

Drill pipe shall be considered in use not only when in actual use but also while it is being picked up or laid down. When drill pipe is standing in the derrick, it shall not be considered in use, provided, however, that if Contractor furnishes special strings of drill pipe, drill collars, and handling tools as provided for in Exhibit "A", the same shall be considered in use at all times when on location or until released by Operator. In no event shall fractions of an hour be considered in computing the amount of time drill pipe is in use but such time shall be computed to the nearest hour, with thirty minutes or more being considered a full hour and less than thirty minutes not to be counted.

**4.3 Work Stoppage Rate:** \$ 5000.00/PER DAY \$ 208.33/PER HOUR

The above rate shall apply under the following circumstances:

(a) During any continuous period that normal operations are suspended or cannot be carried on due to conditions of force majeure as defined in paragraph 2.2 hereof. It is understood, however, that Operator shall have the right to release the rig in accordance with Operator's right to direct stoppage of the work (See Paragraph 6), effective when conditions will permit the rig to be moved from the location.

(b) During any period when Contractor has notified Operator that the rig is available for movement to the drilling site and movement cannot be accomplished because of Operator's failure or inability to furnish and/or maintain adequate roadway and/or canal to location and/or location and/or weather prevents positioning the rig on a water location drill site.

(c) During any period after operations under this Contract have been completed and Operator has released the rig and the same cannot be dismantled and/or transported from the location due to inadequate roadway or canal, or weather or water conditions which will not allow such activity to be conducted with reasonable safety.

(d) Operator agrees at all times to maintain the road and location in such a condition that will allow free access and movement to and from the drilling site in an ordinarily equipped highway type vehicle. If Contractor is required to use bulldozers, tractors, four-wheel drive vehicles, or any other specialized transportation equipment for the movement of necessary personnel, machinery, or equipment over access roads or on the drilling location, Operator shall furnish the same at its expense and without cost to Contractor. The actual cost of repairs to any transportation equipment furnished by Contractor or its personnel damaged as a result of improperly maintained access roads or location will be charged to Operator.

**4.4 Repair Time:** In the event it is necessary to shut down Contractor's rig for repairs excluding routine rig servicing while Contractor is performing daywork hereunder, Contractor shall be allowed compensation at the applicable daywork rate for such shut down time up to a maximum of 4 hours for any one repair job.

**4.5 Standby Time Rate with Crews:** \$ 5000.00 per twenty-four (24) hour day. Standby time shall be defined to include time when the rig is shut down although in readiness to begin or resume operations but Contractor is waiting on orders of Operator or on materials, services or other items to be furnished by Operator.

**4.6 Reimbursable Costs:** Operator shall reimburse Contractor for the costs of materials, equipment, work or services which are to be furnished by Operator as provided for herein but which for convenience are actually furnished by Contractor at Operator's request, plus 30 percent for such cost of handling.

**4.7 Daywork Operations:** In addition to other work specified herein the following work performed by Contractor shall be on a daywork basis:

(a) All drilling below the contract footage depth as provided in Par.3.1, including the setting of any string of casing below such depth;

(b) All work performed by Contractor, whether or not prior to reaching the contract footage depth in an effort to restore the hole to such condition that further drilling or other operations may be conducted, in the event of loss or damage to the hole as a result of any delay by Operator or the failure at any time of materials, equipment, goods or services provided by Operator, including without limitation to the foregoing, the failure of Operator's casing or equipment, either during or after the running and setting of such casing or as a result of the subsequent failure of the cementing job resulting in parted casing;

(c) All work performed when conditions set forth in Paragraph 12 are applicable;

(d) All other work performed by Contractor at the request of Operator, regardless of depth, which is not within the scope of the work to be performed on a footage basis, including all coring, drill stem testing, bailing, gun or jet perforating, electric logging, acid treatment, shooting, cleaning out, hydraulic fracturing, plugging, running tubing, setting liners, squeeze cementing, abandoning well and installation of well head equipment.

**4.8 Daywork Time:** In determining the amount of daywork time for which Contractor is to be compensated at the applicable daywork rate, it is agreed that such daywork time shall begin when Contractor, in accordance with the terms hereof, suspends normal footage drilling operations. There shall be included in daywork time any time required to condition the hole preparatory to performing such daywork and also the time required to restore the hole to the same drilling conditions which existed when operations were suspended for the purpose of beginning daywork, in order to again resume normal footage drilling operations.

**4.9 Revision in Rates:** The rates and/or payments herein set forth due to Contractor from Operator shall be revised to reflect the change in costs if the costs of any of the items hereinafter listed shall vary by more than 15 percent from the costs thereof on the date of this Contract or by the same percent after the date of any revision pursuant to this paragraph:

(a) Labor costs, including all benefits, of Contractor's personnel;

(b) Contractor's cost of insurance premiums;

(c) Contractor's cost of fuel, including all taxes and fees; the cost per gallon /MCF being \$ .65;

(d) Contractor's cost of catering, when applicable;

(e) If Operator requires Contractor to increase or decrease the number of Contractor's personnel;

(f) Contractor's cost of spare parts and supplies with the understanding that such spare parts and supplies constitute 30 percent of the operating rate and that the parties shall use the U.S. Bureau of Labor Statistics Oilfield Machinery and Equipment Wholesale Price Index (Code No. 1191-02) to determine to what extent a price variance has occurred in said spare parts and supplies;

(g) If there is any change in legislation or regulations in the area in which Contractor is working that alters Contractor's financial burden

## 5. TIME OF PAYMENT:

Subject to Operator's right to require Contractor to furnish him with satisfactory evidence that Contractor has paid all labor and material claims chargeable to Contractor, payment becomes due by Operator to Contractor as follows:

**5.1 Footage Basis:** If the well is drilled to total depth on a footage basis, payment becomes due for all services (footage and daywork) when Contractor completes the performance of the services which he agrees to perform under this Contract, provided, however, if Contractor prior to the completion of the Contract performs a substantial amount of daywork, payment for such daywork shall be due and payable upon presentation of invoice therefore at the end of the month in which such daywork was performed.

