

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

**APPLICATION OF FASKEN OIL AND RANCH, LTD.  
TO EXTEND THE DRILLING DEADLINE  
UNDER ORDER NOS. R-21922 AND R-21922-B  
LEA COUNTY, NEW MEXICO**

**CASE NO. 24977**

**APPLICATION OF FASKEN OIL AND RANCH, LTD.  
TO EXTEND THE DRILLING DEADLINE  
UNDER ORDER NOS. R-21923 AND R-21923-B  
LEA COUNTY, NEW MEXICO**

**CASE NO. 24978**

**MOTION TO DISMISS, STAY, OR RESCIND DIVISION POOLING ORDER  
NOS. R-21922, R-21922-B, R-21923, AND R-21923-B**

Chief Capital (O&G) II LLC, and WR Non-Op LLC (“Chief and Waterloo”), by and through undersigned counsel, move the Oil Conservation Division (“Division”) for an order to dismiss, stay, or rescind the pooling authority granted under Division Order Nos. R-21922, R-21922-B, R-21923, and R-21923-B, for failure to properly pool their working interests in these Units. In conjunction with the Special Hearing in this case on January 28, 2025, Chief and Waterloo respectfully ask the Division to make a ruling on this Motion, prior to hearing good cause issues, and for the Division to stay the effectiveness of Order Nos. R-21922, R-21922-B, R-21923, and R-21923-B, pending the Division’s final ruling on the merits. In support, Chief and Waterloo state:

**A. Background & Procedural History**

On December 8, 2020, Titus Oil & Gas Production, LLC (“Titus”) originally filed the Applications for Compulsory Pooling, in Division Case Nos. 21619 and 21620, seeking Division approval of the poolings in these Cases.

In Case No. 21619, Titus originally filed for a pooling order for the Bone Spring formation (SALT LAKE; BONE SPRING [53560]), in a standard 560-acre, more or less, horizontal spacing unit with proximity tracts, comprised of the E/2 of Section 22, and the NE/4 and N/2 SE/4 of Section 27, Township 20 South, Range 32 East, NMPM, in Lea County, New Mexico, to be dedicated to the Thai Curry Fed Com 223H and the Thai Curry Fed Com 224H wells. In Case No. 21620, Titus originally filed for a pooling order for the Wolfcamp formation (SALT LAKE; WOLFCAMP [53570]), in a standard 560-acre, more or less, horizontal spacing unit with proximity tracts, underlying the E/2 of Section 22, and the NE/4 and N/2 SE/4 of Section 27, Township 20 South, Range 32 East, NMPM, in Lea County, New Mexico, to be dedicated to the Thai Curry Fed Com 433H and the Thai Curry Fed Com 434H wells. Following hearing, the Division issued Order No. R-21922 on December 7, 2021, approving pooling in Case No. 21619, and Order No. R-21923, approving pooling in Case No. 21620.

On August 22, 2022, Titus filed the initial applications to amend Order No. R-21922 in Case No. 23010 and amend Order No. R-21923 in Case No. 23011, to allow for an additional year to drill the initial wells under the Orders. On December 5, 2022, the Division extended the pooling orders for a second year under Order Nos. R-21922-A (Case No. 23010) and R-21923-A (Case No. 23011). In Case Nos. 23995 and 23996, filed on November 17, 2023, Fasken filed for a second extension of Division pooling order Nos. R-21922, R-21922-A, R-21923, and R-21923-A. Following hearing, the Division issued Order Nos. R-21922-B and R-21923-B, allowing Fasken a third year for development of the pooled Units. Finally, on November 15, 2024, Fasken filed these third extension requests in Case Nos. 24977 and 24978, seeking to amend Division Order Nos. R-21922, R-21922-B, R-21923, and R-21923-B, to allow them a fourth year for the proposed development.

## **B. Law**

The Oil Conservation Division has broad authority under the New Mexico Oil and Gas Act, to include “jurisdiction, authority and control of and over all persons, matters or things necessary or proper to enforce effectively the provisions of this act or any other law of this state relating to the conservation of oil or gas[.]” *See* NMSA 1978, § 70-2-1, *et seq.* Pooling in New Mexico is governed by Section 70-2-17, by the Division’s regulations implementing the same, and by order to force pool any uncommitted interest owners. Section 70-2-17(C) of the Oil and Gas Act requires the Division, or the Commission, to ensure that all compulsory pooling orders “are just and reasonable” and that a party who is force pooled has “the opportunity to recover or receive without unnecessary expense his just and fair share of the oil or gas.” NMSA 1978, § 70-2-17. By law, the Oil and Gas Act, in Section 70-2-17(C), requires a party to be pooled, as follows:

C. When two or more separately owned tracts of land are embraced within a spacing or proration unit, or where there are owners of royalty interests or undivided interests in oil and gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration unit, the owner or owners thereof may validly pool their interests and develop their lands as a unit. Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the division, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit.

All orders effecting such pooling shall be made after notice and hearing, and shall be upon such terms and conditions as are just and reasonable and will afford to the owner or owners of each tract or interest in the unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil or gas, or both. Each order shall describe the lands included in the unit designated thereby, identify the pool or pools to which it applies and designate an operator for the unit. All operations for the pooled oil or gas, or both, which are conducted on any portion of the unit shall be deemed for all purposes to have been conducted upon each tract within the unit by the owner or owners of such tract. For the purpose of determining the portions of production owned by the persons owning interests in the pooled oil

or gas, or both, such production shall be allocated to the respective tracts within the unit in the proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit. The portion of the production allocated to the owner or owners of each tract or interest included in a well spacing or proration unit formed by a pooling order shall, when produced, be considered as if produced from the separately owned tract or interest by a well drilled thereon. Such pooling order of the division shall make definite provision as to any owner, or owners, who elects not to pay his proportionate share in advance for the prorata reimbursement solely out of production to the parties advancing the costs of the development and operation, which shall be limited to the actual expenditures required for such purpose not in excess of what are reasonable, but which shall include a reasonable charge for supervision and may include a charge for the risk involved in the drilling of such well, which charge for risk shall not exceed two hundred percent of the nonconsenting working interest owner's or owners' prorata share of the cost of drilling and completing the well.

Moreover, Division regulations require that an applicant comply with the Rules for pooling prior to the issuance of a force pooling order. *See* 19.15.4.9 NMAC; *see also* NMSA 1978, § 70-2-17. Specifically, Division Rules 19.15.4.8 and 19.15.4.9 NMAC require certain information in a pooling application, in notice of a pooling hearing, and in an uncontested pooling hearing. In addition, 19.15.4.12(A)(1)(b)(vi) NMAC specifies the information required when no interest owner appears in opposition: “written evidence of attempts the applicant made to gain voluntary agreement including but not limited to copies of relevant correspondence.” *See also* Notice: Material Changes or Deficiencies in Applications Submitted to OCD Engineering Bureau (June 11, 2020).

### **C. Argument**

The Unit Ownership Summary, attached as *Exhibit 1*, reflects that Chief and Waterloo are working interest owners in the Units via two distinct chains of title; however, in both instances, they have neither been pooled nor voluntarily committed their working interests to the Units. At the time these Cases were originally pooled, Titus had under lease the fee mineral interests of Foundation Minerals, LLC (predecessor in interest to Sito Permian, LLC), Oak



Valley Mineral and Land, LP, and Mavros Minerals, LLC (predecessor in interest to Sortida Resources, LLC), now under lease by Chief and Waterloo (Titus' lease expired pursuant to its own terms on April 18, 2023). Further, Chief and Waterloo purchased the working interest of Trobaugh Properties, a Texas general partnership, who was originally voluntarily committed to the Units pursuant to that certain Operating Agreement dated February 1, 2021 (the "2/1/2021 OA"), designating Fasken Oil & Ranch, Ltd., as Operator, over a Contract Area covering the lands pooled within the Units. As noted at the hearing in Case Nos. 21619 and 21620, on October 7, 2021, Titus represented that it had reached voluntary agreement with "...Georgia [Trobaugh] or [Trobaugh Properties], and so they will not be force pooling those three parties..." See Hearing Transcript of October 7, 2021 Division Hearing, at 7 (*available at* [https://ocdimage.emnrd.nm.gov/Imaging/FileStore/santafeadmin/cf/20211105/21619\\_11\\_05\\_2021\\_04\\_37\\_27.pdf](https://ocdimage.emnrd.nm.gov/Imaging/FileStore/santafeadmin/cf/20211105/21619_11_05_2021_04_37_27.pdf)).

Notice of these third extension requests were provided to Chief Capital (O&G) II LLC and Waterloo Resources LLC (not WR Non-Op LLC). Although notice was provided to Chief Capital (O&G) II LLC and Waterloo Resources LLC (not WR Non-Op LLC), and Fasken's landman, Mike Wallace, acknowledged and admitted by email to Georgia Trobaugh that the 2/1/2021 OA was no longer effective, Fasken has not applied to pool either Chief or Waterloo's working interests. See April 11, 2024 Email from Mike Wallace to Georgia Trobaugh, with signed copy of the 2/1/2021 OA, attached hereto as **Exhibit 2**. Further, despite numerous requests, Fasken did not provide Chief or Waterloo a well proposal or voluntary joinder opportunity of any kind until December 23, 2024 (to Chief) and January 21, 2025 (to Waterloo). See **Exhibit 3**. The well proposal to Waterloo did not contain any AFE's for the proposed wells, and, as of the date of filing of this Motion, Fasken has not responded to Chief's requests for

information and clarity pertaining to the targeted interval of its proposed wells. The failure of Fasken to provide an opportunity to voluntarily participate or to pool Chief and Waterloo in the pending third extensions in these Cases deprived Chief and Waterloo of their rights as owners of a working interest in the Units. *See* Order R-20368 (requiring applicant for pooling to show “good faith” effort of negotiations with working interest owners prior to force pooling).

For these reasons, Fasken should have filed an application for a pooling hearing to pool these interests, as non-committed, non-pooled working interests. Chief and Waterloo, as the owners of a working interest in the pooled Units, is entitled to a share of the unit, described in Section 70-2-17 of the Oil and Gas Act. *See* § 70-2-17. As the successor operator of the Units, Fasken was required to send a well proposal letter and AFE to the working interest owners. Fasken did not, however, properly propose the wells and voluntary joinder to Chief and Waterloo until December 23, 2024 (to Chief) and January 21, 2025 (to Waterloo), long after Chief and Waterloo acquired its working interests in the Units. *See* Fasken’s December 23, 2024 Well Proposal Letter to Chief and Fasken’s January 21, 2025 Well Proposal Letter to Waterloo, attached hereto as ***Exhibit 3***.

At no time has Fasken acted in good faith in seeking the voluntary joinder of the working interests of Chief and Waterloo in the Units. Fasken has not sought the authority of the Division for pooling Chief or Waterloo’s working interests. Additionally, Chief and Waterloo never had the opportunity to elect to participate in the wells or to be pooled in the Units, under the subject pooling orders. Chief and Waterloo should therefore be allowed another opportunity to elect to participate in the Units, as working interest owners, with proper notice, prior to being pooled. Thus, Division Order Nos. R-21922, R-21922-B, R-21923, and R-21923-B are void and invalid, and a stay of the pooling orders is necessary to remedy the substantial prejudice to Chief and

Waterloo, after having been deprived the due process afforded to it by the Division's rules and the opportunity to voluntarily participate or be pooled into the Units.

As such, Fasken may not properly represent to the Division in these proceedings that good cause has been shown to extend the Orders or that it acted in good faith to obtain the voluntary joinder of the working interest and mineral owners in the proposed wells.

#### **D. Conclusion**

WHEREFORE, Chief and Waterloo request that the Division set this matter for consideration at the January 28, 2025 hearing before the Hearing Examiner of the Oil Conservation Division, and enter an order revoking or staying Fasken's pooling authority approved under Order Nos. R-21922, R-21922-B, R-21923, and R-21923-B, or in the alternative, require Fasken apply to the Division for proper pooling orders to recognize Chief and Waterloo's working interests in the pooled Units, and that the Division grant such further relief as the Division deems appropriate.

Respectfully,

A handwritten signature in blue ink, appearing to read "Kaitlyn Luck", is written over a horizontal line.

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(361) 648-1973

*Attorney for Chief Capital (O&G) II LLC, &  
WR Non-Op LLC*

**CERTIFICATE OF SERVICE**

I certify that on this 24<sup>th</sup> of January 2025, the foregoing pleading was electronically filed by email with the New Mexico Oil Conservation Division Clerk and served on all parties of record through counsel as follows:

Freya Tschantz  
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*EMNRD-Oil Conservation Division, Law Clerk*

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*Attorney for Fasken Oil and Ranch Ltd.*

**/s/ Kaitlyn A. Luck**

# EXHIBIT 1

E/2 of Section 22, Township 20 South, Range 32 East, N.M.P.M., Lea County, New Mexico (NMNM 033955)				* All references to Book and Page herein are to the Official Public Records of Lea County, New Mexico.
OWNER	GROSS ACRES	WORKING INTEREST	NET ACRES	
FASKEN OIL AND RANCH LTD	320.00	0.66321073	212.22743360	
CHIEF CAPITAL (O&G) II LLC	320.00	0.07550000	24.16000000	(1) Book 2223, Page 190.
WR NON-OP LLC	320.00	0.02450000	7.84000000	(1) Book 2223, Page 190.
PERMIAN RESOURCES OPERATING LLC (EARTHSTONE PERMIAN LLC)	320.00	0.08106130	25.93961600	
TRAINER PARTNERS LTD (OE SQUARED OPERATING LLC)	320.00	0.08106130	25.93961600	
SITL ENERGY LLC	320.00	0.03333334	10.66666720	
BEXP II OMEGA LLC	320.00	0.01912057	6.11858164	
BEXP II ALPHA LLC	320.00	0.01421277	4.54808556	
BROOKS OIL AND GAS INTERESTS LTD	320.00	0.00400000	1.28000000	
ANDREW H JACKSON	320.00	0.00400000	1.28000000	
	320.00	1.00000000	320.00000000	
N/2NE/4 of Section 27, Township 20 South, Range 32 East, N.M.P.M., Lea County, New Mexico (NMNM 015024)				
OWNER	GROSS ACRES	WORKING INTEREST	NET ACRES	
CHEVRON USA INC	80.00	1.00000000	80.00000000	
	80.00	1.00000000	80.00000000	
S/2NE/4 & N/2SE/4 of Section 27, Township 20 South, Range 32 East, N.M.P.M., Lea County, New Mexico (Fee Minerals)				
OWNER	GROSS ACRES	WORKING INTEREST	NET ACRES	
FASKEN OIL AND RANCH LTD	160.00	0.07308002	11.69280359	(1) Book 2233, Page 741 (In Primary Term-Expiring 11/15/2026).
CHIEF CAPITAL (O&G) II LLC	160.00	0.32232458	51.57193329	(1) Book 2210, Page 117 (In primary Term-Expiring 04/19/2028). (2) Book 2211, Page 128 (In primary Term-Expiring 05/24/2026).
WR NON-OP LLC	160.00	0.10459539	16.73526312	(1) Book 2210, Page 117 (In primary Term-Expiring 04/19/2028). (2) Book 2211, Page 128 (In primary Term-Expiring 05/24/2026).
MRC PERMIAN COMPANY	160.00	0.28333300	45.33328000	Unleased Executive Mineral Interest.
PALOMA PERMIAN ASSETCO LLC	160.00	0.16666700	26.66672000	(1) Book 2172, Page 407 (In primary term-Expiring 04/01/2028). (2) Book 2172, Page 408 (In primary term-Expiring 04/01/2028).
SOUTHPAW LAND & TIMBER LLC	160.00	0.05000000	8.00000000	(1) Book 2198, Page 868 (In Primary Term-Expiring 06/01/2027).
	160.00	1.00000000	160.00000000	
			560.00000000	
SPACING UNIT OWNERSHIP				
OWNER		WORKING INTEREST		
FASKEN OIL AND RANCH LTD		0.39985757		
CHIEF CAPITAL (O&G) II LLC		0.13523560		
WR NON-OP LLC		0.04388440		
CHEVRON USA INC		0.14285714		
MRC PERMIAN COMPANY		0.08095229		
PALOMA PERMIAN ASSETCO LLC		0.04761914		
PERMIAN RESOURCES OPERATING LLC (EARTHSTONE PERMIAN LLC)		0.04632074		
TRAINER PARTNERS LTD (OE SQUARED OPERATING LLC)		0.04632074		
SITL ENERGY LLC		0.01904762		
SOUTHPAW LAND & TIMBER LLC		0.01428571		
BEXP II OMEGA LLC		0.01092604		
BEXP II ALPHA LLC		0.00812158		
BROOKS OIL AND GAS INTERESTS LTD		0.00228571		
ANDREW H JACKSON		0.00228571		
		1.00000000		

Subject: Baetz (Thai Curry) OA

EXHIBIT 2



**Mike Wallace** <mwallace@forl.com>  
to Georgia Trobaugh ▾

📧 Thu, Apr 11, 2:51 PM (22 hours ago)

You are viewing an attached message. Walker Netherton Mail can't verify the authenticity of attached messages.



Georgia,

Per our conversation, attached is a copy of the OA we executed for our wells we plan to drill once we get permits. The OA technically has expired but we intend to extend the initial well obligation date to allow us time to drill the wells. Please let Waterloo know that we will be sending out an amendment in the near future.

Thanks,

Mike Wallace, Landman



6101 Holiday Hill Road  
Midland, TX 79707-1631  
(432) 687-1777

One attachment • Scanned by Gmail ⓘ



# EXHIBIT 2

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

## MODEL FORM OPERATING AGREEMENT HORIZONTAL MODIFICATIONS

OPERATING AGREEMENT

DATED

February 1, 2021  
Year

OPERATOR Fasken Oil and Ranch, Ltd.

CONTRACT AREA E/2 of Section 22, NE/4 and N/2SE/4 of Section 27, Township 20 South,  
Range 32 East

COUNTY OF Lea County, STATE OF New Mexico

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## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Fasken Oil and Ranch, Ltd. hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

## WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

R. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. When used in connection with a Horizontal Well, the term "Plug Back" shall mean an operation to test or Complete the well at a stratigraphically shallower Zone in which the operation has been or is being Completed and which is not in an existing Lateral.

S. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.

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

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

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

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

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

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

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

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

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

## ARTICLE II.

### EXHIBITS

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

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

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

X B. Exhibit "B," Form of Lease.

X C. Exhibit "C," Accounting Procedure.

X D. Exhibit "D," Insurance.

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

X H. Other: Recording Supplement

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

## ARTICLE III.

### INTERESTS OF PARTIES

#### A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production: See Article XVI. T for additional provisions.

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

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

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

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

#### C. Subsequently Created Interests:

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

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

## ARTICLE IV.

## TITLES

## A. Title Examination:

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

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

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

## B. Loss or Failure of Title:

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

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

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

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

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

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

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

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

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

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

acreage basis, up to the amount of unrecovered costs;

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

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

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

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

#### ARTICLE V.

#### OPERATOR

A. Designation and Responsibilities of Operator: See Article XVI.G and K. for additional provisions.

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

B. Resignation or Removal of Operator and Selection of Successor: See Article XVI.S. for additional provisions.

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

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

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

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

C. Employees and Contractors:

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

**D. Rights and Duties of Operator:** See Article G., H. and K. for additional provisions.

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

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

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

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

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

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

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

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

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

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

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

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

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

**ARTICLE VI.****DRILLING AND DEVELOPMENT****A. Initial Well:**

On or before the 18th day of October, 2022, Operator shall commence the drilling of the Initial Well at the following location (if a Horizontal Well, surface and Terminus/Termini of the Lateral(s)): at an approximate location of 376' FNL and 593' FEL of Section 22, Township 20 South, Range 32 East to an approximate true vertical depth of 9825'.

and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to a terminus of an estimated 1,330' FSL and 2310' FEL of Section 27, Township 20 South, Range 32 East plus 10 feet.



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 as to a Vertical Well), specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation as outlined in an AFE. A proposal for the drilling of or other operations for a Horizontal Well shall: (1) state that the proposed operation is a Horizontal Well operation; (2) include drilling and Completion plans specifying the proposed: (i) Total Measured Depth(s), (ii) surface hole location(s), (iii) Terminus/Termini, (iv) Displacement(s), (v) utilization and scheduling of rig(s) (Spudder Rig, drilling and Completion), and (vi) stimulation operations, staging and sizing; and (3) include estimated drilling and Completion costs as set forth in an AFE. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

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

**2. Operations by Less Than All Parties:**

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

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

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

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

(i) 100.00 % 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) 300.00 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

(c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment 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 300.00 % of that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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

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

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

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

3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise terminated pursuant to



Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6. to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

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

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

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

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

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

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

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

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

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

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

This Article VI.B.5, "Sidetracking," shall not apply to operations in an existing Lateral of a Horizontal Well.

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

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

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

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

#### 9. Spudder Rigs.

(a) Within Approved Horizontal Well proposals (i.e. proposals which include an approved AFE). If an approved Horizontal Well proposal provides that a Spudder Rig shall be utilized, and Operator desires to extend the proposed Horizontal Rig Move-On Period, Operator may obtain one or more extensions, each for a period of time not to exceed 30 days only upon notice and the affirmative vote of not less than 60.00 % in interest of the Consenting Parties to the drilling of the proposed well.

(b) Not Within Approved Horizontal Well proposals. If an approved Horizontal Well proposal does not provide that a Spudder Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to the Drilling Parties (which notice shall include a Horizontal Rig Move-On Period) and the affirmative vote of not less than 60.00 % in interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On Period may be requested by Operator in the same manner as provided in Article VI.B.9.(a) immediately above.

(c) Failure to meet Horizontal Rig Move-On Period. If a rig capable of drilling a Horizontal Well to its Total Measured Depth has not commenced operations within the Horizontal Rig Move-On Period, or any approved extension(s) thereof, unless 60.00 % in interest of the Consenting Parties agree to abandon the operation, Operator shall re-propose the well in the manner provided in Article VI.B of this agreement. Any party who was a Non-Consenting Party to the original drilling proposal shall be entitled to a new election. Costs of the operation, incurred both before and after such re-proposal, shall be borne as follows:

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

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

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

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

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

#### C. Completion of Wells; Reworking and Plugging Back:

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

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

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

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

**D. Other Operations:**

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of seventy-five thousand Dollars (\$ 75,000.00) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of one hundred thousand Dollars (\$ 100,000.00). Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 60.00 % of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

**E. Abandonment of Wells:**

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

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

Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

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

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

## F. Termination of Operations:

Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing, Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without consent of parties bearing 60.00 % of the costs of such operation; provided, however, that in the event granite or other practically impenetrable substance or condition in the hole is encountered which renders further operations impractical, Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

## G. Taking Production in Kind:

☒ Option No. 1: Gas Balancing Agreement Attached

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

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

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

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

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

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

## ARTICLE VII.

## EXPENDITURES AND LIABILITY OF PARTIES

## A. Liability of Parties:

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

## B. Liens and Security Interests: See Article XVI.O. for additional provisions.

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

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

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

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

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

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

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

## C. Advances:

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

within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

#### D. Defaults and Remedies:

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

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

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

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

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

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

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

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

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

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

#### F. Taxes:

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



and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

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

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

#### ARTICLE VIII.

#### ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

##### A. Surrender of Leases:

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

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

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

##### B. Renewal or Extension of Leases:

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

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

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

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

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

##### C. Acreage or Cash Contributions:

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

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

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

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

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

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

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

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

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

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

### **ARTICLE IX.**

#### **INTERNAL REVENUE CODE ELECTION**

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

### **ARTICLE X.**

#### **CLAIMS AND LAWSUITS**

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed one hundred thousand Dollars (\$ 100,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party



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

#### ARTICLE XI.

##### FORCE MAJEURE

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

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

#### ARTICLE XII.

##### NOTICES

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

#### ARTICLE XIII.

##### TERM OF AGREEMENT

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

- ☒ Option No. 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 180 days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

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

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

#### ARTICLE XIV.

##### COMPLIANCE WITH LAWS AND REGULATIONS

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

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

###### B. Governing Law:

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

###### C. Regulatory Agencies:

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

1 or adjacent to the Contract Area.

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

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

11 **A. Execution:**

12 This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by  
13 such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is  
14 tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract  
15 Area. Operator may, however, by written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any  
16 time prior to the actual spud date of the Initial Well but in no event later than five days prior to the date specified in Article VI.A. for  
17 commencement of the Initial Well, terminate this agreement if Operator in its sole discretion determines that there is insufficient  
18 participation to justify commencement of drilling operations. In the event of such a termination by Operator, all further obligations of the  
19 parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other  
20 costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest. Except as otherwise provided in Article  
21 IV.B, in the event operations on a well shall be commenced without execution of this agreement by all persons listed on Exhibit "A" as  
22 having a current interest in such well, or in the event that subsequent to the commencement of operations on the well previously unknown  
23 or undisclosed persons owning working interests in a well are discovered, or both, the parties executing this agreement agree to one of the  
24 following:

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

34 **B. Successors and Assigns: See Article XVI.N for additional provisions.**

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

38 **C. Counterparts:**

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

40 **D. Severability: See Article XVI.R. for additional provisions.**

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

A. Conflict of Terms:

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

B. Operator's Duty:

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

C. Priority of Operations – Horizontal Wells:

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

- First: Testing, coring or logging;
- Second: Complete drilling operations of all proposed Laterals;
- Third: Extend or Deepen a Lateral;
- Fourth: Kick out and drill an additional Lateral in the same Zone;
- Fifth: Plug Back the well to a Zone above the Zone in which a Lateral was drilled; if there is more than one proposal to Plug Back, the proposal to Plug Back to the next deepest prospective Zone shall have priority over a proposal to Plug Back to a shallower prospective Zone;
- Sixth: Sidetrack; and
- Seventh: Plug and abandon as provided for in Article VI.E

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

D. CONTINUING OBLIGATION. The termination of this agreement or assignment of this agreement to a successor(s) in interest in the JOA 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.

E. RECORDING SUPPLEMENT. Concurrently herewith, the parties are executing a Recording Supplement which shall immediately be filed in the County Clerk's Office of Lea County, New Mexico. Upon termination of this agreement and the satisfactions of all obligations hereunder, 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. In the event the Contract Area of this agreement contracts pursuant to the terms and provisions noted herein, all parties hereto agree that Operator is authorized to execute an amended Memorandum of Operating Agreement to reflect the contraction of the Contract Area.

