

5 **MODEL FORM OPERATING AGREEMENT**
6 **HORIZONTAL MODIFICATIONS**

7
8 **OPERATING AGREEMENT**

9 **DATED** October 1, 2017

10
11 OPERATOR: Sinclair Oil & Gas Company

12 CONTRACT AREA: -

13 COUNTY OR PARISH OF Howard, STATE OF TEXAS
14

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16 AMERICAN ASSOCIATION OF PROFESSIONAL

17 LANDMEN, 4100 FOSSIL CREEK BLVD

18 FORT WORTH, TEXAS, 76137, APPROVED FORM

19 A.A.P.L. NO. 610 - 1989 (Horz.)
20
21

22 **OPERATING AGREEMENT**

23 THIS AGREEMENT, entered into by and between Sinclair Oil & Gas Company, hereinafter designated and referred to as "Operator," and the
24 signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-
25 Operators."

26 **WITNESSETH:**

27 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
28 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
29 to the extent and as hereinafter provided,

30 NOW, THEREFORE, it is agreed as follows:

31 **I. DEFINITIONS**

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

33 **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
34 incurred in conducting an operation hereunder. An AFE is not a contractual commitment. Rather it is only an estimate, made in good faith.

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

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

41 **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
42 was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser. When used in connection with a
43 Horizontal Well, the term "Deepen" shall mean an operation whereby a Lateral is drilled to a Displacement greater than (i) the Displacement

44 contained in the proposal for such operation approved by the Consenting Parties, or (ii) to the Displacement to which the Lateral was drilled
45 pursuant to a previous proposal.

46 **E.** The term "Displacement" shall mean the calculated horizontal displacement of the horizontal drainhole from the penetration point (or point
47 of entry) of the top of the objective formation(s) to the Terminus. ~~have the same meaning as the term defined by the state regulatory agency~~
48 ~~having jurisdiction over the Contract Area, in the absence of which the term shall otherwise mean the length of a Lateral.~~

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

51 **G.** The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority.
52 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
53 Contract Area unless fixed by express agreement of the Drilling Parties.

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

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

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

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

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

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

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

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

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

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

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

78 **S.** The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a
79 Completion in a different Zone within the existing wellbore and any attempted Completion on a Zone where a Completion has previously taken
80 place.

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

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

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

92 **W.** The term "Terminus" ~~shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract~~
93 ~~Area, in the absence of which the term~~ shall mean the furthest point drilled in the Lateral.

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

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

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

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

103 **II. EXHIBITS**

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

105 **A.** Exhibit "A," shall include the following information:

- 106 (1) Description of lands subject to this agreement,
- 107 (2) Restrictions, if any, as to depths, formations, or substances,
- 108 (3) Parties to agreement with addresses and telephone numbers for notice purposes,
- 109 (4) Percentages or fractional interests of parties to this agreement,
- 110 (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement.
- 111 (6) Burdens on production.
- 112 **B.** Exhibit "C," Accounting Procedure.
- 113 **C.** Exhibit "D," Insurance.
- 114 **D.** Exhibit "E," Gas Balancing Agreement.
- 115 **E.** Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.
- 116 **F.** Other:

117 Memorandum of Operating Agreement

118 **G.**

119 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
120 provisions in the body of this agreement shall prevail.

121 **III. INTERESTS OF PARTIES**

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

123 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
124 hereof as if it were covered by a the-form of Oil and Gas Lease ~~mutually agreed upon by the parties attached hereto as Exhibit "B,"~~ and the owner
125 thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.

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

127 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all
128 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."
129 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
130 and other burdens on production as described hereafter.

131 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
132 except as otherwise expressly provided in this agreement, ~~Operator each party~~ shall pay or deliver, or cause to be paid or delivered, all burdens of
133 ~~record as of the date of this Agreement on its share of the production from the Contract Area up to, but not in excess of, and shall indemnify,~~
134 ~~defend and hold the other parties free from any liability therefor.~~ Except as otherwise expressly provided in this agreement, if any party has
135 contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or other burden on
136 production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall
137 indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as the
138 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
139 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
140 agreement, and shall indemnify, defend and hold the other parties free from any liability therefor.

141 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
142 if such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected
143 Lease shall bear the additional royalty burden attributable to such higher price.

144 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
145 more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in said Leaseholds shall be deemed separate
146 leasehold interests for the purposes of this agreement.

147 **C. Subsequently Created Interests:**

148 If any party has contributed hereto a Lease or Interest that is burdened with an assignment of production given as security for the payment of
149 money, or if, after the date of this agreement, any party creates an overriding royalty, production payment, net profits interest, assignment of
150 production or other burden payable out of production attributable to its working interest hereunder, such burden shall be deemed a "Subsequently
151 Created Interest." Further, if any party has contributed hereto a Lease or Interest burdened with an overriding royalty, production payment, net
152 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
153 "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~~
154 ~~Interest to exceed the amount stipulated in Article III.B. above.~~

155 The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and alone bear, pay and
156 discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other parties from and against any liability
157 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
158 enforceable against the Subsequently Created Interest in the same manner as they are enforceable against the working interest of the Burdened
159 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
160 interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of

161 said Subsequently Created Interest, and the Burdened Party shall indemnify, defend and hold harmless said other party, or parties, from any and
162 all claims and demands for payment asserted by owners of the Subsequently Created Interest.

163 IV. TITLES

164 A. Title Examination:

165 Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in interest
166 of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum anticipated
167 Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production
168 payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit,
169 if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its
170 possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the
171 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.
172 Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in procuring abstracts, fees paid outside attorneys
173 ~~and landmen or any other consultant for title examination and/or curative work for title examination~~ (including preliminary, supplemental, shut-in
174 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
175 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
176 shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

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

186 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
187 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.~~

188 B. Loss or Failure of Title:

189 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
190 interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including, if applicable, a
191 successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a new lease or other
192 instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this
193 agreement, nevertheless, shall continue in force as to all remaining Oil and Gas Leases and Interests; and,

194 (a) The party credited with contributing the Oil and Gas Lease or Interest affected by the title failure (including, if applicable, a
195 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
196 parties any development or operating costs which it may have previously paid or incurred, but there shall be no additional liability on
197 its part to the other parties hereto by reason of such title failure;

198 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the Lease or Interest
199 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
200 determined finally that title failure has occurred, so that the interest of the party whose Lease or Interest is affected by the title failure
201 will thereafter be reduced in the Contract Area by the amount of the Lease or Interest failed;

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

207 (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,
208 pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties
209 who bore the costs which are so refunded;

210 (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
211 title failure shall be borne severally by each party (including a predecessor to a current party) who received production for which
212 such accounting is required based on the amount of such production received, and each such party shall severally indemnify, defend
213 and hold harmless all other parties hereto for any such liability to account;

214 (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
215 Interest claimed to have failed, but if the party contributing such Lease or Interest hereto elects to defend its title it shall bear all
216 expenses in connection therewith; and

217 (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
218 wellbore of any well or wells and the production therefrom, such party's absence of interest in the remainder of the Contract Area
219 shall be considered a Failure of Title as to such remaining Contract Area unless that absence of interest is reflected on Exhibit
220 "A."

221 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment,
222 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
223 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
224 make such payment. Unless the party who failed to make the required payment secures a new Lease or Interest covering the same interest
225 within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B.,
226 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
227 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
228 account of ownership of the Lease or Interest which has terminated. If the party who failed to make the required payment shall not have
229 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,
230 calculated on an acreage basis, for the development and operating costs previously paid on account of such Lease or Interest, it shall be

231 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
232 previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

236 (b) Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed to make
237 payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and marketed
238 (excluding production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination, would be
239 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
240 other parties, the proceeds of said portion of the Oil and Gas to be contributed by the other parties in proportion to their respective
241 interests reflected on Exhibit "A"; and,

242 (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
243 or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

244 3. Other Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles IV.B.1. and IV.B.2.
245 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
246 be limited to the loss of any Lease or Interest through failure to develop or because express or implied covenants have not been performed
247 (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
248 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
249 joint loss.

250 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
251 Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period provided
252 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
253 party whose interest has failed or was lost, and the provisions of Article VIII.B. shall not apply to such acquisition.

254 V. OPERATOR

255 A. Designation and Responsibilities of Operator:

256 Sinclair Oil & Gas Company shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the
257 Contract Area as permitted and required by, and within the limits of this agreement. In its performance of services hereunder for the Non-
258 Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to provide the type
259 of operation to be undertaken in accordance with ~~the election procedures contained in~~ this agreement. Operator shall not be deemed, or hold itself
260 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
261 party. Operator shall conduct its activities under this agreement as a reasonably prudent operator, in a good and workmanlike manner, with due
262 diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it
263 have any liability as Operator to the other parties for losses sustained or liabilities incurred including any losses or liabilities related to the
264 officers, employees and agents of the other parties. except such as may result from gross negligence or willful misconduct.

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

266 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator
267 terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator,
268 Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be
269 removed only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit
270 "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been
271 delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days
272 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
273 notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or
274 inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this
275 agreement.
276

277 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
278 month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non- Operators to
279 remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after
280 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
281 of Operator or transfer of Operator's interest to any single subsidiary, affiliate, parent or successor corporation shall not be the basis for
282 removal of Operator.

283 2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a successor
284 Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area
285 at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties
286 owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is
287 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
288 party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the
289 Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating
290 to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor
291 operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

292 3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have resigned
293 without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is filed
294 by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall
295 comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy
296 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
297 resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating
298 committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on
299 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
300 committee controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a
301 member of the operating committee, and all actions shall require the approval of two (2) members of the operating committee without
302 regard for their interest in the Contract Area based on Exhibit "A."

303 C. Employees and Contractors:

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

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

308 1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the
309 usual rates prevailing in the area. If it so desires, Operator may employ its own facilities, tools and equipment in the drilling of wells, but its
310 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~~
311 ~~before drilling operations are commenced~~, and such work shall be performed by Operator under the same terms and conditions as are
312 customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or
313 materials supplied by affiliates or related parties of Operator shall be performed or supplied at competitive rates, pursuant to written
314 agreement between Operator and such affiliates or related parties, and in accordance with customs and standards prevailing in the
315 industry.

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

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

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

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

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

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

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

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

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

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

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

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

367 **VI. DRILLING AND DEVELOPMENT**

368 **A. Initial Well:**

369 On or before the October 1, 2017, Operator shall commence the drilling of the Initial Well at the following location: - (if a Horizontal Well,
370 surface and Terminus/Termini of the Lateral(s)): and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due
371 diligence to -.

372 Operator may cease drilling of the well if granite or other practically impenetrable substance, condition in the hole or mechanical problem which
373 renders further drilling impractical, is encountered prior to drilling any lateral. In the event that granite or other practically impenetrable
374 substance, condition in the hole or mechanical problem which renders further drilling impractical, is encountered in a lateral portion of a
375 horizontal or multi-lateral well, the Operator may cease drilling in the lateral in which conditions or problems are encountered, or if all parties
376 agree to complete or abandon the well at a lesser vertical or measured depth. However, the Operator will drill all other proposed laterals.

