

KANSAS CORPORATION COMMISSION  
OIL & GAS CONSERVATION DIVISION

Form T-1  
July 2014

Form must be Typed  
Form must be Signed  
All blanks must be Filled

**REQUEST FOR CHANGE OF OPERATOR  
TRANSFER OF INJECTION OR SURFACE PIT PERMIT**

Form KSONA-1, Certification of Compliance with the Kansas Surface Owner Notification Act,  
MUST be submitted with this form.

Check Applicable Boxes:

- Oil Lease: No. of Oil Wells \_\_\_\_\_ \*\*
- Gas Lease: No. of Gas Wells \_\_\_\_\_ \*\*
- Gas Gathering System: \_\_\_\_\_
- Saltwater Disposal Well - Permit No.: \_\_\_\_\_  
Spot Location: \_\_\_\_\_ feet from  N /  S Line  
\_\_\_\_\_ feet from  E /  W Line
- Enhanced Recovery Project Permit No.: \_\_\_\_\_  
Entire Project:  Yes  No  
Number of Injection Wells \_\_\_\_\_ \*\*

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

**\*\* Side Two Must Be Completed.**

Effective Date of Transfer: \_\_\_\_\_

KS Dept of Revenue Lease No.: \_\_\_\_\_

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

\_\_\_\_\_ Sec. \_\_\_\_\_ Twp. \_\_\_\_\_ R. \_\_\_\_\_  E  W

Legal Description of Lease: \_\_\_\_\_

County: \_\_\_\_\_

Production Zone(s): \_\_\_\_\_

Injection Zone(s): \_\_\_\_\_

Surface Pit Permit No.: \_\_\_\_\_  
(API No. if Drill Pit, WO or Haul)

\_\_\_\_\_ feet from  N /  S Line of Section

\_\_\_\_\_ feet from  E /  W Line of Section

Type of Pit:  Emergency  Burn  Settling  Haul-Off  Workover  Drilling

Past Operator's License No. \_\_\_\_\_

Contact Person: \_\_\_\_\_

Past Operator's Name & Address: \_\_\_\_\_

Phone: \_\_\_\_\_

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

Signature: \_\_\_\_\_

New Operator's License No. \_\_\_\_\_

Contact Person: \_\_\_\_\_

New Operator's Name & Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Oil / Gas Purchaser: \_\_\_\_\_

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

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

Signature: \_\_\_\_\_

**Acknowledgment of Transfer:** The above request for transfer of injection authorization, surface pit permit # \_\_\_\_\_ has been noted, approved and duly recorded in the records of the Kansas Corporation Commission. This acknowledgment of transfer pertains to Kansas Corporation Commission records only and does not convey any ownership interest in the above injection well(s) or pit permit.

\_\_\_\_\_ is acknowledged as  
the new operator and may continue to inject fluids as authorized by  
Permit No.: \_\_\_\_\_ . Recommended action: \_\_\_\_\_

Date: \_\_\_\_\_  
Authorized Signature

\_\_\_\_\_ is acknowledged as  
the new operator of the above named lease containing the surface pit  
permitted by No.: \_\_\_\_\_ .

Date: \_\_\_\_\_  
Authorized Signature

DISTRICT \_\_\_\_\_ EPR \_\_\_\_\_ PRODUCTION \_\_\_\_\_ UIC \_\_\_\_\_



KANSAS CORPORATION COMMISSION  
OIL & GAS CONSERVATION DIVISION

Form KSONA-1

July 2014

Form Must Be Typed

Form must be Signed

All blanks must be Filled

**CERTIFICATION OF COMPLIANCE WITH THE  
KANSAS SURFACE OWNER NOTIFICATION ACT**

*This form must be submitted with all Forms C-1 (Notice of Intent to Drill); CB-1 (Cathodic Protection Borehole Intent); T-1 (Request for Change of Operator Transfer of Injection or Surface Pit Permit); and CP-1 (Well Plugging Application). Any such form submitted without an accompanying Form KSONA-1 will be returned.*

Select the corresponding form being filed:  C-1 (Intent)  CB-1 (Cathodic Protection Borehole Intent)  T-1 (Transfer)  CP-1 (Plugging Application)

OPERATOR: License # \_\_\_\_\_

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

Address 1: \_\_\_\_\_

Address 2: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_ + \_\_\_\_\_

Contact Person: \_\_\_\_\_

Phone: ( \_\_\_\_\_ ) \_\_\_\_\_ Fax: ( \_\_\_\_\_ ) \_\_\_\_\_

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

Well Location:

\_\_\_\_ - \_\_\_\_ - \_\_\_\_ - \_\_\_\_ Sec. \_\_\_\_ Twp. \_\_\_\_ S. R. \_\_\_\_  East  West

County: \_\_\_\_\_

Lease Name: \_\_\_\_\_ Well #: \_\_\_\_\_

*If filing a Form T-1 for multiple wells on a lease, enter the legal description of the lease below:*

**Surface Owner Information:**

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

Address 1: \_\_\_\_\_

Address 2: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_ + \_\_\_\_\_

*When filing a Form T-1 involving multiple surface owners, attach an additional sheet listing all of the information to the left for each surface owner. Surface owner information can be found in the records of the register of deeds for the county, and in the real estate property tax records of the county treasurer.*

*If this form is being submitted with a Form C-1 (Intent) or CB-1 (Cathodic Protection Borehole Intent), you must supply the surface owners and the KCC with a plat showing the predicted locations of lease roads, tank batteries, pipelines, and electrical lines. The locations shown on the plat are preliminary non-binding estimates. The locations may be entered on the Form C-1 plat, Form CB-1 plat, or a separate plat may be submitted.*

**Select one of the following:**

- I certify that, pursuant to the Kansas Surface Owner Notice Act (House Bill 2032), I have provided the following to the surface owner(s) of the land upon which the subject well is or will be located: 1) a copy of the Form C-1, Form CB-1, Form T-1, or Form CP-1 that I am filing in connection with this form; 2) if the form being filed is a Form C-1 or Form CB-1, the plat(s) required by this form; and 3) my operator name, address, phone number, fax, and email address.
- I have not provided this information to the surface owner(s). I acknowledge that, because I have not provided this information, the KCC will be required to send this information to the surface owner(s). To mitigate the additional cost of the KCC performing this task, I acknowledge that I must provide the name and address of the surface owner by filling out the top section of this form and that I am being charged a \$30.00 handling fee, payable to the KCC, which is enclosed with this form.

*If choosing the second option, submit payment of the \$30.00 handling fee with this form. If the fee is not received with this form, the KSONA-1 form and the associated Form C-1, Form CB-1, Form T-1, or Form CP-1 will be returned.*

I hereby certify that the statements made herein are true and correct to the best of my knowledge and belief.

Date: \_\_\_\_\_ Signature of Operator or Agent: \_\_\_\_\_ Title: \_\_\_\_\_



State of Kansas, Montgomery County  
 This instrument was filed for  
 Record on May 10, 2018 11:10 AM  
 Recorded in Book 670 Page 1059- 1063  
 Fee: \$89.00 201801455



*Marilyn Calhoun*  
 Marilyn Calhoun, Register of Deeds

ASSIGNMENT OF OIL AND GAS LEASES

STATE OF KANSAS )  
 ) SS  
 COUNTY OF MONTGOMERY )

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned, Biller Holdings, LLC, a Kansas Limited Liability Company, hereinafter called ASSIGNOR (whether one or more), for and in consideration of One Dollar (\$1.00) and other good and valuable consideration, the receipt whereof is hereby acknowledged, does hereby sell, assign, transfer and set over unto Running J Resources, LLC, a Kansas Limited Liability Company, and E6 Resources, LLC, a Texas Limited Liability Company, hereinafter called ASSIGNEES, all of the working interest, and a .80000 net revenue interest, such interest being assigned one-half (1/2) each to the ASSIGNEES, subject to the reserved Overriding Royalty Interest hereafter set forth, in and to the Oil and Gas Leases described in Exhibit "A" attached hereto together with the rights incident thereto and the personal property thereon, appurtenant thereto, or used or obtained in connection therewith.

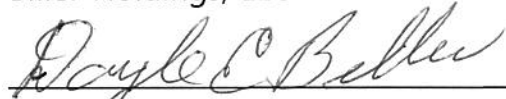
The Assignor herein hereby expressly excepts, reserves, and retains by this assignment title to a total of 7 1/2% of 8/8ths (a .07500 net revenue interest) of all oil, gas, and casinghead gas produced, saved, and marketed from lands subject to the oil and gas leases described in Exhibit "A" attached hereto, or any extensions or renewals thereof, as an overriding royalty, free and clear of any cost and expense of the development and operation thereof, excepting taxes applicable to said interest and the production therefrom.

And for the same consideration the ASSIGNOR covenants with the ASSIGNEES, their heirs, successors or assigns: That the ASSIGNOR is the lawful owner of and has good title to the interests above assigned in and to said leases, estates, rights and property, free and clear from all liens, encumbrances or adverse claims; That said leases are valid and subsisting leases on the lands described, and all rentals and royalties due thereunder have been paid and all conditions necessary to keep the same in full force have been duly performed.



Executed this 3<sup>rd</sup> day of May, 2018.

Biller Holdings, LLC



Doyle E. Biller, Manager

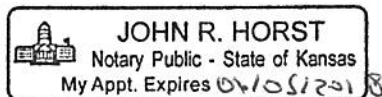
STATE OF KANSAS )  
 ) SS  
COUNTY OF MONTGOMERY )

This instrument was acknowledged before me this 3<sup>rd</sup> day of May, 2018 by Doyle E. Biller as Manager of Biller Holdings, LLC.



Notary Public

My Appointment Expires:



## EXHIBIT "A"

### OIL AND GAS LEASES:

#### WILSON LEASE

LESSOR: Robert L. Wilson and Ethyl L. Wilson, husband and wife  
LESSEE: Larry W. Brown  
DATE: 8/9/1985  
DESCRIPTION: Insofar as said lease covers the W/2 Sec. 29 and E/2 Sec. 30, all in T34S, R15E, Montgomery County, Kansas  
RECORDED: Book 101, Oil, Page 37  
INTEREST: The entire Working Interest, and a .80000 Net Revenue Interest

#### COOK A LEASE

LESSOR: Carl H. Cook and Marie E. Cook, husband and wife  
LESSEE: Larry W. Brown and Bonnie J. Brown, husband and wife  
DATE: 1/1/1987  
DESCRIPTION: NE/4 and N/2 SE/4 of Sec. 29, T34S, R15E, Montgomery County, Kansas  
RECORDED: Book 103, Oil, Page 324  
INTEREST: The entire Working Interest, and a .80000 Net Revenue Interest

#### SCOUT ROYALTY LEASE

LESSOR: Scout Royalty Corp.  
LESSEE: Biller Holdings, LLC  
DATE: 12/31/1995  
DESCRIPTION: NE/4 and N/2 SE/4 of Sec. 29, T34S, R15E, Montgomery County, Kansas  
RECORDED: Book 514, Records, Page 504  
INTEREST: The entire Working Interest, and a .80000 Net Revenue Interest

#### COOK EAST LEASE

LESSOR: Carl H. Cook, et. ux.  
LESSEE: Jay Robertson  
DATE: 7/24/1978  
DESCRIPTION: NW/4 and N/2 SW/4 of Sec. 28, T34S, R15E, Montgomery County, Kansas

RECORDED: Book 79, Oil, page 277  
INTEREST: The entire Working Interest, and a .80000 Net Revenue Interest

#### McCONNELL LEASES

Note: The McConnell North lease, McConnell East lease, McConnell Northeast lease, and the McConnell South lease have all been combined and merged by Lease Consolidation Agreement dated February 1, 2010, and recorded in Book 588, Records, Page 513.

