

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

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

**APPLICATION OF NADEL AND GUSSMAN PERMIAN,
L.L.C. FOR A NON-STANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

Case No. 14,883

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Cirrus Exploration Company ("Cirrus") as required by the Oil Conservation Division.

APPEARANCES

PARTY

Cirrus Exploration Company
3423 Soncy Road, Suite 200
Amarillo, Texas 79119-4972

ATTORNEY

Elizabeth A. Ryan
Jamie Jost
Beatty & Wozniak, P.C.
500 Don Gaspar Ave.
Santa Fe, New Mexico 87505
(505) 983-8545
(505) 983-8547 Facsimile

STATEMENT OF THE CASE

1. Nadel and Gussman Permian L.L.C. ("Operator") has applied for an order (i) approving a non-standard oil spacing and proration unit in the Glorieta-Yeso formation in the E/2W/2 of Section 24, Township 18 South, Range 26 East, N.M.P.M., Eddy County, New Mexico (the "Subject Lands"), and (ii) pooling all mineral interests in the Glorieta-Yeso formation underlying the non-standard spacing unit.

2. Cirrus is a mineral interest owner in the Subject Lands and objects to being compulsory pooled under the captioned matter.

3. On or about February 25, 2012, Operator provided Cirrus the Authority for Expenditure ("AFE") pertaining to the proposed drilling of the well on the Subject Lands by Operator. *See Exhibit 1.*

4. On March 5, 2012, via Letter to Operator, Cirrus stated that it consented to but did not execute the AFE because Operator had not provided it with the Joint Operating Agreement ("JOA"). *See Exhibit 2.*

5. Operator did not provide Cirrus with the JOA until September 10, 2012. *See Exhibit 3.*

6. Cirrus and Operator remain in negotiations pertaining to the form of JOA. *See Exhibit 4.*

PARTY'S PROPOSED EVIDENCE

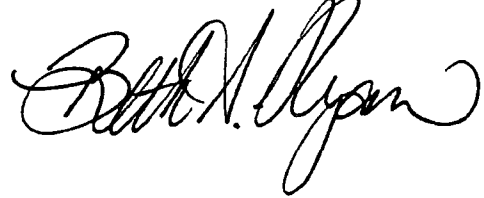
WITNESS	ESTIMATED TIME	EXHIBITS
Craig Bryan, President Cirrus Exploration Company	Approx. 15 minutes	Approx. 4

PROCEDURAL MATTERS

Cirrus reverses the right to supplement its exhibits and/or present exhibits in rebuttal to any evidence presented at the hearing in this matter. Since Operator and Cirrus remain in negotiations on this matter, Cirrus has requested a continuance of the hearing set for the September 20, 2012 to the October 4, 2012 Hearing Examiner Docket. Cirrus also requests that when this matter goes to hearing, either September 20, 2012 or October 4, 2012, that its witness, Craig Bryan, President of Cirrus Exploration Company, be permitted to attend by telephone.

Respectfully submitted,

BEATTY & WOZNIAK, P.C.

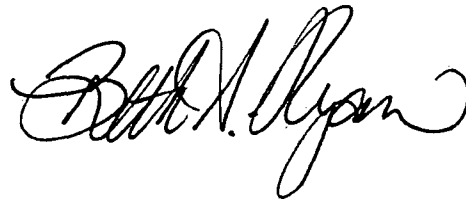
A handwritten signature in black ink, appearing to read "Elizabeth A. Ryan", with a large, stylized flourish at the end.

Elizabeth A. Ryan
Jamie Jost
500 Don Gaspar Ave.
Santa Fe, New Mexico 87505
(505) 983-8545
*Attorney for Cirrus Exploration
Company*

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 12th day of September, 2012 by facsimile transmission:

James Bruce, Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504
Fax: (505) 982-2151

A handwritten signature in black ink, appearing to read "Elizabeth A. Ryan", with a large, stylized flourish at the end.

Elizabeth A. Ryan

NADEL AND GUSSMAN PERMIAN, L.L.C.
601 N. Marienfeld, Suite 508
Midland, TX 79701
Office: (432) 682-4429
Fax: (432) 682-4325

February 22, 2012

CIRRUS EXPLORATION CO.
7201 INTERSTATE 40 WEST 316
AMARILLO, TX 79106

799 N7E 1 6111 00 02/25/12
NOTIFY SENDER OF NEW ADDRESS
CIRRUS EXPLORATION COMPANY
3423 S SONCY RD. STE 200
AMARILLO TX 79106-4972
BC: 79119497250 *2810-00013-23-39

Re: **Well Proposals**

Super Chief #1H --SHL: 250' FSL & 1650' FWL, BHL: 330' FNL & 1650' FWL
Super Chief #2H--SHL: 250' FSL & 2210' FEL, BHL: 330' FNL & 2310' FEL
Sec. 24-T18S-R26E
Eddy County, New Mexico

To Whom It May Concern::

Nadel and Gussman Permian, L.L.C. ("NGP"), as an owner of interest in Section 24, Township 18 South, Range 26 East, Eddy County, New Mexico, hereby proposes to drill and operate the above-captioned wells at the referenced locations to depths to adequately evaluate the Yeso formation.

Our inspection of public records indicates that you own a leasehold interest in the E/2 NW/4, SW/4 NE/4, and NW/4 NE/4 of the captioned Section 24.

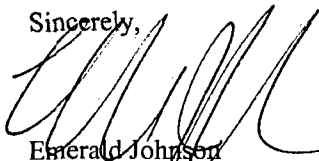
Enclosed for your signature is an Authority for Expenditure for each well proposed. *In the event that you have received a well proposal(s) and AFE(s) covering the above captioned Section from NGP, previous to this proposal, please disregard the previous proposal and consider it rescinded.*

In the event that you elect to participate in the above-captioned proposed wells, please execute one copy of each AFE and return to me. Upon receipt of the executed AFEs, I will forward our proposed Operating Agreement naming NGP as the operator for your signature.

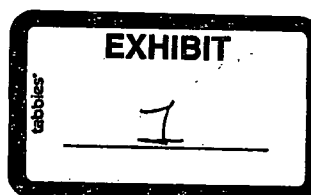
In the event that you elect to not participate in the above-captioned proposed wells, NGP would like to negotiate a Term Assignment of your interest.

Should you have any questions, please give me a call.

Sincerely,


Emerald Johnson
Land Manager

Enc



AUTHORITY FOR EXPENDITURE**NADEL AND GUSSMAN PERMIAN, LLC**

Date: 2/8/2012

Prepared By: Jason Goss

Prospect Name: Bridgestone Prospect

County, State: Eddy County, New Mexico

Projected Total Depth: 7150' MD 3,000' TVD (3,200 Pilot Hole)

Lease / Well Number: Super Chief #1H

Location: Sec. 24- T18S - R26E

SHL: 250' FSL, 1650' FWL

BHL: 330' FNL, 1650' FWL

Primary Objectives: Yeso

NOTES

Daywork Contract - Horiz Oil Well - Closed Loop Mud System- Moyno
Packers Plus OH completion, pilot hole and logs, use frac pit in sec 16
Assumes regulatory agent approves casing program

Note all pipe prices may be subject to increase due to market fluctuations.

It is recognized that the amounts provided here are estimates only and approval of this authorization shall extend to actual costs incurred in conducting the operations specified, whether more or less than estimated.

Intan. Drilling Costs BCP		COSTS
4-02 Abandonment & Cleanup		\$ 30,000
1-10 Abstracts & Title Opinions		\$ -
4-87 Well Control Insurance	7150' MD \$/Ft: 0.684	\$ 4,891
4-01 Legal, Permits & Fees		\$ 5,000
4-67 Staking Location & Surveys		\$ 1,250
4-36 Location, Road & ROW		\$ 70,000
4-15 IDC Daywork	Days: 17 \$/Day: 14000	\$ 238,000
4-14 Mobilization / Demobilization		\$ 85,000
4-66 Rig Fuel	Days: 17 \$/Day: 3000	\$ 51,000
4-24 IDC Footage	\$/Ft:	\$ -
4-72 Supervision	Days: 17 \$/Day: 650	\$ 11,050
4-18 Drilling Overhead (Administrative Services)		\$ 10,000
4-03 Bits & Reamers		\$ 28,180
4-61 Rentals Surface		\$ 68,480
4-62 Rentals Sub-Surface		\$ 15,000
4-62 Drill Pipe Rental	Days: 13 \$/Day: 1800	\$ 23,400
4-16 Directional Drilling Expense	Days: 10 \$/Day: 12500	\$ 125,000
4-31 Inspection - Drill String		\$ 10,000
4-04 Well Control & Testing		\$ 5,000
4-45 Miscellaneous IDC		\$ 5,000
4-52 Mud Logging & Geo Steering	Days: 13 \$/Day: \$ 2,567	\$ 33,375
4-08 Contract Labor		\$ 8,000
4-78 Transportation		\$ 30,000
4-05 Surface Casing Crews		\$ 4,500
4-06 Surface Cement and Cement Services & possible 1"		\$ 30,000
4-23 Surface Float Equipment & Centralizers		\$ 2,000
4-05 Intermediate Casing Crews		\$ 6,500
4-06 Intermediate Cement and Cement Services, kick off plug		\$ 30,000
4-23 Intermediate Float Equipment & Centralizers		\$ 5,000
4-51 Mud & Additives		\$ 55,000
4-12 Corrosion Control & Chem.		\$ 5,000
4-84 Water		\$ 15,719
4-85 Water / Mud Disposal CRI		\$ 80,000
Contingency (5%)		\$ 54,567
TOTAL		\$ 1,145,912

Intan. Formation Testing BCP		COSTS
4-39 Logging & Wireline		\$ 15,000
4-21 Drill Stem - Formation Tests		\$ -
4-12 Coring & Analysis (Sidewall Cores)		\$ 10,000
Contingency (5%)		\$ 1,250
TOTAL		\$ 26,250

Tangible Lease & Well Equipment BCP		COSTS
6-72 Surface Casing	9-5/8" \$/Ft: 26 Feet: 1000	\$ 26,000
6-32 Intermediate Csg	7" 26# \$/Ft: 28 Feet: 3250	\$ 91,000
	" \$/Ft: Feet:	\$ -
	" \$/Ft: Feet:	\$ -
6-84 Wellhead		\$ 9,000
6-76 Cattle Guards, Gates, Fences		\$ -
Contingency (5%)		\$ 6,300
TOTAL EQUIPMENT		\$ 132,300

TOTAL DRILLING	\$ 1,304,462
TOTAL INTANGIBLE	\$ 2,211,767

Intan. Comp. Costs ACP		COSTS
5-02 Abandonment & Cleanup		\$ (30,000)
5-12 IDC Daywork	Days: 2 \$/Day: 13500	\$ 27,000
4-66 Rig Fuel	Days: 2 \$/Day: 3000	\$ 6,000
5-84 Drilling Rig Supervision	Days: 2 \$/Day: 650	\$ 1,300
5-05 Production Casing Crews		\$ 12,000
5-08 Production Casing Cement & Services		\$ -
5-08 Prod. Float Equipment & Centralizers		\$ -
5-09 Completion / Swab Unit	Days: 10 \$/Day: 2500	\$ 25,000
5-84 Compl. Rig Supervision	Days: 12 \$/Day: 650	\$ 7,800
5-18 Administrative Services		\$ -
5-48 Mud & Chemicals		\$ 2,400
5-66 Water		\$ 15,000
5-32 Logging, Perforations & Wireline		\$ -
5-62 Rentals Subsurface		\$ -
5-61 Rentals Surface, Frac Tanks, Transfer Svcs		\$ 20,000
5-53 Nitrogen Service & Coiled Tubing	Days: 2 \$/Day: 28000	\$ 56,000
5-22 Fishing		\$ -
5-80 Stimulation		\$ 800,000
5-92 Transportation		\$ 8,000
5-77 Contract Labor & Roustabout		\$ 12,000
5-04 Bits & Reamers		\$ -
5-11 Couplings & Fittings		\$ 9,500
5-28 Location & Road Expense		\$ 10,000
5-40 Miscellaneous IDC		\$ -
5-31 Pipe Inspection & Recondition		\$ -
5-68 Pumping Services; Kill Truck set OH packers, open toe sub		\$ 6,000
5-21 Testing		\$ -
5-40 Well Control Insurance	Days: 6 \$/Day: 350	\$ 2,100
Contingency (5%)		\$ 49,505
TOTAL		\$ 1,039,605