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

379 **B. Subsequent Operations:**

380 1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, ~~or~~ if any
381 party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of producing in paying
382 paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement or if
383 any party should desire to Recomplete a Well, in which such party has not relinquished its interest therein under this agreement, the party
384 desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written notice of the proposed operation to
385 the parties who have not otherwise relinquished their interest in such objective Zone under this agreement (and to all other parties in the
386 case of a proposal for Sidetracking or Deepening as to a Vertical Well), specifying the work to be performed, the location, proposed depth,
387 objective Zone and the estimated cost of the operation as outlined in an AFE. A proposal for the drilling of or other operations for a
388 Horizontal Well shall: (1) state that the proposed operation is a Horizontal Well operation; (2) include drilling and Completion plans
389 specifying the proposed: (i) Total Measured Depth(s), (ii) surface hole location(s), (iii) Terminus/Termini, (iv) Displacement(s), (v)
390 utilization and scheduling of rig(s) (Spudder Rig, drilling and Completion), and (vi) stimulation operations, staging and sizing; and (3)
391 include estimated drilling and Completion costs as set forth in an AFE. The parties to whom such a notice is delivered shall have thirty (30)
392 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
393 proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be
394 given by telephone and the response period shall be limited to forty-eight (48) hours, inclusive exclusive of Saturday, Sunday and legal
395 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
396 not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation
397 initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

398 If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be contractually
399 committed to participate therein provided such operations are commenced within the time period hereafter set forth, and Operator
400 shall, no later than ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as practicable after the
401 expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed
402 operation and thereafter complete it with due diligence at the risk and expense of the parties participating therein; provided, however,
403 said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty
404 (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from
405 governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination
406 or curative matter required for title approval or acceptance. If the actual operation has not been commenced within the time provided
407 (including any extension thereof as specifically permitted herein or in the force majeure provisions of Article XI) and if any party
408 hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance
409 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
410 Deepen or Sidetrack is made hereunder shall, if such parties desire to participate in the proposed Deepening or Sidetracking
411 operation, reimburse the Drilling Parties in accordance with Article VI.B.4. in the event of a Deepening operation and in accordance
412 with Article VI.B.5. in the event of a Sidetracking operation.

413 2. Operations by Less Than All Parties:

414 (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
415 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
416 parties giving the notice and such other parties as shall elect to participate in the operation shall, no later than ninety (90) days after
417 the expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour
418 period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due
419 diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other
420 equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to
421 perform the work required by such proposed operation for the account of the Consenting Parties, or (ii) designate one of the
422 Consenting Parties as Operator to perform such work. The rights and duties granted to and imposed upon the Operator under this
423 agreement are granted to and imposed upon the party designated as Operator for an operation in which the original Operator is a
424 Non-Consenting Party. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall
425 comply with all terms and conditions of this agreement.

426 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice
427 period, shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the
428 Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (inclusive
429 exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i)
430 limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing
431 such party's interest in the Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties'
432 interests, or (iii) carry its proportionate part (determined as provided in (ii)) of Non-Consenting Parties' interests together with all or a
433 portion of its proportionate part of any Non-Consenting Parties' interests that any Consenting Party did not elect to take. Any interest
434 of Non-Consenting Parties that is not carried by a Consenting Party shall be deemed to be carried by the party proposing the
435 operation if such party does not withdraw its proposal. Failure to advise the proposing party within the time required shall be deemed
436 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
437 response shall not exceed a total of forty-eight (48) hours (inclusive exclusive of Saturday, Sunday and legal holidays). The
438 proposing party, at its election, may withdraw such proposal if there is less than 100% participation and shall notify all parties of
439 such decision within ten (10) days, or within twenty-four (24) hours if a drilling rig is on location, following expiration of the
440 applicable response period. If 100% subscription to the proposed operation is obtained, the proposing party shall promptly notify the
441 Consenting Parties of their proportionate interests in the operation and the party serving as Operator shall commence such operation
442 within the period provided in Article VI.B.1., subject to the same extension right as provided therein.

443 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the
444 Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties
445 shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or
446 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
447 VI.E.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense;

448 provided, however, that those Non Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall
449 remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface
450 location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled,
451 Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of
452 producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost
453 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
454 at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking,
455 Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions
456 of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties
457 shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well
458 and share of production therefrom or, in the case of a Reworking, Sidetracking, Deepening, Recompleting or Plugging Back, or a
459 Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-Consenting Party's interest in the production obtained from the
460 operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be effective until the proceeds of
461 the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting applicable ad valorem,
462 production, severance, and excise taxes, royalty, overriding royalty and other interests not excepted by Article III.C. payable out of or
463 measured by the production from such well accruing with respect to such interest until it reverts), shall equal the total of the
464 following:

- 465 i. 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the
466 wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment and piping), plus 100%
467 of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and
468 continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article,
469 it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have
470 been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and
- 471 ii. 400% of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back,
472 testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) that
473 portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have
474 been chargeable to such Non-Consenting Party if it had participated therein.

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

483 (c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or Deepening of a well
484 shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion
485 thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties
486 of the Non-Consenting Party's recoupment amount. Similarly, an election not to participate in the Completing or Recompleting of a
487 well shall be deemed an election not to participate in any Reworking operation proposed in such a well, or portion thereof, to which
488 the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-
489 Consenting Party's recoupment amount. Any such Reworking, Recompleting or Plugging Back operation conducted during the
490 recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by
491 the Consenting Parties 400% of that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would
492 have been chargeable to such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back
493 operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said
494 Consenting Parties in said well.

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

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

504 Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations for the
505 Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an
506 itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing, Recompleting, and
507 equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation,
508 may submit a detailed statement of ~~quarterly~~ monthly billings. ~~No more than once each quarter in any calendar year~~ Each month
509 thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the
510 Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the
511 operation of the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized
512 from the sale of the well's working interest production during the preceding ~~quarter~~ month. In determining the quantity of Oil and
513 Gas produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or
514 periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such
515 operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total
516 unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party
517 shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

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

525 3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have been completed
526 and the results thereof furnished to the parties, or when operations on the well have been otherwise terminated pursuant to Article VI.F.,
527 stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting, Plugging
528 Back or Completing operation in such a well (including the period required under Article VI.B.6. to resolve competing proposals) shall be
529 charged and borne as part of the drilling or Deepening operation just completed. Stand-by costs subsequent to all parties responding, or
530 expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting
531 Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the
532 proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be
533 allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total
534 interest as shown on Exhibit "A" of all Consenting Parties.

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

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

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

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

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

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

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

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

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

579 (b) If the proposal is for Sidetracking a well which has previously produced, reimbursement shall be on the basis of such party's
580 proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth at which the
581 Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's proportionate share
582 of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking operation is initiated shall be
583 determined in accordance with the provisions of Exhibit "C." This Article VI.B.5, "Sidetracking," shall not apply to operations in an
584 existing Lateral of a Horizontal Well. Drilling operations in a Horizontal Well that are intended to recover penetration of the
585 objective formation(s)* (continued).

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

entitled to participate in the operation within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty-four (24) hours if a rig is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within such period shall be deemed an election not to participate in the prevailing proposal.

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

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

9. Spudder Rigs.

(a) Within Approved Horizontal Well proposals (i.e. proposals which include an approved AFE). If an approved Horizontal Well proposal provides that a Spudder Rig shall be utilized, and Operator desires to extend the proposed Horizontal Rig Move-On Period, Operator may obtain one or more extensions, each for a period of time not to exceed 60 days only upon notice and the affirmative vote of not less than 51% in interest of the Consenting Parties to the drilling of the proposed well.

(b) Not Within Approved Horizontal Well proposals. If an approved Horizontal Well proposal does not provide that a Spudder Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to the Drilling Parties (which notice shall include a Horizontal Rig Move-On Period) and the affirmative vote of not less than 51% in interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On Period may be requested by Operator in the same manner as provided in Article VI.B.9.(a) immediately above.

(c) Failure to meet Horizontal Rig Move-On Period. If a rig capable of drilling a Horizontal Well to its Total Measured Depth has not commenced operations within the Horizontal Rig Move-On Period, or any approved extension(s) thereof, unless 51% in interest of the Consenting Parties agree to abandon the operation, Operator shall re-propose the well in the manner provided in Article VI.B of this agreement. Any party who was a Non-Consenting Party to the original drilling proposal shall be entitled to a new election. Costs of the operation, incurred both before and after such re-proposal, shall be borne as follows:

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

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

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

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

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

C. Completion of Wells; Reworking and Plugging Back:

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

Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completion and equipping of the Well, including tankage and/or surface facilities. Horizontal Completing operations shall be included in the proposed drilling operations for any Horizontal Well.

Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of a Vertical Well. When such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to participate in a Completion attempt whether or not Operator recommends attempting to Complete the well, together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice shall have forty-eight (48) hours (inclusive exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the procedures specified in Article VI.B.6. Election to participate in a Completion attempt shall include consent to all necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the Completion attempt; provided, that Article VI.B.6. shall control in the case of conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the provisions of Article VI.B.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting 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; provided, however, that Article VI.B.2. shall apply separately to each separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party in subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier Completions or Recompletions have recouped their costs pursuant to Article VI.B.2.; provided further, that any recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in which the Completion attempt is made. Election by a previous Non-Consenting party to participate in a subsequent Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvable materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt, insofar and only insofar as such materials and equipment

668 benefit the Zone in which such party participates in a Completion attempt. Notwithstanding anything to the contrary, [and Option 2](#)
669 [shall apply to all Vertical Wells including the selection of Option 2 above, or anything else](#) in this agreement, Option 1 shall apply to
670 all Horizontal Wells.

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

675 **D. Other Operations:**

676 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \$100,000 except in connection with
677 the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by
678 or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or
679 different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life
680 and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use,
681 Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of \$100,000. Any
682 party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation
683 of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well
684 drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the
685 installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the
686 amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or
687 VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to
688 participate therein. If within thirty (30) days thereof Operator secures the written consent of [two or more any-party or](#) parties owning at least
689 51% of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound
690 by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to
691 such project pursuant to the terms of the proposal.

692 **E. Abandonment of Wells:**

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

708 2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder
709 for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall
710 not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and
711 abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. Failure of a party to reply
712 within [thirty \(30\) sixty \(60\)](#) days of delivery of notice of proposed abandonment shall be deemed an election to consent to the proposal. If,
713 within [thirty \(30\) sixty \(60\)](#) days after delivery of notice of the proposed abandonment of any well, all parties do not agree to the
714 abandonment of such well, those wishing to continue its operation from the Zone then open to production shall be obligated to take over the
715 well as of the expiration of the applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other
716 abandoning parties against liability for any further operations on the well conducted by such parties. Failure of such party or parties to
717 provide proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well within the
718 required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession of such well and plug and
719 abandon the well.

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

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

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

749 **F. Termination of Operations:**

750 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing, Completion or plugging
751 of a well, including but not limited to the Initial Well, such operation shall not be terminated without consent of two or more parties
752 bearing 51% of the costs of such operation; provided, however, that in the event granite or other practically impenetrable substance or condition
753 in the hole is encountered which renders further operations impractical, Operator may discontinue operations and give notice of such condition in
754 the manner provided in Article VI.B.1, and the provisions of Article VI.B. or V.I.E. shall thereafter apply to such operation, as appropriate.