#### McCONNELL NORTH LEASE

LESSOR: Lesta I. McConnell and Louis H. Michels, as Trustee of the Lesta I. McConnell Revocable Trust, dated October 19, 1983  
LESSEE: Larry W. Brown  
DATE: *November* 13, 1986  
DESCRIPTION: SW/4 of Sec. 17, T34S, R15E, Montgomery County, Kansas  
RECORDED: Book 109, Oil, Page 112  
INTEREST: The entire Working Interest, and a .80000 Net Revenue Interest

#### McCONNELL EAST LEASE

LESSOR: Lester E. McConnell, a single person  
LESSEE: Gator Oil Company  
DATE: April 20, 1978  
DESCRIPTION: NE/4 of Sec. 20, T34S, R15E, Montgomery County, Kansas  
RECORDED: Book 79, Oil, Page 74  
INTEREST: The entire Working Interest, and a .80000 Net Revenue Interest

#### McCONNELL NORTHEAST LEASE

LESSOR: Lester E. McConnell, a single person  
LESSEE: Gator Oil Company  
DATE: April 20, 1978  
DESCRIPTION: SE/4 of Sec. 17, except 6 rods by 80 rods off the North side of the NE/4 SE/4 SE/4 of Sec. 17, T34S, R15E; except school, and except one acre N and E of Creek, Montgomery County, Kansas  
RECORDED: Book 79, Oil, page 75  
INTEREST: The entire Working Interest, and a .80000 Net Revenue Interest

McCONNELL SOUTH LEASE

LESSOR: Lesta I. McConnell and Louis H. Michels, as Trustee of the Lesta I. McConnell Revocable Trust, dated October 19, 1983  
LESSEE: Larry W. Brown  
DATE: 7/1/1986  
DESCRIPTION: W/2 of Sec. 20, T34S, R15E, Montgomery County, Kansas  
RECORDED: Book 102, Oil, Page 420  
INTEREST: The entire Working Interest, and a .80000 Net Revenue Interest

VAVERKA LEASE

LESSOR: Ronnie L. Vaverka  
LESSEE: Biller Holdings, LLC  
DATE: November 10, 1999  
DESCRIPTION: The West 60 acres of the W/2 SE/4 of Sec. 8, and the NW/4 and the W/2 NE/4 and part of the NW/4 SE/4 beginning at the top of the E. Bank of Spring Creek on the North line of said tract running thence West crossing said Creek about 3 poles to a walnut tree on the West bank of said Creek, thence West 4 chains and 30 links to a stake, thence South to the top of the South Bank of said Creek, thence with the meanderings of said bank to the place of beginning, EXCEPT, beginning at the NE corner of the NW/4 of Section 17, T34S, R15E, thence West 400.00', thence South on an angle of 90°00' a distance of 395.0; thence East parallel with the land line 400.00' to the East line of the NW/4, thence continuing East along the same line a distance of 644.5', thence Northwesterly 407.1' to a point 546.0' East of the point of beginning, thence West 546.0' to the point of beginning, all in T34S, R15E, Montgomery County, Kansas  
RECORDED: Book 482, Records, Page 130  
INTEREST: The entire Working Interest, and a .80000 Net Revenue Interest

1  
2 **A.A.P.L. FORM 610 - 2015**  
3

4  
5 **MODEL FORM OPERATING AGREEMENT**  
6  
7  
8  
9

10  
11  
12 OPERATING AGREEMENT  
13

14 DATED

15 October 01, 2017  
16  
17  
18

19 OPERATOR: Streamline Energy, LLC

20 CONTRACT AREA: Montgomery County, Kansas  
21  
22

23 COUNTY OR PARISH OF Montgomery, STATE OF Kansas  
24  
25  
26

27 COPYRIGHT 2015 – ALL RIGHTS RESERVED  
28 AMERICAN ASSOCIATION OF PROFESSIONAL LANDMEN,  
29 800 FOURNIER STREET, FORT WORTH, TEXAS, 76102, APPROVED FORM.  
30  
31

32 A.A.P.L. NO. 610 – 2015  
33

34  
35  
36

## OPERATING AGREEMENT

37 THIS AGREEMENT, entered into by and between Streamline Energy, LLC, hereinafter designated and referred to as "Operator," and the  
38 signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-  
39 Operators."

40

### WITNESSETH:

41 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  
42 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  
43 to the extent and as hereinafter provided,

44 NOW, THEREFORE, it is agreed as follows:

### I. DEFINITIONS

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

46  
47 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  
48 incurred in conducting an operation hereunder. An AFE is not a contractual commitment. Rather it is only an estimate, made in good faith.

49 B. The term "Affiliate" shall mean for a person, another person that controls, is controlled by, or is under common control with that person.  
50 For purposes of this definition, "control" means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting  
51 securities of a corporation or, for other persons, the equivalent ownership interest (such as a partnership interest), and "person" means an  
52 individual, corporation, partnership, trust, estate, unincorporated organization, association, or legal entity.

53 C. Completion" or "Complete" shall mean a single operation intended to complete a well as a well capable of producing Oil or Gas in one or  
54 more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such  
55 operation.

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

58 E. 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  
59 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."

60 F. 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  
61 was previously drilled, or below the deepest Zone proposed in the associated AFE, whichever is the lesser. "Deepen" shall not refer or apply to an  
62 operation involving the Extension of a Lateral.

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

65 H. 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.  
66 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  
67 Contract Area unless fixed by express agreement of the Consenting Parties.

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

71 J. The term "Extension" or "Extend" shall mean an operation related to a Horizontal Well whereby a Lateral is drilled in the same Zone to a  
72 Displacement greater than (i) the Displacement contained in the proposal for such operation approved by the Consenting Parties, or (ii) the  
73 Displacement to which the Lateral was drilled pursuant to a previous proposal.

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

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

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

81 N. The term "Lateral" shall mean that portion of a wellbore of a Horizontal Well between the point at which the wellbore initially penetrates  
82 the objective Zone and the Terminus.

83 O. 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.

84 P. The term "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

87 R. 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  
88 the Contract Area which are owned by parties to this agreement.

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

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

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

96 V. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve  
97 production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation  
98 operations but exclude any Workover or drilling, Sidetracking, Deepening, Completing, ReCompleting, or Plugging Back of a well.

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

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

106 Y. The term "Terminus" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract  
107 Area, in the absence of which the term shall mean the furthest point drilled in the Lateral.

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

112 AA. The term "Vertical Well" shall mean a well drilled, Completed or ReCompleted other than a Horizontal Well.

113 BB. The term "Workover" shall mean routine maintenance and repair work performed on a well but does not include a Rework operation.

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

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

118 **[SCRIVENER'S INSTRUCTION: Be careful to check the applicable leases and state statute and/or regulation for possible conflicting**  
119 **definitions]**

120 **II. EXHIBITS**

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

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

123 (1) Description of lands subject to this agreement,

124 (2) Restrictions, if any, as to depths, formations, or substances,

125 (3) Parties to agreement with addresses and telephone numbers for notice purposes,

- 126 (4) Percentages or fractional interests of parties to this agreement,  
127 (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement.  
128 (6) Burdens on production.

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

130 C. Exhibit "C," Accounting Procedure.

131 D. Exhibit "D," Insurance.

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

### 134 III. INTERESTS OF PARTIES

#### 135 A. Oil and Gas Interests:

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

#### 139 B. Interests of Parties in Costs and Production:

140 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all  
141 equipment and materials acquired in operations conducted under this agreement shall be owned, by the parties as their interests are set forth in  
142 Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the Contract Area subject, however, to the  
143 payment of royalties and other burdens on production as described hereafter. Operator shall amend Exhibit "A," from time to time, in order to  
144 correct mistakes therein or to reflect changes in ownership within the Contract Area. Operator's duty to amend Exhibit "A" shall be subject to the  
145 following:

146 1. If such amendment is a correction of the initial Exhibit "A," it shall be effective, retroactively as of the effective date of this  
147 agreement. If such amendment reflects a change occurring after the effective date of this agreement, it shall be effective, retroactively, as  
148 of the effective date of such change. In either event, if the amendment changes the interests of any parties in the Contract Area, the  
149 accounts of the affected parties shall be thus adjusted.

150 2. If a proposed amendment to Exhibit "A" involves only one of the parties, Operator shall amend Exhibit "A," upon the written  
151 consent of such affected party.

152 3. If a proposed amendment to Exhibit "A" results in an increase or decrease in the percentage of ownership of one or more parties,  
153 Operator shall amend Exhibit "A" upon the written consent of all affected parties.

154 4. If any party affected by a proposed amendment to Exhibit "A" fails to give written consent to such amendment, Operator may  
155 nevertheless make such amendment, in order to conform Exhibit "A" to ownership as reflected in an opinion issued by a licensed attorney,  
156 who is neither an employee of a party that is affected by the amendment nor of any Affiliate of such party. Such amendment shall be  
157 binding upon the parties until and unless determined otherwise pursuant to Article III.B.6.

158 5. Whenever any amendment is made to Exhibit "A," Operator shall promptly furnish each party with a copy of the amended Exhibit  
159 "A," together with a copy of the attorney's opinion upon which such amendment is based, when applicable, irrespective of whether such  
160 party is affected by the amendment.

161 6. Any party who has not consented to an amendment to Exhibit "A," may pursue litigation as to the validity of the basis for  
162 the amendment in a court of competent jurisdiction, by joining all other affected parties as parties to such litigation. If such litigation  
163 results in a determination which is contrary to the amendment, Operator shall conform Exhibit "A" to such determination, retroactive to the  
164 effective date determined pursuant to Article III.B.1, and the accounts of the affected parties shall be thus adjusted.