F. WELL ACCESS. In connection with the drilling of any wells under this agreement, Non-Operator(s) that have elected to participate in the operation(s), its employees and representatives shall have the right at all reasonable times at its own risk and expense to full and complete access to the derrick floor, well location and Contract Area. NON-OPERATORS SHALL HOLD OPERATOR HARMLESS FROM ANY AND ALL LOSS OR DAMAGE OR ANY NATURE OR KIND WHATSOEVER IN ANY WAY RESULTING FROM NON-OPERATOR'S ENTRY UPON, PRESENCE ON OR ACTIVITIES OF ITS RESPECTIVE EMPLOYEES AND REPRESENTATIVES WHILE ON THE CONTRACT AREA INCLUDING WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, BODILY INJURY OR DEATH AT ANY TIME RESULTING THEREFROM AND DAMAGE TO PROPERTY SUSTAINED BY THE NON-OPERATOR AND ITS RESPECTIVE EMPLOYEES AND REPRESENTATIVES.

G. DESIGNATION AND RESPONSIBILITY OF OPERATOR. Fasken Oil and Ranch, Ltd shall be the Operator of the Contract Area and shall conduct and have direct and full control of all operations on the Contract Area as permitted and required by and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed or hold itself out as the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. The specific duty of Operator to Non-Operators shall depend upon the service performed as follows:

- a. In the handling of all monies received from Non-Operators or from other parties for the benefit of the joint account, Operator shall have the duties of a fiduciary. During times when certain owners take their proportionate share of production in kind, Operator shall have no duty of a fiduciary to those owners with respect to marketing production.
- b. In the performance of duties on the Contract Area, the Operator shall act as a reasonable prudent Operator in a good and workmanlike manner with due diligence and dispatch in accordance with good oilfield practice and in accordance with applicable law and regulation. PROVIDED HOWEVER IN NO EVENT SHALL IT HAVE ANY LIABILITY AS OPERATOR TO THE OTHER PARTIES FOR LOSSES SUSTAINED OR LIABILITIES INCURRED EXCEPT SUCH AS MAY RESULT FROM GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

- 1 c. For all other duties and responsibilities hereunder, the Operator shall conduct its activities under  
2 this agreement as a reasonable and prudent Operator in a good and workmanlike manner with  
3 due diligence and dispatch in accordance with good oilfield practice and in compliance with  
4 applicable laws and regulation.  
5
- 6 H. NO FIDUCIARY OBLIGATION. Except as relates to the handling of monies as specified in article V.A,  
7 the parties shall not be considered fiduciaries or to have established a confidential relationship but rather  
8 the parties shall be free to act on an arm's length basis in accordance with their own respective self-  
9 interests.  
10
- 11 I. INFORMATION ON CONTRACT AREA. All information gained by the Operator in the Contract Area  
12 during the term of this agreement shall upon request be shared by the Operator whether or not paid for by  
13 the Non-Operators subject before such sharing to the obligation of the requesting party to pay its  
14 proportionate share therefore. Operator and Non-Operator shall hold all information gathered from the  
15 drilling, development and production of the wells on the Contract Area confidential for the term of this  
16 agreement unless required by law, rule or regulation or, if furnishing information to a third party, Operator  
17 and/or Non-Operators shall have said third party execute a confidentiality agreement prior to sharing any  
18 information.  
19
- 20 J. COMMENCEMENT OF OPERATIONS. For the purpose of Article VI.B.1 and VI.B.2, Operator may  
21 commence activities preliminary to actual drilling operations including without limitation, building  
22 location, roads and pits, delivering materials and equipment to the well site, rigging up a drilling rig, and/or  
23 actual drilling operations, at any time either before or after giving the notice of proposed operations  
24 required by said Articles. Notwithstanding the foregoing, the parties receiving notice of proposed  
25 operations pursuant to Article VI.B.1 and VI.B.2 shall have the full time allowed in which to make their  
26 election(s) and shall be subject to the non-consent provisions thereof to the same extent and in the same  
27 manner as provided in Article VI.B without reference to the time that activities were commenced relative  
28 to giving notice.  
29
- 30 K. OPERATOR'S AUTHORITY TO PERFORM CERTAIN MINISTERIAL ACTS. Non-Operators hereby  
31 irrevocably authorize Operator (including any successor Operator validly serving hereunder) to take the  
32 following actions under or in connection with this agreement, for and on behalf and in the name of Non-  
33 Operators, all without necessity of further action or consent by Non-Operators:  
34 a. Execute, deliver, and record in all appropriate public records any memoranda of this agreement  
35 (including any amendments or supplements hereto), any financing statements, and any and all  
36 other instruments and documents necessary or desirable to evidence, perfect and enforce the terms  
37 of this agreement including without limitation the liens and security interests established under  
38 Article VII.B hereof.  
39 b. Execute and deliver appropriate modifications or updates to Exhibit "A" to this agreement to  
40 reflect subsequently occurring events such as subsequent acquisitions of leases or changes in the  
41 interests of the parties. The grant and existence of such powers shall not alter, diminish or affect  
42 any obligations of Non-Operators under this agreement. The exercise or non-exercise of such  
43 powers shall be at the discretion of Operator whose decisions with respect to exercise or non-  
44 exercise shall be non-actionable and shall be final, binding and conclusive as to all parties.  
45
- 46 L. AMENDMENT OF OPERATING AGREEMENT. Except as provided in Article XVI, this agreement  
47 may be amended only by a written document that is specific in stating that it is an amendatory document  
48 to this agreement and is executed by authorized representatives of each party hereto. All replacement  
49 pages to this agreement which result actions authorized under Article XVI.L, or an amendment as provided  
50 herein, will be clearly marked as replacement pages and set forth the date of such amendment or  
51 replacement.  
52
- 53 M. SEPARATE MEASUREMENT FACILITIES. If any party hereto creates the necessity of separate  
54 measurement by reason of assignments or other mortgages or conveyances within the Contract Area, such  
55 party shall alone bear the entire costs of purchasing, installing, and operating such separate measurement  
56 facility, which facility may be constructed and operated by Operator, at Operator's election, for the  
57 account of said party and shall be subject to all other provisions of this Operating Agreement including,  
58 without limitation, those provisions relating to advances for costs and offsets for unpaid expenses.  
59
- 60 N. BANKRUPTCY - If, following the granting of relief under the Bankruptcy Code to any party hereto as  
61 debtor thereunder, this agreement should be held to be an executory contract within the meaning of 11  
62 U.S.C. Section 3654, then the Operator or, if the Operator is the debtor in bankruptcy, the other parties,  
63 shall be entitled to a determination by the debtor of any trustee of the debtor within thirty (30) days from  
64 the date an order for relief is entered under the Bankruptcy Code, as to the rejection or assumption of this  
65 agreement. In the event of an assumption, Operator or the other parties shall be entitled to adequate  
66 assurances as to future performance of debtor's obligations hereunder and the protection of the interests  
67 of all other parties.  
68
- 69 O. SECURITY. The lien and security interest granted by each Non-Operator to Operator, and by Operator  
70 to the Non-Operators, under Article VII.B. shall extend not only to such party's oil and gas rights in the  
71 Contract Area (which for greater certainty shall include all of each party's leasehold interest, leasehold  
72 estate and/or unleased mineral interest in the Contract Area), the oil and/or gas when extracted, and  
equipment (as mentioned in said Article), but also to all accounts, contract rights, inventory, and general

intangibles constituting a part of, relating to, or arising out of said oil and gas rights, extracted oil and gas, and said equipment or which are otherwise owned or held by any such party in the Contract Area. Further, the lien and security interest of each of said parties shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII.B as being subject to said lien and security interest.

P. COVENANTS RUNNING WITH LAND/EFFECT OF TRANSFER. The terms, covenants, and conditions of this agreement shall be covenants running with the lands covered hereby and leasehold estates therein and with each transfer or assignment of said lands or leasehold estates. Any assignment, conveyance or other transfer of an Oil and Gas Lease or Oil and Gas Interest that is subject to this agreement shall relieve the transferor from liability for the cost and expense of operations attributable to the transferred interest which are conducted after the effective date hereof, provided that the transferor shall remain liable for and shall cause to be paid its proportionate part of the cost and expense of all operations for which it was obligated to pay and were commenced prior to the actual transfer, except costs and expenses arising out of or directly related to a specific operation in which the transferor elected (or was deemed to have elected) not to participate pursuant to Article VI. From and after the effective date of this said assignment, conveyance or other transfer, the transferee shall be deemed to be a party to this agreement, subject to the performance of all obligations attributable to the transferred interest for all periods from and after the effective date of transfer. The Assumption of liability by a transferee, pursuant to the foregoing, shall operate to terminate prospective liability of the transferring party for all periods subsequent to the later of the actual date of transfer or the effective date of transfer, but shall in no event limit, diminish, or affect the direct and continuing liability of the transferring party under this agreement and applicable law for all periods prior to such date.

Q. INDEMNITY. In the performance of duties on the Contract Area, the Operator shall act as a reasonable prudent Operator in a good and workmanlike manner with due diligence and dispatch in accordance with good oilfield practice and in accordance with applicable law and regulation, PROVIDED HOWEVER, EXCEPT FOR OPERATOR'S INTEREST IN THE CONTRACT AREA, NON-OPERATORS SHALL INDEMNIFY, DEFEND AND HOLD HARMLESS OPERATOR FOR, FROM, AND AGAINST ANY AND ALL CLAIMS, DAMAGES, AND LIABILITY OF EVERY KIND AND CHARACTER (INCLUDING ALL COSTS AND EXPENSES, INCLUDING BUT NOT LIMITED TO ATTORNEYS FEES), RESULTING FROM, ARISING OUT OF, OR INCIDENTAL TO OPERATOR'S PERFORMANCE OF DUTIES ON THE CONTRACT AREA EVEN IF SUCH LIABILITIES ARISE FROM OR ARE ATTRIBUTED TO OPERATOR'S NEGLIGENCE THE ONLY LIABILITIES TO WHICH THIS INDEMNITY OBLIGATION DOES NOT APPLY ARE THOSE RESULTING FROM OPERATOR'S GROSS NEGLIGENCE AND INTENTIONAL TROTS FOR WHICH OPERATOR SHALL BE SOLELY RESPONSIBLE.

R. SEVERABILITY. In the event any provision contained herein should be deemed inconsistent with or contrary to any Federal, State, or Municipal law, rule or regulation, said provision shall be deemed to be modified to the extent required to comply with said law, rule or regulation and as so modified said provision in this Agreement shall continue in full force and effect without affecting the enforceability of the remaining provisions, duties and liabilities set forth herein.

S. SALE OF OPERATOR'S INTEREST. In the event of a sale by Fasken Land and Minerals, Ltd. of its interest in the Contract Area, the provisions of Article V.B. shall apply so that there shall be an election of a successor operator pursuant to said provisions of Article V.B.

T. In addition to the provisions of Article III.B. regarding the allocation of excess burdens, the parties to this Agreement expressly agree that if any party contributes any Lease or Interest that, by its terms imposes additional costs on the lessee thereunder based upon stated prohibitions against deductions for post-production charges, such as transportation, storage, processing, and similar costs, the party contributing the Lease or Interest that includes such prohibitions shall assume and alone bear any costs or charges that arise from such prohibition, and such party shall indemnify, defend, and hold the other parties hereto harmless from any and all claims attributable to such additional charges. No party shall ever be responsible to any other party's lessor or royalty owner, and if such other party's lessor or royalty owner should demand and receive any settlement based upon prohibitions against post-production charges, or any other matter increasing the cost of production to lessee, the party contributing the affected Lease shall bear any and all such additional burdens attributable to such higher costs.

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

ATTEST OR WITNESS:

OPERATOR

Fasken Oil and Ranch, Ltd. a Texas limited partnership  
Fasken Management, LLC its general partner

By \_\_\_\_\_

Tommy E. Taylor  
Type or print name

Title Senior Vice President

Date \_\_\_\_\_

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

NON-OPERATORS

Fasken Land and Minerals, Ltd., a Texas Limited  
partnership by Fasken Management, LLC its  
General partner

By \_\_\_\_\_

Tommy E. Taylor  
Type or print name

Title Senior Vice President

Date \_\_\_\_\_

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

Titus Oil & Gas Production, LLC

By \_\_\_\_\_

John P. McBroom  
Type or print name

Title Vice President-Business Development

Date \_\_\_\_\_

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

Trobaugh Properties, a Texas General Partnership

By Georgia K. Trobaugh

Georgia K. Trobaugh, Partner  
Type or print name

Title Managing General Partner

Date October 6, 2021

Tax ID or S.S. No. 75-1990125



ACKNOWLEDGMENTS

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

Individual acknowledgment:

State of TEXAS )  
 ) ss.  
County of MIDLAND )

This instrument was acknowledged before me on \_\_\_\_\_, 2021, by Tommy E. Taylor, Senior Vice President of Fasken Management, LLC, general partner of Fasken Oil and Ranch, Ltd. and Fasken Land and Minerals, Ltd., a Texas limited Partnership, on behalf of said limited liability company and \_\_\_\_\_ by \_\_\_\_\_ limited partnership.

(Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires \_\_\_\_\_

Acknowledgment in representative capacity:

State of TEXAS )  
 ) ss.  
County of TARRANT )

This instrument was acknowledged before me on \_\_\_\_\_, 2021  
\_\_\_\_\_ by John P. McBroom as  
Vice President-Business Development of Titus Oil & Gas Production, LLC

(Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires \_\_\_\_\_

Acknowledgment in representative capacity:

State of TEXAS )  
 ) ss.  
County of MIDLAND )

This instrument was acknowledged before me on October 6, 2021  
\_\_\_\_\_ by Georgia K. Trobaugh as  
Partner Managing General Partner of Trobaugh Properties, a Texas General Partnership

(Seal, if any)

Christine A. Thomas  
\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires 7/2/22



**MODEL FORM RECORDING SUPPLEMENT TO  
OPERATING AGREEMENT AND FINANCING STATEMENT**

THIS AGREEMENT, entered into by and between Fasken Oil and Ranch, Ltd., hereinafter referred to as "Operator," and the signatory party or parties other than Operator, hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

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

WHEREAS, the parties hereto have executed an Operating Agreement dated February 1, 2021 (herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

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

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

1. This agreement supplements the Operating Agreement, which Agreement in its entirety is incorporated herein by reference, and all terms used herein shall have the meaning ascribed to them in the Operating Agreement.
2. The parties do hereby agree that:
  - A. The Oil and Gas Leases and/or Oil and Gas Interests of the parties comprising the Contract Area shall be subject to and burdened with the terms and provisions of this agreement and the Operating Agreement, and the parties do hereby commit such Leases and Interests to the performance thereof.
  - B. The exploration and development of the Contract Area for Oil and Gas shall be governed by the terms and provisions of the Operating Agreement, as supplemented by this agreement.
  - C. All costs and liabilities incurred in operations under this agreement and the Operating Agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties hereto, as provided in the Operating Agreement.
  - D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on Exhibit "A," all production of Oil and Gas from the Contract Area shall be owned by the parties as provided in the Operating Agreement; provided nothing contained in this agreement shall be deemed an assignment or cross-assignment of interests covered hereby.
  - E. Each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area as provided in the Operating Agreement.
  - F. An overriding royalty, production payment, net profits interest or other burden payable out of production hereafter created, assignments of production given as security for the payment of money and those overriding royalties, production payments and other burdens payable out of production heretofore created and defined as Subsequently Created Interests in the Operating Agreement shall be (i) borne solely by the party whose interest is burdened therewith, (ii) subject to suspension if a party is required to assign or relinquish to another party an interest which is subject to such burden, and (iii) subject to the lien and security interest hereinafter provided if the party subject to such burden fails to pay its share of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the times and manner provided by the Operating Agreement.
  - G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers.

This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective heirs, devisees, legal representatives, and assigns, and the terms hereof shall be deemed to run with the leases or interests included within the lease Contract Area.
  - H. The parties shall have the right to acquire an interest in renewal, extension and replacement leases, leases proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.



- I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or loss of title, each party's right to propose operations, obligations with respect to participation in operations on the Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial obligations shall be as provided in the Operating Agreement.
  - J. Each party's interest under this agreement and under the Operating Agreement shall be subject to relinquishment for its failure to participate in subsequent operations and each party's share of production and costs shall be reallocated on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.
  - K. All other matters with respect to exploration and development of the Contract Area and the ownership and transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of the Operating Agreement.
3. The parties hereby grant reciprocal liens and security interests as follows:
- A. Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this agreement and the Operating Agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid under this agreement and the Operating Agreement, the assignment or relinquishment of interest in Oil and Gas Leases as required under this agreement and the Operating Agreement, and the proper performance of operations under this agreement and the Operating Agreement. Such lien and security interest granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this agreement and the Operating Agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from the sale of production at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.
  - B. Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement and the Operating Agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement and the Operating Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by the Operating Agreement and this instrument as to all obligations attributable to such interest under this agreement and the Operating Agreement whether or not such obligations arise before or after such interest is acquired.
  - C. To the extent that the parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any party in the payment of its share of expenses, interest or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by such party, plus interest, has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.
  - D. If any party fails to pay its share of expenses within one hundred-twenty (120) days after rendition of a statement therefor by Operator the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in this paragraph 3 and in the Operating Agreement, and each paying party may independently pursue any remedy available under the Operating Agreement or otherwise.
  - E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement or the Operating Agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted hereunder or under the Operating Agreement, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.
  - F. The lien and security interest granted in this paragraph 3 supplements identical rights granted under the Operating Agreement.
  - G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due under this agreement and the Operating Agreement for services performed or materials supplied by Operator.
  - H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Recording Supplement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the above-described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial Code, or other state laws.

4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this agreement and the Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon the request of Operator, if Operator has complied with all of its financial obligations.
5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or other disposition shall be made by any party of any interest in the Leases or Interests subject hereto except as expressly permitted under the Operating Agreement and, if permitted, shall be made expressly subject to this agreement and the Operating Agreement and without prejudice to the rights of the other parties. If the transfer is permitted, the assignee of an ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party under this agreement or the Operating Agreement with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under this agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.
6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the Operating Agreement, then, as between the parties, the terms and provisions of the Operating Agreement shall control.
7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. In the event that any provision herein is illegal or unenforceable, the remaining provisions shall not be affected, and shall be enforced as if the illegal or unenforceable provision did not appear herein.
8. Other provisions. See Joint Operating Agreement.

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

IN WITNESS WHEREOF, this agreement shall be effective as of the \_\_\_\_\_ day of \_\_\_\_\_

**OPERATOR**

ATTEST OR WITNESS

Fasken Oil and Ranch, Ltd. a Texas limited partnership  
By Fasken Management, LLC its general partner

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

Tommy E. Taylor

Title: Senior Vice President

Date: \_\_\_\_\_

Address: 6101 Holiday Hill Road, Midland, TX 79707

**NON-OPERATORS**

ATTEST OR WITNESS

Fasken Land and Minerals, Ltd. a Texas limited  
Partnership by Fasken Management, LLC its general partner

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

Tommy E. Taylor

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Address: 6101 Holiday Hill Road, Midland, TX 79707

ATTEST OR WITNESS

Titus Oil & Gas Production, LLC

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

John P. McBroom

Title: Vice President-Business Development

Date: \_\_\_\_\_

Address: \_\_\_\_\_

ATTEST OR WITNESS

Trobaugh Properties, a Texas General Partnership

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

Georgia K. Trobaugh

Title: Partner

Date: Oct 6, 2001

Address: 3300 N. A St. Building 4-102, Midland, TX 79705

ACKNOWLEDGMENTS

NOTE:

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

Individual Acknowledgment

State of \_\_\_\_\_ §

§ ss.

County of \_\_\_\_\_ §

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

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

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

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

Acknowledgment in Representative Capacity

State of Texas \_\_\_\_\_ §

§ ss.

County of Tarrant \_\_\_\_\_ §

This instrument was acknowledged before me on \_\_\_\_\_  
By John P. McBroom \_\_\_\_\_ as Vice President-Business Development \_\_\_\_\_ of  
Tinus Oil & Gas Production, LLC \_\_\_\_\_

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

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

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

Acknowledgment in Representative Capacity

- 5 -

State of Texas \_\_\_\_\_ §

§ ss.

County of Midland \_\_\_\_\_ §

This instrument was acknowledged before me on \_\_\_\_\_  
by Tommy E. Taylor Senior Vice President of Fasken Management, LLC general partner of Fasken Oil and Ranch, Ltd. and Fasken Land and Minerals, Ltd., both Texas limited partnerships on behalf of limited liability companies and limited partnership.

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

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

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

Acknowledgment in Representative Capacity

State of Texas \_\_\_\_\_ §

§ ss.

County of Midland \_\_\_\_\_ §

This instrument was acknowledged before me on October 6, 2021  
By Georgia K. Trobaugh \_\_\_\_\_ as Partner Managing General Partner of  
Trobaugh Properties, a Texas General Partnership

(Seal, if any)



Christine A. Thomas

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

My commission expires: 7/2/22

# EXHIBIT 3



**Lynda James**  
General Manager  
Director of Finance and  
Personnel and Controller

**Tommy E. Taylor**  
Assistant General Manager  
Director of Oil and Gas  
Development

**Charles F. Hedges, Jr.**  
Director of Real Estate  
Development and  
General Counsel

**Sean N. McDaniel**  
Director of Investments

**Shawn R. Hogg**  
Surface Properties Manager

**Taylor Billingsley**  
Oil and Gas Operations  
Manager

**Sally M. Kvasnicka**  
Land Manager

**Stonnie L. Pollock**  
Exploration Manager

**Sheila Simmons**  
Marketing and Production  
Accounting Manager

**Travis White**  
Engineering Manager

**CERTIFIED MAIL NO.: 9589 0710 5270 0431 6003 33**

January 21, 2025

Waterloo Resources LLC  
WR Non-Op, LLC  
200 N. Loraine Street, Suite 1260  
Midland, TX 79701  
Attn: Walker F. Netherton

REF: Thai Curry 22-27 Fed Com. No. 223H, No. 224H, No. 433H  
and No. 434H (the "Wells")  
E/2 of Section 22, Township 20 South, Range 32 East  
NE/4 and N/2 SE/4 of Section 27, Township 20 South, Range 32 East  
Lea County, New Mexico

To Whom It May Concern:

Fasken Oil and Ranch, Ltd. is the operator on behalf of Fasken Land and Minerals, Ltd. ("Fasken"). Fasken, as operator, hereby proposes the drilling and completion of the following horizontal wells with productive laterals located on the E/2 of Section 22, NE/4 and N/2 SE/4 of Sec. 27-T20S-R32E (collectively, the "Operation") as follows:

**Thai Curry 22-27 Fed Com No. 223H** as a horizontal well in a legal location in the W/2 E/2 of Section 22, W/2 NE/4 and NW/4 SE/4 of Section 27-T20S-R32E. The estimated SHL will be 376' FNL and 593' FEL in Section 22 and an estimated BHL will be 1,330' FSL and 2,310' FEL in Sec. 27, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 9,891' and a MD of approximately 19,131' to test the 2<sup>nd</sup> Bone Spring formation. The FTP of this well is estimated at 100' FNL and 2,310' FEL of Sec. 22 and the LTP of this well is estimated at 1,420' FSL and 2,310' FEL of Section 27. The total cost of the Operation is estimated to be \$10,409,600 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").

**Thai Curry 22-27 Fed Com No. 224H** as a horizontal well in a legal location in the E/2 E/2 of Section 22, E/2 NE/4 and NE/4 SE/4 of Section 27-T20S-R32E. The estimated SHL will be 376' FNL and 533' FEL in Section 22 and an estimated BHL will be 1,330' FSL and 1,005' FEL in Sec. 27, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 9,901' and a MD of approximately 19,141' to test the 2<sup>nd</sup> Bone Spring formation. The FTP of this well is estimated at 100' FNL and 1,006' FEL of Sec. 22 and the LTP of this well is estimated at 1,420' FSL and 1,005' FEL of Section 27. The total cost of the Operation is estimated to be \$10,409,600 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").



**Thai Curry 22-27 Fed Com No. 433H** as a horizontal well in a legal location in the W/2 E/2 of Section 22, W/2 NE/4 and NW/4 SE/4 of Section 27-T20S-R32E. The estimated SHL will be 226' FNL and 593' FEL in Section 22 and an estimated BHL will be 1,330' FSL and 2,310' FEL in Sec. 27, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 11,201' and a MD of approximately 20,441' to test the Wolfcamp formation. The FTP of this well is estimated at 100' FNL and 2,310' FEL of Sec. 22 and the LTP of this well is estimated at 1,420' FSL and 2,310' FEL of Section 27. The total cost of the Operation is estimated to be \$10,590,900 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").

**Thai Curry 22-27 Fed Com No. 434H** as a horizontal well in a legal location in the E/2 E/2 of Section 22, E/2 NE/4 and NE/4 SE/4 of Section 27-T20S-R32E. The estimated SHL will be 226' FNL and 563' FEL in Section 22 and an estimated BHL will be 1,330' FSL and 1,005' FEL in Sec. 27, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 11,214' and a MD of approximately 20,454' to test the Wolfcamp formation. The FTP of this well is estimated at 100' FNL and 1,006' FEL of Sec. 22 and the LTP of this well is estimated at 1,420' FSL and 1,005' FEL of Section 27. The total cost of the Operation is estimated to be \$10,590,900 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").

Fasken reserves the right to modify the locations and drilling plans described above in order to address topography, cultural or environmental concerns, among other reasons. Fasken will advise you of such modifications.

Fasken is proposing the Wells to be drilled under the terms of a modified 1989 AAPL Horizontal Form of Operating Agreement which is enclosed for your review and approval. The proposed operating agreement will cover the E/2 of Sections 22, NE/4 and N/2 SE/4 of 27-T20S-R32E, Lea County, New Mexico. The proposed operating agreement contains the following general provisions:

- 100%/300% Non-Consenting Penalty,
- \$8,000/\$800 Drilling and Producing rate,
- Fasken Oil and Ranch, Ltd. named as Operator,
- The Exhibit "A" to the JOA will be completed when the ownership is known.

Please indicate your participation election in the spaces provided below, sign and return this letter, the signed OA, along with the AFE and a copy of your geologic well requirements if you would like to participate.

If you do not wish to participate in the Operation, Fasken would like to discuss acquiring your interest in the referenced acreage.

In the interest of time, if we do not reach an agreement within 30 days of receipt of this letter, Fasken will apply to the New Mexico Oil Conservation Division for compulsory pooling of your interest into a spacing unit for the proposed wells.

If you have any questions or concerns, please feel free to reach out to me at (432) 687-1777 or by e-mail at [mwallace@forl.com](mailto:mwallace@forl.com).

