

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 _____

Side Two

Must Be Filed For All Wells

KDOR Lease No.: _____

* Lease Name: _____

* Location: _____

Well No.	API No. (YR DRDL/PRE '67)	Footage from Section Line (i.e. FSL = Feet from South Line)		Type of Well (Oil/Gas/INJ/WSW)	Well Status (PROD/TA'D/Abandoned)
		<i>Circle</i> FSL/FNL	<i>Circle</i> FEL/FWL		
_____	_____	_____	_____	_____	_____
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_____	_____	_____	_____	_____	_____

A separate sheet may be attached if necessary

* When transferring a unit which consists of more than one lease please file a separate side two for each lease. If a lease covers more than one section please indicate which section each well is located.

Side Two

Must Be Filed For All Wells

KDOR Lease No.: _____

* Lease Name: _____ * Location: _____

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_____	_____	FSL/FNL	FEL/FWL	_____	_____
_____	_____	FSL/FNL	FEL/FWL	_____	_____
_____	_____	FSL/FNL	FEL/FWL	_____	_____
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		Circle FSL/FNL	Circle FEL/FWL		
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_____	_____	_____ FSL/FNL	_____ FEL/FWL	_____	_____
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KANSAS CORPORATION COMMISSION
OIL & GAS CONSERVATION DIVISION

Form KSONA-1

July 2014

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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: _____

OPERATING AGREEMENT

Butler Petroleum & Paradigm Energy LLC

This Agreement is made by Brad Butler & Brandon Parks, herein referred to as "Operator", and the signatory party or parties other than Operator, sometimes herein referred to individually as "Owner" and collectively as "Owners". If Operator also owns an undivided working interest in the lease(s) subject to this Agreement, then the collective term "Owners" also includes Operator within the context wherein such collective term is used.

Whereas, Owners collectively own all of the working interest in and to the oil and gas lease(s) described in Exhibit A

attached hereto; and

Whereas, Owners have agreed to hire Operator to operate said lease(s) for them upon the terms hereinafter set forth;

Therefore, in consideration of the mutual promises and agreements herein contained and to be kept and performed by the parties hereto, Owners and Operator agree:

**Butler Petroleum LLC
Brad Butler
1246 Hodgins Rd \
Van Alstyne TX 75495**

**Paradigm Energy LLC
Brandon Parks
25509 W 95th Lane
Lenexa KS 66227**

(A) DESIGNATION AND DUTIES OF OPERATOR

1. Operator shall be the exclusive operator of the lease(s) for and on behalf of each Owner, subject to the terms of this Agreement.

2. Operator shall conduct and direct and have full control of all operations on the lease(s), and shall conduct and perform its duties hereunder, or cause same to be conducted and performed, in a good and workmanlike manner, but shall have no liability to Owners for losses sustained or liabilities incurred except such as may result from gross negligence or willful misconduct. "Operations" includes drilling, completing and equipping wells, work preparatory thereto, installing lines, tanks, utilities, fixtures and equipment for producing, storing, treating and selling oil and/or gas, maintenance and repairs of fixtures, equipment and appliances, contracting for sale of oil and/or gas, and, in general, all activities which are by statute, regulation or customary practice the duty, obligation and responsibility of the party designated as the "operator" of the lease and/or wells thereon.

3. Operator shall have the right to purchase, acquire and dispose of equipment and materials; to hire employees or independent contractors necessary to conduct operations; to compromise, settle and pay claims which may be made for damages resulting from operations; and to obtain, purchase and contract for all services, utilities, and labor reasonable and necessary to conduct operations.

4. Operator shall conduct all operations in accordance with the terms of the lease(s) and with applicable laws and regulations, and make all necessary filings with, and obtain any necessary permits from, any regulatory agency having jurisdiction over lease operations.