165 Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may be  
166 payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered:

167 ~~Option No. 1: all burdens on its share of the production from the Contract Area up to, but not in excess of,~~  
168 ~~and shall indemnify, defend and hold the other parties free from any liability therefor. Except as otherwise expressly provided in this~~  
169 ~~agreement, if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production~~  
170 ~~payment or other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear~~  
171 ~~all such excess obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to~~  
172 ~~such excess burden.~~



173  Option No. 2: all burdens on its share of production from the Contract Area except Subsequently Created Interests of other parties to this  
174 agreement.

175 Notwithstanding anything set forth in this Article III.B above, as long as the Drilling Unit for the productive Zone(s) is identical with the  
176 Contract Area, each party shall pay or deliver, or cause to be paid or delivered, all burdens on production from the Contract Area due  
177 under the terms of the Oil and Gas Lease(s) which such party has contributed to this agreement, and shall indemnify, defend and hold  
178 the other parties free from any liability therefor.

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

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

#### 185 C. Subsequently Created Interests:

186 If any party has contributed hereto a Lease or Interest that is burdened with an assignment of production given as security for the payment of  
187 money, or if, after the date of this agreement, any party creates an overriding royalty, production payment, net profits interest, assignment of  
188 production or other burden payable out of production attributable to its working interest hereunder, such burden shall be deemed a "Subsequently  
189 Created Interest." Further, if any party has contributed hereto a Lease or Interest burdened with an overriding royalty, production payment, net  
190 profits interests, or other burden payable out of production created prior to the date of this agreement, and such burden is not shown on Exhibit  
191 "A," such burden also shall be deemed a Subsequently Created Interest; provided, however, that, if Option 1 of Article III.B is applicable, such  
192 burden shall be deemed a Subsequently Created Interest only to the extent such burden causes the burdens on such party's Lease or Interest to  
193 exceed the amount stipulated in said Option 1.

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

#### 202 IV. TITLES

##### 203 A. Title Examination:

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

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

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

##### 227 B. Loss or Failure of Title:

228 1. Failure of Title : A failure of title shall occur when an Oil and Gas Interest or Oil and Gas Lease contributed by a party is determined  
229 to be invalid as of the effective date of this agreement, or to cover a lesser interest or less lands (as to aerial extent or Zones) during the  
230 term of this agreement, unless such limitations are disclosed on Exhibit "A". Should any Oil and Gas Interest or Oil and Gas Lease be lost  
231 through failure of title, which results in a reduction of interest from that shown on Exhibit "A," the party credited with contributing the  
232 affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final  
233 determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be  
234 subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas Leases  
235 and Interests; and,

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

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

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

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

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

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

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

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

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

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

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

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

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

## 297 V. OPERATOR

### 298 A. Designation and Responsibilities of Operator:

299 Streamline Energy, LLC shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations conducted  
300 under this agreement as permitted and required by, and within the limits of this agreement. Operatorship is neither assignable nor forfeited except  
301 in accordance with the provisions of this Article V. In its performance of services hereunder for the Non-Operators, Operator shall be an  
302 independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in  
303 accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-  
304 Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party, except that Non-  
305 Operators hereby designate and appoint Operator as their agent and attorney-in-fact for the sole purpose of executing, filing for approval by a  
306 governmental agency as required under applicable law or regulation, and recording a declaration of pooling or communitization agreement to  
307 effectuate the pooling or communitization of the Oil and Gas Leases (to the extent legally allowed under their respective terms and conditions)  
308 and/or Oil and Gas Interests to conform with a spacing order of a governmental agency having jurisdiction over any portion of the Contract Area.  
309 However, said agency authority shall only be exercised by Operator after providing written notice including a copy of the proposed pooling  
310 declaration or communitization agreement to Non-Operators, and shall be binding upon any Non-Operator failing to provide to Operator a written  
311 objection within ten (10) days after receipt of such notice. Operator shall conduct its activities under this agreement as a reasonably prudent  
312 operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with  
313 applicable law and regulation. However, in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities  
314 incurred in connection with authorized or approved operations under this agreement except such as may result from gross negligence or willful  
315 misconduct.

316 The Operator shall own an interest in the Contract Area except as provided in this Article V.A and subject to the provisions of Article V.B.5. A  
317 non-owning operator may serve as Operator but, as a condition precedent to serving as Operator, the putative non-owning operator and the Non-  
318 Operators must enter into a separate agreement, or insert Article XVI provisions to this agreement, to govern the relationship between them.  
319 Unless such separate agreement or Article XVI provisions provide otherwise, said non-owning operator shall be bound by all terms and  
320 conditions of this agreement applicable to Operator. The failure of a non-owning operator and Non-Operators to enter into such a separate  
321 agreement or such Article XVI provisions shall disqualify said non-owning operator from serving as Operator, and a party owning an interest in  
322 the Contract Area must instead be designated as Operator.

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

324 1. Voluntary Resignation of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators.

325 2. Events Deemed Resignation of Operator: If, after the effective date of this agreement, Operator (i) terminates its legal existence, (ii)  
326 sells, transfers or has a loss of title to more than 60% of its interest in the Contract Area as shown on Exhibit "A," or (iii) is no longer  
327 capable of serving as Operator, then Operator shall be deemed to have resigned without any action by Non-Operators, except for the  
328 selection of a successor Operator. A change of a corporate name or type of business entity of Operator shall not be deemed resignation of  
329 Operator.

330 3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have resigned  
331 without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is filed  
332 by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall  
333 comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy  
334 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  
335 resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating  
336 committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on  
337 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  
338 committee controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a

339 member of the operating committee, and all actions shall require the approval of two (2) members of the operating committee without  
340 regard for their interest in the Contract Area based on Exhibit "A."

341 4. Removal of Operator: Except as provided in Article V.B.5., an Operator that has not voluntarily resigned and is not deemed to have  
342 resigned may be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as  
343 shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such vote shall not be effective until a written notice has  
344 been delivered to Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30)  
345 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  
346 of the notice. For purposes hereof, "good cause" shall include, but not be limited to Operator's (i) gross negligence or willful misconduct;  
347 (ii) the material breach of or inability to meet the standards of operation contained in Article V.A. or (iii) material failure or inability to  
348 perform its obligations or duties under this agreement.

349 5. Non-Owning Operator: Unless the parties have otherwise agreed, a non-owning Operator may be removed at any time, with or  
350 without cause, by the affirmative vote of parties owning a majority interest based on ownership as shown on Exhibit "A." Moreover, if  
351 good cause for removal of such non-owning Operator, as defined in Article V.B.4., exists, the non-owning Operator may be removed by the  
352 affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the  
353 voting interest of any non-operator who is an Affiliate of non-owning Operator following the procedure set out in Article V.B.4.

354 6. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a successor  
355 Operator shall be selected by the parties. The successor Operator shall be selected by the affirmative vote of one (1) or more parties owning a  
356 majority interest based on ownership as shown on Exhibit "A" including the vote(s) of the former Operator and/or any transferee(s) of the  
357 former Operator's interest, to the extent that they are owners within the contract area; provided, however, if an Operator which has been  
358 removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the  
359 affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding  
360 the voting interest of the Operator that was removed or resigned. In the event that such vote results in a tie, the candidate supported by the  
361 former Operator or the majority of its transferee(s), shall become the successor Operator. The former Operator shall promptly deliver to the  
362 successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are  
363 not already in the possession of the successor Operator. Any cost of obtaining or copying the former Operator's records and data shall be  
364 charged to the joint account.

365 7. Effective Date and Time of Resignation or Removal of Operator: In the event of the resignation or removal of Operator, pursuant to  
366 any of Articles V.B.1-B.5, such resignation or removal shall become effective on the earlier of:

367 (a) The time and date that a successor Operator has been selected pursuant to Article V.B.6, and assumes the duties of Operator; or

368 (b) 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  
369 of resignation by Operator, the event deemed to be Operator's resignation or action by the Non-Operators to remove Operator.

370 Thereafter, the former Operator shall be bound by the terms hereof as a Non-Operator to the extent it continues to be a party hereto.

### 371 C. Employees and Contractors:

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

### 375 D. Rights and Duties of Operator:

376 1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the  
377 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  
378 therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before  
379 drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary  
380 and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or materials  
381 supplied by an Affiliate of Operator shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance  
382 with customs and standards prevailing in the industry.

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

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



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

398 5. Access to Contract Area and Records:

399 (a) Except as otherwise provided herein, Operator shall permit each Consenting Party or its duly authorized representative, at the  
400 Consenting Party's sole risk and cost, full and free access at all reasonable times to all operations of every kind and character being  
401 conducted for the joint account under this agreement and to the records of operations conducted thereon or production therefrom,  
402 including Operator's books and records relating thereto. Such access rights shall not be exercised in a manner interfering with  
403 Operator's conduct of an operation hereunder and shall not obligate Operator to furnish any geologic or geophysical data of an  
404 interpretive nature unless the cost of preparation of such interpretive data was charged to the joint account. Operator will furnish to  
405 each Non-Operator upon request copies of any and all reports and information obtained by Operator in connection with production  
406 and related items, including, without limitation, meter and chart reports, production purchaser statements, run tickets and monthly  
407 gauge reports, but excluding purchase contracts and pricing information to the extent not applicable to the production of the Non-  
408 Operator seeking the information.

409 (b) With the exception of the information required to be furnished by Operator pursuant to Article V.D.5(c) or VI.B.2(d), a Non-  
410 Consenting Party is neither entitled by virtue of this agreement to, nor may compel Operator or any Consenting Party to provide,  
411 access to the well location and information and reports (or parts thereof) solely relating to such non-consented operation until the  
412 earlier of full recoupment by the Consenting Parties of the amounts provided for in Article VI.B.2(b)(i) or two (2) years following the  
413 date the non-consented operation was commenced. Thereafter, Operator shall promptly furnish such access, information and reports  
414 upon receipt of a written request from the Non-Consenting Party.

415 (c) Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures shall be conducted  
416 in accordance with the audit protocol specified in Exhibit "C" or other agreement of the parties. Except as provided in Article  
417 VII.D.1, prior to a payout, a Non-Consenting Party shall be entitled to review the joint account records pertaining to a non-consented  
418 operation to the extent necessary to conduct an audit of the payout account. Any such review shall be conducted in accordance with  
419 Exhibit "C" or other agreement of the parties.

420 6. Filing and Furnishing Governmental Reports: Operator will file, and upon written request promptly furnish copies to each requesting  
421 Non-Operator not in default of its payment obligations, all operational notices, reports or applications required to be filed by local, State,  
422 Federal or Indian agencies or authorities having jurisdiction over operations hereunder. All such filings shall be made in accordance with  
423 the provisions of this agreement. Each Non-Operator shall provide to Operator on a timely basis all information necessary to Operator to  
424 make such filings.