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

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

757 Each party shall have the right to take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the Contract Area,
758 exclusive of production which may be used in development and producing operations and in preparing and treating Oil and Gas for marketing
759 purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its
760 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
761 only its proportionate share of such part of Operator's surface facilities which it uses.

762 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,
763 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.

764 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
765 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
766 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
767 terminated by Operator upon at least thirty (30) ~~ten (10)~~ days written notice to the owner of said production and shall be subject always to the
768 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
769 separately dispose of, its share of all Oil not previously delivered to a purchaser provided that Operator may defer any revocation by the owner of
770 the production for up to ninety (90) days if* continued. Any purchase or sale by Operator of any other party's share of Oil shall be only for such
771 reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a
772 period in excess of one (1) year. *Operator has committed such production to a purchase contract having a term greater than thirty (30) days.

773 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances but Operator shall have no duty to share any
774 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
775 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
776 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
777 such intended purchase and the price to be paid or the pricing basis to be used.

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

781 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
782 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,
783 the balancing or accounting between the parties shall be in accordance with any Gas balancing agreement between the parties hereto, whether
784 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
785 well under this agreement.

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

787 ~~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~~
788 ~~production which may be used in development and producing operations and in preparing and treating Oil and Gas for marketing purposes and~~
789 ~~production unavoidably lost. Any extra expenditures incurred in the taking in kind or separate disposition by any party of its proportionate share~~
790 ~~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~~
791 ~~share of such part of Operator's surface facilities which it uses.~~

792 ~~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,~~
793 ~~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.~~

794 ~~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~~
795 ~~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~~
796 ~~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~~
797 ~~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~~
798 ~~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~~
799 ~~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~~
800 ~~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~~
801 ~~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~~
802 ~~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~~
803 ~~circumstances, but in no event for a period in excess of one (1) year.~~

804 ~~Any such sale by Operator shall be in a manner commercially reasonable under the circumstances, but Operator shall have no duty to share any~~
805 ~~existing market or transportation arrangement or to obtain a price or transportation fee equal to that received under any existing market or~~
806 ~~transportation arrangement. The sale or delivery by Operator of a non-taking party's share of production under the terms of any existing contract~~
807 ~~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~~
808 ~~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~~

809 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
810 Agreement.

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

814 VII. EXPENDITURES AND LIABILITY OF PARTIES

815 A. Liability of Parties:

816 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
817 for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article
818 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
819 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
820 construed as creating, a mining or other partnership, joint venture, agency relationship or association, or to render the parties liable as partners,
821 co-venturers, or principals. In their relations with each other under this agreement, the parties shall not be considered fiduciaries or to have
822 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,
823 subject, however, to the obligation of the parties to act in good faith in their dealings with each other with respect to activities hereunder.

824 B. Liens and Security Interests:

825 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
826 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
827 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
828 agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid hereunder, the
829 assignment or relinquishment of interest in Oil and Gas Leases as required hereunder, and the proper performance of operations hereunder. Such
830 lien and security interest granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and
831 royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or
832 otherwise becoming subject to this agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for
833 use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation,
834 accounts arising from gas imbalances or from the sale of Oil and/or Gas at the wellhead), contract rights, inventory and general intangibles
835 relating thereto or arising therefrom, and all proceeds and products of the foregoing.

836 To perfect the lien and security agreement provided herein, each party hereto shall execute and acknowledge the recording supplement [in](#)
837 [substantially the same form attached as Exhibit "H" to this agreement](#) and/or any financing statement prepared and submitted by any party hereto
838 in conjunction herewith or at any time following execution hereof, and Operator is authorized to file this agreement or the recording supplement
839 executed [in substantially the same form attached as Exhibit "H" to this agreement](#) herewith as a lien or mortgage in the applicable real estate
840 records and as a financing statement with the proper officer under the Uniform Commercial Code in the state in which the Contract Area is
841 situated and such other states as Operator shall deem appropriate to perfect the security interest granted hereunder. Any party may file this
842 agreement, the recording supplement [in substantially the same form attached as Exhibit "H" to this agreement](#) executed herewith, or such other
843 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
844 under the Uniform Commercial Code.

845 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
846 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
847 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
848 Leases and Oil and Gas Interests covered by this agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be
849 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
850 hereunder whether or not such obligations arise before or after such interest is acquired.

851 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
852 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
853 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
854 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
855 funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the
856 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
857 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
858 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
859 result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this
860 paragraph.

861 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-
862 defaulting parties, including Operator, shall upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party
863 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
864 security rights described in Article VII.B., and each paying party may independently pursue any remedy available hereunder or otherwise.

865 If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure or execution
866 proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting party waives any available right
867 of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any
868 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
869 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
870 security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially
871 reasonable manner and upon reasonable notice.

872 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
873 Contract Area is situated to enforce the obligations of each party hereunder. Without limiting the generality of the foregoing, to the extent
874 permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in
875 which the Contract Area is situated in order to secure the payment to Operator of any sum due hereunder for services performed or materials
876 supplied by Operator.

877 **C. Advances:**

878 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
879 their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which
880 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
881 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
882 the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate
883 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
884 Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and
885 pay its proportionate share of actual expenses incurred, and no more.

886 **D. Defaults and Remedies:**

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

894 1. **Suspension of Rights:** Any party may deliver to the party in default a Notice of Default, which shall specify the default, specify the
895 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
896 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
897 defaulting party granted by this agreement may upon notice be suspended until the default is cured, without prejudice to the right of the
898 non-defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing under
899 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
900 majority in interest in the Contract Area after excluding the voting interest of Operator, to appoint a new Operator effective immediately.
901 The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include, without
902 limitation, the right to receive information as to any operation conducted hereunder during the period of such default, the right to elect to
903 participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being conducted under
904 this agreement even if the party has previously elected to participate in such operation, and the right to receive proceeds of production from
905 any well subject to this agreement.

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

910 3. **Deemed Non-Consent:** The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting party at any
911 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
912 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,
913 or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to have elected not to participate in
914 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
915 costs unpaid by such party, notwithstanding any election to participate theretofore made. If election is made to proceed under this
916 provision, then the non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

917 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
918 paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided, however, such payment shall not prejudice
919 the rights of the non-defaulting parties to pursue remedies for damages incurred by the non-defaulting parties as a result of the
920 default. Any interest relinquished pursuant to this Article VII.D.3. shall be offered to the non-defaulting parties in proportion to their
921 interests, and the non-defaulting parties electing to participate in the ownership of such interest shall be required to contribute their
922 shares of the defaulted amount upon their election to participate therein.

923 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
924 if Operator is the defaulting party, may thereafter require advance payment from the defaulting party of such defaulting party's anticipated
925 share of any item of expense for which Operator, or Non-Operators, as the case may be, would be entitled to reimbursement under any
926 provision of this agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not limited to,
927 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
928 in drilling or Completion has been made. If the defaulting party fails to pay the required advance payment, the non-defaulting parties may
929 pursue any of the remedies provided in this Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of
930 funds advanced remaining when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.

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

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

935 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the ~~Operator party or~~
936 ~~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~~
937 ~~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
938 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
939 rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any
940 loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

941 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,
942 at least five (5) days (excluding Saturday, Sunday, and legal holidays) prior to taking such action, or at the earliest opportunity permitted by
943 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
944 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
945 under the provisions of Article IV.B.3.

946 **F. Taxes:**

947 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this
948 agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior
949 to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding
950 royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease
951 is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem
952 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
953 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
954 working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in
955 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."

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

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

964 **VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

965 **A. Surrender of Leases:**

966 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
967 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
968 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
969 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
970 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
971 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,
972 or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the
973 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
974 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
975 one (1) year and so long thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be on [a form mutually agreed upon](#)
976 [by the parties the form attached hereto as Exhibit "B."](#) Upon such assignment or lease, the assigning party shall be relieved from all obligations
977 thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto,
978 and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties
979 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
980 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
981 salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and
982 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
983 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
984 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
985 whom the assignment is to be made varies according to depth, then the interest assigned shall similarly reflect such variances.

986 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
987 it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered,
988 and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement but shall be deemed subject to an
989 Operating Agreement in the form of this agreement.

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

991 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
992 promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing Lease, promptly upon expiration of
993 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
994 participate in the ownership of the renewal or replacement Lease, insofar as such Lease affects lands within the Contract Area, by paying to the
995 party who acquired it their proportionate shares of the acquisition cost allocated to that part of such Lease within the Contract Area, which shall
996 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
997 replacement Lease shall be given an assignment of its proportionate interest therein by the acquiring party.

998 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
999 elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the
1000 aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal or replacement
1001 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
1002 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
1003 agreement but shall be deemed subject to a separate Operating Agreement in the form of this agreement.

1004 If the interests of the parties in the Contract Area vary according to depth, then their right to participate proportionately in renewal or replacement
1005 Leases and their right to receive an assignment of interest shall also reflect such depth variances.

1006 The provisions of this Article shall apply to renewal or replacement Leases whether they are for the entire interest covered by the expiring Lease
1007 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
1008 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
1009 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
1010 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
1011 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.

1012 **C. Acreage or Cash Contributions:**

1013 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
1014 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

1015 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
1016 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
1017 well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each
1018 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
1019 Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of
1020 well drilled inside the Contract Area.

1021 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration
1022 shall not be deemed a contribution as contemplated in this Article VIII.C.

1023 **D. Assignment; Maintenance of Uniform Interest:**

1024 ~~For the purpose of maintaining uniformity of ownership in the Contract Area in the Oil and Gas Leases, Oil and Gas Interests, wells, equipment~~
1025 ~~and production covered by this agreement no party shall sell, encumber, transfer or make other disposition of its interest in the Oil and Gas~~
1026 ~~Leases and Oil and Gas Interests embraced within the Contract Area or in wells, equipment and production unless such disposition covers either:~~

- 1027 1. ~~the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or~~
- 1028 2. ~~an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and~~
1029 ~~production in the Contract Area.~~

1030 Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made
1031 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
1032 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
1033 other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty
1034 (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or
1035 transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party
1036 hereunder with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation
1037 conducted hereunder in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by
1038 Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations.

1039 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-
1040 owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay
1041 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
1042 of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or
1043 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
1044 receive, separately, payment of the sale proceeds thereof.

1045 **E. Waiver of Rights to Partition:**

1046 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
1047 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.

1048 **F. Preferential Right to Purchase:**

1049 ~~(Optional) Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it~~
1050 ~~shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which shall include the name and~~
1051 ~~address of the prospective transferee (who must be ready, willing and able to purchase), the purchase price, a legal description sufficient to~~
1052 ~~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~~
1053 ~~notice is delivered, to purchase for the stated consideration on the same terms and conditions the interest which the other party proposes to sell;~~
1054 ~~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~~
1055 ~~the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to~~
1056 ~~mortgage its interests, or to transfer title to its interest to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests, or to~~
1057 ~~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~~
1058 ~~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~~
1059 ~~majority of the stock.~~

1060 **IX. INTERNAL REVENUE CODE ELECTION**

1061 If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not
1062 otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party hereby affected elects to be
1063 excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as
1064 amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized
1065 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
1066 of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
1067 and the data required by Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of
1068 this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue
1069 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
1070 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
1071 laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election
1072 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
1073 required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder
1074 can be adequately determined without the computation of partnership taxable income.

