



EXHIBIT(s)
FOR
ORDER NO(s).

527-8

~~_____ - _____~~

~~_____ - _____~~

~~_____ - _____~~

*WILLIAMS PRODUCTION RMT
COMPANY*

RECEIVED
SEP 07 2010
COGCC

ORIGINAL

Cause No. 527
Docket No. 1009-UP-54

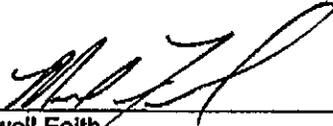
STATE OF COLORADO
CITY AND COUNTY OF DENVER

)
) ss.
)

Verified Statement of Maxwell Faith

In support of the request for Director approval of the Verified Application of Williams Production RMT Company in Cause No. 527, DOCKET NO. 1009-UP-54, pursuant to Rule 511.b, Maxwell Faith, Landman of Williams Production RMT Company, upon oath, deposes and states as follows:

- a. I am currently employed as a Landman of Williams Production RMT Company ("Williams"). I have been and am presently responsible for and have knowledge of the land position related to the Application Lands.
- b. Attached as Exhibit A is a copy of my resume prepared by me. Attached as Exhibit B is a plat of the application lands, shaded in green, which were prepared by Jacob Frost under my supervisions and control. I have reviewed this plat, and to the best of my knowledge and belief, the exhibits are correct and accurate as of the date of this Verified Statement.
- c. The attached plat shows the location of the drilling and spacing unit which has been applied for under a separate application. Williams has drilled two wells, the Federal RG 531-16-397 and the Federal RG 41-16-397, within the drilling unit. They were spud July 8th and July 25th of this year respectively. Williams provided the two other two working interest owners with ample notice of our plans to drill these wells and necessary opportunity to participate in the drilling of these wells. A title opinion covering the lease and draft of an operating agreement were sent on February 2, 2010. A copy of the proposed operating agreement is attached as Exhibit C. Neither of the two owners executed this agreement or requested any changes or modifications to the agreement. In addition, Authorizations for Expenditure (AFE's) were sent to these two working interest owners on June 23rd 2010. Neither party responded to these AFE's. A copy of the AFE's are attached as Exhibit D-1 and D-2. As a result of these working interest owners having failed to agree to participate in the drilling of these wells, Williams filed the referenced request for involuntary pooling of these parties in these two wells as wells as future wells in the drilling unit.
- d. I have not been advised of and am not aware of any protests to this Verified Application.
- e. The parties identified on the Exhibit A to the Verified Application are the parties entitled to notice under the rules of the COGCC.

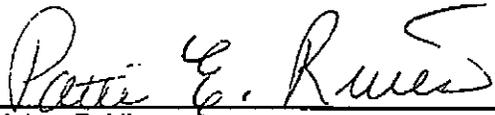


Maxwell Faith

Subscribed to and sworn to before me this 15th day of September, 2010 by Maxwell Faith, Landman of Williams Production RMT Company.

My Commission expires 5/21/2011





Notary Public
Address: 1515 Arapahoe Street
Tower 3, Suite 1000
Denver, CO 80202

MAXWELL G. FAITH

141 South Emerson Street
Denver, Colorado 80209
(303)579-8223
maxwell.faith@gmail.com

EXPERIENCE

Williams Production RMT Company **Denver, CO**
Landman **December 2007 - Present**

Responsible for all land related functions in assigned areas, provide land support to all disciplines of asset team for annual drilling program, including review of drilling title opinions, perform necessary curative; preparation and negotiation of joint operating agreements, farmout agreements, acreage trades/swaps with third parties, negotiation of lease terms and all other typical oil and gas land related agreements. Interaction with internal drilling operations and planning groups as well as interaction with outside third party operators and partners, organize and supervise efforts of outside lease brokers, contract Landmen and title attorneys.

Strata Oil & Gas Company, LLC **Denver, CO**
Independent Landman **May 2005 - December 2007**

Worked in numerous counties in Colorado, New Mexico, Washington and Wyoming performing cursory and curative title searches. Negotiated and prepared oil and gas leases and surface-use agreements for mineral and surface owners. Performed due diligence for client acquisitions. Prepared abstracts of title from county records for drilling title opinions.

Fitzsimmons, LLC **Gillette, WY**
Independent Landman **April 2004 - May 2005**

Worked in various counties in Colorado and Wyoming negotiating and preparing oil and gas leases and surface-use agreements for mineral and surface owners. Conducted research to secure title for leases in title companies and in county records.

E & G Energy **Shelby County, TX**
Landman **February - March 2004**

Worked with lease and right-of-way brokers in Texas, processed title for mineral and property owners with oil and gas landmen.

Enterprise Leasing **Washington, DC**
Management Trainee **November 2002 - January 2004**

Involved in Management Training program focusing on all aspects of a managerial position. Responsible for daily operation of car rental branch, including contract underwriting, inside sales to customers and outside sales to local businesses, marketing to client accounts, and customer service.