Thanks,



Mike Wallace  
Landman

***Waterloo Resources, LLC/WR Non-Op, LLC***

*Thai Curry 22-27 Fed Com No. 223H*

\_\_\_\_\_ *Waterloo Resources, LLC/WR Non-Op, LLC* elects to participate in the proposed Operation

\_\_\_\_\_ *Waterloo Resources, LLC/WR Non-Op, LLC* elects NOT to participate in the proposed Operation.

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

E-mail: \_\_\_\_\_

***Waterloo Resources, LLC/WR Non-Op, LLC***

*Thai Curry 22-27 Fed Com No. 224H*

\_\_\_\_\_ *Waterloo Resources, LLC/WR Non-Op, LLC* elects to participate in the proposed Operation

\_\_\_\_\_ *Waterloo Resources, LLC/WR Non-Op, LLC* elects NOT to participate in the proposed Operation.

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

E-mail: \_\_\_\_\_



***Waterloo Resources, LLC/WR Non-Op, LLC***

*Thai Curry 22-27 Fed Com No. 433H*

\_\_\_\_\_ *Waterloo Resources, LLC/WR Non-Op, LLC* elects to participate in the proposed Operation

\_\_\_\_\_ *Waterloo Resources, LLC/WR Non-Op, LLC* elects NOT to participate in the proposed Operation.

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

E-mail: \_\_\_\_\_

***Waterloo Resources, LLC/WR Non-Op, LLC***

*Thai Curry 22-27 Fed Com No. 434H*

\_\_\_\_\_ *Waterloo Resources, LLC/WR Non-Op, LLC* elects to participate in the proposed Operation

\_\_\_\_\_ *Waterloo Resources, LLC/WR Non-Op, LLC* elects NOT to participate in the proposed Operation.

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

E-mail: \_\_\_\_\_

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

**MODEL FORM OPERATING AGREEMENT  
HORIZONTAL MODIFICATIONS**

**OPERATING AGREEMENT**

**DATED**

December 1 , 2024 ,  
Year

**OPERATOR** Fasken Oil and Ranch, Ltd.

**CONTRACT AREA** E/2 of Section 22, NE/4 and N/2SE/4 of Section 27, Township 20 South,

Range 32 East

**COUNTY OF** Lea County , **STATE OF** New Mexico

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

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## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Fasken Oil and Ranch, Ltd. hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

## WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I  
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

R. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. When used in connection with a Horizontal Well, the term "Plug Back" shall mean an operation to test or Complete the well at a stratigraphically shallower Zone in which the operation has been or is being Completed and which is not in an existing Lateral.

S. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.

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

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

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

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



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

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

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

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

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

## ARTICLE II.

### EXHIBITS

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

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

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

X B. Exhibit "B," Form of Lease.

X C. Exhibit "C," Accounting Procedure.

X D. Exhibit "D," Insurance.

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

X H. Other: Recording Supplement

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

## ARTICLE III.

### INTERESTS OF PARTIES

#### A. Oil and Gas Interests:

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

#### B. Interests of Parties in Costs and Production: See Article XVI. T for additional provisions.

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

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

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

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

#### C. Subsequently Created Interests:

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

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



# ARTICLE IV. TITLES

## A. Title Examination:

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

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

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

## B. Loss or Failure of Title:

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

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

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

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

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

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

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

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

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

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



acreage basis, up to the amount of unrecovered costs;

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

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

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

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

## ARTICLE V.

### OPERATOR

A. **Designation and Responsibilities of Operator:** See Article XVI.G and K. for additional provisions.

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

B. **Resignation or Removal of Operator and Selection of Successor:** See Article XVI.S. for additional provisions.

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

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

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

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

C. **Employees and Contractors:**

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



## D. Rights and Duties of Operator: See Article. G., H. and K. for additional provisions.

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

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

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

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

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

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

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

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

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

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

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

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

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

## ARTICLE VI DRILLING AND DEVELOPMENT

## A. Initial Well:

On or before the 31st day of December, 2025, Operator shall commence the drilling of the Initial Well at the following location (if a Horizontal Well, surface and Terminus/Terminal of the Lateral/s)

SHL in the NE/4 of Section 22, T20S-R32E and BHL in the N/2 of SE/4 of Section 27, T20S-R32E, and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to a sufficient depth to penetrate and produce from the Bone Spring Formation.

and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to



The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article V.L.C.1. as to participation in Completion operations and Article V.L.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 as to a Vertical Well), specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation as outlined in an AFE. A proposal for the drilling of or other operations for a Horizontal Well shall: (1) state that the proposed operation is a Horizontal Well operation; (2) include drilling and Completion plans specifying the proposed: (i) Total Measured Depth(s), (ii) surface hole location(s), (iii) Terminus/Termini, (iv) Displacement(s), (v) utilization and scheduling of rig(s) (Spudder Rig, drilling and Completion), and (vi) stimulation operations, staging and sizing; and (3) include estimated drilling and Completion costs as set forth in an AFE. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article V.L.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 V.L.B.4. in the event of a Deepening operation and in accordance with Article V.L.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 V.L.B.1. or V.L.C.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article V.L.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties' interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is not carried by a Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a drilling rig is on location, notice may be given by telephone, and the time permitted for such a response shall not exceed a total of forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is less than 100% participation and shall notify all parties of such decision within ten (10) days, or within twenty-four (24) hours if a drilling rig is on location, following expiration of the applicable response period. If 100% subscription to the proposed operation is obtained, the proposing party shall promptly notify the Consenting Parties of their proportionate interests in the operation and the party serving as Operator shall commence such operation within the period provided in Article V.L.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 V.L.B.6. and V.L.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) 100.00 % 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) 300.00 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

(c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment 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 300.00 % of that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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

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

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

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

3. Stand-By Costs. When a well which has been drilled or Deepened has reached its authorized depth and all tests have been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise terminated pursuant to



Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6. to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

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

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

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

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

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

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

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

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

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

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

This Article VI.B.5, "Sidetracking," shall not apply to operations in an existing Lateral of a Horizontal Well.

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



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

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

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

#### 9. Spudder Rigs

(a) Within Approved Horizontal Well proposals (i.e. proposals which include an approved APE). If an approved Horizontal Well proposal provides that a Spudder Rig shall be utilized, and Operator desires to extend the proposed Horizontal Rig Move-On Period, Operator may obtain one or more extensions, each for a period of time not to exceed 30 days only upon notice and the affirmative vote of not less than 60.00 % in interest of the Consenting Parties to the drilling of the proposed well.

(b) Not Within Approved Horizontal Well proposals. If an approved Horizontal Well proposal does not provide that a Spudder Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to the Drilling Parties (which notice shall include a Horizontal Rig Move-On Period) and the affirmative vote of not less than 60.00 % in interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On Period may be requested by Operator in the same manner as provided in Article VLB 9.(a) immediately above.

(c) Failure to meet Horizontal Rig Move-On Period. If a rig capable of drilling a Horizontal Well to its Total Measured Depth has not commenced operations within the Horizontal Rig Move-On Period, or any approved extension(s) thereof, unless 60.00 % in interest of the Consenting Parties agree to abandon the operation, Operator shall re-propose the well in the manner provided in Article VLB of this agreement. Any party who was a Non-Consenting Party to the original drilling proposal shall be entitled to a new election. Costs of the operation, incurred both before and after such re-proposal, shall be borne as follows:

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

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

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

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

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

#### C. Completion of Wells; Reworking and Plugging Back:

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

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

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

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



**D. Other Operations:**

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of seventy-five thousand Dollars (\$ 75,000.00) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of one hundred thousand Dollars (\$ 100,000.00). Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 60.00% of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

**E. Abandonment of Wells:**

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

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

Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

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

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



**F. Termination of Operations:**

Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing, Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without consent of parties bearing 60.00 % of the costs of such operation; provided, however, that in the event granite or other practically impenetrable substance or condition in the hole is encountered which renders further operations impractical, Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

**G. Taking Production in Kind:**

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

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

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

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

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

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

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



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

**A. Liability of Parties:**

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

**B. Liens and Security Interests: See Article XVI.C. for additional provisions.**

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

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

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

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

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

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

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

**C. Advances:**

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



within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

#### D. Defaults and Remedies:

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

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

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

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

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

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

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

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

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

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

#### F. Taxes:

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



and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

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

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

#### ARTICLE VIII.

#### ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

##### A. Surrender of Leases:

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

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

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

##### B. Renewal or Extension of Leases:

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

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

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

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

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

##### C. Acreage or Cash Contributions:

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



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

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

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

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

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

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

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

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

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

### **ARTICLE IX.**

#### **INTERNAL REVENUE CODE ELECTION**

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

### **ARTICLE X.**

#### **CLAIMS AND LAWSUITS**

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed one hundred thousand Dollars (\$ 100,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party



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

#### ARTICLE XI.

##### FORCE MAJEURE

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

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

#### ARTICLE XII.

##### NOTICES

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

#### ARTICLE XIII.

##### TERM OF AGREEMENT

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

- ☒ **Option No. 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 180 days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

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

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

#### ARTICLE XIV.

##### COMPLIANCE WITH LAWS AND REGULATIONS

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

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

###### B. Governing Law:

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

###### C. Regulatory Agencies:

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



or adjacent to the Contract Area.

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

#### ARTICLE XV. MISCELLANEOUS

##### A. Execution:

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

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

##### B. Successors and Assigns: See Article XVI.N for additional provisions.

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

##### C. Counterparts:

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

##### D. Severability: See Article XVI.R. for additional provisions.

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



**ARTICLE XVI  
OTHER PROVISIONS**

**A. Conflict of Terms:**

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

**B. Operator's Duty:**

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

**C. Priority of Operations - Horizontal Wells:**

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

- First: Testing, coring or logging;
- Second: Complete drilling operations of all proposed Laterals;
- Third: Extend or Deepen a Lateral;
- Fourth: Kick out and drill an additional Lateral in the same Zone;
- Fifth: Plug Back the well to a Zone above the Zone in which a Lateral was drilled; if there is more than one proposal to Plug Back, the proposal to Plug Back to the next deepest prospective Zone shall have priority over a proposal to Plug Back to a shallower prospective Zone;
- Sixth: Sidetrack; and
- Seventh: Plug and abandon as provided for in Article VLE

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

**D. CONTINUING OBLIGATION.** The termination of this agreement or assignment of this agreement to a successor(s) in interest in the JOA 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.

**E. RECORDING SUPPLEMENT.** Concurrently herewith, the parties are executing a Recording Supplement which shall immediately be filed in the County Clerk's Office of Lea County, New Mexico. Upon termination of this agreement and the satisfactions of all obligations hereunder, 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. In the event the Contract Area of this agreement contracts pursuant to the terms and provisions noted herein, all parties hereto agree that Operator is authorized to execute an amended Memorandum of Operating Agreement to reflect the contraction of the Contract Area.

**F. WELL ACCESS.** In connection with the drilling of any wells under this agreement, Non-Operator(s) that have elected to participate in the operation(s), its employees and representatives shall have the right at all reasonable times at its own risk and expense to full and complete access to the derrick floor, well location and Contract Area. NON-OPERATORS SHALL HOLD OPERATOR HARMLESS FROM ANY AND ALL LOSS OR DAMAGE OR ANY NATURE OR KIND WHATSOEVER IN ANY WAY RESULTING FROM NON-OPERATOR'S ENTRY UPON, PRESENCE ON OR ACTIVITIES OF ITS RESPECTIVE EMPLOYEES AND REPRESENTATIVES WHILE ON THE CONTRACT AREA INCLUDING WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, BODILY INJURY OR DEATH AT ANY TIME RESULTING THEREFROM AND DAMAGE TO PROPERTY SUSTAINED BY THE NON-OPERATOR AND ITS RESPECTIVE EMPLOYEES AND REPRESENTATIVES.

**G. DESIGNATION AND RESPONSIBILITY OF OPERATOR.** Fasken Oil and Ranch, Ltd shall be the Operator of the Contract Area and shall conduct and have direct and full control of all operations on the Contract Area as permitted and required by and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed or hold itself out as the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. The specific duty of Operator to Non-Operators shall depend upon the service performed as follows:

- a. In the handling of all monies received from Non-Operators or from other parties for the benefit of the joint account, Operator shall have the duties of a fiduciary. During times when certain owners take their proportionate share of production in kind, Operator shall have no duty of a fiduciary to those owners with respect to marketing production.
- b. In the performance of duties on the Contract Area, the Operator shall act as a reasonable prudent Operator in a good and workmanlike manner with due diligence and dispatch in accordance with good oilfield practice and in accordance with applicable law and regulation. PROVIDED HOWEVER IN NO EVENT SHALL IT HAVE ANY LIABILITY AS OPERATOR TO THE OTHER PARTIES FOR LOSSES SUSTAINED OR LIABILITIES INCURRED EXCEPT SUCH AS MAY RESULT FROM GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.



- 1 c. For all other duties and responsibilities hereunder, the Operator shall conduct its activities under  
2 this agreement as a reasonable and prudent Operator in a good and workmanlike manner with  
3 due diligence and dispatch in accordance with good oilfield practice and in compliance with  
4 applicable laws and regulation.  
5
- 6 H. NO FIDUCIARY OBLIGATION. Except as relates to the handling of monies as specified in article V.A,  
7 the parties shall not be considered fiduciaries or to have established a confidential relationship but rather  
8 the parties shall be free to act on an arm's length basis in accordance with their own respective self-  
9 interests.  
10
- 11 I. INFORMATION ON CONTRACT AREA. All information gained by the Operator in the Contract Area  
12 during the term of this agreement shall upon request be shared by the Operator whether or not paid for by  
13 the Non-Operators subject before such sharing to the obligation of the requesting party to pay its  
14 proportionate share therefore. Operator and Non-Operator shall hold all information gathered from the  
15 drilling, development and production of the wells on the Contract Area confidential for the term of this  
16 agreement unless required by law, rule or regulation or, if furnishing information to a third party, Operator  
17 and/or Non-Operators shall have said third party execute a confidentiality agreement prior to sharing any  
18 information.  
19
- 20 J. COMMENCEMENT OF OPERATIONS. For the purpose of Article VI.B.1 and VI.B.2, Operator may  
21 commence activities preliminary to actual drilling operations including without limitation, building  
22 location, roads and pits, delivering materials and equipment to the well site, rigging up a drilling rig, and/or  
23 actual drilling operations, at any time either before or after giving the notice of proposed operations  
24 required by said Articles. Notwithstanding the foregoing, the parties receiving notice of proposed  
25 operations pursuant to Article VI.B.1 and VI.B.2 shall have the full time allowed in which to make their  
26 election(s) and shall be subject to the non-consent provisions thereof to the same extent and in the same  
27 manner as provided in Article VI.B without reference to the time that activities were commenced relative  
28 to giving notice.  
29
- 30 K. OPERATOR'S AUTHORITY TO PERFORM CERTAIN MINISTERIAL ACTS. Non-Operators hereby  
31 irrevocably authorize Operator (including any successor Operator validly serving hereunder) to take the  
32 following actions under or in connection with this agreement, for and on behalf and in the name of Non-  
33 Operators, all without necessity of further action or consent by Non-Operators:  
34 a. Execute, deliver, and record in all appropriate public records any memoranda of this agreement  
35 (including any amendments or supplements hereto), any financing statements, and any and all  
36 other instruments and documents necessary or desirable to evidence, perfect and enforce the terms  
37 of this agreement including without limitation the liens and security interests established under  
38 Article VII.B hereof.  
39 b. Execute and deliver appropriate modifications or updates to Exhibit "A" to this agreement to  
40 reflect subsequently occurring events such as subsequent acquisitions of leases or changes in the  
41 interests of the parties. The grant and existence of such powers shall not alter, diminish or affect  
42 any obligations of Non-Operators under this agreement. The exercise or non-exercise of such  
43 powers shall be at the discretion of Operator whose decisions with respect to exercise or non-  
44 exercise shall be non-actionable and shall be final, binding and conclusive as to all parties.  
45
- 46 L. AMENDMENT OF OPERATING AGREEMENT. Except as provided in Article XVI, this agreement  
47 may be amended only by a written document that is specific in stating that it is an amendatory document  
48 to this agreement and is executed by authorized representatives of each party hereto. All replacement  
49 pages to this agreement which result actions authorized under Article XVII.L, or an amendment as provided  
50 herein, will be clearly marked as replacement pages and set forth the date of such amendment or  
51 replacement.  
52
- 53 M. SEPARATE MEASUREMENT FACILITIES. If any party hereto creates the necessity of separate  
54 measurement by reason of assignments or other mortgages or conveyances within the Contract Area, such  
55 party shall alone bear the entire costs of purchasing, installing, and operating such separate measurement  
56 facility, which facility may be constructed and operated by Operator, at Operator's election, for the  
57 account of said party and shall be subject to all other provisions of this Operating Agreement including,  
58 without limitation, those provisions relating to advances for costs and offsets for unpaid expenses.  
59
- 60 N. BANKRUPTCY - If, following the granting of relief under the Bankruptcy Code to any party hereto as  
61 debtor thereunder, this agreement should be held to be an executory contract within the meaning of 11  
62 U.S.C. Section 3654, then the Operator or, if the Operator is the debtor in bankruptcy, the other parties,  
63 shall be entitled to a determination by the debtor or any trustee of the debtor within thirty (30) days from  
64 the date an order for relief is entered under the Bankruptcy Code, as to the rejection or assumption of this  
65 agreement. In the event of an assumption, Operator or the other parties shall be entitled to adequate  
66 assurances as to future performance of debtor's obligations hereunder and the protection of the interests  
67 of all other parties.  
68
- 69 O. SECURITY. The lien and security interest granted by each Non-Operator to Operator, and by Operator  
70 to the Non-Operators, under Article VII.B. shall extend not only to such party's oil and gas rights in the  
71 Contract Area (which for greater certainty shall include all of each party's leasehold interest, leasehold  
72 estate and/or unleased mineral interest in the Contract Area), the oil and/or gas when extracted, and  
equipment (as mentioned in said Article), but also to all accounts, contract rights, inventory, and general



1 intangibles constituting a part of, relating to, or arising out of said oil and gas rights, extracted oil and gas,  
 2 and said equipment or which are otherwise owned or held by any such party in the Contract Area. Further,  
 3 the lien and security interest of each of said parties shall extend to all proceeds and products of all of the  
 4 property and collateral described in this paragraph and in Article VII.B as being subject to said lien and  
 5 security interest.

- 6
- 7 P. COVENANTS RUNNING WITH LAND/EFFECT OF TRANSFER. The terms, covenants, and  
 8 conditions of this agreement shall be covenants running with the lands covered hereby and leasehold  
 9 estates therein and with each transfer or assignment of said lands or leasehold estates. Any assignment,  
 10 conveyance or other transfer of an Oil and Gas Lease or Oil and Gas Interest that is subject to this  
 11 agreement shall relieve the transferor from liability for the cost and expense of operations attributable to  
 12 the transferred interest which are conducted after the effective date hereof, provided that the transferor  
 13 shall remain liable for and shall cause to be paid its proportionate part of the cost and expense of all  
 14 operations for which it was obligated to pay and were commenced prior to the actual transfer, except costs  
 15 and expenses arising out of or directly related to a specific operation in which the transferor elected (or  
 16 was deemed to have elected) not to participate pursuant to Article VI. From and after the effective date of  
 17 this said assignment, conveyance or other transfer, the transferee shall be deemed to be a party to this  
 18 agreement, subject to the performance of all obligations attributable to the transferred interest for all  
 19 periods from and after the effective date of transfer. The Assumption of liability by a transferee, pursuant  
 20 to the foregoing, shall operate to terminate prospective liability of the transferring party for all periods  
 21 subsequent to the later of the actual date of transfer or the effective date of transfer, but shall in no event  
 22 limit, diminish, or affect the direct and continuing liability of the transferring party under this agreement  
 23 and applicable law for all periods prior to such date.
- 24
- 25 Q. INDEMNITY. In the performance of duties on the Contract Area, the Operator shall act as a reasonable  
 26 prudent Operator in a good and workmanlike manner with due diligence and dispatch in accordance with  
 27 good oilfield practice and in accordance with applicable law and regulation, PROVIDED HOWEVER,  
 28 EXCEPT FOR OPERATOR'S INTEREST IN THE CONTRACT AREA, NON-OPERATORS SHALL  
 29 INDEMNIFY, DEFEND AND HOLD HARMLESS OPERATOR FOR, FROM, AND AGAINST ANY  
 30 AND ALL CLAIMS, DAMAGES, AND LIABILITY OF EVERY KIND AND CHARACTER  
 31 (INCLUDING ALL COSTS AND EXPENSES, INCLUDING BUT NOT LIMITED TO  
 32 ATTORNEYS FEES), RESULTING FROM, ARISING OUT OF, OR INCIDENTAL TO OPERATOR'S  
 33 PERFORMANCE OF DUTIES ON THE CONTRACT AREA EVEN IF SUCH LIABILITIES ARISE  
 34 FROM OR ARE ATTRIBUTED TO OPERATOR'S NEGLIGENCE THE ONLY LIABILITIES TO  
 35 WHICH THIS INDEMNITY OBLIGATION DOES NOT APPLY ARE THOSE RESULTING FROM  
 36 OPERATOR'S GROSS NEGLIGENCE AND INTENTIONAL TROTS FOR WHICH OPERATOR  
 37 SHALL BE SOLELY RESPONSIBLE.
- 38
- 39 R. SEVERABILITY. In the event any provision contained herein should be deemed inconsistent with or  
 40 contrary to any Federal, State, or Municipal law, rule or regulation, said provision shall be deemed to be  
 41 modified to the extent required to comply with said law, rule or regulation and as so modified said  
 42 provision in this Agreement shall continue in full force and effect without affecting the enforceability of  
 43 the remaining provisions, duties and liabilities set forth herein.
- 44
- 45 S. SALE OF OPERATOR'S INTEREST. In the event of a sale by Fasken Land and Minerals, Ltd. of its  
 46 interest in the Contract Area, the provisions of Article V.B. shall apply so that there shall be an election of  
 47 a successor operator pursuant to said provisions of Article V.B.
- 48
- 49 T. In addition to the provisions of Article III.B. regarding the allocation of excess burdens, the parties to this  
 50 Agreement expressly agree that if any party contributes any Lease or Interest that, by its terms imposes  
 51 additional costs on the lessee thereunder based upon stated prohibitions against deductions for post-  
 52 production charges, such as transportation, storage, processing, and similar costs, the party contributing  
 53 the Lease or Interest that includes such prohibitions shall assume and alone bear any costs or charges that  
 54 arise from such prohibition, and such party shall indemnify, defend, and hold the other parties hereto  
 55 harmless from any and all claims attributable to such additional charges. No party shall ever be responsible  
 56 to any other party's lessor or royalty owner, and if such other party's lessor or royalty owner should  
 57 demand and receive any settlement based upon prohibitions against post-production charges, or any other  
 58 matter increasing the cost of production to lessee, the party contributing the affected Lease shall bear any  
 59 and all such additional burdens attributable to such higher costs.
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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989 (Horz.)

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

ATTEST OR WITNESS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

OPERATOR

Fasken Oil and Ranch, Ltd. a Texas limited partnership  
Fasken Management, LLC its general partner

By \_\_\_\_\_

Tommy E. Taylor  
Type or print name

Title Senior Vice President

Date \_\_\_\_\_

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

NON-OPERATORS

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Fasken Land and Minerals, Ltd., a Texas Limited  
partnership by Fasken Management, LLC its  
General partner

By \_\_\_\_\_

Tommy E. Taylor  
Type or print name

Title Senior Vice President

Date \_\_\_\_\_

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Waterloo Resources, LLC

By \_\_\_\_\_

Walker F. Netherton  
Type or print name

Title President

Date \_\_\_\_\_

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

By \_\_\_\_\_

Type or print name

Title \_\_\_\_\_

Date \_\_\_\_\_

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

# ACKNOWLEDGMENTS

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

## Individual acknowledgment:

State of TEXAS )  
 ) ss.  
 County of MIDLAND )

This instrument was acknowledged before me on \_\_\_\_\_, 2024, by Tommy E. Taylor, Senior Vice President of Fasken Management, LLC, general partner of Fasken Oil and Ranch, Ltd. and Fasken Land and Minerals, Ltd., a Texas limited Partnership, on behalf of said limited liability company and \_\_\_\_\_ by \_\_\_\_\_ limited partnership.

(Seal, if any)

\_\_\_\_\_  
 Title (and Rank) \_\_\_\_\_  
 My commission expires \_\_\_\_\_

## Acknowledgment in representative capacity:

State of TEXAS )  
 ) ss.  
 County of TARRANT )

This instrument was acknowledged before me on \_\_\_\_\_, 2024

\_\_\_\_\_ by Walker F. Netherton as  
 President of Waterloo Resources, LLC

(Seal, if any)

\_\_\_\_\_  
 Title (and Rank) \_\_\_\_\_  
 My commission expires \_\_\_\_\_

## Acknowledgment in representative capacity:

State of TEXAS )  
 ) ss.  
 County of MIDLAND )

This instrument was acknowledged before me on \_\_\_\_\_, 2024

\_\_\_\_\_ 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 dated December 1, 2024, by and between Fasken Oil and Ranch, Ltd., as Operator, and Waterloo Resources, LLC et al., as Non-Operators.

1. DESCRIPTION OF LANDS SUBJECT TO THIS AGREEMENT (the "Contract Area"):

E/2 of Section 22, NE/4, and N/2 of SE/4 of Section 27, Township 20 South, Range 32 East, Lea County, New Mexico

The parties will revise this Exhibit "A" as needed prior to commencement of the initial well. One of the revisions will be the additional superseding language to which would allow the April 9, 1979 JOA to remain effective as to the E/2 of Section 22.

2. RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS OR SUBSTANCES:

3. PARTIES TO AGREEMENT, WITH ADDRESSES AND TELEPHONE NUMBERS FOR NOTICE PURPOSES:

Fasken Land and Minerals, Ltd. and  
Fasken Oil and Ranch, Ltd.  
Attn.: Land Department  
6101 Holiday Hill Road  
Midland, TX 79707-0631  
Email address: land@forl.com

Telephone: (432) 687-1777  
Fax: (432) 687-0669

Waterloo Resources, LLC  
Attention: Walker F. Netherton, President  
P O Box 2266  
Midland, TX 79702  
Telephone: ( ) -  
Email address:

4. PERCENTAGE OR FRACTIONAL INTEREST OF PARTIES TO THIS AGREEMENT:

<u>Working Interest Owner</u>	<u>Working Interest</u>
To be determined upon completion of a	
Title Opinion	
Total	1.00000000

5. OIL AND GAS/OIL, GAS AND MINERAL LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THE AGREEMENT:

A. Oil and Gas/Oil, Gas and Mineral Leases committed by Fasken Land and Minerals, Ltd. et al

- 1) Date: September 1, 1978  
Lessor: United States of America- NM-33955  
Lessee: Peggy E. Baetz  
Recording: Volume 316, Page 855, Lea County, New Mexico

Lands: ONLY AS TO East half of Section 22, T-20-S, R32-E, Lea County,  
New Mexico  
Lease Royalty: 1/8th  
Other Burdens: as to burdens of record.