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

427 (a) Operator will use reasonable efforts to promptly advise Non-Operators of the date on which drilling operations are  
428 commenced.

429 (b) Subject to the provisions of Article V.B.5, Operator will send to the Consenting Parties such reports, test results and notices  
430 regarding the progress of operations on the well as the Consenting Parties shall reasonably request, including, but not limited to, daily  
431 drilling reports, completion reports, and well logs.

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

435 (d) For any Horizontal Well drilled under this agreement, Operator shall drill such well to the objective Zone(s) and drill the  
436 Lateral in the Zone(s) to the proposed Displacement unless drilling operations are terminated pursuant to Article VI.G or Operator  
437 deems further drilling is neither justified nor required.

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

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

445 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workers compensation law of  
446 the state where the operations are being conducted and to maintain such other insurance as Operator may require.

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

## 449 VI. DRILLING AND DEVELOPMENT

### 450 A. Initial Well:

451 ~~On or before \_\_\_\_\_, Operator shall commence the drilling of the Initial Well at the following location (if a Horizontal Well, surface and~~  
452 ~~Terminus/Termini of the Lateral(s)) and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to~~  
453 ~~The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1. as to participation in Completion~~  
454 ~~operations and Article VI.G. as to termination of operations and Article XI as to occurrence of force majeure.~~

### 455 B. Subsequent Operations:

456 1. Proposed Operations: If any party hereto should desire to drill any well under this agreement other than the Initial Well, or if any  
457 party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of producing in paying  
458 quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement, the party  
459 desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give a written proposal of the operation to the  
460 parties who have not otherwise relinquished their interest in such objective Zone under this agreement (and to all other parties in the case of a  
461 proposal for Sidetracking or Deepening as to a Vertical Well) specifying: (a) as relating to a Vertical Well, (1) that the proposed  
462 operation is a Vertical Well operation; (2) drilling and Completion plans specifying the proposed: (i) depth, (ii) surface and, if deviated,  
463 bottom hole locations, (iii) objective Zone, (iv) utilization and scheduling of rig(s) (drilling and Completion), and (v) stimulation  
464 operations, staging and sizing; and (3) estimated drilling and Completion costs as set forth in an AFE; or (b) as relating to a Horizontal  
465 Well, (1) that the proposed operation is a Horizontal Well operation; (2) include drilling and Completion plans specifying the proposed: (i)  
466 Total Measured Depth(s), (ii) surface hole location(s), (iii) Terminus/Termini, (iv) Displacement(s), (v) utilization and scheduling of rig(s)  
467 (Spudder Rig, drilling and Completion), and (vi) stimulation operations, staging and sizing; and (3) estimated drilling and Completion costs  
468 as set forth in an AFE. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to  
469 notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on  
470 location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period  
471 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is  
472 delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed  
473 operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties  
474 within the time and in the manner provided in Article VI.B.6.

475  
476 If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be contractually committed  
477 to participate therein provided such operations are commenced within the time period hereafter set forth, and Operator shall, no later than  
478 ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight  
479 (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and thereafter complete  
480 it with due diligence at the risk and expense of the parties participating therein; provided, however, said commencement date may be  
481 extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion  
482 of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-  
483 of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. If  
484 the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein or  
485 in the force majeure provisions of Article XI) and if any party hereto still desires to conduct said operation, written notice proposing same  
486 must be resubmitted to the other parties in accordance herewith as if no prior proposal had been made. Those parties that did not  
487 participate in the drilling of a well for which a proposal to Deepen or Sidetrack is made hereunder shall, if such parties desire to participate  
488 in the proposed Deepening or Sidetracking operation,  
489 reimburse the Consenting Parties in accordance with Article VI.B.4. in the event of a Deepening operation and in accordance with Article  
490 VI.B.5. in the event of a Sidetracking operation.

### 491 2. Operations by Less Than All Parties:

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

503 and conditions of this agreement.  
504

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

522 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the  
523 Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties  
524 shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or  
525 arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and  
526 VI.F.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense;  
527 provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall  
528 remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface  
529 location insofar only as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled,  
530 Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of  
531 producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost  
532 and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it  
533 at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling,  
534 Reworking, Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the  
535 provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the  
536 Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's  
537 interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking, Deepening, Recompleting or  
538 Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-Consenting Party's interest in the  
539 production obtained from the operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be  
540 effective until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after  
541 deducting applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other interests not excepted  
542 by Article III.C. payable out of or measured by the production from such well accruing with respect to such interest until it reverts),  
543 shall equal the total of the following:

544 i. 300% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the  
545 wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment and piping), plus 100%  
546 of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and  
547 continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article,  
548 it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have  
549 been chargeable to such Non-Consenting Party had it participated in the proposed operation; and

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

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



563 (c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or Deepening of a well  
564 shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion  
565 thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties  
566 of the Non-Consenting Party's recoupment amount. Similarly, an election not to participate in the Completing or Recompleting of a  
567 well shall be deemed an election not to participate in any Reworking operation proposed in such a well, or portion thereof, to which  
568 the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-  
569 Consenting Party's recoupment amount. Any such Reworking, Recompleting or Plugging Back operation conducted during the  
570 recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by  
571 the Consenting Parties 300% of that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would  
572 have been chargeable to such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back  
573 operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said  
574 Consenting Parties in said well.

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

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

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

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

606 3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have been completed  
607 and the results thereof furnished to the parties, or when operations on the well have been otherwise terminated pursuant to Article VI.G.,  
608 stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting, Plugging  
609 Back, Completing or Extension operation in such a well (including the period required under Article VI.B.7. to resolve competing  
610 proposals) shall be charged and borne as part of the drilling or Deepening operation just completed. Stand-by costs subsequent to all  
611 parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating  
612 interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and  
613 borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by  
614 costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to  
615 the total interest as shown on Exhibit "A" of all Consenting Parties.

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



621 to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A"  
622 of all the electing parties.

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

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

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

641 (b) If the proposal is made for a Non-Consent Well that has been previously Completed as a well capable of producing  
642 in paying quantities, but is no longer capable of producing in paying quantities, such Non-Consenting Party shall pay (or reimburse  
643 Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, Completing, and equipping said well from  
644 the surface to the Initial Objective, calculated in the manner provided in paragraph (a) above, less those costs recouped by the  
645 Consenting Parties from the sale of production from the well. The Non-Consenting Party shall also pay its proportionate share of all  
646 costs of re-entering said well. The Non-Consenting Parties' proportionate part (based on the percentage of such well Non-Consenting  
647 Party would have owned had it previously participated in such Non-Consent Well) of the costs of salvable materials and equipment  
648 remaining in the hole and salvable surface equipment used in connection with such well shall be determined in accordance with  
649 Exhibit "C." If the Consenting Parties have recouped the cost of drilling, Completing, and equipping the well at the time such  
650 Deepening operation is conducted, then a Non-Consenting Party may participate in the Deepening of the well with no payment for  
651 costs incurred prior to re-entering the well for Deepening  
652

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

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

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

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

665 6. Extension: If, in the event that during actual drilling operations on the Lateral and prior to reaching the Displacement specified in an  
666 approved proposal for a Horizontal Well (the "Approved Displacement"), Operator desires an Extension of the Lateral more than  
667 250% (measured in feet) beyond the Approved Displacement, Operator shall give the Consenting Parties written notice of such intent to  
668 Extend, together with the estimated costs, not less than 24 hours before Operator estimates reaching the Approved Displacement. Unless at  
669 least 75% interest of the Consenting Parties provide written notice of their consent to the Extension within 48 hours of receipt of such  
670 notice, Operator shall not Extend the Lateral beyond the Approved Displacement and will proceed with Completion in accordance with the  
671 latest approved proposal and applicable terms and conditions of this agreement. Failure of a Consenting Party to respond to such notice  
672 shall be deemed a rejection. If 75% interest of the Consenting Parties or more consent, the Extension shall be deemed approved and  
673 binding upon all Consenting Parties.

674 7. Order of Preference of Operations: Except as otherwise specifically provided in this agreement, if any party desires to propose the  
675 conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such party shall have fifteen (15)  
676 days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform an operation on a well where no drilling rig  
677 is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, from delivery of the initial proposal, if a

678 drilling rig is on location for the well on which such operation is to be conducted, to deliver to all parties entitled to participate in the  
679 proposed operation such party's alternative proposal, such alternate proposal to contain the same information required to be included in the  
680 initial proposal. Each party receiving such proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the  
681 proposal period, or within twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the  
682 well that is the subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required  
683 shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage interest of the parties  
684 voting shall have priority over all other competing proposals; in the case of a tie vote, the initial proposal shall prevail. Operator shall  
685 deliver notice of such result to all parties entitled to participate in the operation within five (5) days after expiration of the election period  
686 (or within twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location). Each party shall then  
687 have two (2) days (or twenty-four (24) hours if a rig is on location) from receipt of such notice to elect by delivery of notice to Operator to  
688 participate in such operation or to relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to  
689 deliver notice within such period shall be deemed an election not to participate in the prevailing proposal.

690 8. Conformity to Spacing Pattern: Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be proposed to  
691 be drilled to or Completed in or produced from a Zone from which a well located elsewhere on the Contract Area is producing, unless such  
692 well conforms to the then-existing well spacing pattern for such Zone, including such well having been approved as an exception to the  
693 existing well pattern for such Zone by the regulatory agency having jurisdiction thereof.

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

697 10. Spudder Rigs :

698 (a) Within Approved Horizontal Well proposals ( i.e. proposals which include an approved AFE). If an approved Horizontal Well  
699 proposal provides that a Spudder Rig shall be utilized, and Operator desires to extend the proposed Horizontal Rig Move-On Period,  
700 Operator may obtain one or more extensions, each for a period of time not to exceed 1 days only upon notice and the affirmative vote  
701 of not less than 75% in interest of the Consenting Parties to the drilling of the proposed well.

702 (b) Not Within Approved Horizontal Well proposals. If an approved Horizontal Well proposal does not provide that a Spudder  
703 Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to  
704 the Consenting Parties (which notice shall include a Horizontal Rig Move-On Period) and the affirmative vote of not less  
705 than 75% in interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On Period may be requested by Operator in  
706 the same manner as provided in Article VI.B.9.(a) immediately above.