EDUCATION

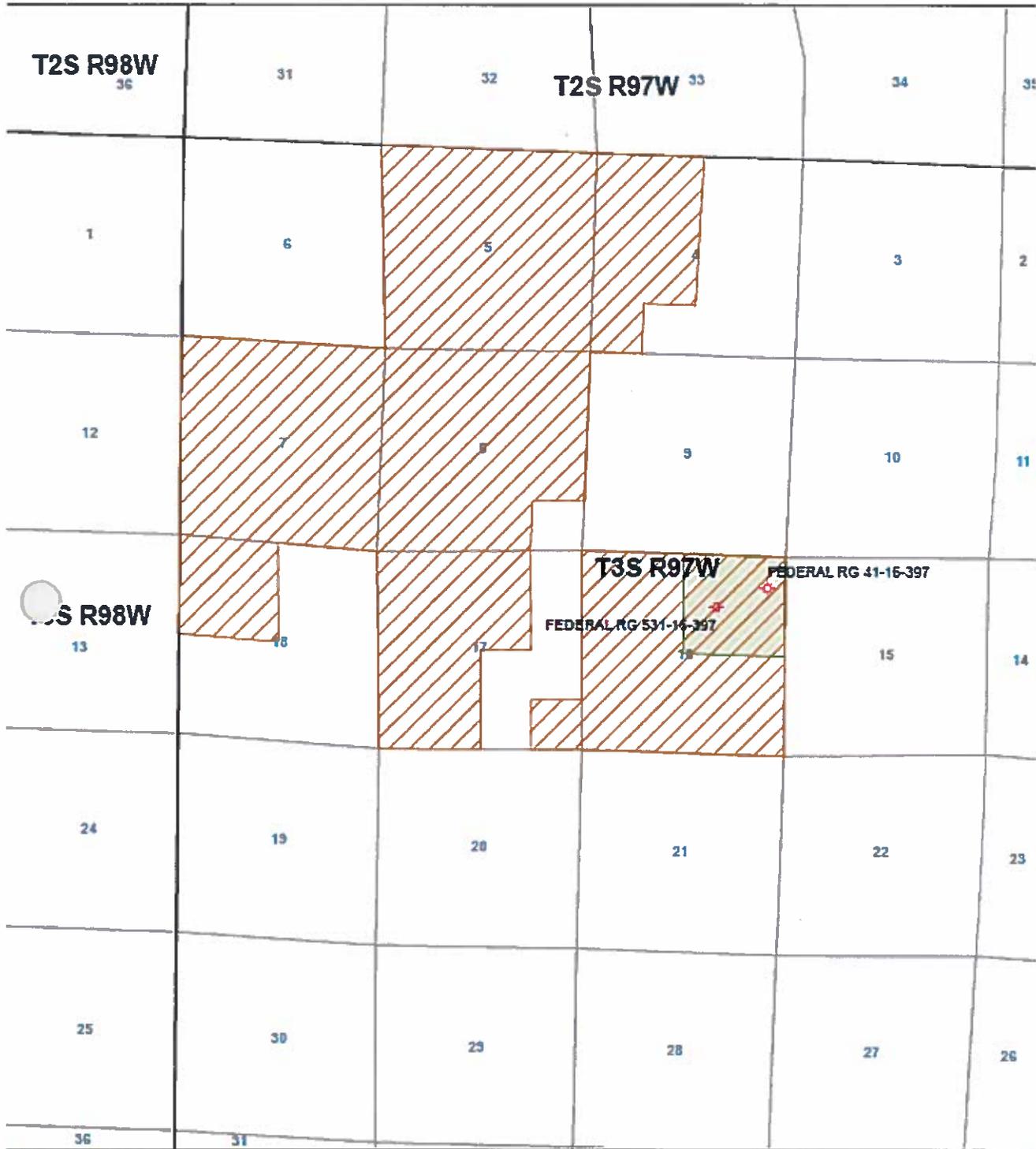
University of Colorado – Denver **Denver, CO**
Masters of Science – Global Energy Management **June 2010**

Tulane University **New Orleans, LA**
Bachelor of Arts in Communications **May 2002**
Minor in Business

PROFESSIONAL ASSOCIATIONS

American Association of Professional Landmen
Denver Association of Petroleum Landmen

Exhibit B



Order for Involuntary Pooling and to form a 160-acre Drilling and Spacing Unit



Bottom Hole Locations

Application Lands

Existing Williams Fork and 10-Acre Density. Order 527-6

Map Source:
Created - 12/20/10 by Williams CGLP
Projection - UTM Zone 13N, NAD83
Data Source - PLS5 by Colorado DLM, Roads by CSR,
other data by Williams

Cause No: 527

Docket No: 1009-UP-54

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

April 1 , 2010 ,
year

OPERATOR Williams Production Ryan Gulch, LLC

CONTRACT AREA Township 3 South, Range 97 West, 6th P.M.

Sec. 16: ALL

Sec. 17: W $\frac{1}{2}$ NE $\frac{1}{4}$, W $\frac{1}{2}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$

COUNTY OR PARISH OF RIO BLANCO , STATE OF COLORADO.

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

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

TABLE OF CONTENTS

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

TABLE OF CONTENTS

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

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Williams Production Ryan Gulch, LLC hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

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

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

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

H. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI A. I. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.

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

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

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

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

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

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

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

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

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

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

ARTICLE II. EXHIBITS

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

- X A. Exhibit "A," shall include the following information: (1) Description of lands subject to this agreement, (2) Restrictions, if any, as to depths, formations, or substances, (3) Parties to agreement with addresses and telephone numbers for notice purposes and fax numbers, (4) Percentages or fractional interests of parties to this agreement, (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement, (6) Burdens on production. B. ~~Exhibit "B," Form of Lease.~~ X C. Exhibit "C," Accounting Procedure. X D. Exhibit "D," Insurance. X E. Exhibit "E," Gas Balancing Agreement. X F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities. G. ~~Exhibit "G," Tax Partnership.~~ X . Other: Notice of Lien and Mortgage - Financing Statement

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

3 ARTICLE III.

4 INTERESTS OF PARTIES

5 A. Oil and Gas Interests:

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

9 B. Interests of Parties in Costs and Production:

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

14 Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other
 15 burdens may be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or
 16 cause to be paid or delivered, all burdens on its share of the production from the Contract Area up to, but not in excess of,
 17 ~~lessor's royalty and other lease burdens as of the date on which an Oil and Gas Lease or Oil and Gas Interest~~
 18 ~~became committed to this Agreement, and shall indemnify, defend and hold the other parties free from any liability therefor.~~

19 Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is
 20 burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts
 21 stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend
 22 and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as
 23 the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to
 24 be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s)
 25 which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any
 liability therefor.