Tangible Well Equipment ACP		COSTS
6-60 Prod. Csg / Liners	4.5" \$/Ft: 13.5 Feet: 4400	\$ 59,400
	" \$/Ft: Feet:	\$ -
6-80 Tubing	2-7/8" \$/Ft: 6.5 Feet: 2300	\$ 14,950
6-84 Wellhead		\$ 2,500
6-68 Rods and Pump, Moyno		\$ 65,000
6-56 Packers Plus Tools		\$ 300,000
Contingency (5%)		\$ 22,093
TOTAL EQUIPMENT		\$ 463,943

Tangible Lease & Battery Equipment ACP		COSTS
6-64 Pumping Units & Engines		\$ -
6-16 Gas Processing & Dehy		\$ -
6-24 Heater Treater		\$ 20,000
6-76 Tanks & Accessory Equipment		\$ 90,000
6-40 Pipeline		\$ -
6-42 Flowline		\$ 2,500
6-12 Controllable Valves		\$ 9,000
6-44 Misc. Controllable Equipment		\$ 6,000
Contingency (5%)		\$ 6,375
TOTAL EQUIPMENT		\$ 133,875

TOTAL COMPLETION	\$ 1,637,423
TOTAL TANGIBLE	\$ 730,118

Joint Interest Approval

Company:

Company: Nadel and Gussman Permian, LLC

TOTAL DRY HOLE COST	\$ 1,340,477
TOTAL WELL COST	\$ 2,941,885

By: _____ Date: _____

By: Jason Goss Date: 2/8/2012

AUTHORITY FOR EXPENDITURE**NADEL AND GUSSMAN PERMIAN, LLC**

Date: 2/8/2012

Prepared By: Jason Goss

Prospect Name: Bridgestone Prospect

County, State: Eddy County, New Mexico

Projected Total Depth: 7150' MD 3,000' TVD No Pilot Hole

Lease / Well Number: Super Chief #2H

Location: Sec. 24 - T18S - R26E

SHL: 250' FSL, 2210' FEL

BHL: 330' FNL, 2310' FEL

Primary Objectives: Yeso

NOTES

Daywork Contract - Horiz Oil Well - Closed Loop Mud System- Moyno Art Lift
Assumes Packers Plus OH Completion, no pilot hole, use Frac pit in section 16
Assumes regulatory agent approves casing program

Note all pipe prices may be subject to increase due to market fluctuations.

It is recognized that the amounts provided here are estimates only and approval of this authorization shall extend to actual costs incurred in conducting the operations specified, whether more or less than estimated.

Intan. Drilling Costs BCP		COSTS
4-02 Abandonment & Cleanup		\$ 30,000
1-10 Abstracts & Title Opinions		\$ -
4-87 Well Control Insurance	7150' MD \$/Ft: 0.684	\$ 4,891
4-01 Legal, Permits & Fees		+
4-67 Staking Location & Surveys		\$ 1,250
4-36 Location, Road & ROW		\$ 70,000
4-15 IDC Daywork	Days: 15 \$/Day: 14000	\$ 210,000
4-14 Mobilization / Demobilization		\$ 85,000
4-66 Rig Fuel	Days: 15 \$/Day: 3000	\$ 45,000
4-24 IDC Footage	\$/Ft:	\$ -
4-72 Supervision	Days: 15 \$/Day: 650	\$ 9,750
4-18 Drilling Overhead (Administrative Services)		\$ 10,000
4-03 Bits & Reamers		\$ 28,180
4-61 Rentals Surface		\$ 65,000
4-62 Rentals Sub-Surface, Jars, BHA		\$ 15,000
4-62 Drill Pipe Rental	Days: 10 \$/Day: 1800	\$ 18,000
4-16 Directional Drilling Expense	Days: 10 \$/Day: 12500	\$ 125,000
4-31 Inspection - Drill String		\$ 10,000
4-04 Well Control & Testing BOP		\$ 5,000
4-45 Miscellaneous IDC		\$ 5,000
4-52 Mud Logging & Geo Steering	Days: 11 \$/Day: \$ 2,580	\$ 28,375
4-08 Contract Labor		\$ 8,000
4-78 Transportation		\$ 30,000
4-05 Surface Casing Crews		\$ 4,500
4-06 Surface Cement and Cement Services & possible 1"		\$ 30,000
4-23 Surface Float Equipment & Centralizers		\$ 2,000
4-05 Intermediate Casing Crews		\$ 6,500
4-06 Intermediate Cement and Cement Services		\$ 17,000
4-23 Intermediate Float Equipment & Centralizers		\$ 5,000
4-51 Mud & Additives		\$ 55,000
4-12 Corrosion Control & Chem.		\$ 5,000
4-84 Water		\$ 15,719
4-85 Water / Mud Disposal/Solids-CRI		\$ 80,000
Contingency (5%)		\$ 51,208
TOTAL		\$ 1,075,373

Intan. Formation Testing BCP		COSTS
4-39 Logging & Wireline		\$ -
4-21 Drill Stem - Formation Tests		\$ -
4-12 Coring & Analysis (Sidewall Cores)		\$ -
Contingency (5%)		\$ -
TOTAL		\$ -

Tangible Lease & Well Equipment BCP		COSTS
6-72 Surface Casing	9-5/8" \$/Ft: 26 Feet: 1000	\$ 26,000
6-32 Intermediate Csg	7" 26# \$/Ft: 28 Feet: 3250	\$ 89,375
	" \$/Ft: Feet:	\$ -
	" \$/Ft: Feet:	\$ -
6-84 Wellhead		\$ 9,000
6-76 Cattle Guards, Gates, Fences		\$ -
Contingency (5%)		\$ 6,219
TOTAL EQUIPMENT		\$ 130,594

TOTAL DRILLING	\$ 1,205,967
TOTAL INTANGIBLE	\$ 2,119,178

Intan. Comp. Costs ACP		COSTS
5-02 Abandonment & Cleanup		\$ (30,000)
5-12 IDC Daywork	Days: 2 \$/Day: 14000	\$ 28,000
4-66 Rig Fuel	Days: 2 \$/Day: 3000	\$ 6,000
5-84 Drilling Rig Supervision	Days: 2 \$/Day: 650	\$ 1,300
5-05 Production Casing Crews		\$ 15,000
5-08 Production Casing Cement & Services		\$ -
5-08 Prod. Float Equipment & Centralizers		\$ -
5-09 Completion / Swab Unit	Days: 10 \$/Day: 2500	\$ 25,000
5-84 Compl. Rig Supervision	Days: 12 \$/Day: 650	\$ 7,800
5-18 Administrative Services		\$ -
5-48 Mud & Chemicals		\$ 2,400
5-66 Water		\$ 15,000
5-32 Logging, Perforations & Wireline		\$ -
5-62 Rentals Subsurface		\$ -
5-61 Rentals Surface, Frac Tanks, Transfer Svcs		\$ 20,000
5-53 Nitrogen Service & Coiled Tubing	Days: 2 \$/Day: 28000	\$ 56,000
5-22 Fishing		\$ -
5-80 Stimulation		\$ 800,000
5-92 Transportation		\$ 8,000
5-77 Contract Labor & Roustabout		\$ 12,000
5-04 Bits & Reamers		\$ -
5-11 Couplings & Fittings		\$ 9,500
5-28 Location & Road Expense		\$ 10,000
5-40 Miscellaneous IDC		\$ -
5-31 Pipe Inspection & Recondition		\$ -
5-68 Pumping Services; Kill Truck set OH packers, open stage 1		\$ 6,000
5-21 Testing		\$ -
5-40 Well Control Insurance	Days: 6 \$/Day: 350	\$ 2,100
Contingency (5%)		\$ 49,705
TOTAL		\$ 1,043,805

Tangible Well Equipment ACP		COSTS
6-60 Prod. Csg / Liners	4.5" \$/Ft: 13.5 Feet: 4400	\$ 59,400
	" \$/Ft: Feet:	\$ -
6-80 Tubing	2-7/8" \$/Ft: 6.5 Feet: 2300	\$ 14,950
6-84 Wellhead		\$ 2,500
6-68 Rods and Moyno Pump		\$ 65,000
6-56 Packers Plus Tools		\$ 300,000
Contingency (5%)		\$ 22,093
TOTAL EQUIPMENT		\$ 463,943

Tangible Lease & Battery Equipment ACP		COSTS
6-64 Pumping Units & Engines		\$ -
6-16 Gas Processing & Dehy		\$ -
6-24 Heater Treater		\$ 20,000
6-76 Tanks & Accessory Equipment		\$ 90,000
6-40 Pipeline		\$ -
6-42 Flowline		\$ 2,500
6-12 Controllable Valves		\$ 9,000
6-44 Misc. Controllable Equipment		\$ 6,000
Contingency (5%)		\$ 6,375
TOTAL EQUIPMENT		\$ 133,875

TOTAL COMPLETION	\$ 1,641,623
TOTAL TANGIBLE	\$ 728,411

Joint Interest Approval

Company:

Company: Nadel and Gussman Permian, LLC

By: _____ Date: _____

By: Jason Goss Date: 2/8/2012

TOTAL DRY HOLE COST	\$ 1,243,032
TOTAL WELL COST	\$ 2,847,589



March 5, 2012

Emerald Johnson
Land Manager
Nadel and Gussman Permian LLC
601 N Marlenfeld Ste 508
Midland, Texas 79701

VIA TELECOPY
(432) 682-4325

Re: Section 24, T-18-S, R-26-E, NMPM
Eddy County, New Mexico
Super Chief # 1H
Super Chief# 2H

Dear Ms. Johnson:


We received your letter dated February 22, 2012 proposing a revised drilling program for the two captioned wells (copy attached). The revised AFEs were sent to our old address and created a slight delay in the mail.

It is our plan to participate with our interest in this project and we hereby consent to the proposed AFEs. Please forward the proposed Joint Operating Agreement covering these wells to our **new address** below.

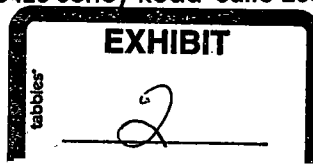
I look forward to further discussion of this project and working with you.

Sincerely,

CIRRUS EXPLORATION COMPANY


Craig Bryan
President

/sb



WorkCentre 7328 Transmission Report

93: ID

806 468 6400

Date/Time: 03/05/2012; 12:46PM

Page: 1 (Last Page)

Local Name
Logo

CIRRUS & BRYAN

Document has been sent.

Document Size 8.5X11"SEF



March 5, 2012

Emerald Johnson
Land Manager
Nadel and Gussman Permian LLC
601 N Marlenfeld Ste 508
Midland, Texas 79701

VIA TELECOPY
(432) 682-4325

Re: Section 24, T-18-S, R-26-E, NMPPM
Eddy County, New Mexico
Super Chief # 1H
Super Chief # 2H

Dear Ms. Johnson:

We received your letter dated February 22, 2012 proposing a revised drilling program for the two captioned wells (copy attached). The revised AFEs were sent to our old address and created a slight delay in the mail.