1075 **X. CLAIMS AND LAWSUITS**

1076 Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed
1077 fifty thousand, USD (\$50,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds
1078 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
1079 Operator. All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties
1080 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

1081 matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such
1082 party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

1083 **XI. FORCE MAJEURE**

1084 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
1085 indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the force majeure with
1086 reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure,
1087 shall be suspended during, but no longer than, the continuance of the force majeure. The term "force majeure," as here employed, shall mean an
1088 act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood or
1089 other act of nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause,
1090 whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

1091 The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The requirement that any
1092 force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the
1093 party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

1094 **XII. NOTICES**

1095 All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically provided, shall be
1096 in writing and delivered in person or by United States mail, courier service, telegram, telex, telecopier or any other form of facsimile, postage or
1097 charges prepaid, and addressed to such parties at the addresses listed on Exhibit "A." All telephone or oral notices permitted by this agreement
1098 shall be confirmed immediately thereafter by written notice. The originating notice given under any provision hereof shall be deemed delivered
1099 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
1100 from the date the originating notice is received. "Receipt" for purposes of this agreement with respect to written notice delivered hereunder shall
1101 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
1102 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
1103 office of the courier or telegraph service, or upon transmittal by telex, telecopy or facsimile, or when personally delivered to the party to be
1104 notified, provided, that when response is required within 24 or 48 hours, such response shall be given orally or by telephone, telex, telecopy or
1105 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
1106 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
1107 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
1108 delivered in the same manner provided above for any responsive notice.

1109 **XIII. TERM OF AGREEMENT**

1110 ~~Unless terminated by mutual consent of the parties hereto, this~~ [Unless terminated by mutual consent of the parties hereto, this](#) agreement shall remain in full force and effect as to the Oil and Gas Leases
1111 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
1112 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.

1113 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
1114 Area, whether by production, extension, renewal or otherwise

1115 ~~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~~
1116 ~~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~~
1117 ~~such well is capable of production, and for an additional ___ days thereafter; provided, however, if, prior to the expiration of such additional~~
1118 ~~period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to~~
1119 ~~Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if~~
1120 ~~production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any~~
1121 ~~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~~
1122 ~~agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are~~
1123 ~~commenced within ___ days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all~~
1124 ~~parties not to conduct any further operations on the well or (ii) the lapse of 180 days from the conduct of any operations on the well, whichever~~
1125 ~~first occurs.~~

1126 The termination of this agreement shall not relieve any party hereto from any expense, liability or other obligation or any remedy therefor which
1127 has accrued or attached prior to the date of such termination.

1128 Upon termination of this agreement [as to all or any portion of the Contract Area](#) and the satisfaction of all obligations hereunder, in the event a
1129 memorandum of this Operating Agreement has been filed of record, Operator is authorized to file of record in all necessary recording offices a
1130 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
1131 Operator has satisfied all its financial obligations.

1132 **XIV. COMPLIANCE WITH LAWS AND REGULATIONS**

1133 **A. Laws, Regulations and Orders:**

1134 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
1135 of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations and
1136 orders.

1137 **B. Governing Law:**

1138 This agreement and all matters pertaining hereto, including but not limited to matters of performance, non-performance, breach, remedies,
1139 procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state of . If the Contract Area is
1140 in two or more states, the law of the state of Texas shall govern.

1141 **C. Regulatory Agencies:**

1142 Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or
1143 obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in
1144 reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the
1145 Contract Area.

1146 With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes
1147 of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or
1148 orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such
1149 interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse
1150 Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to
1151 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
1152 incorrect interpretation or application.

1153 XV. MISCELLANEOUS

1154 A. Execution:

1155 This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator
1156 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
1157 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
1158 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
1159 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
1160 agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of drilling operations. In
1161 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
1162 Non-Operator has advanced or prepaid any share of drilling or other costs hereunder, all sums so advanced shall be returned to such Non-
1163 Operator without interest. Except as otherwise provided in Article IV.B, in the event operations on a well shall be commenced without execution
1164 of this agreement by all persons listed on Exhibit "A" as having a current interest in such well, or in the event that subsequent to the
1165 commencement of operations on the well previously unknown or undisclosed persons owning working interests in a well are discovered, or both,
1166 the parties executing this agreement agree to one of the following:

1167 ~~Option No. 1: Operator shall indemnify executing Non-Operators with respect to all costs incurred for the well which would have been charged to~~
1168 ~~each such person under this agreement as if such person had executed the same and Operator shall receive all revenues which would have been~~
1169 ~~received by each such person under this agreement as if such person had executed the same.~~

1170 Option No. 2: The Operator shall advise all parties of the total interest of the parties that have executed this agreement. Each party executing this
1171 agreement, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the
1172 Operator of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined
1173 by dividing such party's interest in the Contract Area by the interest of all parties executing this agreement) of non-executing persons' interests,
1174 or (iii) carry its proportionate part (determined as provided in (ii)) of non-executing persons' interests together with all or a portion of its
1175 proportionate part of any non-executing persons interests that any executing party did not elect to take. Any interest of non-executing persons that
1176 is not carried by an executing party shall be deemed to be carried by the Operator. Failure to advise the Operator within the time required shall be
1177 deemed an election under (i).

1178 B. Successors and Assigns:

1179 This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives,
1180 successors and assigns, and the terms hereof shall be deemed to run with the Leases or Interests included within the Contract Area.

1181 C. Counterparts:

1182 This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

1183 D. Severability:

1184 For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws, this agreement shall not be
1185 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
1186 obligations provided herein shall be a material default.

1187 XVI. OTHER PROVISIONS

1188 A. Conflict of Terms:

1189 Notwithstanding anything in this agreement to the contrary, in the event of any conflict between the provisions of Article I through XV of this
1190 agreement and the provisions of this Article XVI, the provisions of this Article XVI shall govern.

1191 B. ~~Operator's Duty:~~

1192 ~~Unless drilling operations are terminated pursuant to Article VI.F, Operator shall drill a Horizontal Well to the objective Zone(s) and drill the~~
1193 ~~Lateral in the Zone(s) at least to a Displacement to which a reasonably prudent operator would deem further drilling is neither justified nor~~
1194 ~~required.~~

1195 C. ~~Priority of Operations—Horizontal Wells:~~

1196 ~~Notwithstanding Article VI.B.6 or anything else in this agreement to the contrary, it is agreed that where a Horizontal Well subject to this~~
1197 ~~agreement has been drilled to the objective Displacement and the Consenting Parties cannot agree upon the sequence and timing of further~~
1198 ~~operations regarding such Horizontal Well, the following elections shall control the order of priority enumerated hereafter:~~

1199 ~~First:—Testing, coring or logging;~~

1200 ~~Second:— Complete drilling operations of all proposed Laterals;~~

1201 ~~Third:— Extend or Deepen a Lateral;~~

1202 ~~Fourth:— Kick-out and drill an additional Lateral in the same Zone;~~

1203 ~~Fifth:— Plug Back the well to a Zone above the Zone in which a Lateral was drilled; if there is more than one proposal to Plug~~
1204 ~~Back, the proposal to Plug Back to the next deepest prospective Zone shall have priority over a proposal to Plug Back to a shallower~~
1205 ~~prospective Zone;~~

1206 ~~Sixth:— Sidetrack; and~~

1207 ~~Seventh:— Plug and abandon as provided for in Article V.I.E~~

1208 ~~Provided, however, that if, at the time the Consenting Parties are considering any of the above, the hole is in such a condition that a reasonably~~
1209 ~~prudent operator would not conduct the particular contemplated operation involved for fear of placing the hole in jeopardy or losing the hole prior~~
1210 ~~to Completing the Horizontal Well in the objective Zone, such operation shall be eliminated from the priorities set forth above.~~

1211 B. Exhibits:

1212 The following additional exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

1213 X H. Exhibit "H," Form Recording Supplement

1214 X I. Exhibit "I," Geologic Requirements

1215 C. Notices:

1216 1. Requirements. Each party giving or making any notice, request, demand, or other communication pursuant to this agreement
1217 (each, a "Notice") shall provide such Notice in writing and shall use one of the following methods of delivery: personal delivery, registered or
1218 certified mail (in each case, return receipt requested and postage prepaid), nationally recognized courier (with all fees prepaid) or facsimile;
1219 provided, however, no notice of any breach of this agreement may be delivered by facsimile.

1220 2. Addresses. Any party giving a Notice shall address such Notice to the receiving party (the "Addressee") at the address and to the
1221 Individual provided on Exhibit "A" attached hereto or at such other address and/or to such other individual as previously designated by the
1222 Addressee in a Notice. Except as specifically provided elsewhere in this agreement, a Notice is effective only if the party giving or making such
1223 Notice has complied with Section XVI.C.1 and this Section XVI.C.2 and if the Addressee has received, or been deemed to have received the
1224 Notice. A Notice is deemed to have been received as follows:

- 1225 (a) If a Notice is delivered in person, upon receipt as indicated by the date on the signed receipt; _____
1226 (b) If a Notice is sent by registered or certified mail, upon the earlier of (i) receipt as indicated by the date on the signed receipt or (ii)
1227 five days after such Notice is deposited in the mail; _____
1228 (c) If a Notice is sent by nationally recognized overnight courier, upon receipt as indicated by the date on the signed receipt; _____
1229 (d) If a Notice is sent by facsimile, upon receipt by the party giving or making such Notice of an acknowledgment; and _____
1230 (e) If the Addressee rejects or otherwise refuses to accept a Notice, or if the Notice cannot be delivered because of a change in
1231 address for which no Notice was given to the party attempting to give or make such Notice, then upon the rejection, refusal, or
1232 inability to deliver.

1233 Notwithstanding the foregoing subsections (a) through (e) above, except as expressly provided to the contrary in subsection (e)
1234 above, if a Notice is received after 5:00 P.M. on a business day where the Addressee is located, or on a day that is not a business day where the
1235 Addressee is located, such Notice is deemed received at 9:00A.M. on the next business day where the Addressee is located.

1236 D. Priority of Operations:

1237 1. Vertical Wells: When a well authorized under the terms of this agreement as a Vertical Well has been drilled to the objective depth
1238 authorized in the AFE ("authorized depth"), and all tests have been Completed and the results thereof furnished to the Consenting Parties, and
1239 such parties cannot agree upon the sequence and timing of further operations regarding said well, the following proposals shall control in the
1240 order enumerated hereafter:

- 1241 (a) a proposal to do additional logging, coring, or testing; _____
1242 (b) a proposal to attempt to Complete the said well as a Vertical Well at the authorized depth in the manner set forth in the AFE (I.e.
1243 in accordance with the casing, stimulation and other Completion programs set forth in the AFE); _____
1244 (c) a proposal to attempt to Complete the said well as a Vertical Well at the authorized depth in a manner different than as set forth in
1245 the AFE; _____
1246 (d) a proposal to plug back and attempt to Complete the said well as a Vertical Well at a depth shallower than the authorized depth,
1247 with priority given to objectives in ascending order up the hole; _____
1248 (e) a proposal to drill the said well as a Vertical Well to a depth below the authorized depth, with priority given to objectives in
1249 descending order; _____
1250 (f) a proposal to sidetrack the said well as a Vertical Well to a new target objective for a vertical or deviated hole, with priority given
1251 first in ascending order to target objectives above the authorized depth, and then in descending order to target objectives below the
1252 authorized depth; _____
1253 (g) a proposal to drill a said well as a Horizontal Well, with priority given first to a Lateral drain hole at the authorized depth, and
1254 then to objectives in ascending order above the authorized depth, and then to objectives in descending order below the authorized
1255 depth; and (h) plugging and abandoning said well

1257 In drilling a Vertical Well if the first (or subsequent) Completion attempt is unsuccessful and the Operator or a Non-Operator proposes that a
1258 Completion attempt be made in a shallower Zone, the Completion attempt shall be made in the shallower Zone.