**B. Oil and Gas/Oil, Gas and Mineral Leases committed by**

\_\_\_\_\_  
Date: April 19, 2023  
Lessor: Oak Valley Mineral and Land, LP and Sortida Resources, LLC  
Lessee: Chief Capital (O&G) II LLC  
Recording: Book 2210, Page 117  
Lands: S/2NE/4, N/2SE/4 of Section 27, Township 20 South, Range 32  
East, Lea County, New Mexico  
Lease Royalty: 1/4  
Other Burdens: N/A

Date: May 1, 2023  
Assignor: Chief Capital (O&G) II LLC  
Assignee: Waterloo Resources LLC  
Recording: Book 2210, Page 478  
Lands: S/2NE/4, N/2SE/4 of Section 27, Township 20 South, Range 32  
East, Lea County, New Mexico  
Lease Royalty: Undivided 24.5%  
Other Burdens:

Date: May 24, 2023  
Lessor: Sitio Permian, LLC  
Lessee: Chief Capital (O&G) II LLC and Waterloo Resources LLC  
Recording: Book 2211, Page 128  
Lands: S/2NE/4, N/2SE/4 of Section 27, Township 20 South, Range 32  
East, Lea County, New Mexico  
Lease Royalty: 24.5%  
Other Burdens:

**6. BURDENS ON PRODUCTION:**

**A. To be determined upon completion of a Title  
Opinion.**

## **EXHIBIT "B"**

Attached to and made a part of that certain Operating Agreement dated December 1, 2024, by and between Fasken Oil and Ranch, Ltd., as Operator, and Waterloo Resources, LLC, et al., as Non-Operators.



EXHIBIT "B"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED DECEMBER 1, 2024, BETWEEN

FASKEN OIL AND RANCH, LTD., AS OPERATOR, AND WATERLOO RESOURCES, LLC, ET AL, AS NON-OPERATORS

Oil & Gas Lease

THIS AGREEMENT made this \_\_\_\_\_ day of \_\_\_\_\_, 2024 between \_\_\_\_\_, whose address is \_\_\_\_\_, herein called lessor (whether one or more) and \_\_\_\_\_, with an address of \_\_\_\_\_, herein called lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil, gas and associated hydrocarbons, together with the right to engage in all activities reasonably necessary or convenient to said stated purposes, including but not limited to making surveys, conducting seismic operations, establishing and utilizing facilities for surface and subsurface disposal of salt or produced water, injecting gas, waters, other fluids, and air into subsurface strata, laying pipelines, storing oil, building tanks, roadways, telephone lines, power stations, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said oil, gas and associated hydrocarbons, the following described land in \_\_\_\_\_ County, New Mexico, to-wit:

Township \_\_\_\_\_, Range \_\_\_\_\_, N.M.P.M.  
Section \_\_\_\_\_

Said land is estimated to comprise \_\_\_\_\_ acres, whether it actually comprises more or less, sometimes hereinafter referred to as "leased premises". This lease covers and includes any interest which lessor may own in any streets, alleys, highways, railroads, canals, rivers or any contiguous, adjacent or adjoining land to the leased premises.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of three (3) years from this date (called primary term) and as long thereafter as oil, gas or associated hydrocarbons is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 25% of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected, or from time to time, at the option of lessee, lessee may sell the oil produced and saved from said land and pay lessor 25% of the net amount received by lessee, computed at the wellhead; (b) on gas, including casinghead gas or other gaseous substances produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 25% of the gas used, provided that on gas sold on or off the premises, the royalties shall be 25% of the net amount received by lessee from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut-in, either before or after production therefrom, then on or before 90 days after said well is shut-in, and thereafter at annual intervals, lessee, or its designee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party, or its designee making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The net amount received by lessee from the sale of oil, gas or associated hydrocarbons on or off the leased premises shall be the Price established by the sales contract entered into in good faith by lessee and purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments, including, but not limited to any costs associated with treating, processing, separating, metering, transporting, compressing, and all other costs and expenses associated with handling the oil and/or gas between the wellhead and point of sale.

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder 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 provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil, gas and associated hydrocarbons. Units pooled hereunder shall not exceed the spacing unit or project area fixed by law, from time to time during the term hereof, 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 said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the leased premises are located and such 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 such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled oil, gas or associated hydrocarbons 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 oil, gas or associated hydrocarbons from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

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

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, 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 said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200ft.) of any residence or barn now on said land without lessor's consent.



8. Whenever used in this lease the "operations" shall mean any of the following: construction activities in preparation for and/or actual drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil, gas or associated hydrocarbons, whether or not in paying quantities.

9. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their 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 such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or the executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

10. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder, by reason of scarcity or inability to obtain or use equipment or material, by act of God, by any Federal or state law or any order, rule or regulation of governmental authority (including the time during which lessee is waiting on the issuance of any order, rule, policy or practice in connection therewith or while the time for comments on the issuance of any rule, order, practice or policy is in effect), or by other act, event, circumstance or condition beyond lessee's reasonable control, then while so prevented, and for sixty (60) days thereafter, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder, and for sixty (60) days thereafter, and that time shall not be counted against lessee, anything in this lease to the contrary notwithstanding. As used herein, the term "order, rule, denial, policy, directive, rule-making proposal, and/or practice" includes, but is not limited to any denial, restriction or delay of drilling and/or other operations on the leased premises attributable to environmental and/or endangered species restrictions, conditions and limitations now or hereafter adopted, enforced or applied to the leased premises by any Federal or state agency having authority with respect to the leased premises, and without limiting the generality of the foregoing clause, shall specifically include all lesser prairie chicken and sand dune lizard stipulations and restrictions, collectively referred to herein as "Endangered Species and Environmental Conditions." If lessee is precluded from engaging in drilling or reworking operations, or from producing oil or gas hereunder because the necessary permits and approvals to drill have not been obtained, or because lessee is required to postpone or suspend drilling or reworking operations or from producing oil or gas hereunder by application of Endangered Species and Environmental Conditions, then its obligation and/or entitlement to engage in drilling or reworking operations or from producing oil or gas hereunder shall be deferred until sixty (60) days after approval of the necessary permits and approvals, or until sixty (60) days after drilling or reworking operations or producing oil or gas are allowed to commence or resume following any period of suspension attributable to Endangered Species and Environmental Conditions, and the running of periods of special limitation applicable to the estate granted hereby shall be tolled during such deferral period.

11. In the event lessor considers that lessee has not complied with all its obligations hereunder, both expressed and implied, lessor shall notify lessee in writing, setting out specifically in what respect lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on lessee. Neither the service of said notice nor the doing of any act by lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessee has failed to perform all its obligations hereunder. If this lease is canceled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations, (but in no event less than forty acres), such acreage to be designated by lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of said leased premises included in a pooled unit on which there are operations. Lessee shall also have such easements on said land as are necessary to operations on the acreage so retained.

12. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein 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 such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

13. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

14. Lessor hereby grants to Lessee the option to extend or reinstate the primary term of this lease for two (2) years from (i) the expiration of the primary term of the lease, or (ii) the expiration of the lease as extended by operations and/or production as set forth herein. The preceding option may be exercised as to any portion of the leased premises which is then held hereunder which would expire unless so extended. The option may be exercised by Lessee at any time as to portions of the leased premises, depending on the operations and/or production of the leased premises when such option arises; however, the option may be exercised as to each portion of the leased premises only once. The option may be exercised by Lessee, or its successors and assigns, prior to (i) the expiration of the primary term of the lease, or (ii) the expiration of the lease as extended by operations and/or production as set forth herein, by sending payment to Lessor in the sum of \_\_\_\_\_ per net mineral acre for each acre of the portion of this lease selected by Lessee for extension or reinstatement. In addition to the payment, Lessee shall include either a description or a plat which describes the portion of the leased premises so extended. Said two-year extension or reinstatement shall be subject to all other terms and provisions of this lease.

15. This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes and shall be binding on those parties who execute the same, whether executed by all or a portion of the parties hereto.

IN WITNESS WHEREOF, this instrument is executed the day and year first above written.

Lessor:



ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ }

COUNTY OF \_\_\_\_\_ }

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_ 2024 by \_\_\_\_\_.

\_\_\_\_\_  
Notary Public, State of \_\_\_\_\_

Notary Seal:

## Exhibit " C "

### ACCOUNTING PROCEDURE JOINT OPERATIONS

Attached to and made part of Joint Operating Agreement dated December 1, 2024 between Fasken Oil and Ranch Ltd. as Operator  
and Waterloo Resources, L.P.C. et al. as Non-operator

#### I. GENERAL PROVISIONS

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

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

#### I. 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, (x) 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 (y) "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 as classified in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

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

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

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

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

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

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

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

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

## 2. STATEMENTS AND BILLINGS

- 31 The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the
- 32 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all
- 33 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified
- 34 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.
- 35 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.
- 36
- 37 The Operator may make available to Non-Operators any statements and bills required under Section 1.2 and/or Section 1.3.A (Advances
- 38 and Payments by the Parties) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper
- 39 copies. The Operator shall provide the Non-Operator instructions and any necessary information to access and receive the statements and
- 40 bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of
- 41 weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via
- 42 email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings
- 43 electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written
- 44 notice to the Operator.
- 45



### 3. ADVANCES AND PAYMENTS BY THE PARTIES

- A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operator to advance their share of the estimated cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.
- B. Except as provided below, each Party shall pay its proportionate share of all bills in full within fifteen (15) days of receipt date. If payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the Operator at the time payment is made, to the extent such reduction is caused by:
- (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working interest or Participating Interest, as applicable; or
  - (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved or is not otherwise obligated to pay under the Agreement; or
  - (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty (30) day period following the Operator's receipt of such written notice; or
  - (4) charges outside the adjustment period, as provided in Section 14 (Adjustments).

### 4. ADJUSTMENTS

- A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof, however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section 15 (Expenditure Audit).
- B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section 14.B, are limited to the twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month period are limited to adjustments resulting from the following:
- (1) a physical inventory of Controllable Material as provided for in Section V (Inventories of Controllable Material); or
  - (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception granted by the Operator relating to another property; or
  - (3) a government/regulatory audit; or
  - (4) a working interest ownership or Participating Interest adjustment.

### 5. EXPENDITURE AUDITS

- A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Section 14 (Adjustments). Any Party that is subject to payout accounting under the Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

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

these Non-Operators approving such audit.

The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month requirement for taking specific detailed written exception as required in Section 1.4.A (Adjustments) above. All claims shall be supported with sufficient documentation.

A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section 1.5.B or 1.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations, provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section 1.5.B or 1.5.C.

- B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (Advances and Payments by the Parties).

- C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in Section 1.5.E, if the Operator fails to provide substantive response to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (Advances and Payments by the Parties).

- D. If any Party fails to meet the deadlines in Sections 1.5.B or 1.5.C or if any audit issues are outstanding fifteen (15) months after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution meeting, as set forth in this Section 1.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable. The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may be discussed at subsequent meetings until each such issue is resolved.

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

#### E. ~~Optional Provision - Forfeiture Penalties~~

*If the Non-Operators fail to meet the deadline in Section 1.5.C, any unresolved exceptions that were not addressed by the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section 1.5.B or 1.5.C, any unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made, without interest, to the Joint Account.*

### 6. APPROVAL BY PARTIES

#### A. GENERAL MATTERS

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





Operator shall notify all Non-Operators of the Operator's proposal and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

This Section 1.6.A applies in specific situations of limited duration where a Party proposes to change the accounting for charges from that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure, which are covered by Section 1.6.B.

#### B. AMENDMENTS

If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting Procedure can be amended by an affirmative vote of three ( 3 ) or more Parties, one of which is the Operator, having a combined working interest of at least seventy-five percent ( 75.00 % ), which approval shall be binding on all Parties, provided, however, approval of at least one (1) Non-Operator shall be required.

#### C. AFFILIATES

For the purpose of administering the voting procedures of Sections 1.6.A and 1.6.B, if Parties to this Agreement are Affiliates of each other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating Interest of such Affiliates.

For the purposes of administering the voting procedures in Section 1.6.A, if a Non-Operator is an Affiliate of the Operator, votes under Section 1.6.A shall require the majority in interest of the Non-Operator(s) after excluding the interest of the Operator's Affiliate.

### II. DIRECT CHARGES

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

#### 1. RENTALS AND ROYALTIES

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

#### 2. LABOR

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

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

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

Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties pursuant to Section 1.6.A (General Matters).

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

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



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

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

F. Training costs as specified in COPAS MP1-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are available.

G. Operator's current cost of established plans for employee benefits, as described in COPAS MP1-27 ("Employee Benefits Chargeable to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most recently recommended by COPAS.

H. Award payments to employees, in accordance with COPAS MP1-49 ("Awards to Employees and Contractors") for personnel whose salaries and wages are chargeable under Section II.2.A.

### 3. MATERIAL

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

### 4. TRANSPORTATION

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

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

- (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall consistently apply the selected alternative.
- (2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial charges such as loading and unloading costs, split pick-up costs, detention, call-out charges, and permit fees shall be charged directly to the Joint Property and shall not be included when calculating the Equalized Freight.

### 5. SERVICES

The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and utilities covered by Section III (Overhead), or Section II.7 (Affiliates), or excluded under Section II.9 (Legal Expenses). Awards paid to contractors shall be chargeable pursuant to COPAS MP1-49 ("Awards to Employees and Contractors").

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

### 6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

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

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



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

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

#### 7. AFFILIATES

- A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed to such individual project do not exceed \$ 1,000.00. If the total costs for an Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to Section I.6.A (General Matters).

- B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (General Matters), if the charges exceed \$ 1,000.00 in a given calendar year.

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

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

#### 8. DAMAGES AND LOSSES TO JOINT PROPERTY

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

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

#### 9. LEGAL EXPENSE

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

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

#### 10. TAXES AND PERMITS

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

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





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

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

#### 11. INSURANCE

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

#### 12. COMMUNICATIONS

Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems, including satellite, radio and microwave facilities, between the Joint Property and the Operator's office(s) directly responsible for field operations in accordance with the provisions of COPAS MF1-44 ("Field Computer and Communication Systems"). If the communications facilities or systems serving the Joint Property are Operator-owned, charges to the Joint Account shall be made as provided in Section II.6 (Equipment and Facilities Furnished by Operator). If the communication facilities or systems serving the Joint Property are owned by the Operator's Affiliate, charges to the Joint Account shall not exceed average commercial rates prevailing in the area of the Joint Property. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation.

#### 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

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

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

#### 14. ABANDONMENT AND RECLAMATION

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

#### 15. OTHER EXPENDITURES

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

### III. OVERHEAD

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

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

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



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

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

#### I. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

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

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

##### A. TECHNICAL SERVICES

- (i) Except as otherwise provided in Section II 13 (Ecological, Environmental, and Safety) and Section III 2 (Overhead - Major Construction and Catastrophe), or by approval of the Parties pursuant to Section 1.6 A (General Matters), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for On-site Technical Services, including third party Technical Services:

- ☒ (Alternative 1 - Direct) shall be charged direct to the Joint Account.
- ☐ (Alternative 2 - Overhead) shall be covered by the overhead rates.

- (ii) Except as otherwise provided in Section II 13 (Ecological, Environmental, and Safety) and Section III 2 (Overhead - Major Construction and Catastrophe), or by approval of the Parties pursuant to Section 1.6 A (General Matters), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for Off-site Technical Services, including third party Technical Services:

- ☐ (Alternative 1 - All Overhead) shall be covered by the overhead rates.
- ☐ (Alternative 2 - All Direct) shall be charged direct to the Joint Account.
- ☒ (Alternative 3 - Drilling Direct) shall be charged direct to the Joint Account, only to the extent such Technical Services are directly attributable to drilling, re-drilling, deepening, or sidetracking operations, through completion, temporary abandonment, or abandonment if a dry hole. Off-site Technical Services for all other operations, including workover, recompletion, abandonment of producing wells, and the construction or expansion of fixed assets not covered by Section III 2 (Overhead - Major Construction and Catastrophe) shall be covered by the overhead rates.

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

##### B. OVERHEAD—FIXED RATE BASIS

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

Drilling Well Rate per month \$ 8000.00 (prorated for less than a full month)

Producing Well Rate per month \$ 800.00

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

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



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

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

- (a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to support operations for any portion of the month shall be considered as a one-well charge for the entire month.
  - (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is considered a separate well by the governing regulatory authority.
  - (c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one-well charge shall be made whether or not the well has produced.
  - (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.
  - (e) Any well not meeting the criteria set forth in Sections III.1.B.(3)(a), (b), (c), or (d) shall not qualify for a producing overhead charge.
- (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement, provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the effective date of such rates, in accordance with COPAS MPT-47 ("Adjustment of Overhead Rates").

C. OVERHEAD—PERCENTAGE BASIS, Deleted

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

- (a) Development Rate \_\_\_\_\_ percent (\_\_\_\_%) of the cost of development of the Joint Property, exclusive of costs provided under Section II.9 (Legal Expenses) and all Material salvage credits.
- (b) Operating Rate \_\_\_\_\_ percent (\_\_\_\_%) of the cost of operating the Joint Property, exclusive of costs provided under Sections III.1 (Rents and Royalties) and II.9 (Legal Expenses); all Material salvage credits; the value of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that are levied, assessed, and paid upon the mineral interest in and to the Joint Property.

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

- (a) The Development Rate shall be applied to all costs in connection with:
  - (i) drilling, re-drilling, sidetracking, or deepening of a well
  - (ii) a well undergoing plugback or workover operations for a period of five (5) or more consecutive work-days
  - (iii) preliminary expenditures necessary in preparation for drilling
  - (iv) expenditures incurred in abandoning when the well is not completed as a producer
  - (v) construction or installation of fixed assets, the expense of fixed assets and any other project clearly discernible as a fixed asset, other than Major Construction or Catastrophe as defined in Section III.2 (Overhead-Major Construction and Catastrophe).
- (b) The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those subject to Section III.2 (Overhead-Major Construction and Catastrophe).

2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE

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





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

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

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

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

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

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

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

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

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

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

### 3. AMENDMENT OF OVERHEAD RATES

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

## IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

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

### 1. DIRECT PURCHASES

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



## 2. TRANSFERS

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

### A. PRICING

The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties pursuant to Section 16.A (General Matters). Transfers of new Material will be priced using one of the following pricing methods, provided, however, the Operator shall use consistent pricing methods, and not alternate between methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

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

### B. FREIGHT

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

- (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFS-38 ("Material Pricing Manual") and other COPAS MFBs in effect at the time of the transfer.
- (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per weight of tubing transferred to the Railway Receiving Point.
- (3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston, Texas, to the Railway Receiving Point.
- (4) Transportation costs for Material other than that described in Sections IV 2.B.(1) through (3), shall be calculated from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point.

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

### C. TAXES

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



#### D. CONDITION

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

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

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

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

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

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

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

(4) Condition "D" - Material that (i) is no longer suitable for its original purpose but usable for some other purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for items with different specifications, is considered Condition "D" Material. Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing, tubing, or drill pipe used as higher pressure service lines than standard line pipe, e.g., power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non-upset basis. For other items, the price used should result in the Joint Account being charged or credited with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section I 6.A (General Matters).

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

#### E. OTHER PRICING PROVISIONS

##### (1) Preparation Costs

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

##### (2) Loading and Unloading Costs

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





### 3. DISPOSITION OF SURPLUS

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

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

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

- The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is attached without the prior approval of the Parties owning such Material.
- If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such Material.
- Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material, based on the pricing methods set forth in Section IV.2 (Transfers).
- Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value of the Materials, based on the pricing methods set forth in Section IV.2 (Transfers), is less than or equal to the Operator's expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting the classification of the Material as Condition C.
- Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior approval of the Parties owning such Material.

### 4. SPECIAL PRICING PROVISIONS

#### A. PREMIUM PRICING

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

#### B. SHOP-MADE ITEMS

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

#### C. MILL REJECTS

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

### V. INVENTORIES OF CONTROLLABLE MATERIAL

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

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



## 1. DIRECTED INVENTORIES

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

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

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

## 2. NON-DIRECTED INVENTORIES

### A. OPERATOR INVENTORIES

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

### B. NON-OPERATOR INVENTORIES

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

### C. SPECIAL INVENTORIES

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

## EXHIBIT "D" INSURANCE

Attached to and made a part of that certain Operating Agreement dated December 1, 2024, by and among Fasken Oil and Ranch, Ltd., as Operator, and Waterloo Resources, LLC, et al., as Non-Operators.

The Operator shall carry the following minimum insurance to cover the risks of accident and/or damages to persons and/or property which may occur in the course of Operations conducted under this agreement, a proportionate part of the premium on such insurance, determined on some equitable basis consistent with Operator's accounting practice, to be charged to the Joint Account.

Required Insurance Coverage. Before commencing operations hereunder, Operator shall obtain and maintain and shall require each of its contractors and subcontractors hereunder to obtain and maintain, the following insurance:

- Workman's Compensation as required by state laws.
- Employers Liability Insurance conforming to State Law.
- Comprehensive General Liability with limits of not less than \$1,000,000 Bodily Injury and Property Damage, combined single limit.
- Comprehensive Automobile Liability with coverage for all owned, hired and non-owned vehicles with limits of not less than \$1,000,000 Bodily Injury and Property Damage, combined single limit.

Proof of Coverage. Upon Non-Operators request, Operator shall furnish Non-Operator with a certificate(s) acceptable to Non-Operator from Operator's insurance carriers and its contractor's carriers evidencing such insurance and indicating waiver of subrogation and designating Non-Operator as an Additional Insured. Further, such insurance shall endeavor to give at least thirty (30) days notice to Non-Operator prior to cancellation of insurance.

Additional Coverage. The foregoing insurance requirements set forth the amounts and types of insurance considered minimal by Non-Operator. Such requirements do not constitute limitations on the amount or type of insurance Operator may wish to carry and in no event shall any insurance coverage of any amount whatsoever be considered a limitation on any obligation hereunder of Operator.

In addition to the above referenced types of insurance, Operator may, but is not required to, carry Cost of Control and Extra Expense Insurance coverage or similar coverage with a three million (\$3,000,000) limit. The actual premiums paid for all insurance shall be charged on a pro-rata basis to the Joint Account of the parties hereto. Notwithstanding the foregoing, non-operators shall have the option upon ten (10) days written notice to Operator prior to commencement of drilling operations on the contract area to elect not to be covered by Operator's Cost of Control and Extra Expense Insurance and associated premiums.



**EXHIBIT "H"**

Attached to and made a part of that certain Operating Agreement dated December 1, 2024, by and between Fasken Oil and Ranch, Ltd., as Operator, and Waterloo Resources LLC, et al., as Non-Operators.

**MODEL FORM RECORDING SUPPLEMENT TO  
OPERATING AGREEMENT AND FINANCING STATEMENT**

THIS AGREEMENT, entered into by and between Fasken Oil and Ranch, Ltd., hereinafter referred to as "Operator," and the signatory party or parties other than Operator, hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

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

WHEREAS, the parties hereto have executed an Operating Agreement dated December 1, 2024 (herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

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

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

1. This agreement supplements the Operating Agreement, which Agreement in its entirety is incorporated herein by reference, and all terms used herein shall have the meaning ascribed to them in the Operating Agreement.
2. The parties do hereby agree that:
  - A. The Oil and Gas Leases and/or Oil and Gas Interests of the parties comprising the Contract Area shall be subject to and burdened with the terms and provisions of this agreement and the Operating Agreement, and the parties do hereby commit such Leases and Interests to the performance thereof.
  - B. The exploration and development of the Contract Area for Oil and Gas shall be governed by the terms and provisions of the Operating Agreement, as supplemented by this agreement.
  - C. All costs and liabilities incurred in operations under this agreement and the Operating Agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties hereto, as provided in the Operating Agreement.
  - D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on Exhibit "A," all production of Oil and Gas from the Contract Area shall be owned by the parties as provided in the Operating Agreement; provided nothing contained in this agreement shall be deemed an assignment or cross-assignment of interests covered hereby.
  - E. Each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area as provided in the Operating Agreement.
  - F. An overriding royalty, production payment, net profits interest or other burden payable out of production hereafter created, assignments of production given as security for the payment of money and those overriding royalties, production payments and other burdens payable out of production heretofore created and defined as Subsequently Created Interests in the Operating Agreement shall be (i) borne solely by the party whose interest is burdened therewith, (ii) subject to suspension if a party is required to assign or relinquish to another party an interest which is subject to such burden, and (iii) subject to the lien and security interest hereinafter provided if the party subject to such burden fails to pay its share of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the times and manner provided by the Operating Agreement.
  - G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers.

This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective heirs, devisees, legal representatives, and assigns, and the terms hereof shall be deemed to run with the leases or interests included within the lease Contract Area.
  - H. The parties shall have the right to acquire an interest in renewal, extension and replacement leases, leases proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.



- I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or loss of title, each party's right to propose operations, obligations with respect to participation in operations on the Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial obligations shall be as provided in the Operating Agreement.
  - J. Each party's interest under this agreement and under the Operating Agreement shall be subject to relinquishment for its failure to participate in subsequent operations and each party's share of production and costs shall be reallocated on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.
  - K. All other matters with respect to exploration and development of the Contract Area and the ownership and transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of the Operating Agreement.
3. The parties hereby grant reciprocal liens and security interests as follows:
- A. Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this agreement and the Operating Agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid under this agreement and the Operating Agreement, the assignment or relinquishment of interest in Oil and Gas Leases as required under this agreement and the Operating Agreement, and the proper performance of operations under this agreement and the Operating Agreement. Such lien and security interest granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this agreement and the Operating Agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from the sale of production at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.
  - B. Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement and the Operating Agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement and the Operating Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by the Operating Agreement and this instrument as to all obligations attributable to such interest under this agreement and the Operating Agreement whether or not such obligations arise before or after such interest is acquired.
  - C. To the extent that the parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any party in the payment of its share of expenses, interest or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by such party, plus interest, has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.
  - D. If any party fails to pay its share of expenses within one hundred-twenty (120) days after rendition of a statement therefor by Operator the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in this paragraph 3 and in the Operating Agreement, and each paying party may independently pursue any remedy available under the Operating Agreement or otherwise.
  - E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement or the Operating Agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted hereunder or under the Operating Agreement, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.
  - F. The lien and security interest granted in this paragraph 3 supplements identical rights granted under the Operating Agreement.
  - G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due under this agreement and the Operating Agreement for services performed or materials supplied by Operator.
  - H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Recording Supplement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the above-described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial Code, or other state laws.