707 (c) Failure to meet Horizontal Rig Move-On Period. If a rig capable of drilling a Horizontal Well to its Total Measured Depth has  
708 not commenced operations within the Horizontal Rig Move-On Period, or any approved extension(s) thereof, unless 75% in interest  
709 of the Consenting Parties agree to abandon the operation, Operator shall re-propose the well in the manner provided in Article VI.B  
710 of this agreement. Any party who was a Non-Consenting Party to the original drilling proposal shall be entitled to a new  
711 election. Costs of the operation, incurred both before and after such re-proposal, shall be borne as follows:

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

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

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

720 (d) Commencement of Operations. For purposes of Article VI.B., and subject to the provisions of this sub-section 10, the date a  
721 Spudder Rig commences actual drilling operations shall be considered the commencement of drilling operations of the  
722 proposed well.

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

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

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

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

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

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

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

759 **D. Other Operations:**

760 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of two thousand, five hundred  
761 USD (\$2,500) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a  
762 well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other  
763 sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to  
764 deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If  
765 Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single  
766 project costing in excess of two thousand, five hundred USD (\$2,500). Any party who has not relinquished its interest in a well shall have the right  
767 to propose that Operator perform a Workover operation or undertake the installation of artificial lift equipment or to conduct additional work  
768 with respect to a well drilled hereunder or other similar project reasonably estimated to require an expenditure in excess of the amount first set  
769 forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2,  
770 which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within  
771 thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 75% of the interests of the parties entitled  
772 to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall  
773 be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms  
774 of the proposal. Facilities other than those exclusively servicing and benefiting the Contract Area shall be governed by separate agreement.

775 **E. Deviations from Approved Proposals:**

776 If Operator, in its reasonable judgment, deviates from an approved proposal based upon information derived from facts and circumstances  
777 determined subsequent to the commencement of the operations relating to such proposal (including, without limitation, revision of the originally  
778 proposed Completion staging and design), such deviations in and of themselves will not result in liability of the Operator to the Parties.

779 **F. Abandonment of Wells:**

780           1. Abandonment of Dry Holes: Except for any well drilled, Deepened or Sidetracked pursuant to Article VI.B., any well which has been  
781 drilled, Deepened or Sidetracked under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and  
782 abandoned without the consent of all parties owning an interest in the well at the time of the dry hole completion proposal. Should  
783 Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within thirty (30) days or, if a drilling rig is  
784 on location, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposal to plug



785 and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and  
786 abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling  
787 or Deepening such well. Any party who objects to plugging and abandoning such well by notice delivered to Operator within thirty (30)  
788 days or forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays), whichever is applicable, after delivery of notice of the  
789 proposed plugging shall take over the well as of the end of such thirty (30) day or forty-eight (48) hour notice period, whichever is  
790 applicable, and conduct further operations in search of Oil and/or Gas subject to the provisions of Article VI.B.; failure of such party to  
791 provide proof reasonably satisfactory to Operator of its financial capability to conduct such operations or to take over the well within such  
792 period or thereafter to conduct operations on such well or plug and abandon such well shall entitle Operator to retain or take possession of  
793 the well and plug and abandon the well. The party taking over the well shall indemnify Operator (if Operator is an abandoning party) and  
794 the other abandoning parties against liability for any further operations conducted on such well except for the costs of plugging and  
795 abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.

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

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

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

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

#### 836 G. Termination of Operations:

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

#### 842 H. Taking Production in Kind:

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

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

849 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,  
850 and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

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

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

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

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

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

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

878 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,  
879 and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

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

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

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

## 900 VII. EXPENDITURES AND LIABILITY OF PARTIES

### 901 A. Liability of Parties:

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

### 910 B. Liens and Security Interests:

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

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

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

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

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

949 If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure or execution  
950 proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting party waives any available right  
951 of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any  
952 available right to stay execution or to require a marshaling of assets and any required bond in the event a receiver is appointed. In addition, to the



953 extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and  
954 security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially  
955 reasonable manner and upon reasonable notice.

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

961 **C. Advances:**

962 Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other parties payment in advance of  
963 their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which  
964 right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its  
965 share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of  
966 the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within thirty (30) days after such estimate and  
967 invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit  
968 "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its  
969 proportionate share of actual expenses incurred, and no more.

970 **D. Defaults and Remedies:**

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

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

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

994 3. Deemed Non-Consent: The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting party at any  
995 time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in which event if the billing is for the  
996 drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has been plugged, or for the  
997 Completion or Recompletion of any well, the defaulting party will be conclusively deemed to have elected not to participate in the  
998 operation and to be a Non-Consenting Party with respect thereto under Article VI.B. or VI.C., as the case may be, to the extent of the costs  
999 unpaid by such party, notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then  
1000 the non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

1001 Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall have the right to cure its default by  
1002 paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided, however, such payment shall not prejudice the  
1003 rights of the non-defaulting parties to pursue remedies for damages incurred by the non-defaulting parties as a result of the default. Any  
1004 interest relinquished pursuant to this Article VII.D.3. shall be offered to the non-defaulting consenting parties in proportion to their  
1005 interests, and the non-defaulting parties electing to participate in the ownership of such interest shall be required to contribute their  
1006 shares of the defaulted amount upon their election to participate therein.

1007 Notwithstanding the foregoing, to the extent that all or any part of the risk penalty to be recovered pursuant to Article VI.B. or Article  
1008 VI.C, as the case may be, in connection with the provisions of this Article VII.B.3, is determined to constitute interest on a debt, such

1009 interest shall not exceed the maximum amount of non-usurious interest that may be contracted for, taken, reserved, charged, or received  
1010 under law. Any interest in excess of that maximum amount will be credited on the principal of such debt or, if that has been paid,  
1011 refunded. This provision overrides any conflicting provisions in this agreement.

1012 4. Advance Payment: If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or Non-Operators  
1013 if Operator is the defaulting party, may thereafter require advance payment from the defaulting party of such defaulting party's anticipated  
1014 share of any item of expense for which Operator, or Non-Operators, as the case may be, would be entitled to reimbursement under any  
1015 provision of this agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not limited to,  
1016 the right to require advance payment for the estimated costs of drilling a well or Completion of a well as to which an election to participate  
1017 in drilling or Completion has been made. If the defaulting party fails to pay the required advance payment, the non-defaulting parties may  
1018 pursue any of the remedies provided in the Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of  
1019 funds advanced remaining when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.

1020 5. Costs and Attorneys' Fees: In the event any party is required to bring legal proceedings to enforce any financial obligation of a party  
1021 hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of collection, and a reasonable attorney's fee,  
1022 which the lien provided for herein shall also secure.

1023 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

1024 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties  
1025 who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same  
1026 lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may  
1027 request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-  
1028 in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which  
1029 results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

1030 Operator shall notify Non-Operators of the anticipated completion of a shut-in well, or the shutting in or return to production of a producing well,  
1031 at least five (5) days (excluding Saturday, Sunday, and legal holidays) prior to taking such action, or at the earliest opportunity permitted by  
1032 circumstances, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operators, the loss of any lease  
1033 contributed hereto by Non-Operators for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto  
1034 under the provisions of Article IV.B.3.

1035 **F. Taxes:**

1036 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this  
1037 agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior  
1038 to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding  
1039 royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease  
1040 is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem  
1041 taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to such owner or  
1042 owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's  
1043 working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in  
1044 accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all  
1045 tax payments in the manner provided in Exhibit "C."

1046 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and  
1047 prosecute the protest to a final determination, unless it agrees to abandon the protest prior to final determination. During the pendency of  
1048 administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such  
1049 protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty  
1050 accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C."

1051 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the  
1052 production or handling of such party's share of Oil and Gas produced under the terms of this agreement to the extent that all such taxes are  
1053 assessed at a uniform rate. If an Oil and Gas Lease or Oil and Gas Interest contributed by any party is taxed at a higher rate, or is subject to an  
1054 additional tax, that party alone shall pay or cause to be paid such additional tax.

1055 **VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

1056 **A. Surrender of Leases:**

1057 The Leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless  
1058 all parties consent thereto.

1059 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written notice of the  
1060 proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after delivery of the notice within  
1061 which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such notice is delivered to  
1062 reply within said 30-day period shall constitute a consent to the surrender of the Leases described in the notice. If all parties do not agree or



1063 consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such Lease, or  
1064 portion thereof, and any well, material and equipment acquired by the parties under this agreement and used exclusively for the lease being  
1065 surrendered and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is  
1066 or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and  
1067 gas lease covering such Oil and Gas Interest for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the land covered  
1068 thereby or lands pooled therewith, such lease to be on the form attached hereto as Exhibit "B." Upon such assignment or lease, the assigning  
1069 party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the  
1070 operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its  
1071 equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall  
1072 pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to  
1073 the assigned or leased acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of  
1074 Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is  
1075 less than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the assignment or  
1076 lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total  
1077 interest of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth, then the interest assigned  
1078 shall similarly reflect such variances.

1079 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as  
1080 it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered,  
1081 and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement but shall be deemed subject to an  
1082 Operating Agreement in the form of this agreement.

1083 **B. Renewal or Extension of Leases:**

1084 If any party secures a renewal or replacement of an Oil and Gas Lease or Interest subject to this agreement, then all other parties shall be notified  
1085 promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing

1086 Lease, promptly upon expiration of the existing Lease. The parties notified shall have the right for a period of thirty (30) days following delivery  
1087 of such notice in which to elect to participate in the ownership of the renewal or replacement Lease, insofar as such Lease affects lands within the  
1088 Contract Area, by paying to the party who acquired it their proportionate shares of the acquisition cost allocated to that part of such Lease within  
1089 the Contract Area, which shall be in proportion to the interest held at that time by the parties in the Contract Area. Each party who participates in  
1090 the purchase of a renewal or replacement Lease shall be given an assignment of its proportionate interest therein by the acquiring party.

1091 If some, but less than all, of the parties elect to participate in the purchase of a renewal or replacement Lease, it shall be owned by the parties who  
1092 elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the  
1093 aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal or replacement  
1094 Lease. The acquisition of a renewal or replacement Lease by any or all of the parties hereto shall not cause a readjustment of the interests of the  
1095 parties stated in Exhibit "A," but any renewal or replacement Lease in which less than all parties elect to participate shall not be subject to this  
1096 agreement but shall be deemed subject to a separate Operating Agreement in the form of this agreement.

1097 If the interests of the parties in the Contract Area vary according to depth, then their right to participate proportionately in renewal or replacement  
1098 Leases and their right to receive an assignment of interest shall also reflect such depth variances.

1099 The provisions of this Article shall apply to renewal or replacement Leases whether they are for the entire interest covered by the expiring Lease  
1100 or cover only a portion of its area or an interest therein. Any renewal or replacement Lease taken before the expiration of its predecessor Lease,  
1101 or taken or contracted for or becoming effective within six (6) months after the expiration of the existing Lease, shall be subject to this provision  
1102 so long as this agreement is in effect at the time of such acquisition or at the time the renewal or replacement Lease becomes effective; but any  
1103 Lease taken or contracted for more than six (6) months after the expiration of an existing Lease shall not be deemed a renewal or replacement  
1104 Lease and shall not be subject to the provisions of this agreement.