1259 Completion attempt be made In another zone, then any Non-Consenting Party as to such prior Completion attempt shall be entitled to receive
1260 notice of such proposal and shall have the right to elect to participate In such proposed Completion operation. Irrespective of such party's election
1261 as to a previous Completion attempt; provided, however, that such party must have participated In all operations leading up to such previous
1262 Completion attempt, and if such party has not paid its respective share of the casing and cementing operations in the Initial Completion attempt,
1263 such party shall first be obligated to pay Its respective share of the costs of such casing and cementing operations to the proposed Completion
1264 Interval. Monies so received by the Operator shall be allocated to the Consenting Parties in the proportion that such parties have borne the costs
1265 of such casing and cementing operations.

1266 2. Horizontal Wells: When a well authorized under the terms of this agreement as a Horizontal Well has been drilled to the
1267 authorized depth, and all tests have been Completed and the results thereof furnished to the Consenting Parties, and such parties cannot agree
1268 upon the sequence and timing of further operations regarding said Horizontal Well, the following proposals shall control in the order enumerated
1269 hereafter:
1270

- 1271 (a) a proposal to attempt to Complete the Horizontal Well at the authorized depth in the manner set forth in the AFE (i.e., in accordance with the
1272 casing, stimulation and other Completion programs set forth In the AFE); _____
1273 (b) a proposal to attempt to Complete the Horizontal Well at the authorized depth in a manner different than as set forth in the AFE; _____
1274 (c) a proposal to do additional logging, coring, or testing; _____
1275 (d) a proposal to extend the length of the Lateral drain hole for a specified number of feet in the dlrettlon it is being drilled, with priority given to
1276 the shortest additional length proposed by any of the Consenting Parties; _____
1277 (e) a proposal to drill a new Lateral drain hole In a different direction at the authorized depth; _____
1278 (f) a proposal to drill a new Lateral drain hole at a different depth, with priority given in ascending order to objectives above the authorized depth,
1279 and then in descending order to objectives below the authorized depth; _____
1280 (g) a proposal to plug back and attempt to Complete the Horizontal Well at a depth shallower than the authorized depth, with priority given to
1281 objectives in ascending order up the hole; _____
1282 (h) a proposal to deepen the Horizontal Well below the authorized depth; _____
1283 (i) a proposal to sidetrack the Horizontal Well to a new target objective, with priority given first in ascending order to objectives above the
1284 authorized depth, and then in descending order to objectives below the authorized depth; and _____
1285 (j) plugging and abandoning the Horizontal Well
1286

1287 In drilling a Horizontal Well, the Operator shall have the right at its sole discretion to cease drilling at any time, for any
1288 reason, and such Horizontal Well shall be deemed to have reached Its authorized depth so long as Operator bas drilled such Horizontal _____
1289 Well to any of the objective formation(s) and has drilled horizontally In any of the objective formation(s) for a distance which is at least _____
1290 equal to fifty percent (50%) of the length of the Displacement proposed for the operation.

1291 E. Well Condition:

1292 If at the time the parties are considering a proposed operation, the Vertical Well or Horizontal Well is in such condition, in the
1293 Operator's sole judgment, that a reasonably prudent operator would not conduct such operation for fear of mechanical difficulties, placing the
1294 hole, equipment or personnel in danger of loss or Injury, or fear of loss of the well for any reason without being able to attempt a Completion at
1295 the authorized depth, then the proposal shall be given no priority to any proposed operation except for plugging and abandoning the Vertical Well
1296 or Horizontal Well.
1297

1298 F. Required Wells and Operations:

1299 Notwithstanding anything to the contrary stated herein, the non-consent provisions of Article VI pertaining to the drilling of any well drilled
1300 hereunder shall not be applicable to any well or operation which is necessary in order to perpetuate an expiring or terminating Lease or Leases or
1301 interest therein, nor shall it be applicable to any well or operation which is necessary In order to earn an additional lease or leases or interest
1302 therein pursuant to any farmout or other agreement. A well or other operation commenced within one hundred twenty (120) days prior to the date
1303 the Lease or Leases (or portions thereof would expire in the absence of such operations and a well or other operation which must be drilled or
1304 conducted to earn or maintain a lease or farmout right shall constitute a "required well" or a "required operation". As to any such required well or
1305 required operation proposed by any party in which any other party elects not to participate, such Non-Consenting Party shall release and
1306 relinquish all of the Non-Consenting Party's interest in and to the Lease or Leases, farmout agreements or interest therein which would be
1307 perpetuated or earned by such "required well" or "required operations insofar and only insofar as the Leases, farmout agreements or Interests are
1308 included in the spacing unit attributed to that well or operation. The interest in such relinquished Leases shall be proportionately assigned or
1309 leased by such Non-consenting Party to the Consenting Party or Parties and such interest shall be free of any Subsequently Created Interest(s)
1310 which may have placed thereon by that Non-Consenting Party. If at any time there is more than one location proposed for the drilling of a
1311 "required well" or "required operations", the parties agree that the location proposed for a "required well" or "required operation" with the
1312 shallowest formation within the Contract Area, which would serve to perpetuate or earn the subject Lease or interest, shall take precedence. Such
1313 relinquishment of Lease or Leases shall not relieve the relinquishing party from any obligation, liability or responsibility theretofore incurred.
1314

1315 G. Salt Water Disposal Wells, Pipelines and Production Sales: 1316

1317 Notwithstanding anything contained in this agreement to the contrary, Operator agrees that it will offer each party to this agreement the
1318 opportunity to participate proportionately in (1) the drilling and operation of any salt water disposal well, (2) the construction of any pipeline and
1319 (3) any production sales contracts in the event Operator is requested and elects to sell other working interest owners production, all on the same
1320 basis as the Operator. Such rights and privileges shall be in conjunction with wells drilled pursuant to the terms and conditions of this agreement.
1321

1322 1. Dry Hole Costs. Operator has the right to demand and receive from the Consenting Parties (or any of them) in its discretion,
1323 payment In advance of their respective share or shares of the entire estimated amount of the expenses to be incurred in operations for drilling,
1324 Deepening, Sidetracking and testing of a well, up to the casing point election for a vertical well, and through the setting of production casing, if
1325 applicable, in a Horizontal Well, in the amount of the "dry hole costs" set forth on the applicable AFE. Such right may be exercised by submitting
1326 to each such Consenting Party an itemized invoice of the estimated expense. Such invoice shall be submitted no earlier than thirty (30) days prior
1327 to the estimated date of spudding the applicable well and the party invoiced shall pay Operator its proportionate share of such estimated expense
1328 within fifteen (15) days after receipt of such estimate and Invoice, or be deemed to have gone non-consent on the proposed operations (regardless
1329 of the election the party may have otherwise made).

1330 2. Completion Costs. Operator has tile right to demand and receive from each. Consenting Party payment in advance of their
1331 respective share or shares of the entire estimated amount of the expenses to be incurred In operations for the Completion and equipping of a well
1332 in the amount of the Completion costs set forth on the applicable AFE. For purposes of clarification, Completion Costs for Horizontal Wells shall
1333 include all costs estimated to be incurred following the setting of production casing. Such right may be exercised by submitting to each such party
1334 an itemized invoice of the estimated expense. Such invoice shall be submitted no earlier than fifteen (15) days prior to the estimated date of
1335 commencing Completion operations. The party invoiced shall pay Operator its proportionate share of such estimated expense within fifteen (15)
1336 days after receipt of such estimated invoice, or be deemed to be a Non-Consenting Party on the proposed operation (regardless of the election that
1337 party may have otherwise made). [NTD what if the person deemed non-consent for completion costs, paid their drilling costs, are they in
1338 penalty for the whole operation, or just the portion of the operation they didn't participate in]

1339 3. Adjustments. Proper adjustment shall be made between such advance payments and the actual expenses incurred to the end that
1340 each party shall bear and pay its proportionate share of the actual expenses incurred, and no more.

1341 I. Public Announcements:

1342 Unless required to do so by law or government regulation, no Non-Operator shall, at any time, issue to the press or other media any
1343 news release, or distribute any information or photographs, concerning the lands or operations covered hereby, without the prior written approval
1344 of the other parties, which consent shall not be unreasonably withheld, conditioned or delayed. The only exception to the foregoing shall be that
1345 in the event of an emergency involving extensive property damage, operations failure, loss of human life or other clear emergency, any party is
1346 authorized to furnish as much information as shall be necessary to satisfy the legitimate public interest on the part of the press and duly
1347 constituted authorities, if time does not permit the obtaining the prior written approval of the other parties. The party furnishing such information
1348 shall thereupon promptly advise the other parties of the information so furnished.

1349 J. Confidentiality:

1350 1. Confidential Data. Except for disclosures to affiliates, financial institutions or other lenders for financing purposes, investors or
1351 potential investors, representatives of a party who need to know Information for purposes of performing this agreement, accountants, legal
1352 counsel and other advisors or In connection with, any proposed merger, acquisition or divestiture transaction involving a party, in each, case
1353 under circumstances in which the disclosing party takes reasonable steps to maintain confidentiality, all confidential information, data and
1354 interpretations resulting from the activities under this agreement ("Confidential Data"), including but not limited to any information furnished to
1355 or obtained by a Non-Operator under Articles V.D.S, V .D.6 and V .D.7, above, shall be confidential during the term of this agreement, except as
1356 otherwise provided herein. The term Confidential Data does not include information that (a) is or becomes generally available to the public other
1357 than by means of a breach of this Confidentiality Provision, or (b) is within a party's possession prior to the date hereof, provided that the source
1358 of such information was not known by such party to be bound by a confidentiality agreement with, or other contractual, legal or fiduciary
1359 obligation of confidentiality to, the other party.

1361 2. Disclosure. Except as provided herein or otherwise required by law, no party shall distribute or disclose any Confidential Data to
1362 unaffiliated persons, the press or other media, without the written consent of the other party. In the event that any party or its representatives are
1363 required (by oral questions, interrogatories, requests for information or documents in legal proceedings, subpoena, civil investigative demand or
1364 other similar process) to disclose any of the Confidential Data, such, party shall provide the other party with prompt written notice of any such
1365 requirement so that the other party may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this
1366 agreement. If, in the absence of a protective order or other remedy or the receipt of a waiver by the other party, a party or its representatives are
1367 nonetheless legally compelled to disclose Confidential Data to any tribunal or else stand liable for contempt or suffer other censure or penalty,
1368 such party or its representatives may, without liability hereunder, disclose to such tribunal only that portion of the Confidential Data which it is
1369 legally required to disclose, provided that such party will exercise its best reasonable efforts to preserve the confidentiality of the Confidential
1370 Data, including, without limitation, by cooperating with the other party to obtain an appropriate protective order or other reliable assurance that
1371 confidential treatment will be accorded the Confidential Data by such tribunal. Further, nothing contained in this paragraph will preclude any
1372 party from making such disclosures as may be required by any applicable federal or state securities law or regulations.