**5.2 Daywork Basis:** If the entire hole or the bottom section of the hole is drilled on a daywork basis, payment shall become due as follows: Upon Contractor's completion of the footage basis drilling to the depth specified above and upon acceptance by the Operator of the hole as drilled to such depth in accordance with this Contract, payment becomes due for all footage drilled and for all work performed on a daywork basis to the date of completion of the footage drilled. Payment for drilling and other work performed at daywork rates below the depth specified at which daywork basis drilling commences shall become due upon acceptance by Operator of the work performed in accordance with this Contract upon presentation of invoice therefore upon completion of the well or at the end of the month in which such daywork was performed, whichever shall first occur.

**5.3 Disputed Invoice and Late Payment:** Operator shall pay all invoices within 30 days after receipt except that if Operator disputes an invoice or any part thereof. Operator shall, within fifteen days after receipt of the invoice, notify Contractor of the item disputed, specifying the reason therefore and payment of the disputed item may be withheld until settlement of the dispute, but timely payment shall be made of any undisputed portion. Any sums (including amounts ultimately paid with respect to a disputed invoice) not paid within the above specified days shall bear interest at the maximum legal rate per month from the due date until paid. If Operator does not pay undisputed items within the above stated time, Contractor may terminate this Contract as specified under Subparagraph 6.2.

**5.4 Attorney's Fees:** If this Contract is placed in the hands of an attorney for collection of any sums due hereunder, or suit is brought on same, or sums due hereunder are collected through bankruptcy or probate proceedings, then Operator agrees that there shall be added to the amount due reasonable attorney's fees and costs.

## 6. STOPPAGE OF WORK BY OPERATOR OR CONTRACTOR:

**6.1 By Operator:** Notwithstanding the provisions of Paragraph 3 with respect to the depth to be drilled, Operator shall have the right to direct the stoppage at the work to be performed by the Contractor hereunder at any time prior to reaching the specified depth, and even though Contractor has made no default hereunder, and in such event Operator shall be under no obligation to Contractor except as set forth in Subparagraph 6.3 hereof.

6.2 By Contractor: Notwithstanding the provisions of Paragraph 3 with respect to the depth to be drilled, in the event of Force Majeure necessitating a termination of operations, or in the event of total or constructive total loss of the rig, or if Operator shall become insolvent or be adjudicated a bankrupt, or file by way of petition or answer, a debtor's petition or other pleading seeking adjustment of Operator's debts under any bankruptcy or debtor's relief laws now or hereafter prevailing, or if any such be filed against Operator, or in case a receiver be appointed of the Operator or Operator's property, or any part thereof, or Operator's affairs be placed in the hands of Creditor's Committee, or, following ten (10) days written notice to Operator, if Operator does not pay Contractor within the time specified in Subparagraph 5.3 all undisputed items due and owing, Contractor may, at its option, elect to terminate further performance of any work under this Contract and Contractor's right to compensation shall be as set forth in Subparagraph 6.3 hereof. In addition to Contractor's right to terminate performance hereunder, Operator hereby expressly agrees to protect, defend and indemnify Contractor from and against any claims, demands and causes of action, including all costs of defense, in favor of Operator, Operator's joint ventures, or other parties arising out of any drilling commitments or obligations contained in any lease, farmout agreement or other agreement, which may be affected by such termination of performance hereunder.

**6.3 Early Termination Compensation:**

(a) Prior to Commencement: In the event this Contract is terminated prior to commencement of operations hereunder, Operator shall pay Contractor as liquidated damages and not as a penalty a sum equal to the Footage Rate (Paragraph 4.1) multiplied by the Contract Footage Depth (Paragraph 3.1) plus the Standby Rate (Paragraph 4.5) for a period of N/A days for estimated daywork drilling below Contract Footage Depth; or a lump sum of \$ N/A.

(b) Prior to Spudding: If such work stoppage occurs after commencement of operations but prior to the spudding of the well, Operator shall pay to Contractor the sum of the following: (1) All expenses reasonably and necessarily incurred and to be incurred by Contractor by reason of the Contract and by reason of the premature stoppage of the work, excluding, however, expenses of normal drilling crew and supervision; (2) ten percent (10%) at the amount of such reimbursable expenses; and (3) a sum calculated at the standby rate for all time from the date upon which Contractor commences any operations hereunder down to such date subsequent to the date of work stoppage as will afford Contractor reasonable time to dismantle its rig and equipment.

(c) Subsequent to Spudding: If such work stoppage occurs after the spudding of the well, Operator shall pay the Contractor (1) the amount owing Contractor at the time of such work stoppage under the footage rate, applicable daywork rate, and standby rate; but in such event Operator shall pay Contractor for a minimum footage of N/A feet regardless of whether or not the well has been drilled to such depth at the time of work stoppage; or (2) at the election of Contractor and in-lieu of the foregoing, Operator shall pay Contractor for all expenses reasonable and necessarily incurred and to be incurred by Contractor by reason of this Contract and by reason of the premature stoppage of work plus the sum of \$ N/A.

**7. CASING PROGRAM:**

7.1 The casing program to be followed in the drilling of said well is set forth in Exhibit "A", and Contractor shall drill a hole of the size specified in Exhibit "A" to set at the approximate depth therein indicated the size of casing so specified. The exact setting depths for each string of casing shall be specified by Operator. Operator may modify said casing program provided any modification thereof which materially increases Contractor's hazards or costs of performing its obligations hereunder can only be made by mutual consent of Contractor and Operator.

7.2 The setting of any string of casing within the footage contract depth shall be performed as specified in Exhibit "A".

7.3 The setting of any string of casing below the footage contract depth shall be performed by Contractor under the direction of Operator but Operator shall pay Contractor for all time so consumed at the applicable daywork rate.