5. Operator shall keep and maintain in force policies of insurance, containing usual and customary provisions, with insurance companies authorized to do business in the state where operations are conducted, as follows: (A) workers compensation insurance required by the laws of the applicable state for the protection of all salaried employees of Operator engaged for all or part of the time in operations conducted hereunder; (B) public liability insurance with limits of

not less than \$100,000.00 per person and \$300,000.00 per occurrence; and property damage liability with a limit of not less than \$100,000.00 per occurrence; and (C) such operty located thereon.

6. Operator shall promptly pay all charges for services, labor, utilities and materials used and provided for lease operations and shall not suffer any lien against the lease(s) by reason of non-payment thereof; provided, however, that Operator's duty hereunder shall not exceed the extent of the funds actually paid to Operator by, or held for the credit of, Owners.

7. Operator shall render, for ad valorem tax purposes, the property being operated pursuant hereto, and shall pay or cause to be paid such taxes at the time and in the manner required by law. If Operator considers any tax assessment improper Operator may, at its discretion, protest within the time prescribed by law, and prosecute the protest to final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and

charged to the operating account. Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced from the lease(s).

8. Operator shall, upon reasonable notice, permit Owners to inspect daily drilling reports, logs, core reports and other analyses and testing results obtained or furnished with respect to any wells drilled, deepened, reworked or plugged back under the terms of this Agreement; and shall retain and/or furnish cuttings and core samples for examination by Owners if requested.

(B) DRILLING AND DEVELOPMENT

1. The test well, initial well, drilling or development program shall be conducted in accordance with the terms and conditions of the Participation Agreement, if any, executed by the parties or the AFE (Authority for Expenditure), if any, attached hereto. To the extent that such Participation Agreement contains provisions for drilling, completion, payment of expenses and designation of responsibilities and liabilities which are inconsistent with provisions of this Operating Agreement, then the Participation Agreement shall control and supersede such provisions herein; provided, however, that all other provisions hereof which are not inconsistent shall apply. In the absence of such Participation Agreement or AFE, then the provisions hereinafter set out shall apply.

2. Should any party hereto desire to drill any well on the lease(s), or to rework, deepen or plug back a dry hole drilled at the joint expense of all Owners or a well jointly owned by all Owners and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give all Owners and Operator written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The Owners receiving such a notice shall have thirty days after receipt of the notice within which to notify the party proposing the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight hours. Failure of an Owner receiving such notice to reply within the period above fixed shall constitute an election not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

3. If less than all Owners approve any such proposed operation, the proposing party shall advise the consenting Owners of the total interest of the Owners approving such operation and its recommendation as to whether the consenting Owners should proceed with the operation as proposed. If the consenting Owners elect to proceed with such operation with less than full participation by all Owners, the entire cost and risk of conducting such development shall be borne by the consenting Owners. Upon commencement thereof the non-consenting Owners shall be deemed to have relinquished to the consenting Owners, and the consenting Owners shall own and be entitled to receive, pro-rata based upon the consenting Owners' fractional ownership, all of the non-consenting Owners' interest in such proposed operation and share of production therefrom until the net proceeds (gross proceeds less the operating expenses attributable to such operation) shall equal 300% of the costs and expenses of the operation (including pre-drilling activities preparatory to such drilling).

4. During the period of time the consenting Owners are entitled to receive the non-consenting Owners' share of production, the consenting Owners shall be responsible, pro-rata, for the payment of all production, severance and other taxes attributable to such share. Consenting Owners shall keep the lease(s), well(s) and equipment with respect to such operation free and clear of all liens and encumbrances of every kind created by or arising from the operations of the consenting Owners. If and when the consenting Owners recover from the non-consenting Owner's relinquished interest the amounts provided for above, the relinquished interests of such non-consenting Owner shall automatically revert to it and thereafter such non-consenting Owner shall own the same interest in such well(s) and equipment and the production therefrom, as such non-consenting Owner would have been entitled to had it participated therein; and such non-consenting Owner shall be charged with and pay its proportionate share of the further costs of operations in accordance with the terms of this Agreement.