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

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

32 C. Subsequently Created Interests:

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

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

50 ARTICLE IV.

51 TITLES

52 A. Title Examination:

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

66 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in
 67 connection with Leases or Oil and Gas Interests contributed by such party. Operator shall be responsible for the preparation
 68 and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings
 69 before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to
 70 the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings
 71 Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental
 72 agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct
 73 charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C."

1 Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
2 functions

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

6 **B. Loss or Failure of Title:**

7 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
8 reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest
9 (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title
10 failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject
11 to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas
12 Leases and Interests; and,

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

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

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

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

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

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

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

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

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

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

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

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

70 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
71 Lease or Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety
72 (90) day period provided by Article IV B.1. and Article IV.B.2 above covering all or a portion of the interest that has failed
73 or was lost shall be offered at cost to the party whose interest has failed or was lost, and the provisions of Article VIII B
74 shall not apply to such acquisition.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

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

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

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

C. Employees and Contractors:

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

D. Rights and Duties of Operator:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

49 **ARTICLE VI.**
50 **DRILLING AND DEVELOPMENT**

51 **A. Initial Well:**

52 On or before the 31st day of December, 2010, Operator shall commence operations for the drilling of the
53 Initial

54 Well at the following location: Township 3 South, Range 97 West, 6th P.M
NE¼

55 With a surface location at 1276' FNL, 1467' FEL in the NW¼NE¼ of Section 16, T3S, R97W.

56 and shall thereafter continue the drilling of the well with due diligence to

57 a bottom hole location at 1331' FNL, 2018' FEL in the NE¼NE¼ of Section 16, 3S, 97W

58 drilled to a total depth of 12,360 feet; into the Segó Formation.

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

61 **B. Subsequent Operations:**

62 1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area, or
63 if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of
64 producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under
65 this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written
66 notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone
67

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

10 If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be
 11 contractually committed to participate therein provided such operations are commenced within the time period hereafter set
 12 forth, and Operator shall, no later than ^{one hundred twenty (120) days after receipt} ~~ninety (90) days after expiration of the notice / period of thirty (30) days~~ (or as
 13 promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case
 14 may be), actually commence the proposed operation and thereafter complete it with due diligence at the risk and expense of
 15 the parties participating therein; provided, however, said commencement date may be extended upon written notice of same
 16 by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such
 17 additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-
 18 way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or
 19 acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as
 20 specifically permitted herein or in the force majeure provisions of Article XI) and if any party hereto still desires to conduct
 21 said operation, written notice proposing same must be resubmitted to the other parties in accordance herewith as if no prior
 22 proposal had been made. ~~Those parties that did not participate in the drilling of a well for which a proposal to Deepen or
 23 Sidetrack is made hereunder shall, if such parties desire to participate in the proposed Deepening or Sidetracking operation,
 24 reimburse the Drilling Parties in accordance with Article VI.B.4, in the event of a Deepening operation and in accordance
 25 with Article VI.B.5, in the event of a Sidetracking operation.~~

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

27 (a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VI.B.1. or
 28 VIC 1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this
 29 Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no
 30 ^{later than one hundred twenty (120) days after receipt of the notice by the parties to whom such notice was delivered} ~~later than / ninety (90) days after the expiration of the notice period of thirty (30) days~~ (or as promptly as practicable after the
 31 expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the
 32 proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting
 33 Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party,
 34 the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the
 35 account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The
 36 rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party
 37 designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when
 38 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this
 39 agreement

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

58 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be
 59 borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding
 60 paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
 61 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results
 62 in a dry hole, then subject to Articles VI.B.6. and VI.E.3, the Consenting Parties shall plug and abandon the well and restore
 63 the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that
 64 participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate
 65 shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not
 66 increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened,
 67 Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in
 68 paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the
 69 well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the
 70 expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking,
 71 Sidetracking, ReCompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the
 72 provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the
 73 Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-
 74 Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking,

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

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

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

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

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

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

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

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

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

72 3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have
 73 been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise
 74 terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking,

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

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

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

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

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

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

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

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

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

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

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

74

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

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

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

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

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

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

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

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

51 **D. Other Operations:**

52 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of _____
 53 Twenty-five Thousand and no/100 Dollars (\$ 25,000.00) except in connection with the
 54 drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously
 55 authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
 56 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion
 57 are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the
 58 emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so
 59 requesting an information copy thereof for any single project costing in excess of Twenty-five Thousand and no/100 Dollars
 60 (\$ 25,000.00). Any party who has not relinquished its interest in a well shall have the right to propose that
 61 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as
 62 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but
 63 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall
 64 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the
 65 amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under
 66 Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively / ^{by} those Articles) Operator shall deliver such
 67 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent
 68 of ^(two or more) any party or parties owning at least 60 % of the interests of the parties entitled to participate in such operation,
 69 each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated
 70 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms
 71 of the proposal.