1374 3. Horizontal Techniques. It is recognized that certain horizontal drilling techniques, processes and equipment which may be utilized
1375 by Operator, or which may be utilized by third parties with whom Operator contracts on a proprietary and confidential basis, as well as all data
1376 and information collected from the use of the techniques, processes, and equipment, or arising at a future date from same, either because of
1377 agreements or techniques developed by Operator, or agreements entered Into after the execution of this Agreement, are confidential and
1378 proprietary to Operator. Accordingly, it is agreed that notwithstanding anything contained in this Agreement to the contrary, any process,
1379 information, equipment, or data that is, or may become, of a proprietary and confidential nature to Operator, either through contract or by its own
1380 endeavors regarding the exploration for or the drilling of a Horizontal or Multi-lateral Well, shall be and remain the sole property and information
1381 of Operator (and where appropriate, the party with whom it has contracted for the proprietary and confidential process, information, equipment,
1382 or data); and the process, information, equipment, or data shall not be divulged to the other parties until the time as the contract or proprietary
1383 right shall expire or until Operator shall deem the information to be public knowledge (either under the terms of an existing agreement or by its
1384 own pronouncement). In addition, at any time or times as any proprietary and confidential processes, techniques, or equipment are being utilized,
1385 Operator may restrict the parties' access to the Contract Area.

1387 K. This Operating Agreement shall supersede any and all prior operating agreements as to the lands and formations and wells covered hereby.

1388 L. Estimated Costs to Plug and Abandon

1390 Operator is authorized to withhold from payment of revenue an amount up to one per cent of the
1391 cost of drilling and completing any well, proportionally reduced to the working interest owner's
1392 net revenue interest, to cover the owner's estimated share of the cost of plugging and abandoning
1393 such well. These funds will be held in suspense by the Operator in reserve for such expenditure.

1396

1397 IN WITNESS WHEREOF, this agreement shall be effective as of the day of October 1, 2017.

1398 ~~who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed~~
1399 ~~below, The form used for this agreement~~ is identical to the AAPL Form 610-1989 Model Form Operating Agreement, as published in
1400 computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion
1401 and that are clearly recognizable as changes ~~in Articles~~ have been made to the form.

1402

ATTEST OR WITNESS:

OPERATOR: Sinclair Oil & Gas Company

BY: _____

Print Name: _____

Title: _____

Date: _____

Tax ID: _____

1403

1404

NON-OPERATORS

ATTEST OR WITNESS:

NON-OPERATOR NAME: _____

BY: _____

Print Name: _____

Title: _____

Date: _____

Tax ID: _____

1405

ATTEST OR WITNESS:

NON-OPERATOR NAME: _____

BY: _____

Print Name: _____

Title: _____

Date: _____

Tax ID: _____

1406

ATTEST OR WITNESS:

NON-OPERATOR NAME: _____

BY: _____

Print Name: _____

Title: _____

Date: _____

Tax ID: _____

1407

1408

1409

1410

1411

ACKNOWLEDGEMENTS

1412 Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts.

1413 The validity and effect of these forms in any state will depend upon the statutes of that state.

1414

1415 *Individual acknowledgment:*

1416 State of _____)

1417 _____) ss.

1418 County of _____)

1419

1420 This instrument was acknowledged before me on

1421 _____ by _____

1422

1423 (Seal, if any)

1424 _____

1425 Title (and Rank) _____

1426 My commission expires _____

1427

1428 *Acknowledgment in representative capacity:*

1429 State of _____)

1430 _____) ss.

1431 County of _____)

1432

1433 This instrument was acknowledged before me on

1434 _____ by _____

1435

1436 (Seal, if any)

1437 _____

1438 Title (and Rank) _____

1439 My commission expires _____

Exhibit "A"

Attached to and made a part of that certain Operating Agreement
dated _____, 2017, between Sinclair Oil & Gas Company, as Operator, and
Four Sevens Operating Co., Ltd, et al, as Non-Operators

1. Description of Lands and Depths Subject to This Agreement:

Block 33, T-1-S, Howard County, Texas
_____ [PTN] of Section _____
_____ [PTN] of Section _____
Containing _____ acres, more or less.

2. Restrictions; depth, formations, substances:

This agreement shall cover all wells producing or intended to produce from depths between the top of the "Clearfork Formation", or "Leonard Limestone" (top of Spraberry Trend Area) and the top of the Lower Strawn Formation, such depths being found at 4,366 feet and 9,476 feet, respectively, as shown on those certain Density-Neutron and Resistivity logs for the Element Petroleum Deats 8 #1 Well API 42-227-36235, located in Section 8, Block 33, TIN of the T&P RR Co Survey in Howard County, Texas.

3. Parties to this Agreement and Their Interests:

<u>Party</u>	<u>Working Interest</u>
Sinclair Oil & Gas Company	xxx%
Four Sevens Operating Co., Ltd.	xxx%
FS Minerals, Ltd.	xxx%
SM Energy Company	xxx%
Others	<u>xxx%</u>
	100.00000%

Subject to current burdens of record.

4. Addresses of Parties:

Sinclair Oil & Gas Company
550 E South Temple
Salt Lake City, UT 84081
Attn:
Phone:
Email:

Four Sevens Operating Company, Ltd
777 Taylor Street, Ste. 1909
Fort Worth, TX 76102
Attn: Brad Cunningham
Phone: 817-870-9088
E-mail: brad@foursevens.net

FS Minerals, Ltd
777 Taylor Street, Ste. 1909
Fort Worth, TX 76102
Attn: Brad Cunningham
Phone: 817-870-9088
E-mail: brad@foursevens.net

SM Energy Company
1775 Sherman Street, Ste 1200
Denver, CO 80203
Attn: Jared Slade
Phone: 303-861-8140
E-mail: jslade@sm-energy.com

5. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

TO BE PROVIDED UPON RECEIPT OF TITLE OPINION COVERING
CONTRACT AREA.

Exhibit "B"

Attached to and made a part of that certain Operating Agreement
dated _____, 2017, between Sinclair Oil & Gas Company, as Operator, and
Four Sevens Operating Co., Ltd, et al, as Non-Operators

There is no Exhibit "B" to this Agreement



COPAS 2005 ACCOUNTING PROCEDURE

EXHIBIT C

ACCOUNTING PROCEDURE JOINT OPERATIONS

Attached to and made part of that certain Operating Agreement dated _____, 2017 by and between Sinclair Oil & Gas Company, Four Sevens Operating Co., Ltd, et al as Non-Operators

I. GENERAL PROVISIONS – ACCOUNTING PROCEDURE

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

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

1. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

60 **“Laws”** means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other
61 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the
62 transactions contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter
63 amended, enacted, promulgated or issued.

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

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

66 **“Offshore Facilities”** means platforms, surface and subsea development and production systems, and other support systems such
67 as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water
68 storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities
69 necessary in the conduct of offshore operations, all of which are located offshore.

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

71 **“On-site”** means on the Joint Property when in direct conduct of Joint Operations. The term “On-site” shall also include that
72 portion of Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are
73 conducted, or other facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned
74 by the Joint Account.

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

76 **“Parties”** means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to
77 individually as “Party.”

78 **“Participating Interest”** means the percentage of the costs and risks of conducting an operation under the Agreement that a
79 Party agrees, or is otherwise obligated, to pay and bear.

80 **“Participating Party”** means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear
81 a share of the costs and risks of conducting an operation under the Agreement.

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

83 **“Railway Receiving Point”** means the railhead nearest the Joint Property for which freight rates are published, even though an
84 actual railhead may not exist.

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

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

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

94 **2. STATEMENTS AND BILLINGS**

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

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

110 **3. ADVANCES AND PAYMENTS BY THE PARTIES**

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

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

129 (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator’s
130 actual working interest or Participating Interest, as applicable; or

131 (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator
132 has not approved or is not otherwise obligated to pay under the Agreement; or

133 (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-
134 Operator has furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the
135 foregoing, the Non-Operator shall remain responsible for paying bills attributable to the interest it sold or
136 transferred for any bills rendered during the thirty (30) day period following the Operator’s receipt of such
137 written notice; or

138 (4) charges outside the adjustment period, as provided in Section I.4 (Adjustments).

139 **4. ADJUSTMENTS**

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

156 **5. EXPENDITURE AUDITS**

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

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

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

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

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

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

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

197 D. If any Party fails to meet the deadlines in Sections I.5.B or I.5.C or if any audit issues are outstanding fifteen (15)
198 months after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the
199 right to call a resolution meeting, as set forth in this Section I.5.D or it may invoke the dispute resolution procedures
200 included in the Agreement, if applicable. The meeting will require one month's written notice to the Operator and all
201 Non-Operators participating in the audit. The meeting shall be held at the Operator's office or mutually agreed
202 location, and shall be attended by representatives of the Parties with authority to resolve such outstanding issues. Any
203 Party who fails to attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead
204 audit company will make good faith efforts to coordinate the response and positions of the Non-Operator participants
205 throughout the resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will
206 make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive
207 information supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues
208 unresolved at one meeting may be discussed at subsequent meetings until each such issue is resolved.

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

219 E. ***Forfeiture Penalties***

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

227 **6. APPROVAL BY PARTIES**

228 A. **General Matters**

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

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

236 B. **Amendments**

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

241 C. **Affiliates**

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

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

248 **II. DIRECT CHARGES**

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

250 **1. RENTALS AND ROYALTIES**

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

252 **2. LABOR**

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

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

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

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

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

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

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

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

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

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

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

296 **3. MATERIAL**

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

301 **4. TRANSPORTATION**

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

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

307 (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual
308 trucking cost or a theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the
309 theoretical charge is the per hundred weight charge plus fuel surcharges from the Railway Receiving Point to the
310 Joint Property. The Operator shall consistently apply the selected alternative.

311 (2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized
312 Freight. Accessorial charges such as loading and unloading costs, split pick-up costs, detention, call out charges,
313 and permit fees shall be charged directly to the Joint Property and shall not be included when calculating the
314 Equalized Freight.

315 **5. SERVICES**

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

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

322 **6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR**

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

325 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not
326 limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate
327 with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices
328 provide direct service to personnel who are chargeable pursuant to Section II.2.A (Labor). Such rates may include
329 labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation
330 method, and interest on gross investment less accumulated depreciation not to exceed 10% per annum; provided,
331 however, depreciation shall not be charged when the equipment and facilities investment have been fully depreciated.
332 The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates
333 shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.