7.4 Operator reserves the right to require Contractor to set strings of casing or liners in addition to those listed (subject to the limitations upon Operator's right to modify the casing program as provided for in Per. 7.1) and in such event Contractor agrees to provide rig time for cementing and testing cement on such liners and strings of casing and to provide rig time for performing cement squeezing jobs as required by Operator. Operator shall pay Contractor for time consumed by such work at the applicable daywork rates.

**8. LABOR, EQUIPMENT, MATERIALS, SUPPLIES, AND SERVICES:**

The furnishing of labor, equipment, appliances, materials, supplies, and services of whatever character necessary or proper in the drilling and completion of said well and not otherwise specifically provided for herein shall be furnished by Contractor or Operator as specified in Exhibit "A".

**9. DRILLING METHODS AND PRACTICES:**

9.1 Contractor shall maintain well control equipment in good condition at all times and shall use all reasonable means to prevent and control fires and blowouts and to protect the hole.

9.2 Subject to the terms hereof, at all times during the drilling of the well, Operator shall have the right to control the mud program, and the drilling fluid must be of a type and have characteristics acceptable to Operator and be maintained by Contractor in accordance with the specifications shown in Par. 2 of Exhibit "A". No change or modification of said specifications which materially increases Contractor's hazards or costs of performing its obligations hereunder shall be made by Operator without consultation with and consent of Contractor. Operator shall have the right to make any tests of the drilling fluid which may be necessary. Should no mud control program be specified by Operator in Exhibit "A", Contractor shall have the right to determine the mud program and the type and character of drilling fluid during the time that Contractor is performing work upon a footage basis under the terms of this Contract.

9.3 Contractor shall measure the total length of drill pipe in service with a steel tape at the point where the contract footage depth has been reached; and when requested by Operator, before setting casing or liner and after reaching final depth.

9.4 Contractor agrees to furnish equipment, workmen and instruments acceptable to Operator and to make slope tests as provided in Exhibit "A". Unless operations are on a daywork basis, all such slope tests shall be made at Contractor's sole risk, cost and expense. If, in the opinion of Operator, it becomes advisable to obtain the use of an additional slope test instrument and accessory equipment for the purpose either of checking previous readings or of determining the direction of the drift, the rental charges therefore shall be paid by Operator, and the running of same shall be on a daywork basis. Should the hole at any depth during the time Contractor is performing work on a footage basis have either a deviation from vertical or a change of inclination in excess of the limits prescribed in Exhibit "A", Contractor agrees to restore the hole to a condition suitable to Operator either by conventional methods and procedures while drilling ahead or by cementing off and redrilling. While operations are being performed on a "Daywork Basis", or during "Complete Daywork Basis Drilling", Contractor agrees to exercise due diligence and care to maintain the straight hole specifications, if any, set forth in Par. 3 of Exhibit "A" but all risk and expense of maintaining such specifications or restoring the hole to a condition suitable to Operator shall be assumed by Operator.

9.5 Each party hereto agrees to comply with all laws, rules, and regulations of any federal, state or local governmental authority which are now or may become applicable to that party's operations covered by or arising out of the performance of this Contract. When required by law, the terms of Exhibit "B" shall apply to this Contract. In the event any provision of this contract is inconsistent with or contrary to any applicable federal, state or local law, rule or regulation, said provision shall be deemed to be modified to the extent required to comply with said law, rule, or regulation and as so modified said provision and this Contract shall continue in full force and effect.

**10. COMPLETION TESTS AND INSTALLATION OF WELL CONNECTIONS OR ABANDONMENT:**

Contractor will either complete the well and install well head equipment and connections or plug and abandon same in accordance with Operator's instructions, at the applicable rates set forth in Par. 4 above, using equipment, material, and services to be furnished and paid for by either Operator or Contractor as specified in Exhibit "A".

**11. CORING AND CUTTINGS:**

11.1 As directed by Operator and utilizing the type of coring equipment specified and furnished as shown in Exhibit "A", Contractor agrees at any time to take either rat-hole or full hole conventional or wire line cores in the manner requested by Operator. Regardless of depth, all coring shall be paid for at the applicable daywork rate. All coring footage shall be deducted from the total footage charge if the well is being drilled on footage basis at that depth. Reaming of the rat-hole shall be paid for at the applicable daywork rate.

11.2 When requested by Operator, Contractor shall save and identify the cuttings and cores, free from contamination, and place them in separate containers which shall be furnished by Operator; such cuttings and cores shall be made available to a representative or Operator at the location.

## 12. FORMATIONS DIFFICULT OR HAZARDOUS TO DRILL:

12.1 In the event chert, pyrite, quartzite, granite, igneous rock or other impenetrable substance, is encountered while drilling on the footage basis and the footage drilled during each twenty-four (24) hour period multiplied by the footage rate does not equal the applicable daywork rate plus cost of bits, all drilling operations shall be conducted on a daywork basis at the applicable daywork rate, with Operator furnishing the bits, until normal drilling operations and procedures can be resumed. The footage drilled on daywork rate shall be deducted from the footage charge.

12.2 In the event water flow, domal, steeply dipping or faulted formation, abnormal pressure, underground mine or cavern, heaving formation, salt or other condition is encountered which makes drilling abnormally difficult or hazardous, causes sticking of drill pipe or casing, or other difficulty which precludes drilling ahead under reasonably normal procedures, Contractor shall, in all such cases, without undue delay, exert every reasonable effort to overcome such difficulty. When such condition is encountered, further operations shall be conducted on daywork basis at the applicable daywork rate until such conditions have been overcome and normal drilling operations can be resumed. Operator shall assume the risk of loss of or damage to the hole and to Contractor's equipment in the hole from the time such condition is encountered. The footage drilled while on daywork basis shall be deducted from the footage charge.