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I look forward to further discussion of this project and working with you.

Sincerely,

CIRRUS EXPLORATION COMPANY

Craig Bryan
President

/sb

(806) 355-3072 • (806) 468-6400 Fax • 3423 Soncy Road Suite 200 • Amarillo, Texas 79119-6972

Total Pages Scanned: 4 Total Pages Sent : 4

No.	Doc.	Remote Station	Start Time	Duration	Pages	Mode	Contents	Status
1	1354	4326824325	3- 5:12:43PM	2m08s	4/	4 ECM		CP

Note:

RE: Resend	MB: Send to Mailbox	BC: Broadcast	MP: Multi Polling	RV: Remote Service
PG: Polling	RB: Relay Broadcast	RS: Relay Send	BF: Box Fax Forward	CP: Completed
SA: Send Again	EN: Engaged	AS: Auto Send	TM: Terminated	

From: Craig Bryan <cbryan@cirrushelicopter.com>
Sent: Tuesday, September 11, 2012 9:42 AM
To: Ryan, Beth
Subject: FW: Super Chief Operating Agreement
Attachments: Super Chief Fee Operating Agreement 9.10.12.pdf

Importance: High

fyi

From: Emerald Johnson [<mailto:ejohnson@naguss.com>]
Sent: Monday, September 10, 2012 6:10 PM
To: cbryan@cirrushelicopter.com
Cc: Jim Adelson; jamesbruc@aol.com
Subject: Super Chief Operating Agreement
Importance: High

Craig,

Attached is the Super Chief JOA. Please note that the Exhibit A is subject to change.

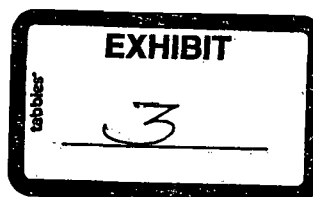
Please review and call me if you have any questions or concerns. If the agreement meets with your approval, please execute and send to my attention. I will send you a fully executed copy once available. The Super Chief #1H is tentatively schedule to spud in the late fall.

Thanks,

Emerald

Emerald Johnson, Land Manager

Nadel and Gussman Permian, LLC
601 N. Marienfeld, Suite 508
Midland, TX 79701
Office (432) 682-4429
Fax (432) 682-4325



MODEL FORM OPERATING AGREEMENT

Bridgestone Prospect

OPERATING AGREEMENT

DATED

September 1 , 2012 ,
year

OPERATOR Nadel and Gussman Permian, L.L.C.

CONTRACT AREA T-18-S, R-26-E, N.M.P.M., Section 24: E/2 NW/4, W/2 NE/4, E/2 SW/4,
and the W/2 SE/4

COUNTY OR PARISH OF Eddy , STATE OF New Mexico

COPYRIGHT 1989 - ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD.
FORT WORTH, TEXAS, 76137, APPROVED FORM.

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

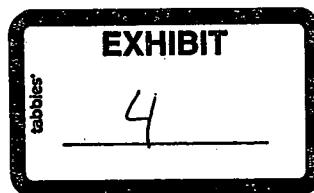


TABLE OF CONTENTS

Article	Title	Page
I.	<u>DEFINITIONS</u>	1
II.	<u>EXHIBITS</u>	1
III.	<u>INTERESTS OF PARTIES</u>	2
	A. OIL AND GAS INTERESTS:	2
	B. INTERESTS OF PARTIES IN COSTS AND PRODUCTION:	2
	C. SUBSEQUENTLY CREATED INTERESTS:	2
IV.	<u>TITLES</u>	2
	A. TITLE EXAMINATION:	2
	B. LOSS OR FAILURE OF TITLE:	3
	1. Failure of Title:	3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due:	3
	3. Other Losses:	3
	4. Curing Title:	3
V.	<u>OPERATOR</u>	4
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:	4
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR:	4
	1. Resignation or Removal of Operator:	4
	2. Selection of Successor Operator:	4
	3. Effect of Bankruptcy:	4
	C. EMPLOYEES AND CONTRACTORS:	4
	D. RIGHTS AND DUTIES OF OPERATOR:	4
	1. Competitive Rates and Use of Affiliates:	4
	2. Discharge of Joint Account Obligations:	4
	3. Protection from Liens:	4
	4. Custody of Funds:	5
	5. Access to Contract Area and Records:	5
	6. Filing and Furnishing Governmental Reports:	5
	7. Drilling and Testing Operations:	5
	8. Cost Estimates:	5
	9. Insurance:	5
VI.	<u>DRILLING AND DEVELOPMENT</u>	5
	A. INITIAL WELL:	5
	B. SUBSEQUENT OPERATIONS:	5
	1. Proposed Operations:	5
	2. Operations by Less Than All Parties:	6
	3. Stand-By Costs:	7
	4. Deepening:	8
	5. Sidetracking:	8
	6. Order of Preference of Operations:	8
	7. Conformity to Spacing Pattern:	9
	8. Paying Wells:	9
	C. COMPLETION OF WELLS; REWORKING AND PLUGGING BACK:	9
	1. Completion:	9
	2. Rework, Recomplete or Plug Back:	9
	D. OTHER OPERATIONS:	9
	E. ABANDONMENT OF WELLS:	9
	1. Abandonment of Dry Holes:	9
	2. Abandonment of Wells That Have Produced:	10
	3. Abandonment of Non-Consent Operations:	10
	F. TERMINATION OF OPERATIONS:	10
	G. TAKING PRODUCTION IN KIND:	10
	(Option 1) Gas Balancing Agreement:	10
	(Option 2) No Gas Balancing Agreement:	11
VII.	<u>EXPENDITURES AND LIABILITY OF PARTIES</u>	11
	A. LIABILITY OF PARTIES:	11
	B. LIENS AND SECURITY INTERESTS:	12
	C. ADVANCES:	12
	D. DEFAULTS AND REMEDIES:	12
	1. Suspension of Rights:	13
	2. Suit for Damages:	13
	3. Deemed Non-Consent:	13
	4. Advance Payment:	13
	5. Costs and Attorneys' Fees:	13
	E. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES:	13
	F. TAXES:	13
VIII.	<u>ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST</u>	14
	A. SURRENDER OF LEASES:	14
	B. RENEWAL OR EXTENSION OF LEASES:	14
	C. ACREAGE OR CASH CONTRIBUTIONS:	14

TABLE OF CONTENTS

	D. ASSIGNMENT; MAINTENANCE OF UNIFORM INTEREST:	15
	E. WAIVER OF RIGHTS TO PARTITION:.....	15
	F. PREFERENTIAL RIGHT TO PURCHASE:.....	15
IX.	<u>INTERNAL REVENUE CODE ELECTION</u>	15
X.	<u>CLAIMS AND LAWSUITS</u>	15
XI.	<u>FORCE MAJEURE</u>	16
XII.	<u>NOTICES</u>	16
XIII.	<u>TERM OF AGREEMENT</u>	16
XIV.	<u>COMPLIANCE WITH LAWS AND REGULATIONS</u>	16
	A. LAWS, REGULATIONS AND ORDERS:.....	16
	B. GOVERNING LAW:	16
	C. REGULATORY AGENCIES:	16
XV.	<u>MISCELLANEOUS</u>	17
	A. EXECUTION:	17
	B. SUCCESSORS AND ASSIGNS:.....	17
	C. COUNTERPARTS:	17
	D. SEVERABILITY	17
XVI.	<u>OTHER PROVISIONS</u>	17

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Nadel and Gussman Permian, L.L.C.,
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.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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:

- ☒ 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 and fax numbers,
 - (4) Percentages or fractional interests of parties to this agreement,
 - (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
 - (6) Burdens on production.
- ☐ B. Exhibit "B," Form of Lease.
- ☒ C. Exhibit "C," Accounting Procedure.
- ☒ D. Exhibit "D," Insurance.
- ☒ E. Exhibit "E," Gas Balancing Agreement.
- ☒ F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.
- ☐ G. Exhibit "G," Tax Partnership.
- ☒ H. Other: Notice of Lien and Mortgage; Financing Statement

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

ARTICLE III. INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

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

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, all burdens of record reflected as of the date of this agreement* 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 ~~after the effective date of this agreement~~ ^{of} has contributed hereto a Lease or Interest that is burdened with an assignment ^{of} production ^{given} as security for 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. **See Article XVI.A for additional provision.**

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

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1 agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct
2 charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C."
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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 Operator.

~~B. Loss or Failure of Title:~~

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

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

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

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

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

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

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

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

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

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

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

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

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 by Operator, and all such employees or contractors shall be the employees or contractors of Operator.

D. Rights and Duties of Operator:

1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator 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

1 liens and encumbrances resulting therefrom except for those resulting from a bona fide dispute as to services rendered or
2 materials supplied.

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

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

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

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

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

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

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

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

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

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

ARTICLE VI.

DRILLING AND DEVELOPMENT

A. Initial Well:

52 On or before the 1st day of March, 2013, Operator shall commence the drilling of the Initial
53 Well at the following location:

54 at an approximate surface hole location of 250' FSL and 1650' FWL and an approximate bottom hole location of 330'
55 FNL and 1650' FWL of Section 24, T-18-S, R-26-E, N.M.P.M., Eddy County, New Mexico

60 and shall thereafter continue the drilling of the well with due diligence to a measured depth of 7,150 feet or a depth sufficient to test the
61 Yesso formation, whichever is the lesser depth

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

B. Subsequent Operations:

71 1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or
72 if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of
73 producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under
74 this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

1 notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone
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under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6. See Article XVI.C.

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,

**See Article XVI.C.

1 Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-
 2 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect
 3 to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or
 4 market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes,
 5 royalty, overriding royalty and other interests not excepted by Article III.C. payable out of or measured by the production
 6 from such well accruing with respect to such interest until it reverts), shall equal the total of the following:

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

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

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

27 (c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or
 28 Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in
 29 such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full
 30 recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to
 31 participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking
 32 operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at
 33 any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such
 34 Reworking, Recompleting or Plugging Back operation conducted during the recoupment period shall be deemed part of the
 35 cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties 100 % of
 36 that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to
 37 such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is
 38 proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting
 39 Parties in said well.

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

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

49 Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations
 50 for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to
 51 the well, and an itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing,
 52 Recompleting, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement
 53 of such costs of operation, may submit a detailed statement of monthly billings. Each month or within thirty (30) days of the end of any
 54 calendar quarter, at the operator's discretion thereafter, during the time the
 55 Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties
 56 shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of
 57 the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized from
 58 the sale of the well's working interest production during the preceding calendar-month quarter. In determining the quantity of Oil and Gas
 59 produced during any month calendar quarter, Consenting Parties shall use industry accepted methods such as but not limited to metering or
 60 periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with
 61 any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited
 62 against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such
 63 Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-
 64 Consenting Party.

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

73 3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have
 74 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,

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

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

16 4. Deepening: If less than all parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed
17 pursuant to Article VI.B.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article
18 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
19 of which the parties were given notice under Article VI.B.1. ("Initial Objective"). Such well shall not be Deepened beyond the
20 Initial Objective without first complying with this Article to afford the Non-Consenting Parties the opportunity to participate
21 in the Deepening operation.