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

340 **7. AFFILIATES**

341 A. Charges for an Affiliate’s goods and/or services used in operations requiring an AFE or other authorization from the
342 Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate
343 goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such
344 Affiliate’s goods and services billed to such individual project do not exceed \$0 150% of the approved AFE

345 amount. If the total costs for an Affiliate's goods and services charged to such individual project are not specifically
346 detailed in the approved AFE or authorization or exceed such amount, charges for such Affiliate shall require approval
347 of the Parties, pursuant to Section I.6.A (*General Matters*).

348 B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-
349 Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section
350 I.6.A (*General Matters*), if the charges exceed \$50,000 in a given calendar year.

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

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

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

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

368 **9. LEGAL EXPENSE**

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

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

377 **10. TAXES AND PERMITS**

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

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

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

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

393 **11. INSURANCE**

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

401 12. COMMUNICATIONS

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

411 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

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

420 14. ABANDONMENT AND RECLAMATION

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

423 15. OTHER EXPENDITURES

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

428 III. OVERHEAD

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

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

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

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

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

451 1. DRILLING AND PRODUCING OPERATIONS

452 As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other
453 provisions of this Section III, the Operator shall charge on either: *Fixed Rate Basis, Section III.1.B*

454 A. Technical Services

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

459 (2) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2
460 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A
461 (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for **Off-site**
462 Technical Services, including third party Technical Services: shall be charged direct to the Joint Account, only to
463 the extent such Technical Services are directly attributable to drilling, redrilling, deepening, or sidetracking
464 operations, through completion, temporary abandonment, or abandonment if a dry hole. Off-site Technical
465 Services for all other operations, including workover, recompletion, abandonment of producing wells, and the
466 construction or expansion of fixed assets not covered by Section III.2 (*Overhead - Major Construction and*
467 *Catastrophe*) shall be covered by the overhead rates.

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

472 B. Fixed Rate Basis

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

474 Drilling Well Rate per month \$8,500 (prorated for less than a full month)

475 Producing Well Rate per month \$850

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

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

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

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

- 489 (a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to
490 support operations for any portion of the month shall be considered as a one-well charge for the entire
491 month.
- 492 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each
493 completion is considered a separate well by the governing regulatory authority.
- 494 (c) A one well charge shall be made for the month in which plugging and abandonment operations are
495 completed on any well, unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b).
496 This one well charge shall be made whether or not the well has produced.
- 497 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to
498 take production shall be considered as a one-well charge provided the gas well is directly connected to a
499 permanent sales outlet.
- 500 (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
501 producing overhead charge.
- 502 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement;
503 provided, however, if this Accounting Procedure is attached to or otherwise governing the payout accounting
504 under a farmout agreement, the rates shall be adjusted on the first day of April each year following the effective
505 date of such farmout agreement. The adjustment shall be computed by applying the adjustment factor most
506 recently published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties
507 increased or decreased by the adjustment factor described herein, for each year from the effective date of such
508 rates, in accordance with COPAS MFI-47 (“Adjustment of Overhead Rates”).

509 **C. ~~Percentage Basis~~**

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

529 **2. MAJOR CONSTRUCTION AND CATASTROPHE**

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

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

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

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

- 545 (1) 5% of total costs if such costs are less than \$100,000; plus
546 (2) 3% of total costs in excess of \$100,000 but less than \$1,000,000; plus
547 (3) 2% of total costs in excess of \$1,000,000.

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

- 549 (1) 3% of total costs if such costs are less than \$100,000; plus
550 (2) 2% of total costs in excess of \$100,000 but less than \$1,000,000; plus
551 (3) 1% of total costs in excess of \$1,000,000.

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

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

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

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

563 3. AMENDMENT OF OVERHEAD RATES

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

566 IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

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

572 1. DIRECT PURCHASES

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

583 2. TRANSFERS

584 A transfer is determined to occur when the Operator (i) furnishes Material from a storage facility or from another operated
585 property, (ii) has assumed liability for the storage costs and changes in value, and (iii) has previously secured and held title to the

586 transferred Material. Similarly, the removal of Material from the Joint Property to a storage facility or to another operated
587 property is also considered a transfer; provided, however, Material that is moved from the Joint Property to a storage location for
588 safe-keeping pending disposition may remain charged to the Joint Account and is not considered a transfer. Material shall be
589 disposed of in accordance with Section IV.3 (*Disposition of Surplus*) and the Agreement to which this Accounting Procedure is
590 attached.

591 **A. PRICING**

592 The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of
593 physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators
594 sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are
595 used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well
596 design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties
597 pursuant to Section I.6.A (*General Matters*). Transfers of new Material will be priced using one of the following
598 pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between
599 methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

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

613 **B. FREIGHT**

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

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

632 **C. TAXES**

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

637 D. **CONDITION**

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

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

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

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

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

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

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

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

676 (5) Condition “E” – Junk shall be priced at prevailing scrap value prices.

677 E. **OTHER PRICING PROVISIONS**

678 (1) Preparation Costs

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

687 (2) Loading and Unloading Costs

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

690 3. DISPOSITION OF SURPLUS

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

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

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

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

713 4. SPECIAL PRICING PROVISIONS

714 A. PREMIUM PRICING

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

721 B. SHOP-MADE ITEMS

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

727 C. MILL REJECTS

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

731 V. INVENTORIES OF CONTROLLABLE MATERIAL

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

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

739 **1. DIRECTED INVENTORIES**

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

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

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

756 **2. NON-DIRECTED INVENTORIES**

757 **A. OPERATOR INVENTORIES**

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

761 **B. NON-OPERATOR INVENTORIES**

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

766 **C. SPECIAL INVENTORIES**

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

Exhibit "D"

Attached to and made a part of that certain Operating Agreement dated _____, 2017, between Sinclair Oil & Gas Company, as Operator, and Four Sevens Operating Co., Ltd, et al, as Non-Operators

Operator shall maintain the following insurance coverage with respect to operations performed and property owned by the parties under the Operating Agreement to which this Exhibit "D" is attached:

1. **WORKERS' COMPENSATION AND EMPLOYER'S LIABILITY INSURANCE:**

- a. Statutory workers' compensation coverage as required by the laws of the state in which operations are conducted.
- b. Employer's liability limit of at least \$1,000,000.

2. **COMPREHENSIVE GENERAL LIABILITY INSURANCE:**

- a. \$1,000,000 per occurrence combined single limit bodily injury and property damage including all operations, independent contractors, completed operations and blanket contractual liability (including oral contracts).
- b. \$1,000,000 per occurrence broad form property damage liability, including all operations, independent contractors, completed operations and blanket contractual liability (including oral contracts).

3. **AUTOMOBILE LIABILITY INSURANCE**

- a. \$1,000,000 each accident combined single limit bodily injury and property damage liability including owned, non-owned and hired vehicles.

4. **UMBRELLA LIABILITY**

- a. Limits of at least \$5,000,000 covering liability of the parties for loss or damage exceeding the insurance coverage specified above or otherwise not covered by insurance maintained by Operator or any third party contractor.

Operator shall not carry physical damage insurance on jointly owned property, it being understood and agreed that each party will be responsible for its own interest in such property and will assume its proportionate share of any loss that occurs. Each party hereby waives its rights of recovery against all other parties to this agreement with regard to any loss caused by physical damage to jointly owned property, and agrees that all insurance policies covering any particular party's interest in the jointly owned property will be suitably endorsed to cause this waiver.

Losses for which no insurance is required to be carried or in excess of the limits set forth above shall be borne by the parties in proportion to their respective interests herein and shall be charged to the joint account.

5. **WELL CONTROL INSURANCE:**

Each participant will automatically be included under the coverage provided by Operator's policy unless within ten (10) days of commencing actual drilling operations for the affected well, Operator has received a written refusal of the coverage provided by Operator and proof of such refusing party's equivalent or better coverage. Joint participants afforded coverage under Operator's policy will be billed for their proportionate share of insurance costs that will include both drilling and producing costs. This policy will protect from losses customarily covered by well control and operator's extra expense coverage. The policy limits afforded will depend upon the location of the well and its proposed total depth and may vary from year to year based on the price and coverage reasonably and commercially available to Operator.

Exhibit "E"

Attached to and made a part of that certain Operating Agreement dated _____, 2017, between Sinclair Oil & Gas Company, as Operator, and Four Sevens Operating Co., Ltd, et al, as Non-Operators

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this Agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such Agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement. Under the terms of the Operating Agreement, each party thereto has the right, subject to existing contracts, to take its share of gas produced from the Contract Area and market same. However, recognizing that one or more of the parties may be unable to take its share of the gas from time to time, and to permit each party to take and dispose of its share of gas production from the Contract Area with as much flexibility as possibly, the parties agree to the balancing agreement herein set forth. In the event any well subject herein is completed in multiple zones, then each zone shall be treated as a separate well.

1. Effective Date and Term

In the event any party hereto is not at any time taking or marketing its full share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser, which does not, at any time while this Agreement is in effect, take the full share of gas attributable to the interest of such party, the terms of this Agreement shall automatically become effective on the date of initial deliveries of gas from the Contract Area and shall continue in full force and effect as long as the Operating Agreement to which it is attached remains in effect.

2. Rights of the Parties

The parties actually taking or marketing gas produced from the Contract Area shall always have the option to produce, take and deliver each month all gas which may be legally and efficiently produced by the wells in the Contract Area. All parties hereto shall, however, share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests under and subject to the Operating Agreement to which this Agreement is attached regardless of how gas production is being allocated. If Operator, in good faith reliance upon its engineering reserve report, believes that an overproduced party has recovered one hundred percent (100%) of such overproduced party's share of recoverable reserves, such overproduced party, upon being notified in writing of such fact of Operator, shall cease taking gas from such well (or Contract Area) and the remaining parties shall be entitled to take one hundred percent (100%) of such production. Notwithstanding anything to the contrary herein, after an overproduced party has recovered one hundred percent (100%) of its share of the recoverable reserves as so determined by Operator from such well (Contract Area), such overproduced party may continue to produce if such continued production is necessary for lease maintenance purposes.

3. Accounting for Gas Sales

On a cumulative basis, (a) each underproduced party (a party who has taken or delivered a lesser volume of gas than the quantity to which such party is entitled) 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 Contract operations, vented or lost, and less that portion which such underproduced party took or delivered to its purchaser, and (b) each overproduced party (a party who has taken or delivered a greater volume of gas than the quantity to which such party is entitled) shall be debited with a volume of gas equal to the excess which it has actually taken or marketed over its full share of the gas produced from the Contract Area after deduction of its share of gas used in the Contract operations, vented or lost. Each party taking gas shall furnish or cause to be furnished to the Operator of the Contract Area a monthly statement of gas taken.

4. Operator Statements

The Operator will maintain a current account of the gas balance between the parties hereto and will furnish all parties monthly statements, mailed quarterly, showing the total quantity of gas produced, and the monthly and cumulative over-and-under account of each party.

5. Current Volumetric Balancing

After notice to Operator, any underproduced party may at any time begin taking or delivering to a purchaser its full share of the gas produced. To allow for the recovery of quantities of underproduced gas and to balance the gas account of the parties in accordance with their respective interests and subject to No. 6, the underproduced parties shall also be entitled to take, in addition to their full share of the gas produced, a quantity of gas (the "make-up gas") of up to twenty-five percent (25%) of the overproduced parties' full share of gas produced and taken plus any portion of all gas produced and saved which is attributable to the full share of any party not taking its full share. The Operator shall allocate the make-up gas at the underproduced parties' request or, in the absence of requests, to the cumulative underproduction of the underproduced parties who have not requested less than their proportionate share. Should the underproduced parties not take all of the available make-up gas, the portion of the make-up gas not taken shall be allocated to the legal and proportionate share of overproduced parties wishing to take more gas than otherwise available to them in proportion to the ratio of their undivided interests.