12.3 In the event loss of circulation or partial loss of circulation is encountered, Contractor shall, without undue delay, exert every reasonable effort to overcome such difficulty. When such condition is encountered, Operator shall assume risk of loss of or damage to the hole and to Contractor's equipment in the hole. Should such condition persist in spite of Contractor's efforts to overcome it, then after a period of 2 hours time consumed in such efforts, further operations shall be conducted on a daywork basis at the applicable daywork rate until such condition has been overcome and normal drilling operations can be resumed. The total rig time furnished by Contractor under the terms of this paragraph shall be limited to a cumulative 4 hours. The footage drilled while on daywork basis shall be deducted from the footage charge.

## 13. REPORTS TO BE FURNISHED BY CONTRACTOR:

13.1 Contractor shall keep and furnish to Operator an accurate record of the work performed and formations drilled on the IADC-API Daily Drilling Report Form or other form acceptable to Operator. A legible copy of said form signed by Contractor's representative shall be furnished by Contractor to Operator.

13.2 Delivery tickets, if requested by Operator, covering any material or supplies furnished by Operator shall be turned in each day with the daily drilling report. The quantity and description of materials and supplies so furnished shall be checked by contractor and such tickets shall be properly certified by Contractor.

## 14. INGRESS AND EGRESS TO LOCATION:

Operator hereby assigns to Contractor Operator's rights of ingress and egress with respect to the tract of land where the well is to be located for the performance by Contractor of all work contemplated by this Contract. Should Contractor be denied free access to the location for any reason not reasonably within Contractor's control, any time lost by Contractor as a result of such denial shall be paid for at the applicable rate in keeping with the stage of operations at that time. In the event there are any restrictions, conditions or limitations in Operator's lease which would affect the free right of ingress and egress to be exercised by Contractor, its employees, or subcontractors hereunder, Operator agrees to timely advise Contractor in writing with respect to such restrictions, conditions, or limitations, and Contractor agrees to observe same. Operator shall reimburse Contractor for all amounts reasonably expended by Contractor for repairs and/or reinforcement of roads, bridges and related or similar facilities (public and private) required as a direct result of a rig move pursuant to performance hereunder.

## 15. RESPONSIBILITY FOR A SOUND LOCATION:

Operator shall prepare a sound location, adequate in size and capable of properly supporting the drilling rig, and shall be responsible for a conductor pipe program adequate to prevent soil and subsoil washout. It is recognized that Operator has superior knowledge of the location and access routes to the location, and must advise Contractor of any subsurface conditions, or obstructions (including, but not limited to mines, caverns, sink holes, streams, pipelines, power lines and telephone lines) which Contractor might encounter while en route to the location or during operations hereunder. In the event subsurface conditions cause a cratering or shifting of the location surface, or if seabed conditions prove unsatisfactory to properly support the rig during marine operations hereunder, and loss or damage to the rig or its associated equipment results therefrom, Operator shall, without regard to other provisions of this Contract, reimburse Contractor to the extent not covered by Contractor's insurance, for all such loss or damage including payment of work stoppage rate during repair and/or demobilization, if applicable.

## 16. INSURANCE:

During the life of this Contract, Contractor shall at Contractor's expense maintain, with an insurance company or companies authorized to do business in the state where the work is to be performed or through a self-insurance program, insurance coverage of the kind and in the amounts set forth in Exhibit "A", insuring the liabilities specifically assumed by Contractor in Paragraph 18 of this Contract. Contractor shall, if requested to do so by Operator, procure from the company or companies writing said insurance a certificate or certificate satisfactory to Operator that said insurance is in full force and effect and that the same shall not be canceled or materially changed without ten (10) days prior written notice to Operator. For liabilities assumed hereunder by Contractor, its insurance shall be endorsed to provide that the underwriters waive their right of subrogation against Operator. Operator will, as well, cause its insurer to subrogate against Contractor for liability it assumes and shall maintain, at Operator's expense, or shall self insure, insurance coverage of the same kind and in the same amount as is required of Contractor, insuring the liabilities specifically assumed by Operator in Paragraph 18 of this Contract.

## 17. PAYMENT OF CLAIMS:

Contractor agrees to pay all claims for labor, material, services, and supplies to be furnished by Contractor hereunder, and agrees to allow no lien by such third parties to be fixed upon the lease, the well, or other property of Operator or the land upon which said well is located.

## 18. RESPONSIBILITY FOR LOSS OR DAMAGE, INDEMNITY, RELEASE OF LIABILITY AND ALLOCATION OF RISK:

18.1 Contractor's Surface Equipment: Contractor shall assume liability at all times, regardless of whether the work is being performed on a footage basis or daywork basis, for damage to or destruction of Contractor's surface equipment, regardless of when or how such damage or destruction occurs, except for such loss or damage as provided in Paragraph 15 and 18.4 herein, and Contractor shall release Operator of any liability for any such loss.

18.2 Contractor's In-Hole Equipment - Footage Basis: Contractor shall assume liability at all times while work is being performed on a footage basis for damage to or destruction of Contractor's in-hole equipment, including, but not limited to, drill pipe, drill collars, and tool joints, and Contractor shall release Operator of any liability for any such loss, except as provided for in Paragraphs 12.2, 12.3, 15 and 18.4.

18.3 Contractor's In-Hole Equipment - Daywork Basis: Operator shall assume liability at all times for damage to or destruction of Contractor's in-hole equipment, including, but not limited to, drill pipe, drill collars, and tool joints, and Operator shall reimburse Contractor for the value of any such loss or damage; the value to be determined by agreement between Contractor and Operator as current repair cost or 100 percent of current new replacement cost of such equipment delivered to the well site.

18.4 Contractor's Equipment - Environmental Loss or Damage: Notwithstanding the provisions of Paragraph 18.1 above, Operator shall assume liability at all times for damage to or destruction of Contractor's equipment caused by exposure to highly corrosive or otherwise destructive elements, including those introduced into the drilling fluid.

18.5 Operator's Equipment: Operator shall assume liability at all times for damage to or destruction of Operator's equipment including, but not limited to, casing, tubing, well head equipment, and platform, if applicable, regardless of when or how such damage or destruction occurs, and Operator shall release Contractor of any liability for any such loss or damage.