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

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

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

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

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

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

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

62 6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to
63 propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such
64 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
65 an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal
66 holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be
67 conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such
68 alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such
69 proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within
70 twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the
71 subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required
72 shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage
73 interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the

1 initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation
 2 within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday
 3 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
 4 is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to
 5 relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within
 6 such period shall be deemed an election not to participate in the prevailing proposal.

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

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

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

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

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

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

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

51 D. Other Operations:

52 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of _____
 53 Fifty Thousand and no/100 Dollars (\$50,000.00) except in connection with the
 54 drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously
 55 authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
 56 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion
 57 are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the
 58 emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so
 59 requesting an information copy thereof for any single project costing in excess of Thirty Thousand and no/100 Dollars
 60 (\$30,000.00). Any party who has not relinquished its interest in a well shall have the right to propose that

61 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as
 62 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but
 63 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall
 64 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the
 65 amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under
 66 Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such
 67 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent
 68 of two or more any party or parties owning at least 75 % of the interests of the parties entitled to participate in such operation,
 69 each party first having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated
 70 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms
 71 of the proposal.

72 E. Abandonment of Wells:

73 1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has
 74 been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

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

15 | 2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been
 16 | conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has
 17 | been completed as a producer shall not be **plugged and abandoned**** without the consent of all parties. If all parties consent to
 18 | such abandonment, the well shall be **plugged and abandoned**** in accordance with applicable regulations and at the cost, risk
 19 | and expense of all the parties hereto. Failure of a party to reply within ~~sixty thirty (60 30)~~ days of delivery of notice of proposed
 20 | abandonment shall be deemed an election to consent to the proposal. If, within ~~sixty thirty (60 30)~~ days after delivery of notice of the
 21 | proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its
 22 | operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the
 23 | applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties
 24 | against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide
 25 | proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well
 26 | within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession
 27 | of such well and **plug and abandon**** the well.

28 | Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of
 29 | the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost
 30 | of salvaging and the estimated cost of **plugging and abandoning and restoring the surface****; provided, however, that in the event
 31 | the estimated **plugging and abandoning and surface restoration**** costs and the estimated cost of salvaging are higher than the
 32 | value of the well's salvable material and equipment, each of the abandoning parties shall ^{not be required to} tender to the parties continuing
 33 | operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning
 34 | parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all
 35 | of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only
 36 | insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production.*** If the
 37 | interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-
 38 | abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of
 39 | 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
 40 | attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located.
 41 | The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their
 42 | respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract
 43 | Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

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

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

58 | F. Termination of Operations:

59 | Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,
 60 | Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without
 61 | consent of parties bearing 75 % of the costs of such operation; provided, however, that in the event granite or other
 62 | practically impenetrable substance or condition in the hole is encountered which renders further operations impractical,
 63 | Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the
 64 | provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

65 | G. Taking Production in Kind:

66 | ☒ Option No. 1: Gas Balancing Agreement Attached

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

73 | Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in
 74 | production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment
 ** See Article XVI.C.

directly from the purchaser thereof for its share of all production.

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

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

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

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

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

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

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

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

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

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

ARTICLE VII.

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Security Interests:

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

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

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

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

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

If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or 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 ~~thirty (30)~~ ^{thirty (30)} 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 the 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. See also Article XVI.E - Notice of Liens and Mortgage - Financing Statement

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

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

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

F. Taxes:

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

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

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

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases:

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 in the form of this agreement.

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

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

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

C. Acreage or Cash Contributions:

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

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. * See Article XVI.F. Parties' Right to Farmout

E. Waiver of Rights to Partition:

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

F. Preferential Right to Purchase:

☐ (Optional; Check if applicable.)

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

ARTICLE IX.

INTERNAL REVENUE CODE ELECTION

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 hereby 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 Fifty Thousand and No/100 Dollars (\$50,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be a the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.

FORCE MAJEURE

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

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

ARTICLE XII.

NOTICES

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

ARTICLE XIII.

TERM OF AGREEMENT

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

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

☐ ~~Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in the completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of _____ days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or 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 _____ 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

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

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

**ARTICLE XV.
MISCELLANEOUS**

A. Execution:

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

B. Successors and Assigns:

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

C. Counterparts:

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

D. Severability:

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

**ARTICLE XVI.
OTHER PROVISIONS**

A. Subsequently Created Interests - Additional Provision:

If any party hereto hereafter should create an overriding royalty, production payment, or other burden against its working interest production, and if any other party or parties should conduct non-consent operations pursuant to any provision of this agreement, and as a result become entitled to receive the working interest production otherwise belonging to the non-participating party, the party or parties entitled to receive the working interest production of the non-participating party shall receive such production free and clear of the burdens against production which may have been created subsequent to this agreement and the non-participating party creating such subsequent burdens shall save the participating party or parties harmless with respect to the receipt of such working interest production.

B. Subsequent Operations

For the purpose of Articles VI.B.1. and VI.B.2., Operator may commence activities preliminary to actual drilling operations, including without limitation building location, roads and pits, delivering materials and equipment to the well site, rigging up a drilling rig, and/or actual drilling operations at any time either before or after giving the notice of proposed operations required by said Articles. Notwithstanding the foregoing, the parties receiving notice of proposed operations pursuant to Articles VI.B.1 and VI.B.2 shall have the full time allowed in which to make their elections(s) and shall be subject to the non-consent provisions thereof to the same extent and in the same manner as provided in said Article VI.B. without reference to the time that such activities were commenced relative to giving notice. Nothing in this provision shall serve to extend the time within which Operator is required to commence operations pursuant to Articles VI.B.1 and VI.B.2. Non-Operator will not be entitled to receive reports or information regarding the proposed operation pending their election.

C. Definition of the Term "Plug and Abandon the Well and Restore the Surface Location"

It is understood and agreed that, as used herein, the phrase "plug and abandon the well and restore the surface location" shall be deemed to include all costs associated with plugging and abandonment of a well and restoration of the surface, including, but not limited to, any costs of remediating contamination, to the extent that remediation and/or restoration is required by applicable laws or regulations or by prevailing oil field practices.

D. Casing Point Election: Option 2, All necessary expenditures for the drilling or deepening and testing of the well.

When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

E. Notice of Lien and Mortgage - Financing Statement

Each party to this agreement ratifies and agrees to execute a "Notice of Lien and Mortgage --Financing Statement" in the form attached hereto as Exhibit "H" simultaneously with their execution of this agreement. Each party further authorizes the Operator to file such instrument in the appropriate records of the county or counties where the contract lands are located and in the Uniform Commercial Code records of the appropriate Secretary of State's office and/or such other records as may be required under applicable state law to fully perfect the security interests created herein.

F. Parties Right to Farmout

Notwithstanding anything contained herein to the contrary, it is expressly understood and agreed that the provisions hereof shall not preclude a party from entering into a farmout, or similar arrangement, covering all or any portion of its interest in the Contract Area as to some or all of the depths therein, provided that, in the event that there are any wells located on the Contract Area that are capable of producing oil and/or gas, such farmout or other agreement shall cover either all or none of the depths in which such wells are completed. It is expressly understood and agreed that no assignment made under a farmout or similar arrangement entered into by a party pursuant to the terms hereof shall enlarge the obligations or diminish the rights of the other parties hereto, and that the party making such assignment and its assignee shall jointly protect, indemnify and hold harmless the other parties from any expenses or damages caused by such enlargement of burdens or diminishment of rights.

G. Operator Remedies Upon Default of Non-Operator

In the event non-operator actually defaults in payment of its joint operating expenses, and Operator has been unable to make arrangements to divert to Operator the proceeds attributable to non-operator's interest in production derived from non-operator's interest hereunder, then Operator shall have the following rights, in addition to other remedies provided for under this agreement and under law. Upon thirty (30) days' written notice to non-operator, Operator shall have the right to temporarily withhold delivery of a sufficient amount of non-operator's net revenue interest share of production for use in offsetting against the undisputed, delinquent amounts due Operator, pursuant to the following terms and conditions: Operator, at Operator's option, shall have the unencumbered right to sell, as production deemed temporarily assigned to Operator for such purpose, such net revenue share under Operator's sales contract.

Operator shall continue to have such right until the necessary arrangements are in place and non-operator's purchaser is ready to divert proceeds to Operator as set forth above.

Non-operator shall continue to receive its royalty interest share in production for sale under its sales contract.

In no event will Operator be responsible for disbursement of proceeds attributable to such royalty share.

Non-operator's otherwise existing obligations to file and/or pay any taxes associated with production.

Non-operator agrees that it will make its sales contracts subject to the above rights in favor of Operator, and that such rights shall be unencumbered by other restrictions created by non-operator.

H. Priority of Operations

When any well under this agreement shall have been drilled to objective depth, in the event there is a conflict among the participating parties as to which course of action to pursue, the following shall control the order in which proposed operations shall be considered:

1. Proposals to do additional testing, coring or logging;
2. Proposals to attempt a completion in the objective zone as set forth on the well AFE;
3. Proposals to plug back and attempt completions in shallower zones in ascending order;
4. Proposals to deepen the well;
5. Proposals to sidetrack the well; and
6. Proposals to plug and abandon the well.

However, if at any time the participating parties are considering the above elections, the hole is in such a condition that a prudent operator would not conduct the operations contemplated by the particular election involved because of the possibility of placing the hole in jeopardy or losing the same prior to completing the well, such election shall not be given the priority hereinabove set forth. Instead, the operation which is less likely to jeopardize the well in the opinion of Operator will be conducted. It is further understood that if some, but not all, parties elect to participate in the additional logging, coring or testing, they may do so and the party or parties not logging, coring or testing shall not be entitled to the logs, cores, or the results of the tests but shall suffer no other penalty.

If the decision is to drill deeper or sidetrack, any party may be relieved of further obligation and liability as to such deepening or sidetracking, but shall continue to be liable and owe to Operator its proportionate part of the cost of plugging and abandoning the well at the initial objective depth (in the event it is not completed as a producing well), as well as the cost of surface restoration. Such deepening or sidetracking operation shall be conducted as a Non-Consent Operation only as to costs incurred subsequent to the initial objective depth having been reached, and costs incurred in plugging and abandoning a well which would not have been incurred but for the deepening and sidetracking operation conducted.