72 **E. Abandonment of Wells:**

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

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

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

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

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

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

58 F. Termination of Operations:

59 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,
 60 Completion or plugging of any well in the contract area, ~~including but not limited to the Initial Well,~~ such operation shall not be terminated
 61 without
 62 consent of parties bearing 50 % of the costs of such operation; provided, however, that in the event granite or other
 63 practically impenetrable substance or condition in the hole is encountered which renders further operations impractical,
 64 Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the
 65 provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

66 G. Taking Production in Kind:

67 Option No. 1: Gas Balancing Agreement Attached

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

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

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

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

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

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

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

27 ~~Option No. 2 - No Gas Balancing Agreements~~

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

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

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

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

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

62 **ARTICLE VII.**

63 **EXPENDITURES AND LIABILITY OF PARTIES**

64 **A. Liability of Parties:**

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

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

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

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

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

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

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

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

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

61 Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other
 62 parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations
 63 hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an
 64 itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice
 65 for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month.
 66 Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and
 67 invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as
 68 provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end
 69 that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

70 **D. Defaults and Remedies:**

71 If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to
 72 make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for
 73 such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the
 74 remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered

1 only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator,
 2 and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator.
 3 Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified
 4 below or otherwise available to a non-defaulting party.

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

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

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

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

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

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

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

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

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

62 **F. Taxes:**

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

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

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

9 **ARTICLE VIII.**

10 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

11 **A. Surrender of Leases:**

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

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

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

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

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

48 ~~— 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
 49 by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in
 50 the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the
 51 purchase of such renewal or replacement Lease. The acquisition of a renewal or replacement Lease by any or all of the parties hereto
 52 shall not cause a readjustment of the interests of the parties stated in Exhibit "A," but any renewal or replacement Lease in which
 53 less than all parties elect to participate shall not be subject to this agreement but shall be deemed subject to a separate Operating
 54 Agreement in the form of this agreement.~~

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

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

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

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

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

~~1 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder,
2 such consideration shall not be deemed a contribution as contemplated in this Article VII.G.~~

3 D. Assignment; Maintenance of Uniform Interest:

~~4 For the purpose of maintaining uniformity of ownership in the Contract Area in the Oil and Gas Leases, Oil and Gas
5 Interests, wells, equipment and production covered by this agreement no party shall sell, encumber, transfer or make other
6 disposition of its interest in the Oil and Gas Leases and Oil and Gas Interests embraced within the Contract Area or in wells,
7 equipment and production unless such disposition covers either:~~

~~8 1 the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or~~

~~9 2 an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells,
10 equipment and production in the Contract Area See Article XVII.L.~~

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

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

28 E. Waiver of Rights to Partition:

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

32 F. Preferential Right to Purchases

33 (Optional; Check if applicable.)

~~34 Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract
35 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which
36 shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase
37 price, a legal description sufficient to identify the property, and all other terms of the offer. The other parties shall then have an
38 optional prior right, for a period of ten (10) days after the notice is delivered, to purchase for the stated consideration on the
39 same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the
40 purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all
41 purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage
42 its interests, or to transfer title to its interests to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests,
43 or to dispose of its interests by merger, reorganization, consolidation, or by sale of all or substantially all of its Oil and Gas assets
44 to any party, or by transfer of its interests to a subsidiary or parent company or to a subsidiary of a parent company, or to any
45 company in which such party owns a majority of the stock.~~

46 ARTICLE IX.

47 INTERNAL REVENUE CODE ELECTION

48 If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the
49 parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each
50 party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle
51 "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and
52 the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected
53 such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal
54 Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by
55 Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this
56 election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal
57 Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action
58 inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
59 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter
60 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party
61 hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each
62 such party states that the income derived by such party from operations hereunder can be adequately determined without the
63 computation of partnership taxable income.

64 ARTICLE X.

65 CLAIMS AND LAWSUITS

66 Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure
67 does not exceed Twenty-five Thousand and no/100 Dollars (\$25,000.00) and if the payment is in complete settlement
68 of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over
69 the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling,
70 or otherwise discharging such claim or suit shall be a the joint expense of the parties participating in the operation from which the
71 claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations
72 hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall
73 immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

74

ARTICLE XI.
FORCE MAJEURE

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

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

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law.

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

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or

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

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

11 **ARTICLE XV.**
12 **MISCELLANEOUS**

13 **A. Execution:**

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

29 **B. Successors and Assigns:**

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

33 **C. Counterparts:**

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

36 **D. Severability:**

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

40 **ARTICLE XVI.**
41 **OTHER PROVISIONS**

42
43 *See, pages 17a and 17b.*
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74

**ARTICLE XVI
OTHER PROVISIONS**

A. Compliance with Laws and Accuracy of Records:

1 Operator agrees to comply with all laws and lawful regulations applicable to any activities carried out in the name of or on behalf
2 of any one or more of the parties to this agreement under the provisions of this agreement and/or any amendments to it

3
4 2 Operator agrees that all financial settlements, billings, and reports rendered to any one or more of the parties to this agreement, as
5 provided for in this agreement and/or any amendments to it, will, to the best of its knowledge and belief, reflect properly the facts about all
6 activities and transactions handled for the account of such party or parties, which data may be relied upon as being complete and accurate
7 in any further recording and reporting made by such party or parties for whatever purpose.