18.6 The Hole - Footage Basis: Subject to the provisions of Paragraphs 12 and 15 hereof, should a fire or blowout occur or should the hole for any cause attributable to Contractor's operations be lost or damaged while Contractor is engaged in the performance of work hereunder on a footage basis, all such loss of or damage to the hole shall be borne by Contractor; and if the hole is not in condition to be carried to the contract depth as herein provided, Contractor shall, if requested by Operator, commence a new hole without delay at Contractor's cost; and the drilling of the new hole shall be conducted under the terms and conditions of this Contract in the same manner as though it were the first hole. In such case, Contractor shall not be entitled to any payment or compensation for expenditures made or incurred by Contractor on or in connection with the abandoned hole, except for daywork earned in coring, testing, and logging said well for which Contractor would have been compensated had such hole not been junked and abandoned. Notwithstanding the foregoing provisions, if the hole is lost or damaged as a result of any delay by

Operator or the failure at any time of materials, equipment, goods or services provided by Operator, including without limitation to the foregoing, the failure of Operator's casing or equipment either during or after the running and setting of such casing, or as a result of subsequent failure of the cementing job resulting in parted casing, such loss shall be borne by Operator and Contractor shall nevertheless be paid: (a) For all footage drilled and other work performed by Contractor prior thereto; (b) For work performed in an effort to restore the hole to such condition that further drilling or other operations may be conducted at the applicable daywork rate; and (c) The cost of dismantling the rig and moving to and rigging up Contractor's equipment prior to starting the drilling of a new hole at a location designated by Operator if such be required. The work of drilling the new hole shall be performed by Contractor under the terms and conditions of this Contract.

**18.7 The Hole - Daywork Basis:** In the event the hole should be lost or damaged, while Contractor is working on a daywork basis, Operator shall be solely responsible for such damage to or loss of the hole, including the casing therein, as well as for cost of control of any wild well. Operator shall release Contractor of any liability for damage to or loss of the hole and for cost of control of any wild well, and shall protect, defend and indemnify Contractor from and against any and all claims, liability, and expenses relating to such damage to or loss of the hole, and for the cost of control of any wild well.

**18.8 Underground Damage:** Operator shall release Contractor of any liability for, and shall protect, defend and indemnify Contractor from and against any and all claims, liability, and expenses resulting from operations under this Contract on account of injury to, destruction of, or loss or impairment of any property right in or to oil, gas, or other mineral substance or water, if at the time of the act or omission causing such injury, destruction, loss, or impairment, said substance had not been reduced to physical possession above the surface of the earth, and for any loss or damage to any formation, strata, or reservoir beneath the surface of the earth.

**18.9 Inspection of Materials Furnished by Operator:**

(a) Contractor agrees to visually inspect all materials furnished by Operator before using same and to notify Operator of any apparent defects therein. Contractor shall not be liable for any loss or damage resulting from the use of materials furnished by Operator.

(b) Contractor will preassemble, disassemble, or assemble materials to be furnished by Operator only when directed by Operator and when such work can be accomplished by normal rig personnel. All of such services shall be performed on a daywork basis. Operator shall release Contractor from, and shall protect, defend and indemnify Contractor from and against any liability for such service.

**18.10 Contractor's Indemnification of Operator:** Contractor shall release Operator of any liability for, and shall protect, defend and indemnify Operator, its officers, directors, employees and joint owners from and against all claims, demands, and causes of action of every kind and character, without limit and without regard to the cause or causes thereof or the negligence of any party or parties, arising in connection herewith in favor of Contractor's employees or Contractor's subcontractors or their employees, or Contractor's invitees, on account of bodily injury, death or damage to property. Contractor's indemnity under this paragraph shall be without regard to and without any right to contribution from any insurance maintained by Operator pursuant to Paragraph 16. If it is judicially determined that the monetary limits of insurance required hereunder or of the indemnities voluntarily assumed under Paragraph 18.10 (which Contractor and Operator hereby agree will be supported either by available liability insurance, under which the insurer has no right of subrogation against the indemnities, or voluntarily self-insured, in part or whole) exceed the maximum limits permitted under applicable law, it is agreed that said insurance requirements or indemnities shall automatically be amended to conform to the maximum monetary limits permitted under such law.

**18.11 Operator's Indemnification of Contractor:** Operator shall release Contractor of any liability for, and shall protect, defend and indemnify Contractor, its officers, directors, employees and joint owners from and against all claims, demands, and causes of action of every kind and character, without limit and without regard to the cause or causes thereof or the negligence of any party or parties, arising in connection herewith in favor of Operator's employees or Operator's contractors or their employees or Operator's invitees other than those parties identified in Paragraph 18.10 on account of bodily injury, death or damage to property. Operator's indemnity under this paragraph shall be without regard to and without any right to contribution from any insurance maintained by Contractor pursuant to Paragraph 16. If it is judicially determined that the monetary limits of insurance required hereunder or of the indemnities voluntarily assumed under Paragraph 18.11 (which Contractor and Operator hereby agree will be supported either by available liability insurance, under which the insurer has no right of subrogation against the indemnities, or voluntarily self-insured, in part or whole) exceed the maximum limits permitted under applicable law, it is agreed that said insurance requirements or indemnities shall automatically be amended to conform to the maximum monetary limits permitted under such law.