I. Limitation on Proposals

It is specifically provided that no notice shall be given under Article VI hereof which proposes the drilling of more than one well. Further, the provisions of said Article VI, insofar as same pertains to notification by a party of its desire to drill a well, shall be suspended for so long as (1) a prior notice has been given which is still in force and effect and the period of time during which the well regarding same may be commenced has not expired, (2) a well is presently drilling hereunder, or (3) the period of time between the completion and commencement of production of a well and the notice of a proposed subsequent well is less than sixty (60) days. This paragraph shall not apply under those circumstances where (1) the well to which notice is directed is a well which is required under the terms of a lease or contract or one required to maintain an lease or portion thereof in force or (2) the parties hereto mutually consent to such proposal.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

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

8 **ATTEST OR WITNESS:**

9 **OPERATOR**

10 Nadel and Gussman Permian, L.L.C.

11 By _____

12 Scott H. Germann

13 Type or print name

14 Title General Manager

15 Date _____

16 Tax ID or S.S. No. _____

17 **NON-OPERATORS**

18 Cirrus Exploration Company

19 By _____

20 Type or print name

21 Title _____

22 Date _____

23 Tax ID or S.S. No. _____

24 DHA, LLC

25 By _____

26 Type or print name

27 Title _____

28 Date _____

29 Tax ID or S.S. No. _____

30 Yates Brothers, a partnership

31 By _____

32 Type or print name

33 Title _____

34 Date _____

35 Tax ID or S.S. No. _____

1		<u>Artesia Oil and Gas</u>
2		
3	_____	By _____
4	_____	Type or print name _____
5		Title _____
6		Date _____
7		Tax ID or S.S. No. _____
8		<u>COG Operating, LLC</u>
9		
10	_____	By _____
11	_____	Type or print name _____
12		Title _____
13		Date _____
14		Tax ID or S.S. No. _____
15		<u>Nuevo Seis Limited Partnership</u>
16	_____	By _____
17	_____	Type or print name _____
18		
19		Title _____
20		Date _____
21		Tax ID or S.S. No. _____
22		<u>Solis Energy</u>
23	_____	By _____
24	_____	Type or print name _____
25		
26		Title _____
27		Date _____
28		Tax ID or S.S. No. _____
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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

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 _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on

_____ by _____ as

_____ of _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

Acknowledgment in representative capacity:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on

_____ by _____ as

_____ of _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

1	
2	Acknowledgment in representative capacity:
3	State of _____)
4	_____) ss.
5	County of _____)
6	This instrument was acknowledged before me on
7	_____ by _____ as
8	_____ of _____
9	(Seal, if any) _____
10	Title (and Rank) _____
11	My commission expires: _____
12	
13	Acknowledgment in representative capacity:
14	State of _____)
15	_____) ss.
16	County of _____)
17	This instrument was acknowledged before me on
18	_____ by _____ as
19	_____ of _____
20	(Seal, if any) _____
21	Title (and Rank) _____
22	My commission expires: _____
23	
24	Acknowledgment in representative capacity:
25	State of _____)
26	_____) ss.
27	County of _____)
28	This instrument was acknowledged before me on
29	_____ by _____ as
30	_____ of _____
31	(Seal, if any) _____
32	Title (and Rank) _____
33	My commission expires: _____
34	
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1
2 **Acknowledgment in representative capacity:**
3 State of _____)
4) ss.
5 **County of _____)**
6 **This instrument was acknowledged before me on**
7 _____ by _____ as
8 _____ of _____ .
9 (Seal, if any) _____
10 Title (and Rank) _____
11 My commission expires: _____
12
13 **Acknowledgment in representative capacity:**
14 State of _____)
15) ss.
16 **County of _____)**
17 **This instrument was acknowledged before me on**
18 _____ by _____ as
19 _____ of _____ .
20 (Seal, if any) _____
21 Title (and Rank) _____
22 My commission expires: _____
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EXHIBIT "A"

Attached to and made a part of that certain Joint Operating Agreement date September 1, 2012, between Nadel and Gussman Permian, L.L.C. as Operator and Cirrus Exploration Company, et al as Non-Operators.

I. CONTRACT AREA:

T-18-S, R-26-E, N.M.P.M., Eddy County, New Mexico:

Section 24: E/2 NW/4, W/2 NE/4, E/2 SW/4, and the W/2 SE/4

***II. PARTIES AND INTEREST:**

	<u>Working Interests</u>
Nadel and Gussman Permian, L.L.C. 601 North Marienfeld, Suite 508 Midland, TX 79701	.60610584
Cirrus Exploration Company 3423 Soncy Road Suite 200 Amarillo, TX 79119	.07430998
DHA, LLC P.O. Box 2071 Midland, TX 79702	.04707404
Yates Brothers, a partnership 105 South Fourth Street Artesia, NM 88210	.02890625
Artesia Oil & Gas P.O. Box 1768 Artesia, NM 88211	.00364583
COG Operating, LLC 550 W. Texas, Suite #1300 Midland, TX 79701	.00364583
Nuevo Seis Limited Partnership P.O. Box 2588 Roswell, NM 88202	.00364583
Solis Energy	.00032552
<u>Uncommitted Interests</u>	<u>.23234088</u>
	100.00%

*Subject to change

EXHIBIT "A"

III. OIL AND GAS LEASES JOA IS SUBJECT TO:

LESSOR: Susan Cherry Blair
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 828, Page 1121
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Robert Parks Bogenschutz
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 826, Page 0998
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: David Bradshaw
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 9, 2012
RECORDING: Book 903, Page 0014
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: W. Matthew Bradshaw
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 9, 2012
RECORDING: Book 903, Page 0016
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Marvin L. Chaney and Rilla McCubbins Chaney, Trustees of the Chaney Family Trust dated August 12, 2011

LESSEE: Nadel and Gussman Permian, LLC

DATE: May 17, 2012

RECORDING: Book 894, Page 1202

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Mary Louise Mims Chesney

LESSEE: Nadel and Gussman Permian, LLC

DATE: September 15, 2010

RECORDING: Book 828, Page 1117

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Margaret L. Choat, Trustee of the R. Roy Choat and Margaret L. Choat Revocable Trust, UTA 11-23-83

LESSEE: Nadel and Gussman Permian, LLC

DATE: September 30, 2010

RECORDING: Book 829, Page 0252
Amendment: Book 871, Page 0318

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: John Donald Clayton

LESSEE: Nadel and Gussman Permian, LLC

DATE: September 1, 2010

RECORDING: Book 827, Page 1079

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Cindy Cochran, Successor Trustee of the Revocable Living
Trustee Agreement of the B.A.M. Trust #1, UTA dated 2-9-1981

LESSEE: Nadel and Gussman Permian, LLC

DATE: August 26, 2010

RECORDING: Book 825, Page 1139

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Leon J. Clayton, Jr.

LESSEE: Nadel and Gussman Permian, LLC

DATE: September 1, 2010

RECORDING: Book 826, Page 1000

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Marlene Joyce Counts

LESSEE: Nadel and Gussman Permian, LLC

DATE: October 1, 2010

RECORDING: Book 830, Page 0714

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Iona Jeanette Davis

LESSEE: Nadel and Gussman Permian, LLC

DATE: May 17, 2012

RECORDING: Book 894, Page 0133

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: LuAnn S. Deere, dealing in her sole and separate property
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 26, 2010
RECORDING: Book 827, Page 0684
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Helen Disque, dealing in her sole and separate property
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 1, 2010
RECORDING: Book 825, Page 0538
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Ellis Dale Evans
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 827, Page 1077
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Charlotte Lavern Falls, AIF For Eddie Vincent Peoples
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 848, Page 1197
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Kenneth Frailicks
LESSEE: Nadel and Gussman Permian, LLC
DATE: May 17, 2012
RECORDING: Book 894, Page 1200
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Brian Hambright
LESSEE: Nadel and Gussman Permian, LLC
DATE: May 18, 2012
RECORDING: Book 896, Page 0093
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Dorothy Raetta Muncy Harlan
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 827, Page 0682
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Judy Harris, dealing in her sole and separate property
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 26, 2010
RECORDING: Book 827, Page 1075
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Section 24: E/2 NW/4, SW/4 NE/4 and NW/4 NE/4 (less a 3 acre
tract out of the Northeast corner of the NW/4NE/4)
Eddy County, New Mexico

LESSOR: Dennis E. Hevron
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 828, Page 1129
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Janelle Hevron
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 829, Page 1026
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Ronald G. Hevron, Sr.
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 828, Page 1127
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Marilyn Evans Hill, dealing in her sole and separate property
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 827, Page 0686
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Chere Edwards Johnson
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 20, 2010
RECORDING: Book 831, Page 0031
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Cordelia Johnson
LESSEE: Nadel and Gussman Permian, LLC
DATE: May 18, 2012
RECORDING: Book 893, Page 0527
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Patsy Kinser Jones
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 827, Page 0143
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Jo Etta Kruger, dealing in her sole and separate property
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 26, 2010
RECORDING: Book 826, Page 0540
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Section 24: E/2 NW/4, SW/4 NE/4 and NW/4 NE/4 (less a 3 acre
tract out of the Northeast corner of the NW/4NE/4)
Eddy County, New Mexico

LESSOR: The Jeanne M. Langenegger Revocable Trust, UTA 7-13-85
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 1, 2010
RECORDING: Book 830, Page 0888
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Laurelind Corporation
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 27, 2010
RECORDING: Book 830, Page 0716
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Section 24: E/2 NW/4, SW/4 NE/4 and NW/4 NE/4 (less a 3 acre
tract out of the Northeast corner of the NW/4NE/4)
Eddy County, New Mexico

LESSOR: Dana Ray Muncy Leming
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 828, Page 1125
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Timothy D. Lillie & wife, Tashina A. Lilley
LESSEE: Nadel and Gussman Permian, LLC
DATE: April 5, 2012
RECORDING: Book 890, Page 0148
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Jan Mayberry
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 15, 2010
RECORDING: Book 828, Page 0682
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Marilyn Mayberry, dealing in her sole and separate property
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 828, Page 0684
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Phillip W. McCubbins
LESSEE: Nadel and Gussman Permian, LLC
DATE: May 31, 2012
RECORDING: Book 898, Page 0412
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Tipton Ferns McCubbins
LESSEE: Nadel and Gussman Permian, LLC
DATE: May 17, 2012
RECORDING: Book 895, Page 0655
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Nancy McNeal
LESSEE: Nadel and Gussman Permian, LLC
DATE: May 18, 2012
RECORDING: Book 898, Page 0410
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Constantine Mims, III
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 15, 2010
RECORDING: Book 828, Page 1123
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Dorothy Agnus Weaver Muncy
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 827, Page 0690
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Eugene Lynn Muncy
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 826, Page 0996
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: James Edward Muncy
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 827, Page 0688
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Susan Cherry Blair Proctor
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 15, 2010
RECORDING: Book 828, Page 1119
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Marie Reeves, as Trustee of the Marie C. Lazenby Irrevocable Trust
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 1, 2010
RECORDING: Book 832, Page 0105
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Barbara Kay Clayton Scott, dealing in her sole and separate property
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 26, 2010
RECORDING: Book 825, Page 1137
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Darla Sue Shaw
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 832, Page 0394
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Maner B. Shaw, a single man
LESSEE: Nadel and Gussman Permian, LLC
DATE: April 17, 2011
RECORDING: Book 890, Page 0356
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: The Vilas P. Sheldon Marital Trust
LESSEE: Nadel and Gussman Permian, LLC
DATE: October 1, 2010
RECORDING: Book 830, Page 0718
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Clifford R. Sipple, dealing in his sole and separate property
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 26, 2010
RECORDING: Book 825, Page 0762
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Charlotte Soliz
LESSEE: Nadel and Gussman Permian, LLC
DATE: May 17, 2012
RECORDING: Book 894, Page 0135
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Jimmie Marie Terry, dealing in her sole and separate property
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 20, 2010
RECORDING: Book 827, Page 0145
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 NW/4 and W/2 NE/4
Eddy County, New Mexico

LESSOR: Michael M. Tower, dealing in his sole and separate property
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 827, Page 0145
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Robert D. Tower & Margaret L. Tower, Trustees of the Tower Trust
LESSEE: Nadel and Gussman Permian, LLC
DATE: September 1, 2010
RECORDING: Book 830, Page 0033
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Linda Ann Kinser Whipple
LESSEE: Nadel and Gussman Permian, LLC
DATE: August 26, 2010
RECORDING: Book 825, Page 1143
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Kathleen Vale Waldrop
LESSEE: Cirrus Exploration Co.
DATE: November 1, 2010
RECORDING: Book 833, Page 1063
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 NW/4, W/2 NE/4
(less a 3 acre tract out of the Northeast corner of the NW/4 NE/4)
Eddy County, New Mexico

LESSOR: Andrea Lerfald
LESSEE: Cirrus Exploration Co.
DATE: November 1, 2010
RECORDING: Book 35, Page 471
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 NW/4, W/2 NE/4
(less a 3 acre tract out of the Northeast corner of the NW/4 NE/4)
Eddy County, New Mexico

LESSOR: Dorothy Waldrop Evans
LESSEE: DHA, L.L.C.
DATE: January 13, 2011
RECORDING: Book 843, Page 409
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 NW/4, W/2 NE/4
(less a 3 acre tract out of the Northeast corner of the NW/4 NE/4)
Eddy County, New Mexico

LESSOR: Rita Sue Stoner, Individually and as Trustee of the Ralph and Rita Sue Stoner Trust

LESSEE: Cimarex Energy Co.