8 3. Operator agrees to notify the other parties to this agreement promptly upon discovery of any instance where the Operator fails to
9 comply with the provision (1) above or where Operator has reason to believe data covered by (2) above is no longer accurate and complete

B. Subsequently Created Interests – Additional Provision:

10
11 Notwithstanding anything contained herein to the contrary, it is expressly understood and agreed that nothing contained herein shall be
12 deemed to i) impair the rights of any owner of any interest in production from the Contract Area that is in effect as of the date hereof, or
13 ii) require any party to bear or pay any royalty, overriding royalty, production payment or other burden on production that burdens the
14 interest of another party hereto

C. Subsequent Operations

15
16
17 For the purpose of Articles VI B.1 and VI B 2, Operator may commence activities preliminary to actual drilling operations,
18 including without limitation building location, roads and pits, delivering materials and equipment to the well site, rigging up a drilling rig,
19 and/or actual drilling operations at any time either before or after giving the notice of proposed operations required by said Articles
20 Notwithstanding the foregoing, the parties receiving notice of proposed operations pursuant to Articles VI.B.1 and VI B 2 shall have the
21 full time allowed in which to make their elections(s) and shall be subject to the non-consent provisions thereof to the same extent and in
22 the same manner as provided in said Article VI.B. without reference to the time that such activities were commenced relative to giving
23 notice Nothing in this provision shall serve to extend the time within which Operator is required to commence operations pursuant to
24 Articles VI.B.1 and VI.B.2.

D. Notice of Lien and Mortgage - Financing Statement:

25
26
27 Each party to this agreement ratifies and agrees to execute a "Notice of Lien and Mortgage --Financing Statement" in the form
28 attached hereto as Exhibit "H" simultaneously with their execution of this agreement. Each party further authorizes the Operator to file
29 such instrument in the appropriate records of the county or counties where the contract lands are located and in the Uniform Commercial
30 Code records of the appropriate Secretary of State's office and/or such other records as may be required under applicable state law to fully
31 perfect the security interests created herein.

E. Parties Right to Farmout:

32
33
34 Notwithstanding anything contained herein to the contrary, it is expressly understood and agreed that the provisions hereof shall not
35 preclude a party from entering into a farmout, or similar arrangement, covering all or any portion of its interest in the Contract Area as to
36 some or all of the depths therein, provided that, in the event that there are any wells located on the Contract Area that are capable of
37 producing oil and/or gas, such farmout or other agreement shall cover either all or none of the depths in which such wells are completed It is
38 expressly understood and agreed that no assignment made under a farmout or similar arrangement entered into by a party pursuant to the terms
39 hereof shall enlarge the obligations or diminish the rights of the other parties hereto, and that the party making such assignment and its assignee
40 shall jointly protect, indemnify and hold harmless the other parties from any expenses or damages caused by such enlargement of burdens or
41 diminishment of rights.

F. Conflict Between AFE and COPAS

42
43
44 If any costs listed in approved AFE conflict with the provisions of Exhibit "C", the provisions of Exhibit "C" shall prevail unless such
45 AFE, when submitted for approval, clearly and fully disclosed that such costs were an exception to, or in conflict with, Exhibit "C"

G. Bankruptcy.

46
47
48 If, following the granting of relief under the Bankruptcy Code to any party hereto as debtor thereunder, this Agreement should be held to be an
49 executory contract within the meaning of 11 U.S.C. 365, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party, shall be
50 entitled to a determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the
51 Bankruptcy Code as to the rejection or assumption of this Operating Agreement In the event of an assumption, Operator or said other party shall
52 be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties

H. Security:

53
54
55 The lien and security granted by each Non-Operator to Operator and by Operator to the Non-Operators under Article VII.B shall extend not only to
56 such party's oil and gas rights in the Contract Area (which for greater certainty shall include all of each party's leasehold interest and leasehold
57 estate in the Contract Area), the oil and or gas when extracted and equipment (as mentioned in said Article) but also to all accounts, contract rights,
58 inventory and general intangibles constituting a part of, relating to or arising out of said oil and gas rights, extracted oil and gas and said equipment
59 or which are otherwise owned or held by such party in the Contract Area. Further, the lien and security interest of each of said parties shall extend
60 to all proceeds and products of all of the property and collateral described in this paragraph and the Joint Operating Agreement as being subject to
61 said lien and security interest Any party, to the extent it deems necessary to perfect the lien and security interest provided herein, may file this
62 Operating Agreement (or a memorandum of this Operating Agreement or other notice of lien) as a lien or mortgage in the applicable real estate
63 records and as a financing statement with the proper officer under the Uniform Commercial Code. Further, each party agrees on request of any
64 other party, to execute an appropriate financing statement, continuation statement or memorandum of this Operating Agreement necessary in order
65 to perfect the security interest and lien hereby granted under the applicable Uniform Commercial Code or state recording law.

I. Rights Suspended:

66
67
68 If a lien conferred in Article VII.B has been enforced, for so long as the affected party remains in default it shall have no further access to
69 the Contract Area and shall not be entitled to vote on any matter hereunder.

1 **J. Payment Defaults:**

2 Notwithstanding, and in addition to, Article VII., Item B second paragraph, it is understood and agreed that if any party fails and/or is unable to pay
3 its share of expense within ninety (90) days after receipt of a statement therefor by Operator, the non-defaulting parties, including Operator, shall
4 individually and collectively have the option, after written Notice of Default to the defaulting party, to pay amounts that are not in dispute in the
5 proportion that the interest of each such party bears to the interest of all such parties, and acquire the defaulting party's interest to the extent
6 attributable to amounts not in dispute, except that the defaulting party shall have thirty (30) days after receipt of "Notice of Default" in which to pay
7 such undisputed amounts in full including interest. An interest penalty shall be assessed to undisputed amounts due as provided for in Paragraph 3,
8 Article I, Exhibit "C" (COPAS Accounting Procedure), attached hereto. In addition to the undisputed amount due and the interest penalty
9 associated therewith, Operator shall be entitled to receive from the defaulting parties' reasonable attorney fees and associated costs of filing the lien
10 and collection from the defaulting party
11