**18.12 Pollution and Contamination:** Notwithstanding anything to the contrary contained herein, except the provisions of Paragraphs 15 and 18.13, it is understood and agreed by and between Contractor and Operator that the responsibility for pollution and contamination shall be as follows:

- (a) Unless otherwise provided herein, Contractor shall assume all responsibility for, including control and removal of, and shall protect, defend and indemnify Operator from and against all claims, demands and causes of action of every kind and character arising from pollution or contamination, which originates above the surface of the land or water from spills of fuels, lubricants, motor oils, pipe dope, paints, solvents, ballast, bilge and garbage, except unavoidable pollution from reserve pits, wholly in Contractor's possession and control and directly associated with Contractor's equipment and facilities.
- (b) Operator shall assume all responsibility for, including control and removal of, and shall protect, defend and indemnify Contractor from and against all claims, demands, and causes of action of every kind and character arising directly or indirectly from all other pollution or contamination which may occur during the conduct of operations hereunder, including but not limited to, that which may result from fire, blowout, cratering, seepage or any other uncontrolled flow of oil, gas, water or other substance, as well as the use or disposition of all drilling fluids, including, but not limited to, oil emulsion, oil base or chemically treated drilling fluids, contaminated cuttings or cavings, lost circulation and fish recovery materials and fluids. Operator shall release Contractor of any liability for the foregoing.
- (c) In the event a third party commits an act or omission which results in pollution or contamination for which either Contractor or Operator, for whom such party is performing work, is held to be legally liable, the responsibility therefor shall be considered, as between Contractor and Operator, to be the same as if the party far whom the work was performed had performed the same and all the obligations respecting protection, defense, indemnity and limitation of responsibility and liability, as set forth in (a) and (b) above, shall be specifically applied.

**18.13 Termination of Location Liability:** When Contractor has complied with all obligations of the Contract regarding restoration of Operator's location, Operator shall thereafter be liable for damage to property, personal injury or death of any person which occurs as a result of the condition of the location and Contractor shall be relieved of such liability; provided, however, if Contractor shall subsequently reenter upon the location for any reason, including removal of the rig, any term of this Contract relating to such reentry activity shall become applicable during such period.

**18.14 Consequential Damages:** Neither party shall be liable to the other for special, indirect or consequential damages resulting from or arising out of this Contract, including, without limitation, loss of profit or business interruptions including loss or delay of production, however same may be caused.

**18.15 Indemnity Obligation:** Except as otherwise expressly limited herein, it is the intent of parties hereto that all indemnity obligations and/or liabilities assumed by such parties under terms of this Contract, including without limitation Paragraphs 18.1 through 18.14 hereof, be without limit and without regard to the cause or causes thereof (including preexisting conditions), the unseaworthiness of any vessel or vessels, strict liability, or the negligence of any party or parties, whether such negligence be sole, joint or concurrent, active or passive. The indemnities, and releases and assumptions of liability extended by the parties hereto under the provisions of Paragraph 18 shall inure to the benefit of the parties, their parent, holding and affiliated companies and their respective officers, directors, employees, agents and servants. The terms and provisions of Paragraphs 18.1 through 18.14 shall have no application to claims or causes of action asserted against Operator or Contractor by reason of any agreement of indemnity with a person or entity not a party hereto.

#### 19. INDEPENDENT CONTRACTOR RELATIONSHIP:

**19.1** In the performance of the work herein contemplated on a "footage basis", Contractor is an Independent Contractor, with the authority to control and direct the performance of the details of the work, Operator being only interested in the results obtained. The work on such "footage basis" shall meet the approval of Operator and be subject to the right of inspection and supervision herein provided. Operator shall not unreasonably withhold approval of all such work, when performed by Contractor in accordance with the generally accepted practices and methods customary in the industry. Contractor agrees to comply with all laws, rules, and regulations, Federal, State, and Local, which are now, or may in the future become applicable to Contractor, Contractor's business, equipment, and personnel engaged in operations covered by this Contract or accruing out of the performance of such operations; provided, however, as between Operator and Contractor specific provisions herein contained respecting the risk and responsibility for such compliance shall be controlling.

**19.2** Operator shall be privileged to designate a representative or representatives who shall at all times have access to the premises for the purpose of observing tests or inspecting the work of Contractor. Such representative or representatives shall be empowered to act for Operator in all matters relating to the work herein undertaken and Contractor shall be entitled to rely on the orders and directions issued by such representative or representatives as being those of Operator.

20. AUDITS:

If any payment provided for hereunder is made on the basis of Contractor's costs, Operator shall have the right to audit Contractor's books and records relating to such costs. Contractor agrees to maintain such books and records for a period of two (2) years from the date such costs were incurred and to make such books and records available to Operator at any reasonable time or times within the period.

21. NO WAIVER EXCEPT IN WRITING:

It is fully understood and agreed that none of the requirements of this Contract shall be considered as waived by either party unless the same is done in writing, and then only by the persons executing this Contract, or other duly authorized agent or representative of the party.

22. FORCE MAJEURE:

Neither Operator nor Contractor shall be liable to the other for any delays or damage or failure to act due, occasioned or caused by reason of any laws, rule, regulations or orders promulgated by any Federal, State or Local governmental body or the rules, regulations, or orders of any public body or official purporting to exercise authority or control respecting the operations covered hereby, including the procurement or use of tools and equipment, or due, occasioned or caused by strikes, action of the elements, water conditions, inability to obtain fuel or other critical materials or other causes beyond the control of the party affected thereby. In the event that either party hereto is rendered unable, wholly or in part, by any of these causes to carry out its obligation under this Contract, it is agreed that such party shall give notice and details of Force Majeure in writing to the other party as promptly as possible after its occurrence. In such cases, the obligations of the party giving the notice shall be suspended during the continuance of any inability so caused except that Operator shall be obligated to pay to Contractor the Work Stoppage rate set forth in Paragraph 4.3 above.

23. GOVERNING LAW:

This Contract shall be construed, governed, interpreted, enforced and litigated, and the relations between the parties determined in accordance with the Laws of State of Texas.

24. INFORMATION CONFIDENTIAL:

Upon written request by Operator, information obtained by Contractor in the conduct of drilling operations on this well, including, but not limited to, depth, formations penetrated, the results of coring, testing, and surveying, shall be considered confidential and shall not be divulged by Contractor or its employees, to any person, firm, or corporation other than Operator's designated representative.