DATE: January 12, 2011

RECORDING: Book 856, Page 189 and Book 840, Page 33

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: R.R. Hinkle Company, Inc.

LESSEE: Cimarex Energy Co.

DATE: March 16, 2011

RECORDING: Book 851, Page 164

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Patsy J. Brown Lampe

LESSEE: DHA, L.L.C.

DATE: January 24, 2011

RECORDING: Book 848, Page 762

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Cherri Michelet Snyder

LESSEE: DHA, L.L.C.

DATE: February 14, 2011

RECORDING: Book 848, Page 754

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Marie Elizabeth Casabonne
LESSEE: DHA, L.L.C.
DATE: February 14, 2011
RECORDING: Book 848, Page 757
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Mary Louise Krittiger
LESSEE: DHA, L.L.C.
DATE: February 8, 2011
RECORDING: Book 848, Page 752
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Mary Elizabeth Todd
LESSEE: DHA, L.L.C.
DATE: March 30, 2011
RECORDING: Book 857, Page 862
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Mary Laverne Cunningham Underwood, DSSP & an Heir of Lois
Muncy Williams
LESSEE: DHA, L.L.C.
DATE: March 21, 2011
RECORDING: Book 858, Page 570
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Connie L. Cunningham Alexander & S. Carl Alexander, Trustees of the Connie L. Alexander Revocable Trust UTA dated May 3, 2011 & an Heir of Lois Muncy Williams

LESSEE: DHA, L.L.C.

DATE: March 21, 2011

RECORDING: Book 858, Page 570

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Trevor S. Turmelle

LESSEE: DHA, L.L.C.

DATE: January 17, 2011

RECORDING: Book 843, Page 411

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Barbara A. Clark, Trustee of the Barbara A. Clark Trust

LESSEE: Cimarex Energy Co.

DATE: January 11, 2011

RECORDING: Book 843, Page 896

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Chris H. Brewer

LESSEE: DHA, L.L.C.

DATE: March 11, 2011

RECORDING: Book 857, Page 858

DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Don E. Brewer
LESSEE: DHA, L.L.C.
DATE: March 29, 2011
RECORDING: Book 857, Page 860
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Wayne Case, etux Bobbi Case
LESSEE: DHA, L.L.C.
DATE: March 24, 2011
RECORDING: Book 858, Page 562
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Gayrene S. Weaver, etvir Mack Weaver
LESSEE: DHA, L.L.C.
DATE: March 24, 2011
RECORDING: Book 858, Page 564
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Herbert Lango, etux Rae Jean
LESSEE: DHA, L.L.C.
DATE: March 24, 2011
RECORDING: Book 858, Page 572
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Trena R. Schjetnan
LESSEE: DHA, L.L.C.
DATE: January 24, 2011
RECORDING: Book 858, Page 566
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: June Brewer Callahan
LESSEE: DHA, L.L.C.
DATE: March 29, 2011
RECORDING: Book 858, Page 576
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: Jerry V. Brown
LESSEE: DHA, L.L.C.
DATE: January 24, 2011
RECORDING: Book 848, Page 760
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

LESSOR: William J. McCaw and Nancy K. McCaw
LESSEE: Artesia Oil & Gas LLC
DATE: June 5, 2012
RECORDING: Book 894, Page 551
DESCRIPTION: Township 18 South, Range 26 East, N.M.P.M.
Insofar and only insofar as to Section 24: E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

IV. UNLEASED MINERAL INTERESTS:

Mineral Owner:	Scott A. Harris
Mineral Interest:	77/942 nd
Description:	<u>T-18-S, R-26-E, N.M.P.M.</u> Section 24: Insofar and only insofar as to the E/2 NW/4, SW/4NE/4 and NW/4NE/4 (less and except a 3 acre tract of the NE corner of the NW/4NE/4) Eddy County, New Mexico
Mineral Owner:	United New Mexico Financial Corporation
Mineral Interest:	1/8 th
Description:	<u>T-18-S, R-26-E, N.M.P.M.</u> Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4 Eddy County, New Mexico
Mineral Owner:	Howard E. Haskins & Ruth Gamble Haskins, as JT
Mineral Interest:	1/32 nd
Description:	<u>T-18-S, R-26-E, N.M.P.M.</u> Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4 Eddy County, New Mexico
Mineral Owner:	Estate of Winnie Dill Knox, deceased
Mineral Interest:	9/320 th
Description:	<u>T-18-S, R-26-E, N.M.P.M.</u> Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4 Eddy County, New Mexico
Mineral Owner:	LD Exploration, Inc.
Mineral Interest:	3/128 th
Description:	<u>T-18-S, R-26-E, N.M.P.M.</u> Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4 Eddy County, New Mexico
Mineral Owner:	Emma Felkins, DSSP
Mineral Interest:	3/128 th
Description:	<u>T-18-S, R-26-E, N.M.P.M.</u> Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4 Eddy County, New Mexico
Mineral Owner:	Sharbro Oil LTD Company
Mineral Interest:	5/256 th
Description:	<u>T-18-S, R-26-E, N.M.P.M.</u> Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4 Eddy County, New Mexico
Mineral Owner:	Shackelford Oil Properties, Inc.
Mineral Interest:	1/64 th

Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Myco Industries, Inc.
Mineral Interest: 13/1280th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Jack Dill Knox
Mineral Interest: 3/320th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Therylene Knox Helm
Mineral Interest: 3/320th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Grady R. Stevens, DSSP
Mineral Interest: 1/360th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Ede Schmalig Bullock
Mineral Interest: 7/1920th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Lisa Schmalig Simmons
Mineral Interest: 7/2880th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Texacal Oil & Gas, Inc.
Mineral Interest: 1/480th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Linda Clayton Nelson
Mineral Interest: 3/1600th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Joe A. Clayton, III
Mineral Interest: 3/1600th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Bert Nelson Myers
Mineral Interest: 5/2880th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Paul Julian Casabonne, a single man
Mineral Interest: 1/768th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Regina Casabonne, fka Regina Wood, a single woman
Mineral Interest: 1/768th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Melinda Nell Jones, a married woman, DSSP
Mineral Interest: 1/768
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Elizabeth Myers Schrader, DSSP
Mineral Interest: 3/2880
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Rada Angeline Muncy Hamilton
Mineral Interest: 1/1080th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Thyra Nell Myers Welborne
Mineral Interest: 1/1080th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Ruth M. Myers, widow of L.D. Myers, deceased
Mineral Interest: 1/1080th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Martha B. Myers, DSSP
Mineral Interest: 1/1080th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: John Larry Casabonne, a single man
Mineral Interest: 1/1536th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Dale Douglas, etux Renee R.
Mineral Interest: 1/1536th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Gay Brookshire Muncy
Mineral Interest: 1/6480
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Billie Jean Muncy Case
Mineral Interest: 1/6480
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Florine Muncy Stockton
Mineral Interest: 1/6480
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Roy Weldon Muncy
Mineral Interest: 1/2160th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Floy Noreen Muncy Lunquist
Mineral Interest: 1/2160th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Vera Gladys Muncy Beckett, DSSP
Mineral Interest: 1/2160th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Minnie Young, a widow
Mineral Interest: 1/2160th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: AcQuilla Fayes Maples, DSSP
Mineral Interest: 1/2160th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Allie Mae Lennard
Mineral Interest: 1/2160th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2 SE/4
Eddy County, New Mexico

Mineral Owner: Vivian Dohrmann, DSSP
Mineral Interest: 1/2160th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Allen Ray Young
Mineral Interest: 1/2160th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: James R. Smith, etux Kendall C.
Mineral Interest: 1/2304th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Kemp B. Smith, heir of Zula Muncy Smith, deceased
Mineral Interest: 1/5040th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Ray Smith, heir of Zula Muncy Smith, deceased
Mineral Interest: 1/5040th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Owen Levy Muncy, DSSP
Mineral Interest: 1/2520th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Weldon Leroy Muncy, DSSP
Mineral Interest: 1/2520th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Ila Muncy Goodman, DSSP
Mineral Interest: 1/2520th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Jewel Muncy Kile, DSSP
Mineral Interest: 1/2520th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Herbert Gayle Muncy
Mineral Interest: 3/8640th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Jane Kneubuhl, Trustee of The Chelsea Casabonne Trust Created
under the Casabonne Family Trust Agreement dated 5-25-1990, as
amended and Restated 11-17-2003
Mineral Interest: 1/3072nd
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Jane Kneubuhl, Trustee of The Alana Casabonne Trust Created
under the Casabonne Family Trust Agreement dated 5-25-1990, as
amended and Restated 11-17-2003
Mineral Interest: 1/3072nd
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Voight E. Healey, DSSP
Mineral Interest: 1/3240th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Elmer Dwight Healey, DSSP
Mineral Interest: 1/3240th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Louise Mitchell, DSSP
Mineral Interest: 1/3240th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Frank Lee Muncy, DSSP
Mineral Interest: 1/3240th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Harold D. Muncy, DSSP
Mineral Interest: 1/3240th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Coleen June Magnuson, DSSP
Mineral Interest: 1/3240th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Geneva Shivers
Mineral Interest: 1/15120th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Wes Brackman
Mineral Interest: 1/15120th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Ila Mae Muncy Jacobs, DSSP
Mineral Interest: 1/7560th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Paul Herman Muncy
Mineral Interest: 1/7560th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Bobby Jack Muncy, DSSP
Mineral Interest: 1/7560th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Mineral Owner: Betty R. Muncy, apparent heir of Delbert Muncy, deceased
Mineral Interest: 7/8640th
Description: T-18-S, R-26-E, N.M.P.M.
Section 24: Insofar and only insofar as to the E/2 SW/4 and W/2
SE/4
Eddy County, New Mexico

Exhibit " C "

ACCOUNTING PROCEDURE JOINT OPERATIONS

1 Attached to and made part of: that certain Joint Operating Agreement dated _____, by and between NADEL AND GUSSMAN
2 PERMIAN, L.L.C.
3 As Operator, and Cirrus Exploration Company, Et Al, as Non-Operators
4 _____
5 _____

I. GENERAL PROVISIONS

8 IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING "ALTERNATIVE" PROVISIONS, OR SELECT ALL THE
9 COMPETING "ALTERNATIVE" PROVISIONS, ALTERNATIVE 1 IN EACH SUCH INSTANCE SHALL BE DEEMED TO HAVE
10 BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR DUPLICATE NOTATION.
11

12 IN THE EVENT THAT ANY "OPTIONAL" PROVISION OF THIS ACCOUNTING PROCEDURE IS NOT ADOPTED BY THE
13 PARTIES TO THE AGREEMENT BY A TYPED, PRINTED OR HANDWRITTEN INDICATION, SUCH PROVISION SHALL NOT
14 FORM A PART OF THIS ACCOUNTING PROCEDURE, AND NO INFERENCE SHALL BE MADE CONCERNING THE INTENT
15 OF THE PARTIES IN SUCH EVENT.
16

1. DEFINITIONS

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

21 "Affiliate" means for a person, another person that controls, is controlled by, or is under common control with that person. In this
22 definition, (a) control means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting securities
23 of a corporation or, for other persons, the equivalent ownership interest (such as partnership interests), and (b) "person" means an
24 individual, corporation, partnership, trust, estate, unincorporated organization, association, or other legal entity.
25

26 "Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting
27 Procedure is attached.
28

29 "Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified
30 in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).
31

32 "Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest
33 Railway Receiving Point to the property.
34

35 "Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.
36

37 "Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is
38 to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable
39 field personnel.
40

41 **and/or Consultants.**
42 "First Level Supervision" means those employees / whose primary function in Joint Operations is the direct oversight of the Operator's
43 field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may
44 include, but are not limited to:
45

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

61 "Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be
62 shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the Agreement.
63

64 "Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection,
65 maintenance, repair, abandonment, and restoration of the Joint Property.
66

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

51 2. STATEMENTS AND BILLINGS

- 52
- 53 The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the
- 54 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all
- 55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified
- 56 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.
- 57 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.
- 58
- 59 The Operator may make available to Non-Operators any statements and bills required under Section 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. ~~If Payment is not made within such time the Party will be considered in default.~~ 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 the Party will be considered in default, and~~ 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 I.4 (*Adjustments*).