1105 The provisions in this Article shall also be applicable to extensions of Oil and Gas Leases.

1106 **C. Acreage or Cash Contributions:**

1107 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation under this  
1108 agreement, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of  
1109 such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an  
1110 assignment of the acreage, without warranty of title, to the Consenting Parties in the proportions said Consenting Parties shared the cost of  
1111 drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this  
1112 agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any  
1113 other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area  
1114 which are in support of well drilled inside Contract Area.

1115 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration  
1116 shall not be deemed a contribution as contemplated in this Article VIII.C.

1117 **D. Assignment; Maintenance of Uniform Interest:**

1118 For the purpose of maintaining uniformity of ownership in the Contract Area in the Oil and Gas Leases, Oil and Gas Interests, wells, equipment  
1119 and production covered by this agreement, except as otherwise provided herein, no party shall sell, encumber, transfer or make other disposition  
1120 of its interest in the Oil and Gas Leases and Oil and Gas Interests embraced within the Contract Area or in wells, equipment and production  
1121 unless such disposition covers either:

- 1122 1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or  
1123 2. an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment owned by  
1124 such party under this agreement, and production in the Contract Area.

1125 Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement  
1126 and shall be made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and Gas Lease or  
1127 Interest shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of the transfer of ownership;  
1128 provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any  
1129 purpose hereunder until thirty (30) days after Operator has received a copy of the instrument of transfer or other satisfactory evidence thereof in  
1130 writing from the transferor or transferee. Except as otherwise provided herein, any transfer by a party shall relieve the transferor from liability for  
1131 the cost and expense of operations attributable to the transferred interest which are conducted after the expiration of the 30-day period above  
1132 provided; provided that, no assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by  
1133 such party hereunder with respect to the interest transferred, including without limitation the obligation of a party to pay all costs and expenses  
1134 attributable to an approved operation conducted hereunder, in which such party has agreed to participate and the lien and security interest granted  
1135 by Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations. The transferee shall be jointly and  
1136 severally liable with its transferor for payment of its share of all costs and expenses attributable to an approved operation conducted hereunder in  
1137 which its transferor had agreed to participate.

1138 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-  
1139 owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay  
1140 such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope  
1141 of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or  
1142 agreements for the disposition of their respective shares of the Oil and Gas produced from the Contract Area and they shall have the right to  
1143 receive, separately, payment of the sale proceeds thereof.

1144 **E. Waiver of Rights to Partition:**

1145 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in  
1146 the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

1147 **F. Preferential Right to Purchase**

1148  (Optional: Check if applicable)

1149 Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly  
1150 give written notice to the other parties, with full information concerning its proposed disposition, which shall include the name and address of the  
1151 prospective transferee (who must be ready, willing and able to purchase), the purchase price, a legal description sufficient to identify the property,  
1152 and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after notice is delivered, to  
1153 purchase for the stated consideration on the same terms and conditions the interest which the other party proposes to sell; and, if this optional  
1154 right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of  
1155 all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or  
1156 to transfer title to its interest to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests, or to dispose of its interests by  
1157 merger, reorganization, consolidation, or by sale of all or substantially all of its Oil and Gas assets to any party, or by transfer of its interests to a  
1158 subsidiary or parent company or to a subsidiary of a parent company, or to any company in which such party owns a majority of the stock.

1159 **IX. INTERNAL REVENUE CODE ELECTION**

1160 If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not  
1161 otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party hereby affected elects to be  
1162 excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as  
1163 amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized  
1164 and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury  
1165 of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,  
1166 and the data required by Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of  
1167 this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue  
1168 Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the  
1169 election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax  
1170 laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election  
1171 similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or  
1172 required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder

1173 can be adequately determined without the computation of partnership taxable income. For federal income tax purposes the parties agree that any  
1174 gas imbalances will be reported under the cumulative gas balancing method as defined in Treasury Regulations § 1.761-2(d)(3).

#### 1175 X. CLAIMS AND LAWSUITS

1176 Operator may settle any single or related aggregate uninsured third party damage claim or suit arising from operations hereunder if the  
1177 expenditure does not exceed five hundred USD (\$500) and if the payment is in complete settlement of such claim or suit. If the amount required  
1178 for settlement exceeds the above amount, Operator shall promptly give notice to Non-Operators and Operator shall assume and handle the claim  
1179 or suit on behalf of all parties unless, within 14 days after receipt of such notice, a party gives notice to Operator and the other parties of its  
1180 affirmative election to assume and handle the claim or suit on its own behalf, which assumption and handling shall be done at said party's own  
1181 expense and over and above said party's proportionate share chargeable to the joint account as hereinafter provided. All costs and expenses of  
1182 handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which  
1183 the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder  
1184 over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other  
1185 parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

#### 1186 XI. FORCE MAJEURE

1187 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  
1188 indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the force majeure with  
1189 reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure,  
1190 shall be suspended during, but no longer than, the continuance of the force majeure. The term "force majeure," as here employed, shall mean an  
1191 act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood or  
1192 other act of nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause,  
1193 whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

1194 The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The requirement that any  
1195 force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the  
1196 party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

#### 1197 XII. NOTICES

1198 All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically provided, shall be  
1199 in writing and delivered in person or by United States mail, courier service, or facsimile, each of which may also be delivered by attachment to  
1200 electronic mail ("Email Notice"), postage or charges prepaid, if applicable, and addressed to such parties at the addresses listed on Exhibit "A."  
1201 All telephone or oral notices permitted by this agreement shall be confirmed immediately thereafter by written notice. The originating notice  
1202 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  
1203 such party to deliver any notice in response thereto shall run from the date the originating notice is received. "Receipt" for purposes of this  
1204 agreement with respect to written notice delivered hereunder shall be actual delivery of the notice to the address of the party to be notified  
1205 specified in accordance with this agreement, or to the facsimile machine or email address of such party. The second or any responsive notice shall  
1206 be deemed delivered when deposited in the United States mail or at the office of the courier or facsimile, or when personally delivered to the  
1207 party to be notified, provided, that when response is required within 24 or 48 hours, such response shall be given orally or by telephone, or other  
1208 facsimile or email address within such period. Each party shall have the right to change its address at any time, and from time to time, by giving  
1209 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  
1210 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  
1211 deemed delivered in the same manner provided above for any responsive notice. Each Email Notice shall clearly state that it is a notice or  
1212 response to a notice under this agreement. An Email Notice shall be deemed delivered only when affirmatively acknowledged by email reply  
1213 from the receiving party. Automatic delivery receipts issued, without direct acknowledgment of the Email Notice, are not evidence of Receipt for  
1214 purposes of this agreement. If the receiving party fails or declines to affirmatively acknowledge an Email Notice, then Receipt of the notice shall  
1215 only be deemed to have occurred when received by the party as otherwise provided above.

#### 1216 XIII. TERM OF AGREEMENT

1217 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  
1218 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  
1219 Interest contributed by any other party beyond the term of this agreement.

1220  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  
1221 Contract Area, whether by production, extension, renewal or otherwise

1222 ~~—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~~  
1223 ~~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~~  
1224 ~~any such well is capable of production, and for an additional period of days thereafter, provided, however, if, prior to the expiration of such~~  
1225 ~~additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or~~  
1226 ~~attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been~~  
1227 ~~completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in~~



1228 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  
1229 Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking  
1230 operations are commenced within \_\_\_\_\_ days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i)  
1231 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  
1232 well, whichever first occurs.

1233 The termination of this agreement shall not relieve any party hereto from any expense, liability or other obligation or any remedy therefor which  
1234 has accrued or attached prior to the date of such termination.

1235 Upon termination of this agreement and the satisfaction of all obligations hereunder, in the event a memorandum of this Operating Agreement has  
1236 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  
1237 to execute such a notice of termination as to Operator's interest, upon request of Operator, if Operator has satisfied all its financial obligations.

#### 1238 XIV. COMPLIANCE WITH LAWS AND REGULATIONS

##### 1239 A. Laws, Regulations and Orders:

1240 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  
1241 of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations and  
1242 orders.

##### 1243 B. Governing Law:

1244 This agreement and all matters pertaining hereto, including but not limited to matters of performance, non-performance, breach, remedies,  
1245 procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area  
1246 is located. If the Contract Area is in two or more states, the law of the state of Kansas shall govern.

##### 1247 C. Regulatory Agencies:

1248 Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or  
1249 obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in  
1250 reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the  
1251 Contract Area.

1252 With respect to the operations hereunder, Non-Operators agree to release Operator from liability above and beyond its proportionate share of any  
1253 and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's  
1254 interpretation or application of rules, rulings, regulations or orders of any governmental agency having jurisdiction to the extent such  
1255 interpretation or application was made in good faith and does not constitute gross negligence or willful misconduct. Each Non-Operator further  
1256 agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator  
1257 may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by  
1258 Operator as a result of such incorrect interpretation or application.

#### 1259 XV. MISCELLANEOUS

##### 1260 A. Execution:

1261 This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator  
1262 and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed  
1263 on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. Operator may, however, by  
1264 written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the  
1265 Initial Well but in no event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this  
1266 agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of drilling operations. In  
1267 the event of such a termination by Operator, all further obligations of the parties hereunder shall cease as of such termination. In the event any  
1268 Non-Operator has advanced or prepaid any share of drilling or other costs hereunder, all sums so advanced less costs incurred by Operator prior  
1269 to termination that were attributable to preparation for or furtherance of the operation shall be returned to such Non-Operator without  
1270 interest. Except as otherwise provided in Article IV.B, in the event operations on a well shall be commenced without execution of this agreement  
1271 by all persons listed on Exhibit "A" as having a current interest in such well, or in the event that subsequent to the commencement of operations  
1272 on the well previously unknown or undisclosed persons owning working interests in a well are discovered, or both, the parties executing this  
1273 agreement agree to one of the following:

1274  Option No. 1: Operator shall indemnify executing Non-Operators with respect to all costs incurred for the well which would have been  
1275 charged to each such person under this agreement as if such person had executed the same and Operator shall receive all revenues which would  
1276 have been received by each such person under this agreement as if such person had executed the same.