25. SUBCONTRACTS BY OPERATOR:

Operator may employ other contractors to perform any of the operations or services to be provided or performed by it according to Exhibit "A".

26. ASSIGNMENT:

Neither party may assign this Contract without the prior written consent of the other, and prompt notice of any such intent to assign shall be given to the other party. In the event of such assignment, the assigning party shall remain liable to the other party as a guarantor of the performance by the assignee of the terms of this Contract. If any assignment is made that materially alters Contractor's financial burden, Contractor's compensation shall be adjusted to give effect to any increase or decrease in Contractor's operating costs.

27. NOTICES AND PLACE OF PAYMENT:

All notices to be given with respect to this Contract unless otherwise provided for shall be given to Contractor and to Operator respectively at the addresses hereinabove shown. All sums payable hereunder to Contractor shall be payable at its address hereinabove shown unless otherwise specified herein.

28. SPECIAL PROVISIONS:

29. ACCEPTANCE OF CONTRACT:

The foregoing Contract is agreed to and accepted by Operator this 18 day of June, 1998.

GRUY Petroleum Ment Co.  
OPERATOR [Signature]  
By VP Operations  
Title \_\_\_\_\_

The foregoing Contract is accepted by the undersigned as Contractor this 1ST day of JUNE, 1998 which is the effective date of this Contract, subject to rig availability, and subject to all of its terms and provisions, with the understanding that it will not be binding upon Operator until Operator has noted its acceptance, and with further understanding that unless said Contract is thus executed by Operator within 10 days of the above date Contractor shall be in no manner bound by its signature thereto.

CONTRACTOR: Key Energy Drilling, Inc.  
By: [Signature]  
Title: CONTRACT MANAGER

EXHIBIT "A"

To Drilling Contract dated JUNE 1, 1998.  
 Operator: GRUY PETROLEUM MANAGEMENT  
 Well Name and Number: SEE ATTACHED EXHIBIT "C"

Contractor: Key Energy Drilling, Inc.

SPECIFICATIONS AND SPECIAL PROVISIONS

1. CASING PROGRAM (See par. 7)

	Hole Size	Casing Size	Weight	Grade	Approximate Setting Depth	Wait on Cement Time
Conductor	in.	in.	lbs / ft.		ft.	hrs.
Surface	12-1/4 in.	8-5/8 in.	22 - 24 lbs / ft.		750 +/- ft.	12-8 hrs.
Protection	in.	in.	lbs / ft.		ft.	hrs.
Production	7-7/8 in.	4-1/2/5-1/2 in.	10.5 - 14.0 lbs / ft.		TD ft.	0 hrs.
Liner	in.	in.	lbs / ft.		ft.	hrs.

RPP

2. MUD CONTROL PROGRAM (See par. 9)

Depth Interval (ft.)		Type Mud	Weight (lbs / gal.)	Viscosity (Secs)	Water Loss (cc)
From	To				
0 - TD		BRINE - H2O	8.3 - 9.2	N/C	N/C

RPP

It is understood that in the event it becomes necessary to discontinue drilling operations and to suddenly raise the mud weight .5lbs. per gallon above the weight currently being used OR to raise the mud weight at any time to 9.6 lbs. per gallon, it will conclusively constitute "Abnormal Pressure" as that term is employed in Paragraph 12.2 of the Contract. Operations will thereafter go forward under the terms of such provision (12.2) until such condition has been overcome, the well is under control and the mud system stabilized at a weight less than 9.6 lbs. per gallon, so as to permit normal drilling operations to be resumed.

Other mud specifications:

5. STRAIGHT HOLE SPECIFICATIONS (See Par. 9.4)

Well Depth		Maximum Distance Between Surveys, Feet	Maximum Deviation From Vertical, Degrees	Maximum Change of Inclination per 100', Degrees (1)
From	To			
0	TD	500	5	2

Location of well bore at T.D. feet shall be Within lease lines.

- (1) a. Reduce proportionately for survey intervals less than 100 feet, but do not use intervals shorter than 30 feet.
- b. If these limits are exceeded and the distance between surveys is more than 100 feet, Contractor shall take intermediate surveys no more than 100 feet apart. If such intermediate surveys show that above limits for any interval have been exceeded, Contractor shall correct hole deviation to within limits of above specifications.

4. INSURANCE (See Par. 16) (SEE CERTIFICATES ON FILE)

- 4.1 Adequate Workers' Compensation Insurance Complying with State laws applicable or Employers' Liability Insurance with limits at \$ 1,000,000 covering all of Contractor's employees working under this Contract.
- 4.2 Comprehensive Public Liability Insurance or Public Liability Insurance with limits of \$ 1,000,000 for the death or injury of any one person and \$ 1,000,000 for each accident.
- 4.3 Comprehensive Public Liability Property Damage Insurance or Public Liability Property Damage Insurance with limits of \$ 1,000,000 for each accident and \$ 1,000,000 aggregate per policy.
- 4.4 Automobile Public Liability Insurance with limits of \$ 1,000,000 for the death or injury of each person and \$ 1,000,000 for each accident; and Automobile Public Liability Property Damage Insurance with limits of \$ 1,000,000 for each accident
- 4.5 In the event operations are over water, Contractor shall carry in addition to the Statutory Workers' Compensation Insurance, endorsements covering liability under the Longshoremen's & Harbor Workers' Compensation Act and Maritime liability including maintenance and cure with limits at \$ N/A for each death or injury to one person and \$ N/A for any one accident.
- 4.6 Other Insurance: \$ 5,000,000 Umbrella



**7. EQUIPMENT, MATERIALS, AND SERVICES TO BE FURNISHED BY DESIGNATED PARTY:**

The machinery, equipment, tools, materials, supplies, instruments, services, and labor listed as the following numbered items, including any transportation required for such item unless otherwise specified, shall be provided at the well location and at the expense of the party hereto as designated by an X mark in the appropriate column.