12 **K. Elections as to Priority of Operations:**

13 Anything hereinabove to the contrary notwithstanding, the election to test and complete shall take precedence over an election to deepen or
14 sidetrack, an election to deepen shall take precedence over an election to sidetrack and an election to sidetrack shall take precedence over an
15 election to plug and abandon. No well producing in paying quantities shall be reworked or deepened without the consent of 100% of working
16 interest ownership calculated by percentage of ownership and not by number of parties.
17

18 **L. Maintenance of Uniform Interest:**

19 In the event any party hereto creates a necessity for separate measurement facilities by virtue of any encumbrance or conveyance, the assignee shall
20 alone bear the cost of acquisition, operation, maintenance and repair of such facility.
21

22 **M. Multiple Well Proposals:**

23 Notwithstanding, and in addition to Article VI.B.1 and Article VI B 2, it is understood and agreed that if multiple wells are to be drilled from a
24 common pad, if such wells are proposed at the same time, and if such wells are to be drilled consecutively and without interruption, each party will
25 make a single election to participate or go non-consent as to all wells up to a maximum of 9 wells on 10-acre density or 7 wells on 20-acre density,
26 and that, notwithstanding the foregoing, if a party elects to go non-consent in a group of wells drilled under the terms hereof, the payout with regard
27 to each well shall be determined on a well-by-well basis.
28

29 **N. Replacement of Previous Agreements**

30 It is expressly understood and agreed that this agreement shall replace and supersede any previous operating agreements entered into by any of the
31 parties in relation to any of the lands within the contract area, including but not limited to any A.A.P.L Model Form Operating Agreements or Unit
32 Operating Agreements.
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74

1 IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of April,
2
3 2010.

4
5 _____, who has prepared and circulated this form for execution, represents and warrants
6 that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form
7 Operating Agreement, as published in computerized form by Forms On A Disk, Inc. No changes, alterations, or
8 modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in
9 Articles _____, have been made to the form.
10

11
12 ATTEST OR WITNESS:

OPERATOR

13
14 Williams Production Ryan Gulch, LLC

15
16 _____ By _____

17
18 Joseph P. Barrett

19 Type or print name

20
21 Title Attorney-In-Fact

22
23 Date _____

24
25 Tax ID or S.S. No. _____

26
27
28 NON-OPERATORS

29
30 Oxy USA WTP, LP

31
32 _____ By _____

33
34 _____
35 Type or print name

36
37 Title _____

38
39 Date _____

40
41 Tax ID or S.S. No. _____

42
43
44 Vantage Energy Piceance, LLC

45
46 _____ By _____

47
48 _____
49 Type or print name

50
51 Title _____

52
53 Date _____

54
55 Tax ID or S.S. No. _____

56
57
58 John O. Whitney

59
60 _____ By _____

61
62 _____
63 Type or print name

64
65 Title _____

66
67 Date _____

68
69 Tax ID or S.S. No. _____

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74

Exhibit D-1
Cause 527, Docket No. 1009-UP-54

3057-Williams Production RMT Co. AFE # (WT25151-62263346) Complete												
Well Name: FEDERAL RG 531-16-397				Well#: 62263346				Field: SULPHUR CREEK				
Location: NWN 16-35-97W				County: RIO BLANCO				State: CO				
BHL: 1331 FNL, 2018' FEL SWNE SEC 16 T3S R97W				SHL: 1276' FNL, 1467' FEL NWNE SEC 16 T3S R97W								
Formation: MESAVERDE				Total Depth: 12360.0				Days:				
Effective Date: 08/10/2010				Type Code: Development				Desc: Drilling and Completion AFE				
Budget No: 1081946-2010				OGRE ID:				Pad Name: RG 31-16-597				
Operator: WILLIAMS PRODUCTION RMT CO				Asset Group: PICEANCE-HIGHLANDS				Proj Manager: Hamison, Alan				
AFE Desc: Drill, complete, and equip as a commercial gas well to develop acreage												
8500 8600 Tangible												
Tubular Goods												
DRL	CMP	Line Item	Feet	Size	WT	Grade	Conn	S/I	DRILL	COMP	TOTAL	
8750		TDC-CONDUCTOR/DRIVE PIPE							16000	0	16000	
8889		SURFACE CASING							93400	0	93400	
8918		TDC-WELLHEAD EQUIPMENT (DRILLING)							5000	0	5000	
	8739	TCC-PRODUCTION CASING							0	166200	166200	
	8902	TUBING & ACCESSORIES							0	74600	74600	
Other Equipment												
	8782	FLOW LINES/PIPELINE TIE IN							0	47100	47100	
	8856	PRODUCTION EQUIPMENT							0	75700	75700	
	8893	TCC-PRODUCTION STORAGE TANKS							0	71200	71200	
	8918	WELLHEAD EQUIPMENT							0	35500	35500	
Total Tangible Costs									114400	470300	584700	
8300 8400 Intangible												
Drilling Costs												
DRL	CMP	Line Item							DRILL	COMP	TOTAL	
8212		FUEL & LUBRICANTS							110700	0	110700	
8740		RIG MOBIL/DEMOMOBILZATN							125900	0	125900	
8758		IDC-DRILL FLUIDS CHEMICALS							114700	0	114700	
8760		RIG DAYWORK							423200	0	423200	
8781		FLOAT EQUIP TOOLS							10000	0	10000	
8899		TITLE OPIN-ABSTRACT							1000	0	1000	
	8781	ICC-CENTRALIZERS & FLOAT EQUIP							0	10000	10000	
Cementing												
8400		IDC-SURFACE CEMENTING (MATERIALS)							30000	0	30000	
8891		IDC-SURFACE CEMENTING (SERVICE)							30000	0	30000	
	8401	ICC-PRODUCTION CASING CEMENTING							0	40000	40000	
	8857	ICC-PRODUCTION CASING CEMENTING							0	30000	30000	
Formation Treatment												
8171		IDC-OIL, LUBRICANTS & ADDITIVES							3000	0	3000	
	8402	ICC-STIMULATION MATERIALS (MATERIALS)							0	245600	245600	
	8403	ICC-FRAC WATER (MATERIALS)							0	35900	35900	
	8708	STIMULATION SVCS & MATERIAL							0	251300	251300	
	8733	CASED HOLE LOGGING							0	12500	12500	
	8735	COMPLETION RIG							0	39000	39000	
	8738	PERFORATING							0	143600	143600	
	8787	FRAC WATER/COMPLETION							0	69600	69600	
Special Services												
8473		IDC-CONTRACT ENGINEERING							2000	0	2000	
8743		IDC-WELLHEAD SERVICES (DRILLING)							1000	0	1000	
8757		DIRECTIONAL EQUIP							176000	0	176000	
8774		IDC-FACILITIES LABOR (DRILLING)							7900	0	7900	
8837		MUD LOGGING							16900	0	16900	
8842		OPEN HOLE LOGGING							34400	0	34400	
8886		IDC-SPECIAL SERVICES							4000	0	4000	
8913		WELDING SERVICES							10000	0	10000	
	8743	ICC-WELLHEAD SERVICES (COMPLETION)							0	3700	3700	
	8870	ICC-TANK RENTAL (COMPLETION)							0	36400	36400	
Materials												
8216		IDC - MISCELLANEOUS SUPPLIES							20000	0	20000	
8732		IDC - BITS							60000	0	60000	
8734		IDC - CASING CREWS & TOOLS							4000	0	4000	
8742		IDC - TRUCKING & HAULING							25000	0	25000	
8831		IDC - MISCELLANEOUS LABOR							9000	0	9000	
8868		IDC - EQUIP RENTAL DOWNHOLE							25200	0	25200	
8869		RENTAL EQUIPMENT - SURFACE							239200	0	239200	
	8216	ICC-OTHER MATERIALS & SUPPLIES							0	3000	3000	
	8734	ICC-CASING CREWS							0	9000	9000	
	8742	ICC-TRUCKING & HAULING (COMPLETION)							0	20400	20400	
	8846	PACKERS & PLUGS							0	31600	31600	
	8869	ICC-RENTAL EQUIP SURFACE (COMPLETIONS)							0	6300	6300	
Access Location and Cleanup												
8730		IDC - ACCESS/LOCATION CONSTRUC							122600	0	122600	
8791		PERMITS, SURVEY							32400	0	32400	
8875		IDC-ACCESS/LOC CONSTRUCTION MATERIAL							49800	0	49800	
8877		IDC-ROW & SURFACE DAMAGES MATERIALS							300	0	300	

8910	IDC - WATER & WATER HAULING	0	0	0
8911	WATER HAULING & DISPOSAL	40000	0	40000
8730	ICC-ACCESS & LOCATION (COMPLETION)	0	7000	7000
8772	ICC-ENVIRONMENTAL MITIGATION	0	29600	29600
8774	FACILITIES LABOR	0	144900	144900
8911	ICC-WATER HAULING & DISPOSAL	0	114600	114600
Contract Supervision/Contract Professional Services etc.				
8917	WELL SITE SUPERVISION	59700	0	59700
8917	ICC-WELLSITE SUPERVISION	0	39800	39800
Total Intangible Costs		1767900	4323800	3111700
Total Cost		1902300	1794100	3696400
Working Interest				
Working Interest Owners			Decimal	Cost Share
Williams Production RMT Co.			0.85156250	3147716
OXY USA WTP, LP			0.12500000	462050
Vantage Energy Piceance, LLC			0.02343750	86634
Totals			1.00000000	3696400
Approvers				
Date:	06/10/2010	Prepared By:	Annie Smith	
Date:	06/22/2010	Approved By:	Alan Hamson	
Date:		Partners Approval:		
Estimated costs only - Each participating Owner to pay proportionate share of Actual Well Costs				

