse
85 available against purchasers for releasing production proceeds as provided in this paragraph.
- 86 D. If any party fails to pay its share of expenses within one hundred-twenty (120) days after rendition of a statement therefor by
87 Operator the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion
88 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
89 unpaid amount shall be secured by the liens and security rights described in this paragraph 3 and in the Operating Agreement, and
90 each paying party may independently pursue any remedy available under the Operating Agreement or otherwise.
- 91 E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the failure to perform
92 subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement or the Operating Agreement,
93 to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of
94 judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay
95 execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. In addition, to the extent
96 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
97 and security rights granted hereunder or under the Operating Agreement, such power to be exercised in the manner provided by
98 applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.
- 99 F. The lien and security interest granted in this paragraph 3 supplements identical rights granted under the Operating Agreement.
- 100 G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's
101 lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due under this
102 agreement and the Operating Agreement for services performed or materials supplied by Operator.
- 103 H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Recording
104 Supplement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing
105 statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the
106 above-described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial
107 Code, or other state laws.
- 108 4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this agreement and the
109 Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file of record in all necessary recording
110 offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon the
111 request of Operator, if Operator has complied with all of its financial obligations.
- 112 5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective
113 heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or other disposition shall be made by any party
114 of any interest in the Leases or Interests subject hereto except as expressly permitted under the Operating Agreement and, if permitted, shall
115 be made expressly subject to this agreement and the Operating Agreement and without prejudice to the rights of the other parties. If the
116 transfer is permitted, the assignee of an ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the
117 Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the
118 other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until
119 thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the
120 transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred
121 by such party under this agreement or the Operating Agreement with respect to the interest transferred, including without limitation the
122 obligation of a party to pay all costs attributable to an operation conducted under this agreement and the Operating Agreement in which
123 such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the
124 Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.
- 125 6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the Operating Agreement,
126 then, as between the parties, the terms and provisions of the Operating Agreement shall control.
- 127 7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-
128 Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or
129 which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. In the
130 event that any provision herein is illegal or unenforceable, the remaining provisions shall not be affected, and shall be enforced as if the
131 illegal or unenforceable provision did not appear herein.
- 132 8. Other provisions.

133

134 NONE

135

136

137

138 Marathon Oil Permian LLC, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and,
139 with the exception(s) listed below, is identical to the AAPL Form 610RS-1989 Model Form Recording Supplement to Operating Agreement and
140 Financing Statement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those
141 made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles A-H, have been made to the form.

142 IN WITNESS WHEREOF, this agreement shall be effective as of January 1, 2019.

143

144

OPERATOR

ATTEST OR WITNESS

Marathon Oil Permian LLC

By: _____

Name: _____

Title: _____

Date: _____

Address: _____

145

146

147

NON-OPERATORS

ATTEST OR WITNESS

NON-OPERATOR: _____

By: _____

Name: _____

Title: _____

Date: _____

Address: _____

148

ATTEST OR WITNESS

NON-OPERATOR: _____

By: _____

Name: _____

Title: _____

Date: _____

Address: _____

149

ATTEST OR WITNESS

NON-OPERATOR: _____

By: _____

Name: _____

Title: _____

Date: _____

Address: _____

150

151

152

153

154

155

ACKNOWLEDGMENTS

156 **NOTE:**

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

159

160

Individual Acknowledgment

161 State of _____ §

162 § ss.

163 County of _____ §

164

165 This instrument was acknowledged before me on _____

166 by _____

167 (Seal, if any)

168

169

Title (and Rank) _____

170

My commission expires: _____

171

172

Acknowledgment in Representative Capacity

173 State of _____ §

174 § ss.

175 County of _____ §

176

177 This instrument was acknowledged before me on _____

178 by _____

179 (Seal, if any)

180

181

Title (and Rank) _____

182

My commission expires: _____

183

184 A representative of each party confirms good receipt of the fully executed signature page(s):

185

Signing Confirmation by Operator:

Signing Confirmation by Non-Operator:

By: _____

186

187

188

189

From: [Erica Hixson](#)
To: [Gyllenband, Ryan \(MRO\)](#)
Subject: RE: Will Kane Unit
Attachments: [image001.png](#)

Hey Ryan,
Did you ever send a trade proposal?
Erica

From: Erica Hixson
Sent: Wednesday, January 30, 2019 12:23 PM
To: 'Gyllenband, Ryan (MRO)' <mrgyllenband@marathonoil.com>
Subject: RE: Will Kane Unit

Ryan,
I believe our gen counsel will be requesting a continuance on this, knowing that we didn't have clarity on the highlighted item below and don't have a JOA signed. Let me know if you have any ideas/trade proposals to get out of each other's hair on this one. I can chew on it, too...
Talk soon,
Erica

From: Erica Hixson
Sent: Tuesday, January 29, 2019 11:10 AM
To: 'Gyllenband, Ryan (MRO)' <mrgyllenband@marathonoil.com>
Subject: Will Kane Unit

Hey Ryan,
Last week you'd called about our intentions on the Will Kane unit upcoming hearing. We got work through our attorney that **you guys weren't seeking to force pool Tap Rock**? We are a little confused about that - can you confirm what you guys are thinking for the 2/7 hearing?
Other questions:

1. What are the anticipated spud and completion dates for each of the Will Kane wells?
2. What are the upcoming lease expirations? I know you mentioned you might have one as well as CVX?
3. Are you drilling & completing one by one or in batch style?
4. Can you please send DTO or DOTO pages (redacted is fine) showing Tap Rock's interest?
5. Have modifications to the JOA been proposed by other parties? If so, please send the most up to date version for review.
6. Are there other wells that will share in the facilities and pad costs?
7. Whose gathering system will these wells use?

Feel free to give me a call to discuss if that's easier - thanks!
Erica

Erica Hixson
Landman
Office: 720-460-3316

CROSS-EXAM EXHIBIT No. 4
Tap Rock Resources/Will Kane
Case Nos. 20220 and 20221
February 7, 2019 Hearing

602 Park Point Drive Suite 200
Golden, Colorado 80401
ehixson@taprk.com