1277  Option No. 2: The Operator shall advise all parties of the total interest of the parties that have executed this agreement. Each party  
1278 executing this agreement, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall  
1279 advise the Operator of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part  
1280 (determined by dividing such party's interest in the Contract Area by the interest of all parties executing this agreement) of non-executing  
1281 persons' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of non-executing persons' interests together with all or a  
1282 portion of its proportionate part of any non-executing persons interests that any executing party did not elect to take. Any interest of non-  
1283 executing persons that is not carried by an executing party shall be deemed to be carried by the Operator. Failure to advise the Operator within  
1284 the time required shall be deemed an election under (i).

1285 **B. Successors and Assigns:**

1286 This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives,  
1287 successors and assigns, and the terms hereof shall be deemed to run with the Leases or Interests included within the Contract Area.

1288 **C. Counterparts:**

1289 This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

1290 **D. Severability:**

1291 For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws, this agreement shall not be  
1292 severable, but rather must be assumed or rejected in its entirety, and the failure of any party to this agreement to comply with all of its financial  
1293 obligations provided herein shall be a material default.

1294 **E. Conflict of Terms :**

1295 Notwithstanding anything in this agreement to the contrary, in the event of any conflict between the provisions of Articles I through XV of this  
1296 agreement and the provisions of Article XVI, if any, the provisions of Article XVI, if any, shall govern

1297 **XVI. OTHER PROVISIONS**

1298 **A.** Streamline Energy, LLC and Running J Resources, LLC are both under common control by Justin Morris. As both entities are controlled by  
the same person Streamline Energy, LLC will be consider an Affiliate as defined on lines 49 through 52 of this document. Since Streamline  
Energy is an Affiliate of Running J Resources, Streamline will be treated like an operator who owns interest in the lands subject to this  
agreement.

1299 IN WITNESS WHEREOF, this agreement shall be effective as of October 01, 2017.

1300 Tyler Law who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the  
1301 exception(s) listed below, is identical to the AAPL Form 610-2015 Model Form Operating Agreement, as published in computerized form by  
1302 AAPL. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as  
1303 changes in Articles

1304 **None**  
1305 have been made to the form.

**ATTEST OR WITNESS:**

**OPERATOR**

**Streamline Energy, LLC**

By: [Signature]  
Name: Justin Morris  
Title: Manager  
Date: 10-12-2017

**NON-OPERATORS**

**Running J Resources, LLC**

By: [Signature]  
Name: Justin Morris  
Title: Manager  
Date: 10-12-2017

**NON-OPERATORS**

**E6 Resources, LLC**

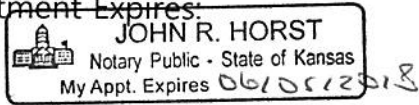
By: [Signature]  
Name: Tyler Law  
Title: President  
Date: 10-12-2017

STATE OF KANSAS )  
 )Ss:  
COUNTY OF MONTGOMERY )

This instrument was acknowledged before me on the 12<sup>th</sup> day of October, 2017, by Tyler Law, as President of E6 Resources, LLC.


  
\_\_\_\_\_  
Notary Public

My Appointment Expires:

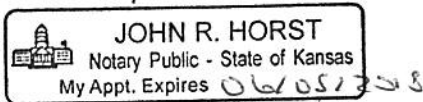


STATE OF KANSAS )  
 )Ss:  
COUNTY OF MONTGOMERY )

This instrument was acknowledged before me on the 12<sup>th</sup> day of October, 2017, by Justin Morris, as Manager of Running J Resources, LLC.


  
\_\_\_\_\_  
Notary Public

My Appointment Expires:



STATE OF KANSAS )  
 )Ss:  
COUNTY OF MONTGOMERY )

This instrument was acknowledged before me on the 12<sup>th</sup> day of October, 2017, by Justin Morris, as Manager of Streamline Energy, LLC.

  
\_\_\_\_\_  
Notary Public

My Appointment Expires:



### **Exhibit A-1**

Oil and Gas Lease dated September 23, 2015, between Wilbur Dale Davis a single man, and Butler Petroleum, LLC and Streamline Energy, LLC, covering the South Half of the Southwest Quarter (S/2 of the SW/4) of Section 3 and the North Half of the Northwest Quarter (N/2 NW/4) of Section 10, all in Township 35 South, Range 15 East, Montgomery County, Kansas, and recorded in Book 643, Records, Page 375-382 of the Records of Montgomery County, Kansas.

Oil and Gas Lease dated August 4, 2015, between Willie D. Rains and Lula B. Rains, husband and wife, and Butler Petroleum, LLC and Streamline Energy, LLC, covering the Southwest Quarter of the Southwest Quarter (SW/4 of the SW/4) of Section 10, all in Township 35 South, Range 15 East, Montgomery County, Kansas, and recorded in Book 641, Records, Page 446-450 of the Records of Montgomery County, Kansas.

Oil and Gas Lease dated September 8, 2015, between James C. Ruark, a single man, and Butler Petroleum, LLC and Streamline Energy, LLC, covering the East Half of the Southeast Quarter (E/2 of the SE/4) of Section 9, all in Township 35 South, Range 15 East, Montgomery County, Kansas, and recorded in Book 642, Records, Page 385-90 of the Records of Montgomery County, Kansas.

Oil and Gas Lease dated June 2, 2017, between Delmar B. Hodges Jr. and Debora C. Hodges, and Streamline Energy, LLC, covering (1) that tract of land Beginning at the Northeast Quarter of Block 26, Thence Southeast 950' to the South line of the North Half of the Northwest Quarter of the Southwest Quarter, thence Northwest 400', thence Northwest 750', thence Northwest 200', thence Northeast 320', thence Northeast 800' to the place of beginning, Section 13, Township 34 South, Range 13 East, and (2) All of Section 26, Montgomery County, Kansas, recorded in Book 660, Records, Page 905-908 of the Records of Montgomery County, Kansas.



**Exhibit A-1**

No restrictions as to depths, formations or substances.

Parties to agreement:

Streamline Energy, LLC  
906 W. Main  
Yates Center, KS 66783  
Telephone No. 785-766-1278

Running J Resources, LLC  
906 W. Main  
Yates Center, KS 66783  
Telephone No. 785-766-1278

E6 Resources, LLC  
P.O. Box 59  
Sulphur Springs, TX 75483  
Telephone No. 903-689-4025 ext. 303

Percentages or fractional interest of parties to this Agreement:

Streamline Energy, LLC: 0% (affiliated party)  
Running J Resources, LLC: 50%  
E6 Resources, LLC: 50%

Net Revenue Interests and Burdens on Production:

Tuggle Lease: .84500 Net Revenue Working Interest  
.15500 Landowner's Royalty Interest

Rains Lease: .84500 Net Revenue Working Interest  
.12500 Landowner's Royalty Interest  
.03000 Overriding Royalty Interest

Weeks Lease: .86000 Net Revenue Working Interest  
.12500 Landowner's Royalty Interest  
.01500 Overriding Royalty Interest

Hodges Lease: .87500 Net Revenue Working Interest  
.12500 Landowner's Royalty Interest

Exhibit B

OIL AND GAS LEASE

THIS AGREEMENT, entered into this \_\_\_\_ day of \_\_\_\_\_, 20\_\_ between \_\_\_\_\_ (hereinafter called lessor) and \_\_\_\_\_, (hereinafter called lessee), does witness:

1. That lessor, for and in consideration of the sum of One Dollar (\$1.00) in hand paid and of the covenants and agreements hereinafter contained to be performed by the lessee, has this day granted, leased, and let, and by these presents does hereby grant, lease, and let exclusively unto the lessee the hereinafter described land, for the purpose of carrying on geological, geophysical, and other exploratory work, including core drilling, and the drilling, mining, and operating for, producing, and saving all of the oil, gas, casinghead gas, casinghead gasoline, including all associated hydrocarbons produced in a liquid or gaseous form and including gas found in and produced from coal formations or coal seams and all zones in communication therewith, which gas is sometimes referred to as coal bed methane, coal seam gas or occluded gas and all other gases and their respective constituent vapors, (including coalbed methane gas, helium, and all other constituents and substances produced therewith), including the dewatering for production of coalbed methane gas, and for constructing roads, laying pipe lines, building tanks, storing oil, and erecting other structures thereon which are necessary or convenient for the economical operation of said land to produce, save, take care of, and manufacture all of such substances, said tract of land with any reversionary rights therein being situated in the county of \_\_\_\_\_, state of Kansas, and described as follows:

\_\_\_\_\_

containing \_\_\_\_ acres, more or less.

2. This lease shall remain in force for a term of \_\_\_\_ year(s) from the date hereof, and as long thereafter as oil, gas, casinghead gas, casinghead gasoline, or any of the products covered by this lease are or can be produced.

3. The lessee shall deliver to lessor as royalty, free of cost, \_\_\_\_\_ part of all oil produced and saved from the leased premises, at the market price for oil of like grade and gravity prevailing on the day such oil is sold.

4. The lessee shall pay to lessor for gas produced from any oil well and used by the lessee for the manufacture of gasoline or any other product as royalty \_\_\_\_\_ of the market value of such gas at the mouth of the well. The lessee shall pay to lessor for gas of whatsoever nature or kind (with all of its constituents) and all other substances covered hereby sold by lessee, a royalty of \_\_\_\_\_ of the net proceeds realized by lessee from the sale thereof, less a proportionate part of the ad valorem, production, severance and other excise taxes and any costs incurred by lessee in delivering, processing, compressing, transporting, dehydrating, or otherwise making gas or other substances merchantable with said payments to be made monthly, not more than sixty (60) days following the last day of the month in which gas is delivered into the pipeline and credited to lessee's account by the gas purchaser.

5. If Lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, the Lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas,

to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned. Drilling operations or mining operations shall be deemed to be commenced when the first material is placed on the leased premises or when the first work, other than surveying or staking the location, is done thereon which is necessary for such operations.

6. During any period (whether before, on, or after expiration of the primary term hereof), at any time, and from time to time, when gas is not being sold or used and a gas well capable of producing in paying quantities is shut in on the leased premises, whether or not said well has theretofore actually produced, and there is no current production of oil or gas or operations on the leased premises sufficient to keep this lease in force, this lease shall, nonetheless, remain in full force and effect, and it will be deemed that gas is being produced in paying quantities: as to a well so shut in, whether one or more, Lessee shall be obligated to pay or tender to Lessor a royalty of ten dollars (\$10.00) per year per net royalty acre retained hereunder, the payment or tender to be due on or before the anniversary date of this lease next ensuing after the expiration of 120 days from the date the well is shut in and thereafter on the anniversary date of this lease during the period in which the well is continuously shut in; and this lease shall not terminate for a failure of Lessee to pay or tender royalty pursuant to this provision, but Lessee shall be obligated to promptly pay Lessor the amount of the shut-in royalty due. If any payment made hereunder shall be erroneous in any regard (whether deposited in the wrong depository, paid to parties other than the ones entitled thereto as shown by Lessee's records, in an incorrect amount, or otherwise), this lease shall be maintained in the same manner as if such erroneous payment or deposit had been properly made, provided that the erroneous payment or deposit be corrected within thirty (30) after receipt by Lessee of written notice from such Lessor of such error accompanied by and documents and other evidence necessary to enable Lessee to make prompt payment. The provisions of the forgoing "shut-in" gas well clause shall not limit the Lessee's implied duty to market gas producible from the premises.