Item	To Be Provided By and At the Expense of	
	Operator	Contractor
7.1 Cellar and runways.....	X	
7.2 Fuel (located at).....		X
7.3 Fuel Lines .....		X
7.4 Water at source including required permits.....	X	
7.5 Water well including required permits.....	X	
7.6 Water lines including required permits.....	X	
7.7 Water storage tanks 400 BBL capacity.....		X
7.8 Labor to operate water well or water pump .....		X
7.9 Maintenance of water well, if required .....	X	
7.10 Water Pump.....	X	
7.11 Fuel for water pump.....	X	
7.12 Mats for engines and boilers, or motors and mud pumps.....	X	
7.13 Transportation of Contractor's property:		
Move in.....		X
Move out.....		X
7.14 Materials for "boxing in" rig and derrick.....	N/A	N/A
7.15 Special strings of drill pipe and drill collars as follows:	X	
7.16 Kelly joints, subs, elevators, tongs and slips for use with special drill pipe.....	X	
7.17 Drill pipe protectors for Kelly joint and each joint of drill pipe running inside of Surface Casing as required, for use with normal strings of drill pipe.....	X	
7.18 Drill pipe protectors for Kelly joint and drill pipe running inside of Protection Csg.....	X	
7.19 Rate of penetration recording device.....		X
7.20 Extra labor for running and cementing casing (Casing Crews).....		X
7.21 Casing tools.....		X
7.22 Rig time for running of casing-conductor.....	N/A	N/A
7.23 Rig time for running of casing-surface .....	X	
7.24 Rig time for running of casing-protection.....	N/A	N/A
7.25 Rig time for running of casing-production.....		X
7.26 Rig time for running of casing-liner .....	N/A	N/A
7.27 Rig time to circulate and condition hole to log .....	X	
7.28 Rig time to log.....	X	
7.29 Rig time to condition hole to lay down drill string.....	X	
7.30 Rig time to lay down drill string .....		X
7.31 Extra labor to lay down drill string (IF NEEDED).....	X	
7.32 Lay down and pickup machine.....	N/A	N/A
7.33 Rig time to clean mud tanks.....	X	
7.34 Cost of all labor and materials to clean rig after use of oil-base mud.....	N/A	N/A
7.35 Power casing tongs .....		X
7.36 Tubing tools.....	N/A	N/A
7.37 Power tubing tong.....	N/A	N/A
7.38 Drilling mouse and rate holes.....		X
7.39 Drilling hole for or driving for conductor pipe.....	N/A	N/A
7.40 Reserve pits.....	X	
7.41 Crew Boats, Number .....	N/A	N/A
7.42 Service Barge.....	N/A	N/A
7.43 Service Tug Boat.....	N/A	N/A
7.44 Upper Kelly Cock.....	X	
7.45 Lower Kelly Valve.....	X	
7.46 Drill Pipe Safety Valve.....		X
7.47 Inside Blowout Preventer.....	X	
7.48 Charges, cost of bonds for public roads.....		X
7.49 Portable Toilet.....	N/A	N/A
7.50 Trash Receptacle.....	X	
7.51 Linear Motion Shale Shaker.....	X	
7.52 Shale Shaker Screens.....		X
7.53 Mud Cleaner .....	N/A	N/A
7.54 Mud/Gas Separator .....	N/A	N/A
7.55 Desander .....		X
7.56 Desilter.....		X
7.57 Degasser.....	N/A	N/A
7.58 Centrifuge.....	N/A	N/A
7.59 Rotating Head.....	N/A	N/A
7.60 Rotating Head Rubbers.....	N/A	N/A
7.61 Hydraulic Adjustable Choke.....	N/A	N/A
7.62 Pit Volume Totalizer.....	N/A	N/A
7.63 Communications, type (CELLULAR).....		X
7.64 Forklift, capacity .....	N/A	N/A
7.65 Corrosion Inhibitor for protecting drill string (IF NEEDED).....	X	
7.66 H2S EQUIPMENT (IF NEEDED).....	X	
7.67		

OTHER PROVISIONS:

Signed by the  
Parties as correct:

For Contractor

For Operator

*Jim Mayfield*  
*[Signature]*

**EXHIBIT "B"**  
(See Paragraph 9.5)

The following clauses, when required by law, are incorporated in the Contract by reference as if fully set out:

- (1) The Equal Opportunity Clause prescribed in 41 CFR 60-1.4.
- (2) The Affirmative Action Clause prescribed in 41 CFR 60-250.4 regarding veterans and veterans of the Vietnam era.
- (3) The Affirmative Action Clause for handicapped workers prescribed in 41 CFR 60-741.4.
- (4) The Certification of Compliance With Environmental Laws prescribed in 40 CFR 15.20.

EXHIBIT "C"

GRUY PETROLEUM MANAGEMENT  
MULTI-WELL PACKAGE

WELL NAME -----	LOCATION -----
RHODES FEDERAL UNIT # 10-3	10-T26S-R37E
RHODES FEDERAL UNIT # 15-9	15-T26S-R37E
RHODES FEDERAL UNIT # 4-15	4- T26S-R37E
RHODES FEDERAL UNIT # 5-5	5-T26S-R37E
RHODES FEDERAL UNIT #22-7	22-T26S-R37E
RHODES FEDERAL UNIT # 22-6	22-T26S-R37E
RHODES FEDERAL UNIT #26-7	26-T26S-37E
RHODES FEDERAL UNIT #17-1	17-R26S-37E
RHODES STATE COM # 5	16-T26S-37E
RHODES "B" FEDERAL # 1	25-T26S-37E
CAGLE "C" #5	3-T26S-37E
CAGLE "C" # 6.	10-T26S-37E
RHODES STATE COM #,6 (RE-ENTRY: DAYWORK)	16-T26S-37E

FUTURE WELLS MAY BE ADDED OR DELETED BY LETTER OF ADDENDUM UPON  
AGREEMENT OF CONTRACTOR & OPERATOR.