Exhibit D-2
Cause No. 527, Docket No. 1009-UP-54

3057-Williams Production RMT Co. AFE # (WT25152-62263344) Complete												
Well Name: FEDERAL RG 41-16-397				Well#: 62263344				Field: SULPHUR CREEK				
Location: NWNE 16 3S-97W				County: RIO BLANCO				State: CO				
BHL: 755' FNL, 650' FEL NENE SEC 16 3S-97W				SHL: 1263' FNL, 1459' FEL NWNE SEC 16 3S-97W								
Formation: MESAVERDE				Total Depth: 12238.0				Days:				
Effective Date: 06/11/2010				Type Code: Development				Desc: Drilling and Completion AFE				
Budget No: 1081946-2010				OGRE ID:				Pad Name: RG 31-16-597				
Operator: WILLIAMS PRODUCTION RMT CO				Asset Group: PICEANCE-HIGHLANDS				Proj Manager: Harrison, Alan				
AFE Desc: Drill, complete, and equip as a commercial gas well to develop acreage												
8500 8600 Tangible												
Tubular Goods												
DRL	CMP	Line Item	Feet	Size	Wt.	Grade	Conn	S/EI	DRILL	COMP	TOTAL	
8750		IDC-CONDUCTOR/DRIVE PIPE							16000	0	16000	
8889		SURFACE CASING							93400	0	93400	
8918		IDC-WELLHEAD EQUIPMENT (DRILLING)							5000	0	5000	
8739		TCC-PRODUCTION CASING							0	166200	166200	
8902		TUBING & ACCESSORIES							0	74600	74600	
Other Equipment												
8782		FLOW LINES/PIPELINE TIE IN							0	47100	47100	
8856		PRODUCTION EQUIPMENT							0	75700	75700	
8893		TCC-PRODUCTION STORAGE TANKS							0	71200	71200	
8918		WELLHEAD EQUIPMENT							0	35500	35500	
Total Tangible Costs									114400	470300	584700	
8300 8400 Intangible												
Drilling Costs												
DRL	CMP	Line Item							DRILL	COMP	TOTAL	
8212		FUEL & LUBRICANTS							110700	0	110700	
8740		RIG MOBIL/DEMOBILZATN							125900	0	125900	
8758		IDC-DRILL FLUIDS/CHEMICALS							114700	0	114700	
8760		RIG DAYWORK							423200	0	423200	
8781		FLOAT EQUIP, TOOLS							10000	0	10000	
8899		TITLE OPIN-ABSTRACT							1000	0	1000	
8781		ICC-CENTRALIZERS & FLOAT EQUIP							0	10000	10000	
Cementing												
8400		IDC-SURFACE CEMENTING (MATERIALS)							30000	0	30000	
8891		IDC-SURFACE CEMENTING (SERVICE)							30000	0	30000	
8401		ICC-PRODUCTION CASING CEMENTING							0	40000	40000	
8857		ICC-PRODUCTION CASING CEMENTING							0	30000	30000	
Formation Treatment												
8171		IDC-OIL, LUBRICANTS & ADDITIVES							3000	0	3000	
8402		ICC-STIMULATION MATERIALS (MATERIALS)							0	245600	245600	
8403		ICC-FRAC WATER (MATERIALS)							0	35900	35900	
8708		STIMULATION SVCS & MATERIAL							0	251300	251300	
8733		CASED HOLE LOGGING							0	12500	12500	
8735		COMPLETION RIG							0	39000	39000	
8738		PERFORATING							0	143600	143600	
8787		FRAC WATER/COMPLETION							0	69600	69600	
Special Services												
8473		IDC-CONTRACT ENGINEERING							2000	0	2000	
8743		IDC-WELLHEAD SERVICES (DRILLING)							1000	0	1000	
8757		DIRECTIONAL EQUIP							176000	0	176000	
8774		IDC-FACILITIES LABOR (DRILLING)							7900	0	7900	
8837		MUD LOGGING							16900	0	16900	
8842		OPEN HOLE LOGGING							34400	0	34400	
8886		IDC-SPECIAL SERVICES							4000	0	4000	
8913		WELDING SERVICES							10000	0	10000	
8743		ICC-WELLHEAD SERVICES (COMPLETION)							0	3700	3700	
8870		ICC-TANK RENTAL (COMPLETION)							0	36400	36400	
Materials												
8216		IDC - MISCELLANEOUS SUPPLIES							20000	0	20000	
8732		IDC - BITS							60000	0	60000	
8734		IDC - CASING CREWS & TOOLS							4000	0	4000	
8742		IDC - TRUCKING & HAULING							25000	0	25000	
8831		IDC - MISCELLANEOUS LABOR							9000	0	9000	
8868		IDC - EQUIP RENTAL DOWNHOLE							25200	0	25200	
8869		RENTAL EQUIPMENT - SURFACE							239200	0	239200	
8216		ICC-OTHER MATERIALS & SUPPLIES							0	3000	3000	
8734		ICC-CASING CREWS							0	9000	9000	
8742		ICC-TRUCKING & HAULING (COMPLETION)							0	20400	20400	
8846		PACKERS & PLUGS							0	31600	31600	
8869		ICC-RENTAL EQUIP SURFACE (COMPLETIONS)							0	6300	6300	
Access Location and Cleanup												
8730		IDC - ACCESS/LOCATION CONSTRUC							122600	0	122600	
8791		PERMITS, SURVEY							32400	0	32400	
8875		IDC-ACCESS/LOC CONSTRUCTION MATERIAL							49800	0	49800	
8877		IDC-ROW & SURFACE DAMAGES MATERIALS							300	0	300	

8910	IDC - WATER & WATER HAULING	0	0	0
8911	WATER HAULING & DISPOSAL	40000	0	40000
8730	ICC-ACCESS & LOCATION (COMPLETION)	0	7000	7000
8772	ICC-ENVIRONMENTAL MITIGATION	0	29600	29600
8774	FACILITIES LABOR	0	144900	144900
8911	ICC-WATER HAULING & DISPOSAL	0	114600	114600
Contract Supervision/Contract Professional Services etc.				
8917	WELL SITE SUPERVISION	59700	0	59700
8917	ICC-WELLSITE SUPERVISION	0	39800	39800
Total Intangible Costs		1787900	1323800	3111700
Total Cost		1902300	1794100	3696400
Working Interest				
Working Interest Owner			Decimal	Cost Share
Williams Production RMT Co.			0.85156250	3147716
Vantage Energy, LP			0.02343750	86634
OXY USA WTP, LP			0.12500000	462050
Totals			1.00000000	3696400
Approvers				
Date:	06/11/2010	Prepared By:	Annie Smith	
Date:	08/22/2010	Approved By:	Alan Hamson	
Date:		Partners Approval:		
Estimated costs only - Each participating Owner to pay proportionate share of Actual Well Costs				