4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this agreement and the Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon the request of Operator, if Operator has complied with all of its financial obligations.
5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or other disposition shall be made by any party of any interest in the Leases or Interests subject hereto except as expressly permitted under the Operating Agreement and, if permitted, shall be made expressly subject to this agreement and the Operating Agreement and without prejudice to the rights of the other parties. If the transfer is permitted, the assignee of an ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party under this agreement or the Operating Agreement with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under this agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.
6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the Operating Agreement, then, as between the parties, the terms and provisions of the Operating Agreement shall control.
7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. In the event that any provision herein is illegal or unenforceable, the remaining provisions shall not be affected, and shall be enforced as if the illegal or unenforceable provision did not appear herein.
8. Other provisions. See Joint Operating Agreement.



AAPL - FORM 610RS - 1989

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

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

**OPERATOR**

**ATTEST OR WITNESS**

Fasken Oil and Ranch, Ltd. a Texas limited partnership  
By Fasken Management, LLC its general partner

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

Tommy E. Taylor

Title: Senior Vice President

Date: \_\_\_\_\_

Address: 6101 Holiday Hill Road, Midland, TX 79707

**NON-OPERATORS**

**ATTEST OR WITNESS**

Fasken Land and Minerals, Ltd. a Texas limited  
Partnership by Fasken Management, LLC its general partner

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

Tommy E. Taylor

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Address: 6101 Holiday Hill Road, Midland TX 79707

**ATTEST OR WITNESS**

Waterloo Resources LLC

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

Noble Smith

Title: Vice-President, Land

Date: \_\_\_\_\_

Address: \_\_\_\_\_

**ATTEST OR WITNESS**

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

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Address: \_\_\_\_\_

**ATTEST OR WITNESS**

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

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Address: \_\_\_\_\_

## ACKNOWLEDGMENTS

## NOTE:

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

## Acknowledgment in Representative Capacity

State of TEXAS \_\_\_\_\_ §

§ ss.

County of MIDLAND \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by Tommy E. Taylor, Senior Vice President of Fasken Management, LLC., the General Partner of Fasken Oil and Ranch, Ltd., a Texas limited partnership, on behalf of said limited liability company and said limited partnership.

(Seal, if any)

\_\_\_\_\_

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

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

State of TEXAS \_\_\_\_\_ §

§ ss.

County of MIDLAND \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by Tommy E. Taylor, Senior Vice President of Fasken Management, LLC., the General Partner of Fasken Land and Minerals, Ltd., a Texas limited partnership, on behalf of said limited liability company and said limited partnership.

(Seal, if any)

\_\_\_\_\_

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

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

## Acknowledgment in Representative Capacity

State of TEXAS \_\_\_\_\_ §

§ ss.

County of MIDLAND \_\_\_\_\_ §

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

By Walker F. Netherton as President \_\_\_\_\_ of Waterloo Resources LLC

(Seal, if any)

\_\_\_\_\_

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

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

## EXHIBIT "H-A"

Attached to and made a part of that certain Model Form Recording Supplement to Operating Agreement and Financing Statement dated December 1, 2024, by and between Fasken Oil and Ranch, Ltd., as Operator, and Waterloo Resources, LLC, et al., as Non-Operators.

**1. DESCRIPTION OF LANDS SUBJECT TO THIS AGREEMENT (the "Contract Area"):**

E/2 of Section 22, NE/4, and N/2 of SE/4 of Section 27, Township 20 South, Range 32 East, Lea County, New Mexico

The parties will revise this Exhibit "A" as needed prior to commencement of the initial well. One of the revisions will be the additional superseding language to which would allow the April 9, 1979 JOA to remain effective as to the E/2 of Section 22.

**2. RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS OR SUBSTANCES:**

**3. PARTIES TO AGREEMENT, WITH ADDRESSES AND TELEPHONE NUMBERS FOR NOTICE PURPOSES:**

Fasken Land and Minerals, Ltd. and  
Fasken Oil and Ranch, Ltd.  
Attn.: Land Department  
6101 Holiday Hill Road  
Midland, TX 79707-0631  
Email address: land@forl.com Telephone: (432) 687-1777  
Fax: (432) 687-0669

Attention: \_\_\_\_\_

Telephone: ( ) \_\_\_\_-\_\_\_\_

Email address: \_\_\_\_\_

**4. OIL AND GAS/OIL, GAS AND MINERAL LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THE AGREEMENT:**

**A. Oil and Gas/Oil, Gas and Mineral Leases committed by Fasken Land and Minerals, Ltd. et al**

1) Date:	September 1, 1978
Lessor:	United States of America-NM-33955
Lessee:	Peggy E. Bactz
Recording:	Volume 316, Page 855, Lea County, New Mexico
Lands:	ONLY AS TO East half of Section 22, T-20-S, R32-E, Lea County, New Mexico
Lease Royalty:	1/8 <sup>th</sup>
Other Burdens:	as to burdens of record.



# EXHIBIT 3



**Lynda James**  
General Manager  
Director of Finance and  
Personnel and Controller

**Tommy E. Taylor**  
Assistant General Manager  
Director of Oil and Gas  
Development

**Charles F. Hedges, Jr.**  
Director of Real Estate  
Development and  
General Counsel

**Sean N. McDaniel**  
Director of Investments

**Shawn R. Hogg**  
Surface Properties Manager

**Taylor Billingsley**  
Oil and Gas Operations  
Manager

**Sally M. Kvasnicka**  
Land Manager

**Stonnie L. Pollock**  
Exploration Manager

**Sheila Simmons**  
Marketing and Production  
Accounting Manager

**Travis White**  
Engineering Manager

**CERTIFIED MAIL NO.: 7022 2410 0002 5240 9338**

December 23, 2024

Chief Capital (O&G) II, LLC  
8111 Westchester Drive, Suite 900  
Dallas, Texas 75225

REF: Thai Curry 22-27 Fed Com. No. 223H, No. 224H, No. 433H  
and No. 434H (the "Wells")  
E/2 of Section 22, Township 20 South, Range 32 East  
NE/4 and N/2 SE/4 of Section 27, Township 20 South, Range 32 East  
Lea County, New Mexico

To Whom It May Concern:

Fasken Oil and Ranch, Ltd. is the operator on behalf of Fasken Land and Minerals, Ltd. ("Fasken"). Fasken, as operator, hereby proposes the drilling and completion of the following horizontal wells with productive laterals located on the E/2 of Section 22, NE/4 and N/2 SE/4 of Sec. 27-T20S-R32E (collectively, the "Operation") as follows:

**Thai Curry 22-27 Fed Com No. 223H** as a horizontal well in a legal location in the W/2 E/2 of Section 22, W/2 NE/4 and NW/4 SE/4 of Section 27-T20S-R32E. The estimated SHL will be 376' FNL and 593' FEL in Section 22 and an estimated BHL will be 1,330' FSL and 2,310' FEL in Sec. 27, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 9,891' and a MD of approximately 19,131' to test the 2<sup>nd</sup> Bone Spring formation. The FTP of this well is estimated at 100' FNL and 2,310' FEL of Sec. 22 and the LTP of this well is estimated at 1,420' FSL and 2,310' FEL of Section 27. The total cost of the Operation is estimated to be \$10,409,600 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").

**Thai Curry 22-27 Fed Com No. 224H** as a horizontal well in a legal location in the E/2 E/2 of Section 22, E/2 NE/4 and NE/4 SE/4 of Section 27-T20S-R32E. The estimated SHL will be 376' FNL and 533' FEL in Section 22 and an estimated BHL will be 1,330' FSL and 1,005' FEL in Sec. 27, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 9,901' and a MD of approximately 19,141' to test the 2<sup>nd</sup> Bone Spring formation. The FTP of this well is estimated at 100' FNL and 1,006' FEL of Sec. 22 and the LTP of this well is estimated at 1,420' FSL and 1,005' FEL of Section 27. The total cost of the Operation is estimated to be \$10,409,600 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").

**Thai Curry 22-27 Fed Com No. 433H** as a horizontal well in a legal location in the W/2 E/2 of Section 22, W/2 NE/4 and NW/4 SE/4 of Section 27-T20S-R32E. The estimated SHL will be 226' FNL and 593' FEL in Section 22 and an estimated BHL will be 1,330'

FSL and 2,310' FEL in Sec. 27, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 11,201' and a MD of approximately 20,441' to test the Wolfcamp formation. The FTP of this well is estimated at 100' FNL and 2,310' FEL of Sec. 22 and the LTP of this well is estimated at 1,420' FSL and 2,310' FEL of Section 27. The total cost of the Operation is estimated to be \$10,590,900 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").

**Thai Curry 22-27 Fed Com No. 434H** as a horizontal well in a legal location in the E/2 E/2 of Section 22, E/2 NE/4 and NE/4 SE/4 of Section 27-T20S-R32E. The estimated SHL will be 226' FNL and 563' FEL in Section 22 and an estimated BHL will be 1,330' FSL and 1,005' FEL in Sec. 27, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 11,214' and a MD of approximately 20,454' to test the Wolfcamp formation. The FTP of this well is estimated at 100' FNL and 1,006' FEL of Sec. 22 and the LTP of this well is estimated at 1,420' FSL and 1,005' FEL of Section 27. The total cost of the Operation is estimated to be \$10,590,900 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").

Fasken reserves the right to modify the locations and drilling plans described above in order to address topography, cultural or environmental concerns, among other reasons. Fasken will advise you of such modifications.

Fasken is proposing the Wells to be drilled under the terms of a modified 1989 AAPL Horizontal Form of Operating Agreement which is enclosed for your review and approval. The proposed operating agreement will cover the E/2 of Sections 22, NE/4 and N/2 SE/4 of 27-T20S-R32E, Lea County, New Mexico. The proposed operating agreement contains the following general provisions:

- 100%/300% Non-Consenting Penalty,
- \$8,000/\$800 Drilling and Producing rate,
- Fasken Oil and Ranch, Ltd. named as Operator,
- The Exhibit "A" to the JOA will be completed when the ownership is known.

Please indicate your participation election in the spaces provided below, sign and return this letter, the signed OA, along with the AFE and a copy of your geologic well requirements if you would like to participate.

If you do not wish to participate in the Operation, Fasken would like to discuss acquiring your interest in the referenced acreage.

In the interest of time, if we do not reach an agreement within 30 days of receipt of this letter, Fasken will apply to the New Mexico Oil Conservation Division for compulsory pooling of your interest into a spacing unit for the proposed wells.

If you have any questions or concerns, please feel free to reach out to me at (432) 687-1777 or by e-mail at [mwallace@forl.com](mailto:mwallace@forl.com).

Thanks,



Mike Wallace  
Landman

***Chief Capital (O&G) II, LLC***

*Thai Curry 22-27 Fed Com No. 223H*

\_\_\_\_\_ *Chief Capital (O&G) II, LLC* elects to participate in the proposed Operation.

\_\_\_\_\_ *Chief Capital (O&G) II, LLC* elects NOT to participate in the proposed Operation.

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

E-mail: \_\_\_\_\_

***Chief Capital (O&G) II, LLC***

*Thai Curry 22-27 Fed Com No. 224H*

\_\_\_\_\_ *Chief Capital (O&G) II, LLC* elects to participate in the proposed Operation.

\_\_\_\_\_ *Chief Capital (O&G) II, LLC* elects NOT to participate in the proposed Operation.

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

E-mail: \_\_\_\_\_



***Chief Capital (O&G) II, LLC***

*Thai Curry 22-27 Fed Com No. 433H*

\_\_\_\_\_ *Chief Capital (O&G) II, LLC* elects to participate in the proposed Operation.  
\_\_\_\_\_ *Chief Capital (O&G) II, LLC* elects NOT to participate in the proposed Operation.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
E-mail: \_\_\_\_\_

***Chief Capital (O&G) II, LLC***

*Thai Curry 22-27 Fed Com No. 434H*

\_\_\_\_\_ *Chief Capital (O&G) II, LLC* elects to participate in the proposed Operation.  
\_\_\_\_\_ *Chief Capital (O&G) II, LLC* elects NOT to participate in the proposed Operation.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
E-mail: \_\_\_\_\_

FASKEN OIL AND RANCH, LTD.  
AFE COST ESTIMATE  
12/19/2024

Thai Curry 22-27 Fed #223H  
Drill and Complete  
AFE NO:  
2nd Bone Spring Sand  
Sec. 22 and 27, T20S R32E, Lea County, NM

Drilling Total = \$3,554,000  
Completion Total = \$6,655,600  
Facilities Total = \$200,000  
  
Intangible Total = \$8,937,900  
Tangible Total = \$1,471,700  
  
TOTAL COST = \$10,409,600

INTANGIBLE COSTS

	Code	DRILLING	Code	COMPLETION	Code	FACILITIES	TOTAL
Drilling costs-footage	101	\$0					\$0
Drilling costs-day work	103	\$702,000					\$702,000
Rig mobilization	102	\$60,000					\$60,000
Cement surface casing	106	\$60,000					\$60,000
Cement intermediate casing	109	\$75,000					\$75,000
Float equipment, centralizers, DV/ECP, etc.	104	\$22,000	314	\$40,000			\$62,000
Directional drilling services	105	\$383,750					\$383,750
Mud logging services	112	\$37,800					\$37,800
Open hole logging services	115	\$0					\$0
Geological tests, cores, studies, etc.	118	\$0					\$0
Downhole rental equipment, BHA	145	\$66,700					\$66,700
Line & fence pit, pit liners	148	\$20,000					\$20,000
Fences & cattleguards	157	\$0					\$0
Base fluid (SBM/OBM)	127	\$175,000					\$175,000
SBM/OBM cuttings management	170	\$20,000					\$20,000
Fresh and brine water	124	\$25,000	371	\$456,500	371	\$0	\$481,500
Fuel	133	\$157,500	313	\$39,500	313	\$0	\$197,000
Mud and chemicals	121	\$199,050	369	\$30,000			\$229,050
Bits	130	\$59,500	376	\$30,000			\$89,500
Hauling, trucking, transport	136	\$75,000	336	\$75,000	336	\$0	\$150,000
Test & inspect tubulars	139	\$19,000	340	\$0			\$19,000
Casing expense	142	\$25,000	344	\$32,000			\$57,000
Surface rental equipment	151	\$237,694	352	\$100,000			\$337,694
Welding, roustabout service	154	\$2,780	356	\$0	356	\$0	\$2,780
Miscellaneous services, supplies (Inc. P&A)	160	\$31,810	360	\$0	360	\$0	\$31,810
Surveying, Damages	163	\$5,000	372	\$0	372	\$0	\$5,000
Roads, location, pits, clean up	166	\$125,000	370	\$0	370	\$0	\$125,000
Wellsite supervision expenses	169	\$113,400	364	\$64,100	364	\$0	\$177,500
Supervision - meals	169	\$0	364	\$0	364	\$0	\$0
Tank rental & hauling			324	\$0	324	\$0	\$0
Valves, piping, connections-TEMP			348	\$0	348	\$0	\$0
Pulling unit for completion			301	\$120,000			\$120,000
Coil tubing unit for completion			107	\$0			\$0
Reverse drilling equipment			304	\$25,000			\$25,000
Cement production casing			308	\$125,000			\$125,000
Other cementing			312	\$0			\$0
Acidizing services & materials			316	\$0			\$0
Fracturing services & materials			320	\$1,945,000			\$1,945,000
Frac proppant			315	\$1,500,000			\$1,500,000
Frac chemicals			317	\$650,000			\$650,000
Wireline service			328	\$295,300			\$295,300
Packer &/or bridge plug rental			332	\$0			\$0
Spooling, banding, pump tech			373	\$0			\$0
Cable and/or cable service			374	\$0			\$0
Fishing service			375	\$0			\$0
Repair or replace sub pump			377	\$0			\$0
Contingencies 10%	172	\$269,800	368	\$542,700	368	\$0	\$812,500
TOTAL INTANGIBLES		\$2,967,800		\$5,970,100		\$0	\$8,937,900

TANGIBLE COSTS

Conductor pipe	201	\$30,000					\$30,000
Surface casing	205	\$89,250					\$89,250
Intermediate casing	210	\$421,920					\$421,920
Starting head equipment	215	\$45,000					\$45,000
Intermediate head equipment	220	\$0					\$0
Production casing			401	\$518,910			\$518,910
Tubing			405	\$111,600			\$111,600
Tubing head equipment			410	\$15,000			\$15,000
Wellhead equipment (Christmas tree)			415	\$15,000			\$15,000
Tubing anchor and/or packer			420	\$5,000			\$5,000
Sucker rods, pumps, BHA, etc.			425	\$20,000			\$20,000
Pumping unit			430	\$0			\$0
Production unit or compressor					435	\$0	\$0
Tanks, treaters, separators, etc.					440	\$75,000	\$75,000
Line pipe, valves, connections					441	\$50,000	\$50,000
Labor - "New" surface production equipment					445	\$75,000	\$75,000
TOTAL TANGIBLES		\$585,200		\$685,500		\$200,000	\$1,471,700

	DRILLING	COMPLETION	PRODUCTION	TOTAL
TOTAL COST	\$3,554,000	\$6,655,600	\$200,000	\$10,409,600

FASKEN OIL AND RANCH, LTD.

AFE COST ESTIMATE

12/19/2024

Thai Curry 22-27 Fed #224H

Drill and Complete

AFE NO:

2nd Bone Spring Sand

Sec. 22 and 27, T20S, R32E, Lea County, NM

Drilling Total = \$3,554,000

Completion Total = \$6,655,600

Facilities Total = \$200,000

Intangible Total = \$8,937,900

Tangible Total = \$1,471,700

TOTAL COST = \$10,409,600

**INTANGIBLE COSTS**

	Code	DRILLING	Code	COMPLETION	Code	FACILITIES	TOTAL
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Cement surface casing	106	\$60,000					\$60,000
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SBM/OBM cuttings management	170	\$20,000					\$20,000
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Mud and chemicals	121	\$199,050	369	\$30,000			\$229,050
Bits	130	\$59,500	376	\$30,000			\$89,500
Hauling, trucking, transport	136	\$75,000	336	\$75,000	336	\$0	\$150,000
Test & inspect tubulars	139	\$19,000	340	\$0			\$19,000
Casing expense	142	\$25,000	344	\$32,000			\$57,000
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Roads, location, pits, clean up	166	\$125,000	370	\$0	370	\$0	\$125,000
Wellsite supervision expenses	169	\$113,400	364	\$64,100	364	\$0	\$177,500
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Tank rental & hauling			324	\$0	324	\$0	\$0
Valves, piping, connections-TEMP			348	\$0	348	\$0	\$0
Pulling unit for completion			301	\$120,000			\$120,000
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Cement production casing			308	\$125,000			\$125,000
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Acidizing services & materials			316	\$0			\$0
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Frac proppant			315	\$1,500,000			\$1,500,000
Frac chemicals			317	\$550,000			\$550,000
Wireline service			328	\$295,300			\$295,300
Packer &/or bridge plug rental			332	\$0			\$0
Spooling, banding, pump tech			373	\$0			\$0
Cable and/or cable service			374	\$0			\$0
Fishing service			375	\$0			\$0
Repair or replace sub pump			377	\$0			\$0
Contingencies 10%	172	\$269,800	368	\$542,700	368	\$0	\$812,500
<b>TOTAL INTANGIBLES</b>		<b>\$2,967,800</b>		<b>\$5,970,100</b>		<b>\$0</b>	<b>\$8,937,900</b>

**TANGIBLE COSTS**

Conductor pipe	201	\$30,000					\$30,000
Surface casing	205	\$89,250					\$89,250
Intermediate casing	210	\$421,920					\$421,920
Starting head equipment	215	\$45,000					\$45,000
Intermediate head equipment	220	\$0					\$0
Production casing			401	\$518,910			\$518,910
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Sucker rods, pumps, BHA, etc.			425	\$20,000			\$20,000
Pumping unit			430	\$0			\$0
Production unit or compressor					435	\$0	\$0
Tanks, treaters, separators, etc.					440	\$75,000	\$75,000
Line pipe, valves, connections					441	\$50,000	\$50,000
Labor - "New" surface production equipment					445	\$75,000	\$75,000
<b>TOTAL TANGIBLES</b>		<b>\$586,200</b>		<b>\$685,500</b>		<b>\$200,000</b>	<b>\$1,471,700</b>

<b>TOTAL COST</b>	<b>DRILLING</b>	<b>COMPLETION</b>	<b>PRODUCTION</b>	<b>TOTAL</b>
	<b>\$3,554,000</b>	<b>\$6,655,600</b>	<b>\$200,000</b>	<b>\$10,409,600</b>



**FASKEN OIL AND RANCH, LTD.**

AFE COST ESTIMATE

12/19/2024

Thai Curry 22-27 Fed #433H

Drill and Complete

AFE NO:

Wolfcamp

Sec. 22 and 27, T20S, R32E, Lea County, NM

Drilling Total = \$3,554,000

Completion Total = \$6,836,900

Facilities Total = \$200,000

Intangible Total = \$8,998,400

Tangible Total = \$1,592,500

**TOTAL COST = \$10,590,900**

**INTANGIBLE COSTS**

Drilling costs-footage  
Drilling costs-day work  
Rig mobilization  
Cement surface casing  
Cement intermediate casing  
Float equipment, centralizers, DV/ECP, etc.  
Directional drilling services  
Mud logging services  
Open hole logging services  
Geological tests, cores, studies, etc.  
Downhole rental equipment, BHA  
Line & fence pit, pit liners  
Fences & cattleguards  
Base fluid (SBM/OBM)  
SBM/OBM cuttings management  
Fresh and brine water  
Fuel  
Mud and chemicals  
Bits  
Hauling, trucking, transport  
Test & inspect tubulars  
Casing expense  
Surface rental equipment  
Welding, roustabout service  
Miscellaneous services, supplies (Inc. P&A)  
Surveying, Damages  
Roads, location, pits, clean up  
Wellsite supervision expenses  
Supervision - meals  
Tank rental & hauling  
Valves, piping, connections-TEMP  
Pulling unit for completion  
Coil tubing unit for completion  
Reverse drilling equipment  
Cement production casing  
Other cementing  
Acidizing services & materials  
Fracturing services & materials  
Frac proppant  
Frac chemicals  
Wireline service  
Packer &/or bridge plug rental  
Spooling, banding, pump tech  
Cable and/or cable service  
Fishing service  
Repair or replace sub pump  
Contingencies 10%

**TOTAL INTANGIBLES**

Code	DRILLING	Code	COMPLETION	Code	FACILITIES	TOTAL
101	\$0					\$0
103	\$702,000					\$702,000
102	\$60,000					\$60,000
106	\$60,000					\$60,000
109	\$75,000					\$75,000
104	\$22,000	314	\$40,000			\$62,000
105	\$383,750					\$383,750
112	\$37,800					\$37,800
115	\$0					\$0
118	\$0					\$0
145	\$66,700					\$66,700
148	\$20,000					\$20,000
157	\$0					\$0
127	\$175,000					\$175,000
170	\$20,000					\$20,000
124	\$25,000	371	\$456,500	371	\$0	\$481,500
133	\$157,500	313	\$39,500	313	\$0	\$197,000
121	\$199,050	369	\$30,000			\$229,050
130	\$59,500	376	\$30,000			\$89,500
136	\$75,000	336	\$75,000	336	\$0	\$150,000
139	\$19,000	340	\$0			\$19,000
142	\$25,000	344	\$32,000			\$57,000
151	\$237,694	352	\$100,000			\$337,694
154	\$2,780	356	\$0	356	\$0	\$2,780
160	\$31,810	360	\$0	360	\$0	\$31,810
163	\$5,000	372	\$0	372	\$0	\$5,000
166	\$125,000	370	\$0	370	\$0	\$125,000
169	\$113,400	364	\$64,100	364	\$0	\$177,500
169	\$0	364	\$0	364	\$0	\$0
		324	\$0	324	\$0	\$0
		348	\$0	348	\$0	\$0
		301	\$120,000			\$120,000
		107	\$0			\$0
		304	\$25,000			\$25,000
		308	\$125,000			\$125,000
		312	\$0			\$0
		316	\$0			\$0
		320	\$2,000,000			\$2,000,000
		315	\$1,500,000			\$1,500,000
		317	\$550,000			\$550,000
		328	\$295,300			\$295,300
		332	\$0			\$0
		373	\$0			\$0
		374	\$0			\$0
		375	\$0			\$0
		377	\$0			\$0
		368	\$548,200	368	\$0	\$548,200
172	\$269,800					\$269,800
	\$2,967,800		\$6,030,600		\$0	\$8,998,400

**TANGIBLE COSTS**

Conductor pipe  
Surface casing  
Intermediate casing  
Starting head equipment  
Intermediate head equipment  
Production casing  
Tubing  
Tubing head equipment  
Wellhead equipment (Christmas tree)  
Tubing anchor and/or packer  
Sucker rods, pumps, BHA, etc.  
Pumping unit  
Production unit or compressor  
Tanks, treaters, separators, etc.  
Line pipe, valves, connections  
Labor - "New" surface production equipment

**TOTAL TANGIBLES**

201	\$30,000					\$30,000
205	\$89,250					\$89,250
210	\$421,920					\$421,920
215	\$45,000					\$45,000
220	\$0					\$0
		401	\$628,560			\$628,560
		405	\$122,700			\$122,700
		410	\$15,000			\$15,000
		415	\$15,000			\$15,000
		420	\$5,000			\$5,000
		425	\$20,000			\$20,000
		430	\$0			\$0
				435	\$0	\$0
				440	\$75,000	\$75,000
				441	\$50,000	\$50,000
				445	\$75,000	\$75,000
	\$586,200		\$806,300		\$200,000	\$1,592,500

<b>TOTAL COST</b>	<b>DRILLING</b> <b>\$3,554,000</b>	<b>COMPLETION</b> <b>\$6,836,900</b>	<b>PRODUCTION</b> <b>\$200,000</b>	<b>TOTAL</b> <b>\$10,590,900</b>
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FASKEN OIL AND RANCH, LTD.