4. ADJUSTMENTS

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

5. EXPENDITURE AUDITS

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

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

those Non-Operators approving such audit.

The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month requirement for taking specific detailed written exception as required in Section 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 two (2) or more Parties, one of which is the Operator, having a combined working interest of at least fifty-one percent (51.0 %), 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 / and/or consultants directly employed On-site in the conduct of Joint Operations,
- (2) Operator's employees / and/or consultants 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 / and/or consultants providing First Level Supervision,
- (4) Operator's employees / and/or consultants 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 / and/or consultants 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 / and/or consultants identified in Section II.2.A may be made based on the employee's actual salaries and wages, or in lieu thereof, a day rate representing the Operator's average salaries and wages of the employee's specific job category.

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

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

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

- 1 D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the
2 expenses are incurred in connection with directly chargeable activities.
3
- 4 E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the
5 Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a
6 Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation
7 costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the
8 Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).
9
- 10 F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and
11 wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal
12 Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly
13 benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are
14 available.
15
- 16 G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable
17 to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account
18 under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most
19 recently recommended by COPAS.
20
- 21 H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose
22 salaries and wages are chargeable under Section II.2.A.
23

24 3. MATERIAL

25
26 Material purchased or furnished by the Operator for use on the Joint Property in the conduct of Joint Operations as provided under Section
27 IV (*Material Purchases, Transfers, and Dispositions*). Only such Material shall be purchased for or transferred to the Joint Property as
28 may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The accumulation
29 of surplus stocks shall be avoided.
30

31 4. TRANSPORTATION

- 32 A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.
33
- 34 B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point
35 to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material
36 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
37 methods listed below:
38
39
 - 40 (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a
41 theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per
42 hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall
43 consistently apply the selected alternative.
44
 - 45 (2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial
46 charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged
47 directly to the Joint Property and shall not be included when calculating the Equalized Freight.
48

49 5. SERVICES

50
51 The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and
52 utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to
53 contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").
54

55 The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).
56

57 6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

58
59 In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:
60

- 61 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to
62 production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership
63 and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who
64 are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense,
65 insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation
66 not to exceed prime +1% 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 \$_____. 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 \$_____ 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 ^{regulatory work and} ~~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

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

10 Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses of personnel performing

11 overhead functions, as well as office and other related expenses of overhead functions.

12

1. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

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

16 Section III, the Operator shall charge on either:

17

- 18 ☒ (Alternative 1) Fixed Rate Basis, Section III.1.B.
- 19 ☒ (Alternative 2) Percentage Basis, Section III.1.C.
- 20

A. TECHNICAL SERVICES

- 23 (i) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **On-site** Technical Services, including third party Technical Services:
- 26
- 27

28 ☒ (Alternative 1 – Direct) shall be charged direct to the Joint Account.

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

- 32 (ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **Off-site** Technical Services, including third party Technical Services:
- 35
- 36

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

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

40 ☒ (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.

47 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.

50

B. OVERHEAD—FIXED RATE BASIS

- 52 (1) The Operator shall charge the Joint Account at the following rates per well per month:
- 53
- 54

55 Drilling Well Rate per month \$ 6000.00 (prorated for less than a full month)

57 Producing Well Rate per month \$ 600.00

- 59 (2) Application of Overhead—Drilling Well Rate shall be as follows:
- 60

- 61 (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.
- 62
- 63
- 64
- 65
- 66

- 1 (b) Charges for any well undergoing any type of workover, recompletion, and/or abandonment for a period of five (5) or more
2 consecutive work-days shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date
3 operations, with rig or other units used in operations, commence through date of rig or other unit release, except that no charges
4 shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.
5
- 6 (3) Application of Overhead—Producing Well Rate shall be as follows:
7
- 8 (a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to support operations for
9 any portion of the month shall be considered as a one-well charge for the entire month.
10
- 11 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is
12 considered a separate well by the governing regulatory authority.
13
- 14 (c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well,
15 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
16 or not the well has produced.
17
- 18 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall
19 be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.
20
- 21 (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
22 charge.
23
- 24 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement; provided,
25 however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the
26 rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment
27 shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or
28 amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the
29 effective date of such rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").
30

31 G.—OVERHEAD—PERCENTAGE-BASIS

- 32
- 33 (1) ~~Operator shall charge the Joint Account at the following rates:~~
- 34
- 35 (a) ~~Development Rate _____ percent (____%) of the cost of development of the Joint Property, exclusive of costs~~
36 ~~provided under Section II.9 (Legal Expense) and all Material salvage credits.~~
- 37
- 38 (b) ~~Operating Rate _____ percent (____%) of the cost of operating the Joint Property, exclusive of costs~~
39 ~~provided under Sections II.1 (Rentals and Royalties) and II.9 (Legal Expense); all Material salvage credits; the value~~
40 ~~of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that~~
41 ~~are levied, assessed, and paid upon the mineral interest in and to the Joint Property.~~
- 42
- 43 (2) ~~Application of Overhead—Percentage Basis shall be as follows:~~
- 44
- 45 (a) ~~The Development Rate shall be applied to all costs in connection with:~~
- 46
- 47 [i] ~~drilling, redrilling, sidetracking, or deepening of a well~~
- 48 [ii] ~~a well undergoing plugback or workover operations for a period of five (5) or more consecutive work days~~
- 49 [iii] ~~preliminary expenditures necessary in preparation for drilling~~
- 50 [iv] ~~expenditures incurred in abandoning when the well is not completed as a producer~~
- 51 [v] ~~construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a~~
52 ~~fixed asset, other than Major Construction or Catastrophe as defined in Section III.2 (Overhead-Major Construction~~
53 ~~and Catastrophe).~~
- 54
- 55 (b) ~~The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those subject to Section III.2~~
56 ~~(Overhead-Major Construction and Catastrophe).~~
- 57

58 2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE

59
60 To compensate the Operator for overhead costs incurred in connection with a Major Construction project or Catastrophe, the Operator
61 shall either negotiate a rate prior to the beginning of the project, or shall charge the Joint Account for overhead based on the following
62 rates for any Major Construction project in excess of the Operator's expenditure limit under the Agreement, or for any Catastrophe
63 regardless of the amount. If the Agreement to which this Accounting Procedure is attached does not contain an expenditure limit, Major
64 Construction Overhead shall be assessed for any single Major Construction project costing in excess of \$100,000 gross.
65
66

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

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

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

(1) 4 % of total costs if such costs are less than \$100,000; plus

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

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

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

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

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

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

3. AMENDMENT OF OVERHEAD RATES

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

IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

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

1. DIRECT PURCHASES

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

2. TRANSFERS

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

A. PRICING

The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well design specification tubulars, unless such higher specification grade or sized tubulars are ~~approved by the Parties pursuant to Section 1.6.A (General Matters)~~ ^{deemed necessary by the Operator}. 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*)~~ ^{current market prices} ~~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.~~ ^{by the actual amount paid for the materials.}

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 **1. DIRECTED INVENTORIES**

2

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

8

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

13

14 A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel
15 performing the inventory or a rate agreed to by the Parties pursuant to Section 1.6.A (*General Matters*). The per diem rate shall also
16 be applied to a reasonable number of days for pre-inventory work and report preparation.

17

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

19

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

21

22 **2. NON-DIRECTED INVENTORIES**

23

24 **A. OPERATOR INVENTORIES**

25

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

28

29 **B. NON-OPERATOR INVENTORIES**

30

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

35

36 **C. SPECIAL INVENTORIES**

37

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

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EXHIBIT "D"

Attached to and made a part of that certain
Operating Agreement between
Nadel and Gussman Permian, L.L.C., as Operator,
And Cirrus Exploration Company, et al, as Non-Operators,
Dated: September 1, 2012

INSURANCE PROVISIONS

Operator shall secure and maintain the following insurance with the limits stipulated below for the joint account. Operator shall have the right to change the joint account for the actual premiums for the insurance coverage required by this Exhibit. Such premiums shall be allocated to the joint account using a fair and reasonable method based on the nature of the operations covered by this Agreement.

Any party, at its own expense, may carry its own coverage for the types of insurance and with limits as set forth in sections III and IV below. Any party so electing must notify Operator of such election prior to commencement of operations and provide a certificate of insurance evidencing the appropriate limits of liability. Upon timely notification of such coverage, such party will not be charged by Operator for the coverage.

Any party, at its own expense, may acquire such additional insurance as it may deem necessary to protect its own interest against claims, losses, damages or destructive to property arising out of operations hereunder.

1) **Workers' Compensation and Employer's Liability.**

A. Workers' Compensation Insurance covering the employees of Operator engaged in operations hereunder in compliance with all applicable state and federal laws, and said policy, or policies, shall include an all states endorsement.

B. Employer's Liability Insurance covering the employees of Operator engaged in operations hereunder with a limit of \$1,000,000 for death or injury to one person in any one accident.

2) **Comprehensive General Liability and Automobile Liability.** Coverage for all operations conducted hereunder by operator for the joint account with a combined single limit for each occurrence of \$1,000,000 for bodily injury and property damage. Said comprehensive general liability insurance shall include contractual liability coverage. Automobile liability insurance shall include coverage for hired and owned vehicles.

3) **Umbrella Liability.** Umbrella liability insurance with a limit of not less than \$3,000,000 (8/8ths) in excess of all primary insurance coverage specified in sections I and II.

4) **Extra Expense Liability.** Extra expense liability coverage including control of well, seepage, pollution and contamination coverage, cleanup and/or containment coverage, redrilling and/or restoring, and care, custody and control with limits of liability of not less than the following:

A. Control of well/redrill expense/seepage and pollution \$5,000,000 (8/8ths)

B. Care, custody and control \$250,000 (8/8ths)

5) **Contractors.** Operator shall use reasonable efforts to require all contractors working or performing services hereunder to secure and maintain coverage necessary to comply with all applicable state and federal workers' compensation and employer's liability laws, and said contractors or others performing services shall also be required to laws, and said contractors or others performing services shall also be required to procure and maintain comprehensive general liability insurance, with policy limits of at least \$1,000,000 per occurrence and said policies shall cover contractual liability assumed under any contract as between the contractor and operator. All policies issued to provide coverage as provided for in this section shall be endorsed to name the operator as additional insured, and all such policies shall be endorsed with a waiver of subrogation as against Operator as additional insured.

The policies carried by Operator and Non- operators shall contain a blanket waiver of subrogation.