6. Winter Makeup

It is specifically agreed that no underproduced party will be allowed to take make-up gas during the months of November, December, January, or February (the "Winter Period"); provided, however, that an underproduced party will be allowed to take make-up gas during the Winter Period if the underproduced party has taken at least one hundred percent (100%) of the make-up gas to which it was entitled during the four (4) consecutive months immediately prior to the Winter Period.

7. Final Cash Balancing

Should production of gas from said zone or well be permanently discontinued before the gas accounts are balanced, the Operator shall make a final determination of the volume of the last accrued over- and underproduction, if any, as of the date of such permanent discontinuance and the identity of the party or parties who are over-and underproduced. A cash settlement will then be made between the underproduced and overproduced parties. In making such settlement, the underproduced parties shall be paid a sum of money by the overproduced parties equal to the value, computed as hereafter set forth, of the unrecouped cumulative balance of overproduction, less applicable taxes and royalties theretofore paid.

In determining the value of the unrecouped cumulative balance of overproduction, beginning with the first month in which the overproduced parties took a volume of gas in excess of the quantity to which such parties were entitled, hereafter called "overage", the volume of overage during such month shall be multiplied times the actual prices received for such coverage during such month. The same calculation shall be made for the next succeeding month in which an overage occurred and for each succeeding month (progressing forward in time) in which an overage occurred until the total volume of the overages for these months equals the total volume of the unrecouped cumulative balance of overproduction for purposes of the cash settlement herein contemplated. Within ninety (90) days of permanent discontinuance, the Operator will supply to the Non-Operator(s) final volume gas balancing statements. Within forty-five (45) days of receipt of said statements, overproduced and underproduced parties shall confirm/disconfirm their imbalance position with the Operator. Within one hundred eighty (180) days of permanent discontinuance, the overproduced parties will pay or cause to be paid to the underproduced parties their share of overage. Operator assumes no liability with respect

to any such third party payments due any underproduced party. If refunds are later required by any governmental authority, each party shall be accountable for its respective share of such refunds as finally balanced hereunder.

8. Transfer of Interest

Any overproduced party selling, assigning, exchanging or otherwise transferring any of its interest in a proration unit covered by this agreement shall: (a) immediately notify the Operator and all working interest owners of such transfer, and (b) cash balance within ninety (90) days with each underproduced party as if production had permanently discontinued.

9. 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 seventy-two (72) hours duration required under such party's gas sales contract.

10. Nominations

Each party shall, on a monthly basis, give Operator sufficient time and data either to nominate such party's respective share of gas to the transporting pipeline(s) or, if Operator is not nominating such party's gas, to inform Operator of the manner in which to dispatch such party's gas. Operator will use its best efforts to cause said deliveries to be made to the designated gas purchasers. It is expressly agreed that Operator shall not be responsible for any fees and/or penalties associated with imbalances charged by any pipeline to any non-operator(s).

11. Payment of Royalties Due on Production

Each party who is selling gas shall provide for payment to the Operator all base royalties (as hereinafter defined) on private- or state-owned lands which are due on the production actually taken and sold by each party. For purposes of this paragraph, "Base Royalties" shall mean royalties payable to the mineral owner(s) who grant the oil and gas lease(s) on the land where the source(s) of supply is located. Base Royalties shall not include overriding royalties, production payments or similar burdens not created in the oil and gas lease(s) creating the Base Royalty. In the event cash balancing is made under this procedure, payments made shall be net after reduction of base royalty payments actually made by the overproducer. Satisfaction of any other burdens created by a party (such as overriding royalties, production payments, or other payments on production) shall be the sole responsibility of the party creating such burdens. An overproducer shall have no responsibility to pay the other burdens created by other parties. Such burdens shall be paid by the party creating the burden in accordance with the terms of the agreement creating any such burden.

12. Taxes

Each party producing and taking or delivering gas to its purchaser shall pay, or cause to be paid, all production and/or excise taxes due on such gas.

Exhibit "F"

Attached to and made a part of that certain Operating Agreement
dated _____, 2017, between Sinclair Oil & Gas Company, as Operator, and
Four Sevens Operating Co., Ltd, et al, as Non-Operators

NON-DISCRIMINATION AND CERTIFICATION OF NON-SEGREGATED FACILITIES

- A. During the performance of this contract, the Operator agrees as follows:
1. The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training; including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer, setting forth the provisions of this nondiscrimination clause.
 2. The Operator will, in all solicitations or advertisements for employees placed by or in behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
 3. The Operator will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representatives of the Operator's commitments under Section 202 of Executive Order No. 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 No. 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 No. 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
 6. In the event of Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations 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 No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.
 7. The Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless excepted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that 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 noncompliance; provided, however, that in the event the Operator becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interest of the United States.

a. Equal Employment Opportunity Reporting

The Operator agrees to file with the appropriate federal agency a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after the signing of this agreement or the award of any such purchase order, as the case may be (unless such a report has been filed in the last 12 months), and agrees to continue to file such reports annually, on or before March 31. (41 CFR 60-1.7(a))

b. Affirmative Action Compliance Program

The Operator agrees to develop and maintain a current written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order No. 11246, as amended. (41 CFR 60-1.40)

c. Listing of Employment Openings

The Operator agrees that all employment openings of the Operator which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the Operator other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall, to the maximum extent feasible, be offered for listing at an appropriate local office of the state employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hirings as may be required: provided, that this provision shall not apply to openings which the Operator fills :from within the Operator's organization or are filled pursuant to a customary and traditional employer-union hiring arrangement and that the listing of employment openings shall involve only the normal obligations which attach to the placing of job orders. The Operator agrees further to place this provision in any subcontracts directly under this contract.

d. Equal Opportunity in Employment Certificate of Nonsegregated Facilities

Any contract entered into by Operator shall provide as follows:

Operator, by entering into this contract, certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. It certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained.

Operator agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, restrooms and washrooms, 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. It further agrees that (except where it has obtained identical certifications 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 retain such certifications 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).

e. Notice to Prospective Subcontractors of Requirement for Certifications of Nonsegregated Facilities

A Certification of Nonsegregated Facilities, as required by the May 9, 1967, Order (32 F.R. 7439, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, 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).

Exhibit "G"

Attached to and made a part of that certain Operating Agreement
dated _____, 2017, between Sinclair Oil & Gas Company, as Operator, and
Four Sevens Operating Co., Ltd, et al, as Non-Operators

There is no Exhibit "G" to this Agreement

Exhibit "H"

Attached to and made a part of that certain Operating Agreement
dated _____, 2017, between Sinclair Oil & Gas Company, as Operator, and
Four Sevens Operating Co., Ltd, et al, as Non-Operators

(See Attached)

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3

MODEL FORM RECORDING SUPPLEMENT TO

OPERATING AGREEMENT AND FINANCING STATEMENT

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

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

9 WHEREAS, the parties hereto have executed an Operating Agreement dated 11/1/17 (herein the "Operating Agreement"), covering the Contract
10 Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

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

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

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

16 2. The parties do hereby agree that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

63 in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this
64 agreement and the Operating Agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or
65 obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including,
66 without limitation, accounts arising from the sale of production at the wellhead), contract rights, inventory and general intangibles
67 relating thereto or arising therefrom, and all proceeds and products of the foregoing.

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

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

86 D. If any party fails to pay its share of expenses within one hundred-twenty (120) days after rendition of a statement therefor by
87 Operator the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion
88 that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the
89 unpaid amount shall be secured by the liens and security rights described in this paragraph 3 and in the Operating Agreement, and
90 each paying party may independently pursue any remedy available under the Operating Agreement or otherwise.

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

99 F. The lien and security interest granted in this paragraph 3 supplements identical rights granted under the Operating Agreement.

100 G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's
101 lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due under this
102 agreement and the Operating Agreement for services performed or materials supplied by Operator.

103 H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Recording
104 Supplement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing
105 statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the
106 above-described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial
107 Code, or other state laws.

108 4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this agreement and the
109 Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file of record in all necessary recording
110 offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon the
111 request of Operator, if Operator has complied with all of its financial obligations.

112 1. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their
113 respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or other disposition shall be made
114 by any party of any interest in the Leases or Interests subject hereto except as expressly permitted under the Operating Agreement and, if
115 permitted, shall be made expressly subject to this agreement and the Operating Agreement and without prejudice to the rights of the other
116 parties. If the transfer is permitted, the assignee of an ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement
117 and the Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however,
118 that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder
119 until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the
120 transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred
121 by such party under this agreement or the Operating Agreement with respect to the interest transferred, including without limitation the
122 obligation of a party to pay all costs attributable to an operation conducted under this agreement and the Operating Agreement in which
123 such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the
124 Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.

125 5. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the Operating Agreement,
126 then, as between the parties, the terms and provisions of the Operating Agreement shall control.

127 6. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-
128 Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or
129 which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. In the
130 event that any provision herein is illegal or unenforceable, the remaining provisions shall not be affected, and shall be enforced as if the
131 illegal or unenforceable provision did not appear herein.

132 7. Other provisions.

133

134 See Operating Agreement

137

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

142 IN WITNESS WHEREOF, this agreement shall be effective as of November 1, 2017.

143

144

OPERATOR

ATTEST OR WITNESS

Sinclair Oil & Gas Company

By: _____

Name: _____

Title: _____

Date: _____

Address: _____

145

146

147

NON-OPERATORS

ATTEST OR WITNESS

NON-OPERATOR: _____

By: _____

Name: _____

Title: _____

Date: _____

Address: _____

148

ATTEST OR WITNESS

NON-OPERATOR: _____

By: _____

Name: _____

Title: _____

Date: _____

Address: _____

149

ATTEST OR WITNESS

NON-OPERATOR: _____

By: _____

Name: _____

Title: _____

Date: _____

Address: _____

150

151

152

153

154

155

ACKNOWLEDGMENTS

156 **NOTE:**

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

159

160

Individual Acknowledgment

161 State of _____§

162 § ss.

163 County of _____§

164

165 This instrument was acknowledged before me on _____

166 by _____

167 (Seal, if any)

168

169

Title (and Rank) _____

170

My commission expires: _____

171

172

Acknowledgment in Representative Capacity

173 State of _____§

174 § ss.

175 County of _____§

176

177 This instrument was acknowledged before me on _____

178 by _____

179 (Seal, if any)

180

181

Title (and Rank) _____

182

My commission expires: _____

183

184 A representative of each party confirms good receipt of the fully executed signature pages:

185

Signing Confirmation by Operator:

Signing Confirmation by Non-Operator:

By: _____

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Exhibit "I"

Attached to and made a part of that certain Operating Agreement
dated _____, 2017, between Sinclair Oil & Gas Company, as Operator, and
Four Sevens Operating Co., Ltd, et al, as Non-Operators

Geologic Requirements