AFE COST ESTIMATE

12/19/2024

Thai Curry 22-27 Fed #434H  
Drill and Complete  
AFE NO:  
Wolfcamp  
Sec. 22 and 27, T20S R32E, Lea County, NM

Drilling Total = \$3,554,000  
Completion Total = \$6,836,900  
Facilities Total = \$200,000

Intangible Total = \$8,998,400  
Tangible Total = \$1,592,500

TOTAL COST = \$10,590,900

INTANGIBLE COSTS

Drilling costs-footage  
Drilling costs-day work  
Rig mobilization  
Cement surface casing  
Cement intermediate casing  
Float equipment, centralizers, DV/ECP, etc.  
Directional drilling services  
Mud logging services  
Open hole logging services  
Geological tests, cores, studies, etc.  
Downhole rental equipment, BHA  
Line & fence pit, pit liners  
Fences & cattleguards  
Base fluid (SBM/OBM)  
SBM/OBM cuttings management  
Fresh and brine water  
Fuel  
Mud and chemicals  
Bits  
Hauling, trucking, transport  
Test & inspect tubulars  
Casing expense  
Surface rental equipment  
Welding, roustabout service  
Miscellaneous services, supplies (Inc. P&A)  
Surveying, Damages  
Roads, location, pits, clean up  
Wellsite supervision expenses  
Supervision - meals  
Tank rental & hauling  
Valves, piping, connections-TEMP  
Pulling unit for completion  
Coil tubing unit for completion  
Reverse drilling equipment  
Cement production casing  
Other cementing  
Acidizing services & materials  
Fracturing services & materials  
Frac proppant  
Frac chemicals  
Wireline service  
Packer &/or bridge plug rental  
Spooling, banding, pump tech  
Cable and/or cable service  
Fishing service  
Repair or replace sub pump  
Contingencies 10%  
TOTAL INTANGIBLES

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106	\$60,000					\$60,000
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118	\$0					\$0
145	\$66,700					\$66,700
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157	\$0					\$0
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169	\$0	364	\$0	364	\$0	\$0
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		348	\$0	348	\$0	\$0
		301	\$120,000			\$120,000
		107	\$0			\$0
		304	\$25,000			\$25,000
		308	\$125,000			\$125,000
		312	\$0			\$0
		316	\$0			\$0
		320	\$2,000,000			\$2,000,000
		315	\$1,500,000			\$1,500,000
		317	\$550,000			\$550,000
		328	\$295,300			\$295,300
		332	\$0			\$0
		373	\$0			\$0
		374	\$0			\$0
		375	\$0			\$0
		377	\$0			\$0
		368	\$548,200	368	\$0	\$818,000
			\$6,030,600		\$0	\$8,998,400

TANGIBLE COSTS

Conductor pipe  
Surface casing  
Intermediate casing  
Starting head equipment  
Intermediate head equipment  
Production casing  
Tubing  
Tubing head equipment  
Wellhead equipment (Christmas tree)  
Tubing anchor and/or packer  
Sucker rods, pumps, BHA, etc.  
Pumping unit  
Production unit or compressor  
Tanks, treaters, separators, etc.  
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Labor - "New" surface production equipment  
TOTAL TANGIBLES

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		415	\$15,000			\$15,000
		420	\$5,000			\$5,000
		425	\$20,000			\$20,000
		430	\$0			\$0
				435	\$0	\$0
				440	\$75,000	\$75,000
				441	\$50,000	\$50,000
				445	\$75,000	\$75,000
	\$586,200		\$806,300		\$200,000	\$1,592,500

TOTAL COST                      DRILLING                      COMPLETION                      PRODUCTION                      TOTAL  
\$3,554,000                      \$6,836,900                      \$200,000                      \$10,590,900

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

MODEL FORM OPERATING AGREEMENT  
HORIZONTAL MODIFICATIONS

OPERATING AGREEMENT

DATED

December 1 , 2024  
Year

OPERATOR Fasken Oil and Ranch, Ltd.

CONTRACT AREA E/2 of Section 22, NE/4 and N/2SE/4 of Section 27, Township 20 South,

Range 32 East

COUNTY OF Lea County , STATE OF New Mexico



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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Fasken Oil and Ranch, Ltd. hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

R. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. When used in connection with a Horizontal Well, the term "Plug Back" shall mean an operation to test or Complete the well at a stratigraphically shallower Zone in which the operation has been or is being Completed and which is not in an existing Lateral.

S. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.

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

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

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

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



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

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

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

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

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

## ARTICLE II.

### EXHIBITS

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

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

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

X B. Exhibit "B," Form of Lease

X C. Exhibit "C," Accounting Procedure

X D. Exhibit "D," Insurance

X E. Exhibit "E," Gas Balancing Agreement

X H. Other: Recording Supplement

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

## ARTICLE III.

### INTERESTS OF PARTIES

#### A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production: See Article XVI. T for additional provisions.

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

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

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

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

#### C. Subsequently Created Interests:

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

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

ARTICLE IV.  
TITLES

A. Title Examination:

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

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

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

B. Loss or Failure of Title:

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

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

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

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

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

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

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

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

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

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

acreage basis, up to the amount of unrecovered costs:

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

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

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

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

#### ARTICLE V.

##### OPERATOR

A. Designation and Responsibilities of Operator: See Article XVI.G and K. for additional provisions.

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

B. Resignation or Removal of Operator and Selection of Successor: See Article XVI.S. for additional provisions.

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

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

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

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

C. Employees and Contractors:

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



D. Rights and Duties of Operator: See Article. G., H. and K. for additional provisions.

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

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

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

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

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

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

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

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

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

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

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

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

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

#### ARTICLE VI.

#### DRILLING AND DEVELOPMENT

##### A. Initial Well:

On or before the 31st day of December, 2025, Operator shall commence the drilling of the Initial Well at the following location (if a Horizontal Well, surface and Tonnus/Termini of the Lateral(s).

SHL in the NE/4 of Section 22, T20S-R32E and BHL in the N/2 of SE/4 of Section 27, T20S-R32E, and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to a sufficient depth to penetrate and produce from the Bone Spring Formation.

and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to

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 as to a Vertical Well), specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation as outlined in an AFE. A proposal for the drilling of or other operations for a Horizontal Well shall: (1) state that the proposed operation is a Horizontal Well operation; (2) include drilling and Completion plans specifying the proposed: (i) Total Measured Depth(s), (ii) surface hole location(s), (iii) Terminus/Tennini, (iv) Displacement(s), (v) utilization and scheduling of rig(s) (Spudder Rig, drilling and Completion), and (vi) stimulation operations, staging and sizing; and (3) include estimated drilling and Completion costs as set forth in an AFE. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

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

#### 2. Operations by Less Than All Parties:

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

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

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



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

(i) 100.00 % 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) 300.00 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

(c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment 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 300.00 % 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, Re-completing, Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6. to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

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

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

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

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

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

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

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

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

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

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

This Article VI.B.5, "Sidetracking," shall not apply to operations in an existing Lateral of a Horizontal Well.

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

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

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

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

9. Spudder Rigs

(a) Within Approved Horizontal Well proposals (i.e. proposals which include an approved AFE) If an approved Horizontal Well proposal provides that a Spudder Rig shall be utilized, and Operator desires to extend the proposed Horizontal Rig Move-On Period, Operator may obtain one or more extensions, each for a period of time not to exceed 30 days upon notice and the affirmative vote of not less than 60.00 % in interest of the Consenting Parties to the drilling of the proposed well.

(b) Not Within Approved Horizontal Well proposals If an approved Horizontal Well proposal does not provide that a Spudder Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to the Drilling Parties (which notice shall include a Horizontal Rig Move-On Period) and the affirmative vote of not less than 60.00 % in interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On Period may be requested by Operator in the same manner as provided in Article VI.B.9(a) immediately above.

(c) Failure to meet Horizontal Rig Move-On Period. If a rig capable of drilling a Horizontal Well to its Total Measured Depth has not commenced operations within the Horizontal Rig Move-On Period, or any approved extension(s) thereof, unless 60.00 % in interest of the Consenting Parties agree to abandon the operation, Operator shall re-propose the well in the manner provided in Article VI.B of this agreement. Any party who was a Non-Consenting Party to the original drilling proposal shall be entitled to a new election. Costs of the operation, incurred both before and after such re-proposal, shall be borne as follows:

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

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

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

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

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

C. Completion of Wells; Reworking and Plugging Back:

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

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

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

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

**D. Other Operations:**

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of seventy-five thousand Dollars (\$ 75,000.00) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of one hundred thousand Dollars (\$ 100,000.00). Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 60.00 % of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

**E. Abandonment of Wells:**

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

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

Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

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

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



**F. Termination of Operations:**

Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing, Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without consent of parties bearing 60.00 % of the costs of such operation; provided, however, that in the event granite or other practically impenetrable substance or condition in the hole is encountered which renders further operations impractical, Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

**G. Taking Production in Kind:**

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

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

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

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

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

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

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

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

**A. Liability of Parties:**

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

**B. Liens and Security Interests: See Article XVI.O. for additional provisions.**

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

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

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

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

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

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

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

**C. Advances:**

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

within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

**D. Defaults and Remedies:**

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

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

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

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

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

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

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

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

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

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

**F. Taxes:**

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



and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

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

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

#### ARTICLE VIII.

#### ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

##### A. Surrender of Leases:

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

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

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement but shall be deemed subject to an Operating Agreement <sup>identical to this</sup> / this agreement and modified only to reflect the ownership of the acquiring parties and their respective interests.

##### B. Renewal or Extension of Leases:

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

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

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

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

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

##### C. Acreage or Cash Contributions:

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

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

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

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

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

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

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

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

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

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

**ARTICLE IX.**

**INTERNAL REVENUE CODE ELECTION**

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

**ARTICLE X.**

**CLAIMS AND LAWSUITS**

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed one hundred thousand Dollars (\$ 100,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party

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

#### ARTICLE XI.

##### FORCE MAJEURE

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

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

#### ARTICLE XII.

##### NOTICES

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

#### ARTICLE XIII.

##### TERM OF AGREEMENT

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

- ☒ Option No. 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 180 days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

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

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

#### ARTICLE XIV.

##### COMPLIANCE WITH LAWS AND REGULATIONS

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

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

###### B. Governing Law:

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

###### C. Regulatory Agencies:

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



or adjacent to the Contract Area.

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

**ARTICLE XV.  
MISCELLANEOUS**

**A. Execution:**

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

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

**B. Successors and Assigns: See Article XVI.N for additional provisions.**

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

**C. Counterparts:**

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

**D. Severability: See Article XVI.R. for additional provisions.**

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

ARTICLE XVI.  
OTHER PROVISIONS

A. Conflict of Terms:

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

B. Operator's Duty:

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

C. Priority of Operations – Horizontal Wells:

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

- First: Testing, coring or logging;
- Second: Complete drilling operations of all proposed Laterals;
- Third: Extend or Deepen a Lateral;
- Fourth: Kick out and drill an additional Lateral in the same Zone;
- Fifth: Plug Back the well to a Zone above the Zone in which a Lateral was drilled; if there is more than one proposal to Plug Back, the proposal to Plug Back to the next deepest prospective Zone shall have priority over a proposal to Plug Back to a shallower prospective Zone;
- Sixth: Sidetrack; and
- Seventh: Plug and abandon as provided for in Article VI.E

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

D. CONTINUING OBLIGATION. The termination of this agreement or assignment of this agreement to a successor(s) in interest in the JOA 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.

E. RECORDING SUPPLEMENT. Concurrently herewith, the parties are executing a Recording Supplement which shall immediately be filed in the County Clerk's Office of Lea County, New Mexico. Upon termination of this agreement and the satisfactions of all obligations hereunder, 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. In the event the Contract Area of this agreement contracts pursuant to the terms and provisions noted herein, all parties hereto agree that Operator is authorized to execute an amended Memorandum of Operating Agreement to reflect the contraction of the Contract Area.

F. WELL ACCESS. In connection with the drilling of any wells under this agreement, Non-Operator(s) that have elected to participate in the operation(s), its employees and representatives shall have the right at all reasonable times at its own risk and expense to full and complete access to the derrick floor, well location and Contract Area. NON-OPERATORS SHALL HOLD OPERATOR HARMLESS FROM ANY AND ALL LOSS OR DAMAGE OR ANY NATURE OR KIND WHATSOEVER IN ANY WAY RESULTING FROM NON-OPERATOR'S ENTRY UPON, PRESENCE ON OR ACTIVITIES OF ITS RESPECTIVE EMPLOYEES AND REPRESENTATIVES WHILE ON THE CONTRACT AREA INCLUDING WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, BODILY INJURY OR DEATH AT ANY TIME RESULTING THEREFROM AND DAMAGE TO PROPERTY SUSTAINED BY THE NON-OPERATOR AND ITS RESPECTIVE EMPLOYEES AND REPRESENTATIVES.

G. DESIGNATION AND RESPONSIBILITY OF OPERATOR. Fasken Oil and Ranch, Ltd shall be the Operator of the Contract Area and shall conduct and have direct and full control of all operations on the Contract Area as permitted and required by and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed or hold itself out as the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. The specific duty of Operator to Non-Operators shall depend upon the service performed as follows:

- a. In the handling of all monies received from Non-Operators or from other parties for the benefit of the joint account, Operator shall have the duties of a fiduciary. During times when certain owners take their proportionate share of production in kind, Operator shall have no duty of a fiduciary to those owners with respect to marketing production.
- b. In the performance of duties on the Contract Area, the Operator shall act as a reasonable prudent Operator in a good and workmanlike manner with due diligence and dispatch in accordance with good oilfield practice and in accordance with applicable law and regulation. PROVIDED HOWEVER IN NO EVENT SHALL IT HAVE ANY LIABILITY AS OPERATOR TO THE OTHER PARTIES FOR LOSSES SUSTAINED OR LIABILITIES INCURRED EXCEPT SUCH AS MAY RESULT FROM GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

- 1 c. For all other duties and responsibilities hereunder, the Operator shall conduct its activities under  
2 this agreement as a reasonable and prudent Operator in a good and workmanlike manner with  
3 due diligence and dispatch in accordance with good oilfield practice and in compliance with  
4 applicable laws and regulation.  
5
- 6 H. NO FIDUCIARY OBLIGATION. Except as relates to the handling of monies as specified in article V.A,  
7 the parties shall not be considered fiduciaries or to have established a confidential relationship but rather  
8 the parties shall be free to act on an arm's length basis in accordance with their own respective self-  
9 interests.  
10
- 11 I. INFORMATION ON CONTRACT AREA. All information gained by the Operator in the Contract Area  
12 during the term of this agreement shall upon request be shared by the Operator whether or not paid for by  
13 the Non-Operators subject before such sharing to the obligation of the requesting party to pay its  
14 proportionate share therefore. Operator and Non-Operator shall hold all information gathered from the  
15 drilling, development and production of the wells on the Contract Area confidential for the term of this  
16 agreement unless required by law, rule or regulation or, if furnishing information to a third party, Operator  
17 and/or Non-Operators shall have said third party execute a confidentiality agreement prior to sharing any  
18 information.  
19
- 20 J. COMMENCEMENT OF OPERATIONS. For the purpose of Article VI.B.1 and VI.B.2, Operator may  
21 commence activities preliminary to actual drilling operations including without limitation, building  
22 location, roads and pits, delivering materials and equipment to the well site, rigging up a drilling rig, and/or  
23 actual drilling operations, at any time either before or after giving the notice of proposed operations  
24 required by said Articles. Notwithstanding the foregoing, the parties receiving notice of proposed  
25 operations pursuant to Article VI.B.1 and VI.B.2 shall have the full time allowed in which to make their  
26 election(s) and shall be subject to the non-consent provisions thereof to the same extent and in the same  
27 manner as provided in Article VI.B without reference to the time that activities were commenced relative  
28 to giving notice.  
29
- 30 K. OPERATOR'S AUTHORITY TO PERFORM CERTAIN MINISTERIAL ACTS. Non-Operators hereby  
31 irrevocably authorize Operator (including any successor Operator validly serving hereunder) to take the  
32 following actions under or in connection with this agreement, for and on behalf and in the name of Non-  
33 Operators, all without necessity of further action or consent by Non-Operators:  
34 a. Execute, deliver, and record in all appropriate public records any memoranda of this agreement  
35 (including any amendments or supplements hereto), any financing statements, and any and all  
36 other instruments and documents necessary or desirable to evidence, perfect and enforce the terms  
37 of this agreement including without limitation the liens and security interests established under  
38 Article VII.B hereof.  
39 b. Execute and deliver appropriate modifications or updates to Exhibit "A" to this agreement to  
40 reflect subsequently occurring events such as subsequent acquisitions of leases or changes in the  
41 interests of the parties. The grant and existence of such powers shall not alter, diminish or affect  
42 any obligations of Non-Operators under this agreement. The exercise or non-exercise of such  
43 powers shall be at the discretion of Operator whose decisions with respect to exercise or non-  
44 exercise shall be non-actionable and shall be final, binding and conclusive as to all parties.  
45
- 46 L. AMENDMENT OF OPERATING AGREEMENT. Except as provided in Article XVI, this agreement  
47 may be amended only by a written document that is specific in stating that it is an amendatory document  
48 to this agreement and is executed by authorized representatives of each party hereto. All replacement  
49 pages to this agreement which result actions authorized under Article XVI.L, or an amendment as provided  
50 herein, will be clearly marked as replacement pages and set forth the date of such amendment or  
51 replacement.  
52
- 53 M. SEPARATE MEASUREMENT FACILITIES. If any party hereto creates the necessity of separate  
54 measurement by reason of assignments or other mortgages or conveyances within the Contract Area, such  
55 party shall alone bear the entire costs of purchasing, installing, and operating such separate measurement  
56 facility, which facility may be constructed and operated by Operator, at Operator's election, for the  
57 account of said party and shall be subject to all other provisions of this Operating Agreement including,  
58 without limitation, those provisions relating to advances for costs and offsets for unpaid expenses.  
59
- 60 N. BANKRUPTCY – If, following the granting of relief under the Bankruptcy Code to any party hereto as  
61 debtor thereunder, this agreement should be held to be an executory contract within the meaning of 11  
62 U.S.C. Section 3654, then the Operator or, if the Operator is the debtor in bankruptcy, the other parties,  
63 shall be entitled to a determination by the debtor of any trustee of the debtor within thirty (30) days from  
64 the date an order for relief is entered under the Bankruptcy Code, as to the rejection or assumption of this  
65 agreement. In the event of an assumption, Operator or the other parties shall be entitled to adequate  
66 assurances as to future performance of debtor's obligations hereunder and the protection of the interests  
67 of all other parties.  
68
- 69 O. SECURITY. The lien and security interest granted by each Non-Operator to Operator, and by Operator  
70 to the Non-Operators, under Article VII.B. shall extend not only to such party's oil and gas rights in the  
71 Contract Area (which for greater certainty shall include all of each party's leasehold interest, leasehold  
72 estate and/or unleased mineral interest in the Contract Area), the oil and/or gas when extracted, and  
equipment (as mentioned in said Article), but also to all accounts, contract rights, inventory, and general



intangibles constituting a part of, relating to, or arising out of said oil and gas rights, extracted oil and gas, and said equipment or which are otherwise owned or held by any such party in the Contract Area. Further, the lien and security interest of each of said parties shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII.B as being subject to said lien and security interest.

- P. COVENANTS RUNNING WITH LAND/EFFECT OF TRANSFER. The terms, covenants, and conditions of this agreement shall be covenants running with the lands covered hereby and leasehold estates therein and with each transfer or assignment of said lands or leasehold estates. Any assignment, conveyance or other transfer of an Oil and Gas Lease or Oil and Gas Interest that is subject to this agreement shall relieve the transferor from liability for the cost and expense of operations attributable to the transferred interest which are conducted after the effective date hereof, provided that the transferor shall remain liable for and shall cause to be paid its proportionate part of the cost and expense of all operations for which it was obligated to pay and were commenced prior to the actual transfer, except costs and expenses arising out of or directly related to a specific operation in which the transferor elected (or was deemed to have elected) not to participate pursuant to Article VI. From and after the effective date of this said assignment, conveyance or other transfer, the transferee shall be deemed to be a party to this agreement, subject to the performance of all obligations attributable to the transferred interest for all periods from and after the effective date of transfer. The Assumption of liability by a transferee, pursuant to the foregoing, shall operate to terminate prospective liability of the transferring party for all periods subsequent to the later of the actual date of transfer or the effective date of transfer, but shall in no event limit, diminish, or affect the direct and continuing liability of the transferring party under this agreement and applicable law for all periods prior to such date.
- Q. INDEMNITY. In the performance of duties on the Contract Area, the Operator shall act as a reasonable prudent Operator in a good and workmanlike manner with due diligence and dispatch in accordance with good oilfield practice and in accordance with applicable law and regulation, PROVIDED HOWEVER, EXCEPT FOR OPERATOR'S INTEREST IN THE CONTRACT AREA, NON-OPERATORS SHALL INDEMNIFY, DEFEND AND HOLD HARMLESS OPERATOR FOR, FROM, AND AGAINST ANY AND ALL CLAIMS, DAMAGES, AND LIABILITY OF EVERY KIND AND CHARACTER (INCLUDING ALL COSTS AND EXPENSES, INCLUDING BUT NOT LIMITED TO ATTORNEYS FEES), RESULTING FROM, ARISING OUT OF, OR INCIDENTAL TO OPERATOR'S PERFORMANCE OF DUTIES ON THE CONTRACT AREA EVEN IF SUCH LIABILITIES ARISE FROM OR ARE ATTRIBUTED TO OPERATOR'S NEGLIGENCE THE ONLY LIABILITIES TO WHICH THIS INDEMNITY OBLIGATION DOES NOT APPLY ARE THOSE RESULTING FROM OPERATOR'S GROSS NEGLIGENCE AND INTENTIONAL TROTS FOR WHICH OPERATOR SHALL BE SOLELY RESPONSIBLE.
- R. SEVERABILITY. In the event any provision contained herein should be deemed inconsistent with or contrary to any Federal, State, or Municipal law, rule or regulation, said provision shall be deemed to be modified to the extent required to comply with said law, rule or regulation and as so modified said provision in this Agreement shall continue in full force and effect without affecting the enforceability of the remaining provisions, duties and liabilities set forth herein.
- S. SALE OF OPERATOR'S INTEREST. In the event of a sale by Fasken Land and Minerals, Ltd. of its interest in the Contract Area, the provisions of Article V.B. shall apply so that there shall be an election of a successor operator pursuant to said provisions of Article V.B.
- T. In addition to the provisions of Article III.B. regarding the allocation of excess burdens, the parties to this Agreement expressly agree that if any party contributes any Lease or Interest that, by its terms imposes additional costs on the lessee thereunder based upon stated prohibitions against deductions for post-production charges, such as transportation, storage, processing, and similar costs, the party contributing the Lease or Interest that includes such prohibitions shall assume and alone bear any costs or charges that arise from such prohibition, and such party shall indemnify, defend, and hold the other parties hereto harmless from any and all claims attributable to such additional charges. No party shall ever be responsible to any other party's lessor or royalty owner, and if such other party's lessor or royalty owner should demand and receive any settlement based upon prohibitions against post-production charges, or any other matter increasing the cost of production to lessee, the party contributing the affected Lease shall bear any and all such additional burdens attributable to such higher costs.

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

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

ATTEST OR WITNESS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

OPERATOR

Fasken Oil and Ranch, Ltd. a Texas limited partnership  
Fasken Management, LLC its general partner

By \_\_\_\_\_

Tommy E. Taylor  
Type or print name

Title Senior Vice President

Date \_\_\_\_\_

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

NON-OPERATORS

Fasken Land and Minerals, Ltd., a Texas Limited  
partnership by Fasken Management, LLC its  
General partner

By \_\_\_\_\_

Tommy E. Taylor  
Type or print name

Title Senior Vice President

Date \_\_\_\_\_

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

Chief Capital (O&G) II LLC

By \_\_\_\_\_

Walt Nixon  
Type or print name

Title President

Date \_\_\_\_\_

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

By \_\_\_\_\_

\_\_\_\_\_  
Type or print name

Title \_\_\_\_\_

Date \_\_\_\_\_

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

ACKNOWLEDGMENTS

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

Individual acknowledgment:

State of TEXAS )  
 ) ss  
County of MIDLAND )

This instrument was acknowledged before me on \_\_\_\_\_, 2024, by Tommy E Taylor, Senior Vice President of Fasken Management, LLC, general partner of Fasken Oil and Ranch, Ltd. and Fasken Land and Minerals, Ltd., a Texas limited Partnership, on behalf of said limited liability company and \_\_\_\_\_ by \_\_\_\_\_ limited partnership \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires \_\_\_\_\_

Acknowledgment in representative capacity:

State of TEXAS )  
 ) ss  
County of TARRANT )

This instrument was acknowledged before me on \_\_\_\_\_, 2024  
\_\_\_\_\_ by Walt Nixon \_\_\_\_\_ as  
President of Chief Capital (O&G) II LLC \_\_\_\_\_

(Seal, if any)

\_\_\_\_\_  
Title (and Rank) \_\_\_\_\_  
My commission expires \_\_\_\_\_

Acknowledgment in representative capacity:

State of TEXAS )  
 ) ss  
County of MIDLAND )

This instrument was acknowledged before me on \_\_\_\_\_, 2024  
\_\_\_\_\_ 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 dated December 1, 2024, by and between Fasken Oil and Ranch, Ltd., as Operator, and Chief Capital (O&G) II LLC, et al., as Non-Operators.

**1. DESCRIPTION OF LANDS SUBJECT TO THIS AGREEMENT (the "Contract Area"):**

E/2 of Section 22, NE/4, and N/2 of SE/4 of Section 27, Township 20 South, Range 32 East, Lea County, New Mexico

The parties will revise this Exhibit "A" as needed prior to commencement of the initial well. One of the revisions will be the additional superseding language to which would allow the April 9, 1979 JOA to remain effective as to the E/2 of Section 22.

**2. RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS OR SUBSTANCES:**

**3. PARTIES TO AGREEMENT, WITH ADDRESSES AND TELEPHONE NUMBERS FOR NOTICE PURPOSES:**

Fasken Land and Minerals, Ltd. and  
Fasken Oil and Ranch, Ltd.  
Attn.: Land Department  
6101 Holiday Hill Road  
Midland, TX 79707-0631  
Email address: land@forl.com  
Telephone: (432) 687-1777  
Fax: (432) 687-0669

Chief Capital (O&G) II LLC  
Attention: Walt Nixon, President  
8111 Westchester Drive, Suite 900  
Dallas, TX 75225  
Telephone: ( ) -  
Email address:

**4. PERCENTAGE OR FRACTIONAL INTEREST OF PARTIES TO THIS AGREEMENT:**

<u>Working Interest Owner</u>	<u>Working Interest</u>
To be determined upon completion of a	
Title Opinion	
<b>Total</b>	<b>1.00000000</b>

**5. OIL AND GAS/OIL, GAS AND MINERAL LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THE AGREEMENT:**

**A. Oil and Gas/Oil, Gas and Mineral Leases committed by Fasken Land and Minerals, Ltd. et al**

- 1) Date: September 1, 1978  
Lessor: United States of America- NM-33955  
Lessee: Peggy E. Baetz  
Recording: Volume 316, Page 855, Lea County, New Mexico

Lands: ONLY AS TO East half of Section 22, T-20-S, R32-E, Lea County,  
New Mexico  
Lease Royalty: 1/8th  
Other Burdens: as to burdens of record.