EXHIBIT "E"

GAS BALANCING AGREEMENT

**Attached to and made a part of that certain Joint Operating Agreement
Dated September 1, 2012 between and among Nadel and Gussman Permian L.L.C. as
Operator and Cirrus Exploration Company, etal as Non-Operators**

INDEX

<u>ARTICLE I: DEFINITIONS</u>	1
<u>ARTICLE II: APPLICATION OF AGREEMENT</u>	1
<u>ARTICLE III: OWNERSHIP OF GAS IN PLACE</u>	2
<u>ARTICLE IV: OWNERSHIP OF GAS PRODUCED</u>	2
<u>ARTICLE V: RIGHTS TO OVERPRODUCTION</u>	2
<u>ARTICLE VI: ACCOUNTING FOR OVERPRODUCTION AND UNDERPRODUCTION</u>	2
<u>ARTICLE VII: GAS BALANCING STATEMENTS</u>	2
<u>ARTICLE VIII: VOLUME BALANCING (MAKE-UP RIGHTS)</u>	3
<u>ARTICLE IX: FINAL CASH BALANCING</u>	3
<u>ARTICLE X: DELIVERABILITY TESTS</u>	4
<u>ARTICLE XI: PAYMENT OF TAXES</u>	4
<u>ARTICLE XII: PAYMENT OF ROYALTIES</u>	4
<u>ARTICLE XIII: OPERATING EXPENSES AND LIABILITIES</u>	4
<u>ARTICLE XIV: OPERATOR'S LIABILITY</u>	4
<u>ARTICLE XV: LIEN AND SECURITY INTEREST</u>	4
<u>ARTICLE XVI: TERM</u>	5
<u>ARTICLE XVII: SUCCESSORS AND ASSIGNS</u>	5
<u>ARTICLE XVIII: CONFLICT</u>	5
<u>ARTICLE XIX: EXECUTION AND COUNTERPARTS</u>	5
<u>ARTICLE XX: COMPLIANCE WITH LAWS & REGULATIONS</u>	5

GAS BALANCING AGREEMENT

Attached to and made a part of that certain Joint Operating Agreement Dated September 1, 2012 between and among Nadel and Gussman Permian L.L.C. as Operator and Cirrus Exploration Company, etal 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 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 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 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.
9. "Make-up" right is the right of an Underproduced Party to take more than its full share of the gas produced 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 recomple the well in a different formation; (2) such well is plugged or recompleted 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

Except as otherwise set forth herein, each Party has the right to take its ownership share of gas produced 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, 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
FINAL CASH BALANCING

Within thirty (30) days of permanent cessation of production of gas, (in no event later than ninety (90) days from the date production actually ceases), 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 of final accounting, 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 final 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 royalties, 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 "F"

Attached to and made part of that certain Operating Agreement dated September 1, 2012,
by and between Nadel and Gussman Permian, L.L.C., as Operator, and Cirrus
Exploration Company, et al, as non- Operators

NONDISCRIMINATION & CERTIFICATION OF NONSEGREGATED
FACILITIES

- A. Equal Opportunity Clause (41 CFR 40.1.4) – Applicable only to contracts or purchase orders for more than \$10,000.00

During the performance of this contract, the Operator agrees as follows:

- 1) The Operator will not discriminate against any employee or applicant because of race, color, religion, sex or national origin.
- 2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
- 3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the operator's commitments under section 202 of executive order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- 4) The Operator will comply with all provisions of executive order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the secretary of labor.
- 5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965 and by the rules, regulations and orders of the secretary of labor, or pursuant thereto, and will permit access to its books, records and accounts by the contracting agency and the secretary of labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- 6) In the event of the operator noncompliance with the nondiscrimination clauses of this contract with any such rules, regulation or orders, this contract may be cancelled, terminated or suspended in whole or in part and the operator may be declared ineligible for further Government contracts in accordance with procedures authorized in executive order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive order 11246 of September 24, 1965, or by rule, regulation or order of the secretary of labor, or as otherwise provided by law.
- 7) The Operator will include the provisions of paragraph (1) through (7) in every sub contract or purchase order unless exempted by rules, regulations or orders of the secretary of labor issued pursuant to section 204 of Executive Order 11246 of September 24, 1945, so such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non compliance; provided, however, that in the event that the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the operator may request the United States to enter in such litigation to protect the interest of the United States.

- B. Certification of Nonsegregated Facilities (41 CFR 60-1.8) – Applicable only to contracts or purchase orders which are not exempt from the provisions of the Equal Opportunity Clause set out above.

The Operator certifies that it does not, and will not, maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not, and will not, permit its employees to perform their services at any location under its control where segregated facilities are maintained. The Operator agrees that a breach of this certification is a violation of the equal Opportunity Clause in this contract or purchase order. As used in this certification, the term “segregated facilities” means waiting rooms, work areas, restrooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color or national origin, because of habit, local custom or otherwise. The Operator further agrees that (except where it has obtained identical certification from proposed subcontractors for specific time periods), it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the equal opportunity Clause; that it will obtain such certification in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES.

A Certificate of Nonsegregated Facilities must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period, i.e. quarterly, semi-annually, or annually.

- C. Affirmative Action Compliance Program (91 CFR 60 – 1.40) – Applicable only if: (a) the operator has 50 or more employees, and (b) the contract or purchase order is for \$50,000 or more.

The Operator agrees to file with the appropriate Federal agency annually, on or before the 31st day of March, complete and accurate reports on standard form (EEO-1) promulgated jointly by the office of federal contract compliance, the equal employment Opportunity commission and plans for progress or such form as may hereinafter be promulgated in its place.

- D. Employer Information Report (41 CFR 60-1.7) – Applicable only if: (a) the Operator has 50 or more employees, (b) the Operator is not exempt pursuant to section 60.1.3 of Title 41 of the Code of Federal Regulations from the requirement for filing Employer Information Report EEO-1, and (c) the contract or purchase order is for \$50,000 or more
- E. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era (41 CFR 60-250) – Applicable only to contracts or purchase orders for \$10,000 or more.

The affirmative actions clause prescribed in Section 60-250.4 of Title 41 of the code of Federal Regulations is incorporated herein by reference (as permitted by section 60-250.22 of said regulations) as if set out in full at this point. If the Operator (a) has 50 or more employees, and (b) this contract or purchase order is for \$50,000 or more, then within 120 days from the effectiveness of this contract or purchase order, the Operator shall prepare and maintain an affirmative action program at each establishment which shall set forth the Operators policies, practices and procedures in accordance with section 60-250.6 of said Regulation.

F. Affirmative Action for Handicapped Workers (91 CFR 60-741.4)-

Applicable only to contracts or purchase orders for \$2,500 or more.

The affirmative action clause prescribed in section 60-741.4 of Title 41 of the code of Federal Regulations is incorporated herein by reference (as permitted by section 60-741.22 of said Regulations) as if set out in full at this point. If the Operator (a) has 50 or more employees, and (b) this contract or purchase order, the operator shall prepare and maintain an affirmative action program at each establishment, which program shall set fourth the Operators policies, practices and procedures in accordance with section 60-741.6 of said Regulations.

G. Utilization of Minority Business Enterprise (Federal Procurement, Regulation 1-1.13) - Applicable only to contracts or purchase orders which may exceed \$10,000.

- 1) It is the policy of the government that minority business enterprise shall have the maximum practicable opportunity to participate in the performance of Government contracts.
- 2) The Operator agrees to use his best efforts to carry out this policy in the award of his subcontracts to the fullest extent consistent with the efficient performance of this contact. As used in this contract, the term "minority business enterprise" means a business at least 50 percent of which is owned by minority group members, or in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For the purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos and American Aletus. Contractors may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

EXHIBIT "H"

Attached to and made part of that certain Operating Agreement dated September 1, 2012
by and between Nadel and Gussman Permian, L.L.C., as Operator, and Cirrus Exploration
Company, et al, as non- Operators

Memorandum of Operating Agreement and Financing Statement

THIS Memorandum of Operating Agreement and Financing Statement ("Memorandum") is made
this _____ by Nadel and Gussman Permian L.L.C., as Operator and the signatory parties thereto,
as non-Operators.

WITNESSETH:

WHEREAS, the Parties have entered into an Operating Agreement dated September 1, 2012,
providing for the exploration, development and operation for the production of oil, gas and
associated substances produced therewith from the Oil and Gas Leases described in Exhibit "A"
hereto ("Contract Area") being the E/2 NW/4, W/2 NE/4, E/2 SW/4, and the W/2 SE/4 of Section
24, Township 18 South, Range 26 East, Eddy County, New Mexico, and designating Nadel and
Gussman Permian L.L.C. as Operator to conduct such operations; and

WHEREAS, said Operating Agreement contains provisions giving the Parties mutual liens and
security interests where one or more of the Parties become debtors to one or more of the other
Parties hereto, and the purpose of this Memorandum is to place third parties on notice of the
provisions of the Operating Agreement, and to secure and perfect the mutual liens and security
interests of the Parties.

NOW, THEREFORE, the Parties hereto hereby give notice of the liens and other security
interests set forth below:

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

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

This Memorandum may be executed in any number of counterparts, which may be combined to
form a single instrument for recording purposes. All Parties need not to execute this
Memorandum in order for it to be effective as to those Parties who executed said Operating
Agreement.

Upon expiration of said Operating Agreement and the satisfaction of all debts, the Operator shall
file of record in the same offices where this Memorandum is filed a release and termination of
this Memorandum on behalf of all Parties.

Notices, inquiries, and requests concerning this Memorandum shall be sent to:

Nadel and Gussman Permian L.L.C.
601 North Marienfeld, Suite 508
Midland, Texas 79701
Phone Number: (432) 682-4429
Fax Number: (432) 682-4325

IN WITNESS WHEREOF, this Memorandum has been executed as of the first date written above.

OPERATOR

Nadel and Gussman Permian, L.L.C.

By: _____
Scott H. Germann
General Manager

NON-OPERATORS

Cirrus Exploration Company

By _____

Type or print name
Title _____

DHA, LLC

By _____

Type or print name
Title _____

Yates Brothers, a partnership

By _____

Type or print name
Title _____

Artesia Oil & Gas

By _____

Type or print name
Title _____

COG Operating, LLC

By _____

Type or print name
Title _____

Nuevo Seis Limited Partnership

By _____

Type or print name
Title _____

Solis Energy

By _____

Type or print name
Title _____

ACKNOWLEDGMENTS

STATE OF TEXAS }

COUNTY OF MIDLAND }

This instrument was acknowledged before me on the _____ day of _____, 2012 by Scott H. Germann, General Manager, on behalf of Nadel and Gussman Permian, L.L.C.

My Commission Expires:
of: _____

Notary Public for the State

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on the ____ day of _____, 2012 by _____, (title) on behalf of Cirrus Exploration Company.

My Commission Expires:
of: _____

Notary Public for the State

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on the ____ day of _____, 2012 by _____, (title) on behalf of DHA, LLC.

My Commission Expires:
of: _____

Notary Public for the State

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on the ____ day of _____, 2012 by _____, (title) on behalf of Yates Brothers, a partnership.

My Commission Expires:
of: _____

Notary Public for the State

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on the ____ day of _____, 2012 by
_____, (title) on behalf of Artesia
Oil & Gas.

My Commission Expires:
of: _____

Notary Public for the State

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on the ____ day of _____, 2012 by
_____, (title) on behalf of COG
Operating, LLC.

My Commission Expires:
of: _____

Notary Public for the State

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on the ____ day of _____, 2012 by
_____, (title) on behalf of Nuevo
Seis Limited Partnership.

My Commission Expires:
of: _____

Notary Public for the State

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on the ____ day of _____, 2012 by
_____, (title) on behalf of Solis
Energy.

My Commission Expires:
of: _____

Notary Public for the State