7. In case said lessor owns a less interest in the above-described land, other than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid to said lessor only in the proportion which his interest bears to the whole and undivided fee. However, such rental shall be increased at the next succeeding rental anniversary after any reversion occurs to cover the interest so acquired.

8. The lessee shall have the right to use gas, oil, and water found on said land for its operations thereon, except water from the wells or ponds of the lessor. When required by lessor, the lessee shall bury its pipe lines below plow depth and shall pay for damage caused by its operations to growing crops on said land. No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the prior written consent of the lessor. Lessee shall have the right at any time during, and within six (6) months after the expiration of this lease, to remove all machinery, fixtures, houses, buildings, and other structures placed on said premises, including the right to draw and remove all casing. Lessee shall grade to the original level and restore the surface to its original condition, as nearly as practicable, within six (6) months after the expiration of this lease.

9. If the estate of either party hereof is assigned (and the privilege of assigning in whole or in part is expressly allowed), the covenants hereof shall extend to the heirs, devisees, executors, administrators, successors, and assigns, but no change of ownership in the land or in the rentals or

royalties or any sum due under this lease shall be binding on the lessee until it has been furnished with either the original recorded instrument of conveyance or a duly certified copy thereof or a certified copy of the will of any deceased owner and of the probate thereof, or certified copy of the proceedings showing appointment of an administrator for the estate of any deceased owner, whichever is appropriate, together with all original recorded instruments of conveyance or duly certified copies thereof necessary in showing a complete chain of title back to lessor to the full interest claimed, and all advance payments of rentals made hereunder before receipt of said documents shall be binding on any direct or indirect assignee, grantee, devisee, administrator, executor, or heir of lessor.

10. If the leased premises are now or shall hereafter be owned in severalty or in separate tracts, the premises nevertheless shall be developed and operated as one lease, and all royalties accruing hereunder shall be treated as an entirety and shall be divided among and paid to such separate owners in the proportion that the acreage owned by each separate owner bears to the entire leased acreage.

11. Lessor hereby warrants and agrees to defend the title to the land herein-described and agrees that the lessee, at its option, may pay and discharge in whole or in part any taxes, mortgages, or other liens existing, levied, or assessed on or against the above-described lands and, in the event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax, or other lien, any royalty or rentals accruing hereunder.

12. If, after the expiration of the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate, provided lessee (a) resumes production, (b) initiates operations for recompleting an existing well within sixty (60) days from such cessation or (c) initiates operations for drilling a new well within sixty (60) days from such cessation, and this lease shall remain in force during the diligent prosecution of such operations and, if production results therefrom, then as long as production continues.

13. Lessee may at any time surrender or cancel this lease in whole or in part by delivering or mailing such release to the lessor, or by placing same of record in the proper county. In case said lease is surrendered and canceled as to only a portion of the acreage covered thereby, then all payments and liabilities thereafter accruing under the terms of said lease as to the portion canceled, shall cease and determine and any rentals thereafter paid may be apportioned on an acreage basis, but as to the portion of the acreage not released the terms and provisions of this lease shall continue and remain in full force and effect for all purposes.

14. All provisions hereof, express or implied, shall be subject to all federal and state laws and the orders, rules, or regulations (and interpretations thereof) of all governmental agencies administering the same, and this lease, shall not be in any way terminated wholly or partially, nor shall the lessee be liable in damages for failure to comply with, any of the express or implied provisions hereof if such failure accords with any such laws, orders, rules, or regulations (or interpretations thereof). If, during the last six months of the primary term hereof, lessee should be prevented from drilling a well hereunder by the order of any constituted authority having jurisdiction there over, the primary term of this lease shall continue until six months after said order is suspended.

15. This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor and lessee.





**EXHIBIT 'C'**  
**(Revised October 1, 2017)**  
**Montgomery County, KS**  
**To Joint Operating Agreement dated October 1, 2017**  
**between Streamline Energy LLC, as Operator, and**  
**Running J Resources, LLC and E6 Resources, LLC as Non-Operators.**

**ACCOUNTING PROCEDURE**  
**JOINT OPERATIONS**

**I. GENERAL PROVISIONS**

**1. Definitions.**

**“Joint Property”** shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

**“Joint Operations”** shall mean all operations necessary or proper for the development, operation, protection, and maintenance of the Joint Property.

**“Joint Account”** shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

**“Operator”** shall mean the party designated to conduct the Joint Operations.

**“Non-Operators”** shall mean the Parties to this agreement other than the Operator.

**“Parties”** shall mean the Operator and Non-Operators.

**“First Level Supervisors”** shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

**“Technical Employees”** shall mean those employees having special and specific engineering, geological, or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

**“Personal Expenses”** shall mean travel and other reasonable reimbursable expenses of Operator’s employees.

**“Material”** shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

**“Controllable Material”** shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

**2. Statement and Billings.**

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease, or facility, and all charges and credits summarized by appropriate classifications of investment and expense, except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

**3. Advances and Payments of Non-Operators.**

- A. Unless otherwise provided for in the agreement, Operator may require Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.
- B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly, at the prime rate published by the Wall Street Journal on the first day of the month in which the delinquency occurs, plus 1%, or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

**4. Adjustments.**

Payment of any bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after thirty-six (36) months following the end of such calendar year, unless within the said thirty-six (36) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

**5. Audits.**

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the thirty-six (36) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than twice each year without prior approval of Operator, except on the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 30 days after receipt of such report.

**6. Approval By Non-Operators.**

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Ecological and Environmental.

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

### 2. Rentals and Royalties.

Lease rentals and royalties paid by Operator for the Joint Operations.

### 3. Labor.

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness, and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. The costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

### 4. Employee Benefits.

Operator's current costs of established plans for employee's group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3.A. and 3.B. of this Section II. shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

### 5. Material.

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

**6. Transportation.**

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less, excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

**7. Services.**

The cost of contract services, equipment, and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraphs i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such changes are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

**8. Equipment and Facilities Furnished By Operator.**

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed eighteen percent (18 %) per annum. The rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

**9. Damages and Losses to Joint Property.**

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report of them has been received by Operator.

**10. Legal Expense.**

Expense of handling, investigating, and settling litigation or claims, discharging of liens, payment of judgments, and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff, or fees or expense of outside attorneys shall be

made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

**11. Taxes.**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties in accordance with the tax value generated by each party's working interest.

**12. Insurance.**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

**13. Abandonment and Reclamation.**

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

**14. Communications.**

Cost of acquiring, leasing, installing, operating, repairing, and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8. of this Section II.

**15. Other Expenditures.**

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is of direct benefit to the Joint Property, and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

**III. OVERHEAD**

**1. Overhead – Drilling and Producing Operations.**

- i. As compensation for administrative, supervision, office services, and warehousing costs, Operator shall charge drilling and producing operations on either:

( X ) Fixed Rate Basis, Paragraph 1A, or

( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III, unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.



- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

( ) shall be covered by the overhead rates, or  
( X ) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

( ) shall be covered by the overhead rates, or  
( X ) shall not be covered by the overhead rates.

A. Overhead – Fixed Rate Basis.

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

~~\_\_\_\_\_~~ Drilling Well Rate \$ TO BE DETERMINED  
~~\_\_\_\_\_~~ (Prorated for less than a full month)

Producing Lease Rate of up to \$300.00 per lease

~~\_\_\_\_\_~~ (2) Application of Overhead – Fixed Rate Basis shall be as follows:

~~\_\_\_\_\_~~ (a) Drilling Well Rate

~~\_\_\_\_\_~~ (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

~~\_\_\_\_\_~~ (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates.

- (1) An active lease with production from one or more wells will have one charge covering the entire lease for the entire month.

~~\_\_\_\_\_~~ (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one well charge providing each completion is considered a separate well by the governing regulatory authority.

~~\_\_\_\_\_~~ (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one well charge providing the gas well is directly connected to a permanent sales outlet.

~~(4) A one well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one well charge shall be made whether or not the well has produced except when drilling well rate applies.~~

~~(5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.~~

(3) The lease rates may be adjusted as of the first day of any month upon the agreement of all parties to the Joint Operating Agreement.

~~B. Overhead Percentage Basis.~~

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

~~(a) Development.~~

~~\_\_\_\_\_ Percent (\_\_\_\_%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.~~

~~(b) Operating.~~

~~\_\_\_\_\_ Percent (\_\_\_\_%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~

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

~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.~~

## 2. Overhead – Major Construction.

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 12,000 :

A. \_\_\_\_\_% of first \$100,000 or total cost if less, plus

B. \_\_\_\_\_% of costs in excess of \$100,000 but less than \$1,000,000, plus

C. \_\_\_\_\_% of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

**3. Catastrophe Overhead.**

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall ~~either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:~~

A. \_\_\_\_\_% of total costs through \$100,000; plus

B. \_\_\_\_\_% of total costs in excess of \$100,000 but less than \$1,000,000; plus

C. \_\_\_\_\_% of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

**4. Amendment of Rates.**

The overhead rates provided for in this Section III. may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

**IV. PRICING OF JOINT ACCOUNT MATERIAL  
PURCHASES, TRANSFERS, AND DISPOSITIONS**

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A and B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

**1. Purchases.**

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. **Transfers and Dispositions.**

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts.

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2-3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of the date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio, and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation costs, using the Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property
- (d) Macaroni tubing (size less than 2-3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe.

- (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
- (b) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus the percent most recently recommended by COPAS, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
- (c) Line pipe 24 inch OD and over, and 3/4 inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
- (d) Line pipe, including fabricated line pipe, drive pipe, and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

B. Good Used Material (Condition B).

Material in sound and serviceable condition and suitable for reuse without reconditioning:

- (1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

- (2) Material used on and moved from the Joint Property.

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or

- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

- (3) Material not used on and moved from the Joint Property.

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material.

- (1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

- (2) Condition D.

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.



(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E.

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material.

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by the Material.

E. Pricing Conditions.

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. **Premium Prices.**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes, or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing the Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. **Warranty of Material Furnished By Operator.**

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. **Periodic Inventories, Notice, and Representation.**

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented

when any inventory is taken. Failure of Non-Operators to be represented at any inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. **Reconciliation and Adjustment of Inventories.**

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. **Special Inventories.**

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. **Expense of Conducting Inventories.**

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.