**B. Oil and Gas/Oil, Gas and Mineral Leases committed by**

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Date: April 19, 2023  
Lessor: Oak Valley Mineral and Land, LP and Sortida Resources, LLC  
Lessee: Chief Capital (O&G) II LLC  
Recording: Book 2210, Page 117  
Lands: S/2NE/4, N/2SE/4 of Section 27, Township 20 South, Range  
32 East, Lea County, New Mexico  
Lease Royalty: 1/4  
Other Burdens: N/A

Date: May 24, 2023  
Lessor: Sitio Permian, LLC  
Lessee: Chief Capital (O&G) II LLC and Waterloo Resources LLC  
Recording: Book 2211, Page 128  
Lands: S/2NE/4, N/2SE/4 of Section 27, Township 20 South, Range  
32 East, Lea County, New Mexico  
Lease Royalty:  
Other Burdens:

**6. BURDENS ON PRODUCTION:**

**A. To be determined upon completion of a Title Opinion.**

EXHIBIT "B"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED DECEMBER 1, 2024, BETWEEN  
FASKEN OIL AND RANCH, LTD., AS OPERATOR, AND CHIEF CAPITAL (O&G) II LLC, ET AL, AS NON-OPERATORS

Oil & Gas Lease

THIS AGREEMENT made this \_\_\_\_\_ day of \_\_\_\_\_, 2024 between \_\_\_\_\_, whose address is \_\_\_\_\_, herein called lessor (whether one or more) and \_\_\_\_\_, with an address of \_\_\_\_\_, herein called lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil, gas and associated hydrocarbons, together with the right to engage in all activities reasonably necessary or convenient to said stated purposes, including but not limited to making surveys, conducting seismic operations, establishing and utilizing facilities for surface and subsurface disposal of salt or produced water, injecting gas, waters, other fluids, and air into subsurface strata, laying pipelines, storing oil, building tanks, roadways, telephone lines, power stations, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said oil, gas and associated hydrocarbons, the following described land in \_\_\_\_\_ County, New Mexico, to-wit:

Township \_\_\_\_\_, Range \_\_\_\_\_, N.M.P.M.  
Section \_\_\_\_\_

Said land is estimated to comprise \_\_\_\_\_ acres, whether it actually comprises more or less, sometimes hereinafter referred to as "leased premises". This lease covers and includes any interest which lessor may own in any streets, alleys, highways, railroads, canals, rivers or any contiguous, adjacent or adjoining land to the leased premises.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of three (3) years from this date (called primary term) and as long thereafter as oil, gas or associated hydrocarbons is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 25% of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected, or from time to time, at the option of lessee, lessee may sell the oil produced and saved from said land and pay lessor 25% of the net amount received by lessee, computed at the wellhead; (b) on gas, including casinghead gas or other gaseous substances produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 25% of the gas used, provided that on gas sold on or off the premises, the royalties shall be 25% of the net amount received by lessee from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut-in, either before or after production therefrom, then on or before 90 days after said well is shut-in, and thereafter at annual intervals, lessee, or its designee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party, or its designee making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The net amount received by lessee from the sale of oil, gas or associated hydrocarbons on or off the leased premises shall be the Price established by the sales contract entered into in good faith by lessee and purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments, including, but not limited to any costs associated with treating, processing, separating, metering, transporting, compressing, and all other costs and expenses associated with handling the oil and/or gas between the wellhead and point of sale.

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder 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 provisions or Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil, gas and associated hydrocarbons. Units pooled hereunder shall not exceed the spacing unit or project area fixed by law, from time to time during the term hereof, 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 said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the leased premises are located and such 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 such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled oil, gas or associated hydrocarbons 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 oil, gas or associated hydrocarbons from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

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

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, 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 said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200ft.) of any residence or barn now on said land without lessor's consent.



8. Whenever used in this lease the "operations" shall mean any of the following: construction activities in preparation for and/or actual drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil, gas or associated hydrocarbons, whether or not in paying quantities.

9. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their 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 such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or the executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

10. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder, by reason of scarcity or inability to obtain or use equipment or material, by act of God, by any Federal or state law or any order, rule or regulation of governmental authority (including the time during which lessee is waiting on the issuance of any order, rule, policy or practice in connection therewith or while the time for comments on the issuance of any rule, order, practice or policy is in effect), or by other act, event, circumstance or condition beyond lessee's reasonable control, then while so prevented, and for sixty (60) days thereafter, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder, and for sixty (60) days thereafter, and that time shall not be counted against lessee, anything in this lease to the contrary notwithstanding. As used herein, the term "order, rule, denial, policy, directive, rule-making proposal, and/or practice" includes, but is not limited to any denial, restriction or delay of drilling and/or other operations on the leased premises attributable to environmental and/or endangered species restrictions, conditions and limitations now or hereafter adopted, enforced or applied to the leased premises by any Federal or state agency having authority with respect to the leased premises, and without limiting the generality of the foregoing clause, shall specifically include all lesser prairie chicken and sand dune lizard stipulations and restrictions, collectively referred to herein as "Endangered Species and Environmental Conditions." If lessee is precluded from engaging in drilling or reworking operations, or from producing oil or gas hereunder because the necessary permits and approvals to drill have not been obtained, or because lessee is required to postpone or suspend drilling or reworking operations or from producing oil or gas hereunder by application of Endangered Species and Environmental Conditions, then its obligation and/or entitlement to engage in drilling or reworking operations or from producing oil or gas hereunder shall be deferred until sixty (60) days after approval of the necessary permits and approvals, or until sixty (60) days after drilling or reworking operations or producing oil or gas are allowed to commence or resume following any period of suspension attributable to Endangered Species and Environmental Conditions, and the running of periods of special limitation applicable to the estate granted hereby shall be tolled during such deferral period.

11. In the event lessor considers that lessee has not complied with all its obligations hereunder, both expressed and implied, lessor shall notify lessee in writing, setting out specifically in what respect lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on lessee. Neither the service of said notice nor the doing of any act by lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that lessee has failed to perform all its obligations hereunder. If this lease is canceled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations, (but in no event less than forty acres), such acreage to be designated by lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of said leased premises included in a pooled unit on which there are operations. Lessee shall also have such easements on said land as are necessary to operations on the acreage so retained.

12. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein 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 such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

13. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

14. Lessor hereby grants to Lessee the option to extend or reinstate the primary term of this lease for two (2) years from (i) the expiration of the primary term of the lease, or (ii) the expiration of the lease as extended by operations and/or production as set-forth herein. The preceding option may be exercised as to any portion of the leased premises which is then held hereunder which would expire unless so extended. The option may be exercised by Lessee at any time as to portions of the leased premises, depending on the operations and/or production of the leased premises when such option arises; however, the option may be exercised as to each portion of the leased premises only once. The option may be exercised by Lessee, or its successors and assigns, prior to (i) the expiration of the primary term of the lease, or (ii) the expiration of the lease as extended by operations and/or production as set-forth herein, by sending payment to Lessor in the sum of \_\_\_\_\_ per net mineral acre for each acre of the portion of this lease selected by Lessee for extension or reinstatement. In addition to the payment, Lessee shall include either a description or a plat which describes the portion of the leased premises so extended. Said two-year extension or reinstatement shall be subject to all other terms and provisions of this lease.

15. This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes and shall be binding on those parties who execute the same, whether executed by all or a portion of the parties hereto.

IN WITNESS WHEREOF, this instrument is executed the day and year first above written.

Lessor:

ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ }  
COUNTY OF \_\_\_\_\_ }

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2024 by \_\_\_\_\_.

\_\_\_\_\_  
Notary Public, State of \_\_\_\_\_

Notary Seal:

## Exhibit " C "

### ACCOUNTING PROCEDURE JOINT OPERATIONS

Attached to and made part of Joint Operating Agreement dated December 1, 2024 between Easken Oil and Ranch, Ltd. as Operator  
and Chief Capital (O&G) II L.P., et al. as Non-operator

#### I. GENERAL PROVISIONS

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

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

#### I. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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



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

2  
3 "Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other  
4 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions  
5 contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted,  
6 promulgated or issued.

7  
8 "Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.

9  
10 "Non-Operators" means the Parties to the Agreement other than the Operator.

11  
12 "Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and  
13 gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping,  
14 heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of  
15 offshore operations, all of which are located offshore.

16  
17 "Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.

18  
19 "On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of  
20 Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other  
21 facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.

22  
23 "Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.

24  
25 "Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as  
26 "Party."

27  
28 "Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees,  
29 or is otherwise obligated, to pay and bear.

30  
31 "Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of  
32 the costs and risks of conducting an operation under the Agreement.

33  
34 "Personal Expenses" means reimbursed costs for travel and temporary living expenses.

35  
36 "Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual  
37 railhead may not exist.

38  
39 "Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a  
40 receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication,  
41 scheduling and dispatching center; and other associated functions serving the Joint Property.

42  
43 "Supply Store" means a recognized source or common stock point for a given Material item.

44  
45 "Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by  
46 engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint  
47 Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second  
48 paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-  
49 Operator, Non-Operator Affiliates, and/or third parties.

## 50 51 2. STATEMENTS AND BILLINGS

52  
53 The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the  
54 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all  
55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified  
56 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.  
57 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.

58  
59 The Operator may make available to Non-Operators any statements and bills required under Section 1.2 and/or Section 1.3 A (*Advances*  
60 *and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper  
61 copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and  
62 bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of  
63 weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via  
64 email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings  
65 electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written  
66 notice to the Operator.

### 3. ADVANCES AND PAYMENTS BY THE PARTIES

- A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of the estimated cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.
- B. Except as provided below, each Party shall pay its proportionate share of all bills in full within fifteen (15) days of receipt date. If payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed. Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the Operator at the time payment is made, to the extent such reduction is caused by:
- (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working interest or Participating Interest, as applicable; or
  - (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved or is not otherwise obligated to pay under the Agreement; or
  - (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty (30) day period following the Operator's receipt of such written notice; or
  - (4) charges outside the adjustment period, as provided in Section 1.4 (*Adjustments*).

### 4. ADJUSTMENTS

- A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section 1.5 (*Expenditure Audits*).
- B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section 1.4.B, are limited to the twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month period are limited to adjustments resulting from the following:
- (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*), or
  - (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception granted by the Operator relating to another property, or
  - (3) a government/regulatory audit, or
  - (4) a working interest ownership or Participating Interest adjustment.

### 5. EXPENDITURE AUDITS

- A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Section 1.4 (*Adjustments*). Any Party that is subject to payout accounting under the Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

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

those Non-Operators approving such audit.

The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month requirement for taking specific detailed written exception as required in Section 1.4.A (*Adjustments*) above. All claims shall be supported with sufficient documentation.

A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section 1.5.B or 1.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations, provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section 1.5.B or 1.5.C.

**B.** The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (*Advances and Payments by the Parties*).

**C.** The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in Section 1.5.E, if the Operator fails to provide substantive response to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (*Advances and Payments by the Parties*).

**D.** If any Party fails to meet the deadlines in Sections 1.5.B or 1.5.C or if any audit issues are outstanding fifteen (15) months after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution meeting, as set forth in this Section 1.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable. The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may be discussed at subsequent meetings until each such issue is resolved.

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

**E.** ☒ (*Optional Provision – Forfeiture Penalties*)

*If the Non-Operators fail to meet the deadline in Section 1.5.C, any unresolved exceptions that were not addressed by the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section 1.5.B or 1.5.C, any unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made, without interest, to the Joint Account.*

## 6. APPROVAL BY PARTIES

### A. GENERAL MATTERS

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



Operator shall notify all Non-Operators of the Operator's proposal and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

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

#### B. AMENDMENTS

If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting Procedure can be amended by an affirmative vote of three ( 3 ) or more Parties, one of which is the Operator, having a combined working interest of at least seventy-five percent ( 75.00 %), which approval shall be binding on all Parties, provided, however, approval of at least one (1) Non-Operator shall be required.

#### C. AFFILIATES

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

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

### II. DIRECT CHARGES

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

#### 1. RENTALS AND ROYALTIES

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

#### 2. LABOR

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

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

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

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

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

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

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

### 3. MATERIAL

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

### 4. TRANSPORTATION

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

### 5. SERVICES

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

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

### 6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

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

- A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation not to exceed ten percent (10.00 %) per annum; provided, however, depreciation shall not be charged when the

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

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

## 7. AFFILIATES

- A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed to such individual project do not exceed \$ 1,000.00. If the total costs for an Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to Section I 6.A (*General Matters*).
- B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I 6.A (*General Matters*), if the charges exceed \$ 1,000.00 in a given calendar year.
- C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property, unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation; provided, however, documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing, direct charges for Affiliate-owned communication facilities or systems shall be made pursuant to Section II 12 (*Communications*).

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

## 8. DAMAGES AND LOSSES TO JOINT PROPERTY

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

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

## 9. LEGAL EXPENSE

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

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

## 10. TAXES AND PERMITS

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

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



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

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

## 11. INSURANCE

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

## 12. COMMUNICATIONS

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

## 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

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

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

## 14. ABANDONMENT AND RECLAMATION

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

## 15. OTHER EXPENDITURES

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

## III. OVERHEAD

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

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

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

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

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

#### I. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

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

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

##### A. TECHNICAL SERVICES

- (i) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section 1.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for On-site Technical Services, including third party Technical Services:

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

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

- (ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section 1.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for Off-site Technical Services, including third party Technical Services:

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

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

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

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

##### B. OVERHEAD—FIXED RATE BASIS

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

Drilling Well Rate per month \$ 8000.00 (prorated for less than a full month)

Producing Well Rate per month \$ 800.00

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

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

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

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

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

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

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

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

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

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

## C. OVERHEAD—PERCENTAGE BASIS; Deleted

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

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

(b) Operating Rate \_\_\_\_\_ percent (\_\_\_\_\_) % of the cost of operating the Joint Property, exclusive of costs provided under Sections II.1 (*Rentals and Royalties*) and II.9 (*Legal Expense*); all Material salvage credits; the value of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that are levied, assessed, and paid upon the mineral interest in and to the Joint Property.

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

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

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

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

## 2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE

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



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

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

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

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

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

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

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

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

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

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

### 3. AMENDMENT OF OVERHEAD RATES

The overhead rates provided for in this Section III may be amended from time to time if, in practice, the rates are found to be insufficient or excessive, in accordance with the provisions of Section I.6.B (*Amendments*).

## IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and dispositions. The Operator shall provide all Material for use in the conduct of Joint Operations; however, Material may be supplied by the Non-Operators, at the Operator's option. Material furnished by any Party shall be furnished without any express or implied warranties as to quality, fitness for use, or any other matter.

### 1. DIRECT PURCHASES

Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. The Operator shall make good faith efforts to take discounts offered by suppliers, but shall not be liable for failure to take discounts except to the extent such failure was the result of the Operator's gross negligence or willful misconduct. A direct purchase shall be deemed to occur when an agreement is made between an Operator and a third party for the acquisition of Material for a specific well site or location. Material provided by the Operator under "vendor stocking programs," where the initial use is for a Joint Property and title of the Material does not pass from the manufacturer, distributor, or agent until usage, is considered a direct purchase. If Material is found to be defective or is returned to the manufacturer, distributor, or agent for any other reason, credit shall be passed to the Joint Account within sixty (60) days after the Operator has received adjustment from the manufacturer, distributor, or agent.

## 2. TRANSFERS

A transfer is determined to occur when the Operator (i) furnishes Material from a storage facility or from another operated property, (ii) has assumed liability for the storage costs and changes in value, and (iii) has previously secured and held title to the transferred Material. Similarly, the removal of Material from the Joint Property to a storage facility or to another operated property is also considered a transfer; provided, however, Material that is moved from the Joint Property to a storage location for safe-keeping pending disposition may remain charged to the Joint Account and is not considered a transfer. Material shall be disposed of in accordance with Section IV 3 (*Disposition of Surplus*) and the Agreement to which this Accounting Procedure is attached.

### A. PRICING

The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties pursuant to Section I 6 A (*General Matters*). Transfers of new Material will be priced using one of the following pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

- (1) Using published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS)
  - (a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill carload base prices (Houston, Texas, for special end) adjusted as of date of movement, plus transportation cost as defined in Section IV 2 B (*Freight*).
  - (b) For other Material, the published price shall be the published list price in effect at date of movement, as listed by a Supply Store nearest the Joint Property where like Material is normally available, or point of manufacture plus transportation costs as defined in Section IV 2 B (*Freight*).
- (2) Based on a price quotation from a vendor that reflects a current realistic acquisition cost.
- (3) Based on the amount paid by the Operator for like Material in the vicinity of the Joint Property within the previous twelve (12) months from the date of physical transfer.
- (4) As agreed to by the Participating Parties for Material being transferred to the Joint Property, and by the Parties owning the Material for Material being transferred from the Joint Property.

### B. FREIGHT

Transportation costs shall be added to the Material transfer price using the method prescribed by the COPAS Computerized Equipment Pricing System (CEPS). If not using CEPS, transportation costs shall be calculated as follows:

- (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFI-38 ("Material Pricing Manual") and other COPAS MFIs in effect at the time of the transfer.
- (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per weight of tubing transferred to the Railway Receiving Point.
- (3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston, Texas, to the Railway Receiving Point.
- (4) Transportation costs for Material other than that described in Sections IV 2 B (1) through (3), shall be calculated from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point.

Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the Railway Receiving Point to the Joint Property are in addition to the foregoing, and may be charged to the Joint Account based on actual costs incurred. All transportation costs are subject to Equalized Freight as provided in Section II 4 (*Transportation*) of this Accounting Procedure.

### C. TAXES

Sales and use taxes shall be added to the Material transfer price using either the method contained in the COPAS Computerized Equipment Pricing System (CEPS) or the applicable tax rate in effect for the Joint Property at the time and place of transfer. In either case, the Joint Account shall be charged or credited at the rate that would have governed had the Material been a direct purchase.

D. CONDITION

(1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties owning such Material, pursuant to Section I.6.A (*General Matters*). All refurbishing costs required or necessary to return the Material to original condition or to correct handling, transportation, or other damages will be borne by the divesting property. The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material for the receiving property.

(2) Condition "B" – Used Material in sound and serviceable condition and suitable for reuse without reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by seventy-five percent (75%).

Except as provided in Section IV.2.D(3), all reconditioning costs required to return the Material to Condition "B" or to correct handling, transportation or other damages will be borne by the divesting property.

If the Material was originally charged to the Joint Account as used Material and placed in service for the Joint Property, the Material will be credited at the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) multiplied by sixty-five percent (65%).

Unless otherwise agreed to by the Parties that paid for such Material, used Material transferred from the Joint Property that was not placed in service on the property shall be credited as charged without gain or loss.

(3) Condition "C" – Material that is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by fifty percent (50%).

The cost of reconditioning may be charged to the receiving property to the extent Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for items with different specifications, is considered Condition "D" Material. Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing, tubing, or drill pipe used as higher pressure service lines than standard line pipe, e.g., power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non-upset basis. For other items, the price used should result in the Joint Account being charged or credited with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section I.6.A (*General Matters*).

(5) Condition "E" – Junk shall be priced at prevailing scrap value prices.

E. OTHER PRICING PROVISIONS

(1) Preparation Costs

Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be provided to the Non-Operators upon request to support the cost of service. New coating and/or wrapping shall be considered a component of the Materials and priced in accordance with Sections IV.1 (*Direct Purchases*) or IV.2.A (*Pricing*), as applicable. No charges or credits shall be made for used coating or wrapping. Charges and credits for inspections shall be made in accordance with COPAS MFI-38 ("Material Pricing Manual").

(2) Loading and Unloading Costs

Loading and unloading costs related to the movement of the Material to the Joint Property shall be charged in accordance with the methods specified in COPAS MFI-38 ("Material Pricing Manual").



### 3. DISPOSITION OF SURPLUS

Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator may purchase, but shall be under no obligation to purchase, the interest of the Non-Operators in surplus Material.

Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the Joint Property to either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus Material, the Operator should make good faith efforts to dispose of surplus within twelve (12) months through buy/sale agreements, trade, sale to a third party, division in kind, or other dispositions as agreed to by the Parties.

Disposal of surplus Materials shall be made in accordance with the terms of the Agreement to which this Accounting Procedure is attached. If the Agreement contains no provisions governing disposal of surplus Material, the following terms shall apply:

- The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is attached without the prior approval of the Parties owning such Material.
- If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such Material.
- Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material, based on the pricing methods set forth in Section IV 2 (*Transfers*).
- Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value of the Materials, based on the pricing methods set forth in Section IV 2 (*Transfers*), is less than or equal to the Operator's expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting the classification of the Material as Condition C.
- Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior approval of the Parties owning such Material.

### 4. SPECIAL PRICING PROVISIONS

#### A. PREMIUM PRICING

Whenever Material is available only at inflated prices due to national emergencies, strikes, government imposed foreign trade restrictions, or other unusual causes over which the Operator has no control, for direct purchase the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, making it suitable for use, and moving it to the Joint Property. Material transferred or disposed of during premium pricing situations shall be valued in accordance with Section IV 2 (*Transfers*) or Section IV 3 (*Disposition of Surplus*), as applicable.

#### B. SHOP-MADE ITEMS

Items fabricated by the Operator's employees, or by contract laborers under the direction of the Operator, shall be priced using the value of the Material used to construct the item plus the cost of labor to fabricate the item. If the Material is from the Operator's scrap or junk account, the Material shall be priced at either twenty-five percent (25%) of the current price as determined in Section IV 2 A (*Pricing*) or scrap value, whichever is higher. In no event shall the amount charged exceed the value of the item commensurate with its use.

#### C. MILL REJECTS

Mill rejects purchased as "limited service" casing or tubing shall be priced at eighty percent (80%) of K-55/J-55 price as determined in Section IV 2 (*Transfers*). Line pipe converted to casing or tubing with casing or tubing couplings attached shall be priced as K-55/J-55 casing or tubing at the nearest size and weight.

## V. INVENTORIES OF CONTROLLABLE MATERIAL

The Operator shall maintain records of Controllable Material charged to the Joint Account, with sufficient detail to perform physical inventories.

Adjustments to the Joint Account by the Operator resulting from a physical inventory of Controllable Material shall be made within twelve (12) months following the taking of the inventory or receipt of Non-Operator inventory report. Charges and credits for overages or shortages will be valued for the Joint Account in accordance with Section IV 2 (*Transfers*) and shall be based on the Condition "B" prices in effect on the date of physical inventory unless the inventorying Parties can provide sufficient evidence another Material condition applies.

1 I. DIRECTED INVENTORIES

2 Physical inventories shall be performed by the Operator upon written request of a majority in working interests of the Non-Operators  
3 (hereinafter, "directed inventory"); provided, however, the Operator shall not be required to perform directed inventories more frequently  
4 than once every five (5) years. Directed inventories shall be commenced within one hundred eighty (180) days after the Operator receives  
5 written notice that a majority in interest of the Non-Operators has requested the inventory. All Parties shall be governed by the results of  
6 any directed inventory.  
7

8 Expenses of directed inventories will be borne by the Joint Account; provided, however, costs associated with any post-report follow-up  
9 work in settling the inventory will be absorbed by the Party incurring such costs. The Operator is expected to exercise judgment in keeping  
10 expenses within reasonable limits. Any anticipated disproportionate or extraordinary costs should be discussed and agreed upon prior to  
11 commencement of the inventory. Expenses of directed inventories may include the following:  
12

- 13 A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel  
14 performing the inventory or a rate agreed to by the Parties pursuant to Section I 6 A (*General Matters*). The per diem rate shall also  
15 be applied to a reasonable number of days for pre-inventory work and report preparation.  
16  
17 B. Actual transportation costs and Personal Expenses for the inventory team.  
18  
19 C. Reasonable charges for report preparation and distribution to the Non-Operators.  
20

21 2. NON-DIRECTED INVENTORIES

22 A. OPERATOR INVENTORIES

23 Physical inventories that are not requested by the Non-Operators may be performed by the Operator, at the Operator's discretion. The  
24 expenses of conducting such Operator-initiated inventories shall not be charged to the Joint Account.  
25

26 B. NON-OPERATOR INVENTORIES

27 Subject to the terms of the Agreement to which this Accounting Procedure is attached, the Non-Operators may conduct a physical  
28 inventory at reasonable times at their sole cost and risk after giving the Operator at least ninety (90) days prior written notice. The  
29 Non-Operator inventory report shall be furnished to the Operator in writing within ninety (90) days of completing the inventory  
30 fieldwork.  
31

32 C. SPECIAL INVENTORIES

33 The expense of conducting inventories other than those described in Sections V.1 (*Directed Inventories*), V.2.A (*Operator*  
34 *Inventories*), or V.2.B (*Non-Operator Inventories*), shall be charged to the Party requesting such inventory; provided, however,  
35 inventories required due to a change of Operator shall be charged to the Joint Account in the same manner as described in Section  
36 V.1 (*Directed Inventories*).  
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## **EXHIBIT "D"**

### **INSURANCE**

**Attached to and made a part of that certain Operating Agreement dated December 1, 2024, by and among Fasken Oil and Ranch, Ltd., as Operator, and Chief Capital (O&G) II LLC, et al., as Non-Operators.**

The Operator shall carry the following minimum insurance to cover the risks of accident and/or damages to persons and/or property which may occur in the course of Operations conducted under this agreement, a proportionate part of the premium on such insurance, determined on some equitable basis consistent with Operator's accounting practice, to be charged to the Joint Account.

Required Insurance Coverage. Before commencing operations hereunder, Operator shall obtain and maintain and shall require each of its contractors and subcontractors hereunder to obtain and maintain, the following insurance:

- Workman's Compensation as required by state laws.
- Employers Liability Insurance conforming to State Law.
- Comprehensive General Liability with limits of not less than \$1,000,000 Bodily Injury and Property Damage, combined single limit.
- Comprehensive Automobile Liability with coverage for all owned, hired and non-owned vehicles with limits of not less than \$1,000,000 Bodily Injury and Property Damage, combined single limit.

Proof of Coverage. Upon Non-Operators request, Operator shall furnish Non-Operator with a certificate(s) acceptable to Non-Operator from Operator's insurance carriers and its contractor's carriers evidencing such insurance and indicating waiver of subrogation and designating Non-Operator as an Additional Insured. Further, such insurance shall endeavor to give at least thirty (30) days notice to Non-Operator prior to cancellation of insurance.

Additional Coverage. The foregoing insurance requirements set forth the amounts and types of insurance considered minimal by Non-Operator. Such requirements do not constitute limitations on the amount or type of insurance Operator may wish to carry and in no event shall any insurance coverage of any amount whatsoever be considered a limitation on any obligation hereunder of Operator.

In addition to the above referenced types of insurance, Operator may, but is not required to, carry Cost of Control and Extra Expense Insurance coverage or similar coverage with a three million (\$3,000,000) limit. The actual premiums paid for all insurance shall be charged on a pro-rata basis to the Joint Account of the parties hereto. Notwithstanding the foregoing, non-operators shall have the option upon ten (10) days written notice to Operator prior to commencement of drilling operations on the contract area to elect not to be covered by Operator's Cost of Control and Extra Expense Insurance and associated premiums.



EXHIBIT "E"

GAS BALANCING AGREEMENT

ATTACHED TO AND MADE A PART OF OPERATING  
AGREEMENT  
DATED DECEMBER 1, 2024, BETWEEN  
FASKEN OIL AND RANCH, LTD., AS OPERATOR,  
AND CHIEF CAPITAL (O&G) II LLC, ET AL, AS NON-  
OPERATORS

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## GAS BALANCING AGREEMENT

REFERENCE is made to the Operating Agreement dated December 1, 2024, between Fasken Oil and Ranch, Ltd., as Operator, and Chief Capital (O&G) II LLC, et al as Non-Operators

In consideration of the mutual obligations and benefits set forth herein the Parties hereto agree as follows:

### ARTICLE I DEFINITIONS

For the purposes hereof, the terms set forth below are defined as follows:

1. "Operating Agreement" is the above-described Operating Agreement.
2. "Operator" is the Party then acting as Operator under the Operating Agreement at any relevant time hereunder.
3. "Party" or "Parties" are those persons, corporations, partnerships or other entities which have executed this agreement and own a working interest in the gas rights in and under the Contract Area.
4. "Gas" includes natural gas produced from gas wells and casinghead gas (which is all gas produced with crude oil), but does not include liquid hydrocarbons recovered by lease equipment.
5. "Balance" is the condition occurring when a Party has utilized, taken or sold (whether individually or through its purchaser) its exact ownership share (as such term defined in Article III below) of all gas produced and sold at any relevant time hereunder.
6. "Overproduced" is the condition occurring when a Party has utilized, taken or sold (whether individually or through its gas purchaser) a cumulative percentage of gas produced and sold in excess of its ownership share at any relevant time hereunder.
7. "Underproduced" is the condition occurring when a Party has utilized, taken or sold (whether individually or through its gas purchaser) a cumulative percentage of gas produced and sold less than its ownership share at any relevant time hereunder.
8. "Taking" gas is the condition occurring when a Party is utilizing, taking or selling (whether individually or through its purchaser) a portion of gas being produced and sold.
9. "Make-up" right is the right of an Underproduced Party to take more than its full share of the gas produced and sold in an effort to become balanced and is more specifically defined in Article VIII below.
10. "Permanent Cessation of Production" occurs on the earliest date upon which one of the following occurs: (1) gas production ceases, no attempt is made to restore production within sixty (60) days thereafter and one or more Parties then owning at least fifty percent (50%) of the working interests in the gas rights in such formation of such well desire to plug and abandon said well, or recompleting the well in a different formation; (2) such well is plugged or recompleting in a different formation; or (3) all Parties agree that such formation has permanently ceased producing.

### ARTICLE II APPLICATION OF AGREEMENT

Unless otherwise agreed in writing, this agreement shall apply separately as to each producing formation in each well located in and on the Contract Area.

ARTICLE III  
OWNERSHIP OF GAS IN PLACE

The Parties own the working interests in the gas rights in and under the Contract Area in accordance with the working interest percentages or shares of participation (hereinafter referred to as "ownership share" or simply "share") set forth in Exhibit "A" to the Operating Agreement (or elsewhere therein) or as otherwise agreed upon by the Parties.

ARTICLE IV  
OWNERSHIP OF GAS PRODUCED AND SOLD

Except as otherwise set forth herein, each Party has the right to take its ownership share of gas produced and sold as provided in the Operating Agreement. If at any time a Party fails to take its full ownership share of gas produced, then the terms of this agreement shall automatically apply without notice to any Party.

ARTICLE V  
RIGHTS TO OVERPRODUCTION

During any period when any Party is not taking its full share of gas produced and sold, the other Parties shall be entitled to take, in addition to their own shares, proportionate shares of the gas such Party is not taking. The right to take such additional amounts of gas is subject, however, to the following limitations:

- (a) Underproduced Parties shall always have the superior right to make-up production as set forth in Article VIII below; and
- (b) If a Party ("fully-produced Party") has already taken its full share of the estimated recoverable reserves (as determined by Operator from time to time) and there is then at least one underproduced Party willing and able to take the gas, such fully-produced Party shall have no right to take any of the gas unless otherwise agreed by the Parties.

Notwithstanding anything to the contrary herein, all Parties shall always be entitled to their full shares of all liquid hydrocarbons recovered by lease equipment (subject to the terms of the Operating Agreement), but any Party taking gas produced, whether in accordance with its ownership share or not, shall own all of such gas taken.

ARTICLE VI  
ACCOUNTING FOR OVERPRODUCTION AND UNDERPRODUCTION

Each Party who takes gas shall furnish Operator monthly statements of all gas volumes taken, the prices received therefor and the disposition of those volumes (i.e. whether contract purchases, spot sales, own use or other). Such statements shall be furnished to Operator on or before the 25th day of the month following the month during which the gas was produced. On a cumulative basis, (a) each underproduced Party shall be credited with a volume of gas equal to its full share of the gas produced from the Contract Area, less its share of gas used in lease operations, vented or lost, and less that portion which such underproduced Party took; and (b) each overproduced Party shall be debited with a volume of gas equal to the excess which it has actually taken over its full share of the gas produced from the Contract Area less its share of gas used in lease operations, vented or lost.

ARTICLE VII  
GAS BALANCING STATEMENTS

At all times while there is gas production, Operator will maintain a current account reflecting the overproduced and underproduced status of each Party and will furnish all Parties monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of gas taken by each Party and the monthly and cumulative overproduction and underproduction of each Party. Such statements ("gas balancing statements") will be furnished to the Parties by no later than the end of the second month following the month of production, unless Operator is prevented from doing so because of a lack of pertinent information in which event the gas balancing statements will be furnished immediately upon Operator's receipt of all pertinent information.



ARTICLE VIII  
VOLUME BALANCING (MAKE-UP RIGHTS)

Upon timely written notice to Operator (as determined by Operator), any Party not previously taking gas may begin taking gas at any time, subject to the limitations set forth in Subpart (b) of Article V above. Further, upon timely written notice to Operator (as determined by Operator), any underproduced Party may at any time take, in addition to its full share of gas produced, the following quantities of gas ("make-up gas"):

- (a) Up to fifty percent (50%) of the shares of gas of all overproduced Parties who are then taking; plus,
- (b) All of the gas attributable to the share of any Party who is not then taking gas.

If there is more than one underproduced Party taking make-up gas at any time, each such underproduced Party shall take that proportion of the make-up gas which its cumulative underproduction bears to the cumulative underproduction of all underproduced Parties then taking make-up gas.

ARTICLE IX  
CASH BALANCING

Cash balancing will be occur: 1) within ninety (90) days of the anniversary date of this Operating Agreement, Operator shall annually determine the accounting of underproduction and overproduction of the Parties, or 2) within ninety (90) days of the sale of any Working Interest Owner's interest to this Operating Agreement to any another party or 3) within ninety (90) days of permanent cessation of production of gas, Operator shall determine the final accounting of underproduction and overproduction of the Parties and shall furnish a statement reflecting the same to each of the Parties. Within thirty (30) days of receipt of such statement, each overproduced Party shall remit to Operator (for disbursement to the underproduced Parties) a sum of money (which sum shall not include interest) equal to the amount actually received by such overproduced Party for its share of overproduction, less applicable taxes, royalties and other reasonable costs associated with transporting and marketing such gas actually paid by such overproduced Party. For the purpose of calculating the payment to be made by an overproduced Party, if during any month such Party took less than its full share of gas produced, a volume of gas equal to the difference between the amount of gas such Party actually took and the share to which such Party was entitled shall be credited against the overproduction of such Party, in the order such overproduction accrued. Within thirty (30) days of receipt of any such remittance by Operator from an overproduced Party, Operator shall disburse such funds to the underproduced Parties in accordance with the yearly accounting. Operator assumes no liability of whatsoever nature or kind with respect to any such payment, it being the intent of the Parties that each overproduced Party shall be solely responsible for reimbursing each underproduced Party for such underproduced Party's share of overproduction taken by such overproduced Party in accordance with the provisions contained herein. In determining the volume of overproduction for which settlement is due, production taken during any month by an underproduced Party in excess of its share shall be treated as make-up gas and shall be applied to reduce prior deficits in the order of accrual of such deficits.

Where an overproduced Party has taken more than its share of gas during a given month for which it is required to make cash settlement hereunder but a part of such gas was sold and a part was not sold, cash settlement for the gas taken but not sold shall be based upon the price received for the gas which was sold. Where an overproduced Party has taken more than its share of gas during a given month for which it is required to make cash settlement but none of such gas was sold, cash settlement for such gas shall be based upon the weighted average price received by all Parties who sold gas during that month or the maximum price such Party would have received had it sold such gas under its gas sales contract (if any), whichever is the lesser amount. Where an overproduced Party has taken more than its share of gas during a given month for which it is required to make cash settlement but such gas was sold to its affiliate, then if the underproduced Party (or Parties) elects, cash settlement therefor shall be based upon the weighted average price received by all other Parties who sold gas during that month.

In the event refunds are required by any governmental authority upon proceeds for which cash settlement has been made under this Article, each Party who is affected by the refund (including each underproduced Party to whom cash settlement has been made) shall be accountable for its proportionate share of such refund.

ARTICLE X  
DELIVERABILITY TESTS

Nothing herein shall be construed to deny any Party the right, from time to time, to produce and take or deliver to its purchaser an entire well stream, if necessary, for a deliverability test (not to exceed seven (7) days) as required or permitted by such Party's gas sales contract.

ARTICLE XI  
PAYMENT OF TAXES

Each Party taking gas shall either pay or cause to be paid all production, severance and/or excise taxes due on such gas.

ARTICLE XII  
PAYMENT OF ROYALTIES

12.1 Existing Royalties. For the purposes of this provision, the term "Existing Royalties" shall mean those landowners' royalties, overriding royalties, net profits interests, production payments, or other burdens on the production of the parties hereto which are of record on the date of this agreement.

12.2 Payment of Existing Royalties. During each calendar month in which gas is produced from the Contract Area, the parties which take gas during said month shall pay all Existing Royalties in the same manner as such Existing Royalties would have been paid had each of the parties to this agreement taken its proportionate share of the gas produced during such month. Unless a different price is required by law, such payment shall be made at the price which the taking parties receive for the gas taken or sold.

12.3 Effect of Payment. Payment of royalties as set forth in this section by a taking party shall terminate the obligations and liability of said taking party to royalty owners other than said party's own royalty owners, and upon such payment, each non-taking party agrees to indemnify and hold harmless the taking parties from any and all claims, causes of action, or liabilities for royalty payments made to such non-taking party's royalty owners.

12.4 Intent. Notwithstanding any provisions to the contrary which might be contained in the applicable Joint Operating Agreement or Unit Operating Agreement, it is the intent of the parties that no party be required to advance royalty for gas which it does not take or sell, and, further, that once a taking party has settled with all of the royalty owners as provided herein, then it shall have no further liability to royalty owners other than its own.

12.5 Other Royalties. To the extent that there are, within the Contract Area, royalties which are not Existing Royalties, then the party whose interest is burdened by such royalty shall make, or cause to be made, settlement with such royalty owner just as if such party were taking its full share, and its full share only, of such gas production.

ARTICLE XIII  
OPERATING EXPENSES AND LIABILITIES

Nothing herein shall change or affect each Party's obligation to pay its proportionate share of all expenditures and liabilities incurred in joint operations in accordance with the Operating Agreement.

ARTICLE XIV  
OPERATOR'S LIABILITY

Except as otherwise provided herein, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liabilities incurred which arise out of or in connection with the performance of Operator's duties hereunder except such as may result from Operator's gross negligence or willful misconduct.

ARTICLE XV  
LIEN AND SECURITY INTEREST

To the extent that any Party hereto is overproduced, such party hereby grants a continuing lien and security interest to all underproduced Parties covering all of the ownership share of such overproduced Party in the Contract Area, its contract rights, accounts, accounts receivable, proceeds of production and personal property and equipment used or obtained in connection with the Operating Agreement in order to secure payments as provided herein. Said lien shall be otherwise governed by all of the terms and provisions relating to liens under the Operating Agreement. In addition to the above, any lien or security interest granted in the Operating Agreement to a Party against any underproduced Party who has failed to make any payments due thereunder ("defaulting Party"), shall cover and extend to the cumulative overproduction, if any, and any cash settlement made therefor (under Article X hereof) due such underproduced defaulting Party.

ARTICLE XVI  
TERM

This agreement shall terminate upon the termination of the Operating Agreement; provided, however, that if the accounts of the Parties have not been balanced or settled in accordance with the provisions contained herein, this Agreement shall continue in effect for so long as required thereafter to permit the full and final settlement of all accounts of the Parties. If any provision hereof should ever be construed to violate the rule against perpetuities, such provision shall be deleted to the extent necessary to bring the remainder of this Agreement in conformity with such rule.

ARTICLE XVII  
SUCCESSORS AND ASSIGNS

The terms, covenants and conditions of this Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors-in-title and assigns, and may be assigned in whole or in part from time to time to the same extent as interests in the Contract Area may be assigned; provided, however, that (1) any such assignment shall be subject specifically to this Agreement, (2) the successor-in-title or assignee shall acquire such interest subject to any overproduction and/or underproduction imbalances existing at such time and (3) no such assignment shall relieve the Party assignor from any obligation to the other Parties with respect to any overproduction taken by such Party assignor prior to such assignment.

ARTICLE XVIII  
CONFLICT

If a conflict exists between the terms of this Agreement and the terms of any gas sales contract covering the Contract Area entered into by any Party or the terms of the Operating Agreement, the terms of this Agreement shall govern.

ARTICLE XIX  
EFFECTIVE DATE AND COUNTERPARTS

This Agreement has been executed on the respective dates set forth beside each Party's name hereunder, but shall be effective for all purposes as of the date of the Operating Agreement (as set forth above). If this Agreement has been incorporated into and made a part of the Operating Agreement, then it shall not be considered to be a separate agreement from the Operating Agreement and it shall not be necessary for the Parties to separately execute this Agreement. If this Agreement is separate and apart from the Operating Agreement, the same shall be binding upon those Parties executing the same, a counterpart thereof (which shall be deemed an original for all purposes) or a ratification thereof.

ARTICLE XX  
COMPLIANCE WITH LAWS AND REGULATIONS

This Agreement shall be subject to all applicable 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 notwithstanding proposed Chapter 1 of the Internal Revenue Code of 1986, Section 1.761-2 and any other applicable Internal Revenue Codes.



**EXHIBIT "H"**

Attached to and made a part of that certain Operating Agreement dated December 1, 2024, by and between Fasken Oil and Ranch, Ltd., as Operator, and Chief Capital (O&G) II LLC, et al., as Non-Operators.

**MODEL FORM RECORDING SUPPLEMENT TO  
OPERATING AGREEMENT AND FINANCING STATEMENT**

THIS AGREEMENT, entered into by and between Fasken Oil and Ranch, Ltd., hereinafter referred to as "Operator," and the signatory party or parties other than Operator, hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators,"

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land identified in Exhibit "A" (said land, Leases and Interests being hereinafter called the "Contract Area"), and in any instance in which the Leases or Interests of a party are not of record, the record owner and the party hereto that owns the interest or rights therein are reflected on Exhibit "A";

WHEREAS, the parties hereto have executed an Operating Agreement dated December 1, 2024 (herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

WHEREAS, the parties hereto have executed this agreement for the purpose of imparting notice to all persons of the rights and obligations of the parties under the Operating Agreement and for the further purpose of perfecting those rights capable of perfection.

NOW, THEREFORE, in consideration of the mutual rights and obligations of the parties hereto, it is agreed as follows:

1. This agreement supplements the Operating Agreement, which Agreement in its entirety is incorporated herein by reference, and all terms used herein shall have the meaning ascribed to them in the Operating Agreement.
2. The parties do hereby agree that:
  - A. The Oil and Gas Leases and/or Oil and Gas Interests of the parties comprising the Contract Area shall be subject to and burdened with the terms and provisions of this agreement and the Operating Agreement, and the parties do hereby commit such Leases and Interests to the performance thereof.
  - B. The exploration and development of the Contract Area for Oil and Gas shall be governed by the terms and provisions of the Operating Agreement, as supplemented by this agreement.
  - C. All costs and liabilities incurred in operations under this agreement and the Operating Agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties hereto, as provided in the Operating Agreement.
  - D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on Exhibit "A," all production of Oil and Gas from the Contract Area shall be owned by the parties as provided in the Operating Agreement; provided nothing contained in this agreement shall be deemed an assignment or cross-assignment of interests covered hereby.
  - E. Each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area as provided in the Operating Agreement.
  - F. An overriding royalty, production payment, net profits interest or other burden payable out of production hereafter created, assignments of production given as security for the payment of money and those overriding royalties, production payments and other burdens payable out of production heretofore created and defined as Subsequently Created Interests in the Operating Agreement shall be (i) borne solely by the party whose interest is burdened therewith, (ii) subject to suspension if a party is required to assign or relinquish to another party an interest which is subject to such burden, and (iii) subject to the lien and security interest hereinafter provided if the party subject to such burden fails to pay its share of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the times and manner provided by the Operating Agreement.
  - G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers.

This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective heirs, devisees, legal representatives, and assigns, and the terms hereof shall be deemed to run with the leases or interests included within the lease Contract Area.
  - H. The parties shall have the right to acquire an interest in renewal, extension and replacement leases, leases proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.

- I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or loss of title, each party's right to propose operations, obligations with respect to participation in operations on the Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial obligations shall be as provided in the Operating Agreement.
  - J. Each party's interest under this agreement and under the Operating Agreement shall be subject to relinquishment for its failure to participate in subsequent operations and each party's share of production and costs shall be reallocated on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.
  - K. All other matters with respect to exploration and development of the Contract Area and the ownership and transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of the Operating Agreement.
3. The parties hereby grant reciprocal liens and security interests as follows:
- A. Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this agreement and the Operating Agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid under this agreement and the Operating Agreement, the assignment or relinquishment of interest in Oil and Gas Leases as required under this agreement and the Operating Agreement, and the proper performance of operations under this agreement and the Operating Agreement. Such lien and security interest granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this agreement and the Operating Agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from the sale of production at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.
  - B. Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement and the Operating Agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement and the Operating Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by the Operating Agreement and this instrument as to all obligations attributable to such interest under this agreement and the Operating Agreement whether or not such obligations arise before or after such interest is acquired.
  - C. To the extent that the parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any party in the payment of its share of expenses, interest or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by such party, plus interest, has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.
  - D. If any party fails to pay its share of expenses within one hundred-twenty (120) days after rendition of a statement therefor by Operator the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in this paragraph 3 and in the Operating Agreement, and each paying party may independently pursue any remedy available under the Operating Agreement or otherwise.
  - E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement or the Operating Agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted hereunder or under the Operating Agreement, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.
  - F. The lien and security interest granted in this paragraph 3 supplements identical rights granted under the Operating Agreement.
  - G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due under this agreement and the Operating Agreement for services performed or materials supplied by Operator.
  - H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Recording Supplement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the above-described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial Code, or other state laws.

4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this agreement and the Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon the request of Operator, if Operator has complied with all of its financial obligations.
5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or other disposition shall be made by any party of any interest in the Leases or Interests subject hereto except as expressly permitted under the Operating Agreement and, if permitted, shall be made expressly subject to this agreement and the Operating Agreement and without prejudice to the rights of the other parties. If the transfer is permitted, the assignee of an ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party under this agreement or the Operating Agreement with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under this agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.
6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the Operating Agreement, then, as between the parties, the terms and provisions of the Operating Agreement shall control.
7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. In the event that any provision herein is illegal or unenforceable, the remaining provisions shall not be affected, and shall be enforced as if the illegal or unenforceable provision did not appear herein.
8. Other provisions. See Joint Operating Agreement.



Fasken Oil and Ranch, Ltd., who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610RS-1989 Model Form Recording Supplement to Operating Agreement and Financing Statement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles , have been made to the form.

IN WITNESS WHEREOF, this agreement shall be effective as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

OPERATOR

ATTEST OR WITNESS

Fasken Oil and Ranch, Ltd. a Texas limited partnership  
By Fasken Management, LLC its general partner

By: \_\_\_\_\_

Tommy E. Taylor

Title: Senior Vice President

Date: \_\_\_\_\_

Address: 6101 Holiday Hill Road, Midland, TX 79707

NON-OPERATORS

ATTEST OR WITNESS

Fasken Land and Minerals, Ltd. a Texas limited Partnership by Fasken Management, LLC its general partner

By: \_\_\_\_\_

Tommy E. Taylor

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Address: 6101 Holiday Hill Road, Midland TX 79707

ATTEST OR WITNESS

Chief Capital (O&G) II LLC

By: \_\_\_\_\_

Walt Nixon

Title: President

Date: \_\_\_\_\_

Address: \_\_\_\_\_

ATTEST OR WITNESS

\_\_\_\_\_

By: \_\_\_\_\_

\_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Address: \_\_\_\_\_

ATTEST OR WITNESS

\_\_\_\_\_

By: \_\_\_\_\_

\_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Address: \_\_\_\_\_

ACKNOWLEDGMENTS

NOTE:

The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

Acknowledgment in Representative Capacity

State of TEXAS §

§ ss.

County of MIDLAND §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by Tommy E. Taylor, Senior Vice President of Fasken Management, LLC., the General Partner of Fasken Oil and Ranch, Ltd., a Texas limited partnership, on behalf of said limited liability company and said limited partnership.

(Seal, if any)

\_\_\_\_\_  
Title (and Rank)

My commission expires: \_\_\_\_\_

State of TEXAS §

§ ss.

County of MIDLAND §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by Tommy E. Taylor, Senior Vice President of Fasken Management, LLC., the General Partner of Fasken Land and Minerals, Ltd., a Texas limited partnership, on behalf of said limited liability company and said limited partnership.

(Seal, if any)

\_\_\_\_\_  
Title (and Rank)

My commission expires: \_\_\_\_\_

Acknowledgment in Representative Capacity

State of Texas §

§ ss.

County of Tarrant §

This instrument was acknowledged before me on \_\_\_\_\_

By Walt Nixon as President of \_\_\_\_\_

Chief Capital (J&G) II LLC

(Seal, if any)

\_\_\_\_\_  
Title (and Rank)

My commission expires: \_\_\_\_\_

**EXHIBIT "A"**

Attached to and made a part of that certain Recording Supplement to Operating Agreement dated December 1, 2024, by and between Fasken Oil and Ranch, Ltd., as Operator, and Chief Capital (O&G) II LLC, et al., as Non-Operators.

**1. DESCRIPTION OF LANDS SUBJECT TO THIS AGREEMENT (the "Contract Area"):**

E/2 of Section 22, NE/4, and N/2 of SE/4 of Section 27, Township 20 South, Range 32 East, Lea County, New Mexico

The parties will revise this Exhibit "A" as needed prior to commencement of the initial well. One of the revisions will be the additional superseding language to which would allow the April 9, 1979 JOA to remain effective as to the E/2 of Section 22.

**2. RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS OR SUBSTANCES:**

**3. PARTIES TO AGREEMENT, WITH ADDRESSES AND TELEPHONE NUMBERS FOR NOTICE PURPOSES:**

Fasken Land and Minerals, Ltd. and  
Fasken Oil and Ranch, Ltd.  
Attn.: Land Department  
6101 Holiday Hill Road  
Midland, TX 79707-0631  
Email address: land@forl.com  
Telephone: (432) 687-1777  
Fax: (432) 687-0669

Chief Capital (O&G) II LLC  
Attention: Walt Nixon, President  
8111 Westchester Drive, Suite 900  
Dallas, Texas 75225  
Telephone: ( ) -  
Email address:

**4. PERCENTAGE OR FRACTIONAL INTEREST OF PARTIES TO THIS AGREEMENT:**

<u>Working Interest Owner</u>	<u>Working Interest</u>
To be determined upon completion of a Title Opinion	
<b>Total</b>	<b>1.00000000</b>

**5. OIL AND GAS/OIL, GAS AND MINERAL LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THE AGREEMENT:**

**A. Oil and Gas/Oil, Gas and Mineral Leases committed by Fasken Land and Minerals, Ltd. et al**

- 1) Date: September 1, 1978  
Lessor: United States of America- NM-33955



Lessee: Peggy E. Baetz  
Recording: Volume 316, Page 855, Lea County, New Mexico  
Lands: ONLY AS TO East half of Section 22, T-20-S, R32-E, Lea County,  
New Mexico  
Lease Royalty: 1/8th  
Other Burdens: as to burdens of record.

**B. Oil and Gas/Oil, Gas and Mineral Leases committed to the Contract Area:**

Date: April 19, 2023  
Lessor: Oak Valley Mineral and Land, LP and Sortida Resources, LLC  
Lessee: Chief Capital (O&G) II LLC  
Recording: Book 2210, Page 117  
Lands: S/2NE/4, N/2SE/4 of Section 27, Township 20 South, Range 32  
East, Lea County, New Mexico  
Lease Royalty: 1/4  
Other Burdens: N/A

Date: May 24, 2023  
Lessor: Sitio Permian, LLC  
Lessee: Chief Capital (O&G) II LLC and Waterloo Resources LLC  
Recording: Book 2211, Page 128  
Lands: S/2NE/4, N/2SE/4 of Section 27, Township 20 South, Range 32  
East, Lea County, New Mexico  
Lease Royalty:  
Other Burdens:

**6. BURDENS ON PRODUCTION:**

**A. To be completed later:**