5. Except for any well in which a non-consent operation has been conducted hereunder for which the consenting Owners have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all Owners. If all Owners do not agree to the abandonment of such well, those wishing to continue its operation shall tender to each of the other Owners its proportionate share of the value of the well's salvageable material and equipment, less the estimated cost of salvaging and plugging. Each abandoning Owner shall assign to the non-abandoning Owners, without warranty, express or implied, all of its interest in the well and related equipment, together with its interest in the lease(s) as to, but only as to, the interval or intervals of the formation or formations then open to production. Thereafter, the abandoning Owners shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open; and the non-

Owners shall indemnify and hold the abandoning Owners harmless from any further responsibility, obligation or payment with respect to such well.

6. It is understood that Operator shall have no liability for losses or damages resulting from any breach of express or implied lease conditions or covenants the performance of which has not been authorized by Owners following notice thereof by Operator or by the terms of this Agreement. With respect to wells operated under the provisions of paragraphs 3 or 5 hereof, Operator shall operate the same for the Owners entitled to participate therein at the rates and charges contemplated in this Agreement, plus any additional costs and charges which may arise as the result of the separate ownership of the well(s).

7. With respect to any authorized well(s), Operator shall, unless undertaken on a turnkey basis, submit to the consenting Owners an AFE for the estimated total costs of drilling and completing, deepening or re-work. Owners shall pay to Operator, within fifteen (15) days after receipt thereof, the "dry hole" costs of the new well(s), or the total costs of deepening or re-working. If, in Operator's opinion, any of such new well(s) should be completed for production, Owners shall pay Operator, within fifteen (15) days after receipt of a statement therefor, the estimated completion costs. Upon completion, unless the drilling and/or completion was done on a turnkey basis, Operator shall reimburse Owners for any excess payment or submit a statement for the remaining balance of the actual costs and expenses. If the work is to be undertaken on a turnkey basis, then the consenting Owners shall remit payment to Operator upon the terms stated in the turnkey proposal.

8. Notwithstanding the provisions of paragraph 2 of this Section, if the proposed operation is for the drilling of developmental or exploratory well(s) and such operation is not consented to by all Owners, then Operator may, at its election, require the non-consenting Owners to release, assign and transfer to Operator all right, title and interest in the lease(s) saving and excepting only the existing wells and each well's minimum acreage permitted by applicable laws and regulations governing well spacing in the developed area. This provision does not apply to or effect any royalty interests held by an Owner by virtue of fee ownership of a mineral interest in the leased land. The interest so assigned to Operator shall be free and clear of all liens, security interests, encumbrances and adverse claims made or suffered by the assigning Owner, other than those arising by operation of the terms of this Agreement. The sole consideration for such assignment shall be Operator's assumption of all of the duties, obligations and liabilities of lessee and working interest owner under the lease(s) with respect to the acreage so assigned.

9. Notwithstanding the provisions of paragraphs 2 and 8 of this Section, if the pool or reservoir has been depleted to the extent commercially feasible by means of primary production, and if the proposed operation is an enhanced recovery program involving injection of gas, water or other substance by any method, whether now known or hereafter devised, and such operation is not consented to by all Owners, then Operator may, at its election, require the non-consenting Owners to release, assign and transfer to Operator all right, title and interest in the leases(s) and the wells, equipment, fixtures and personal property located thereon or used or obtained in connection therewith. The interest so assigned to Operator shall be free and clear of all liens, security interests, encumbrances and adverse claims made or suffered by the assigning Owner, other than those arising by operation of the terms of this Agreement. In consideration of such assignment, Operator shall pay to the assigning Owner an amount equal to such Owner's percentage or allocated share of (a) the then fair market value of the salvageable materials and equipment on the lease(s) in respect to each well in which the assigning Owner participated, less (b) the reasonable estimated cost of the removal thereof and of plugging and abandoning the existing wells in which the assigning Owner participated, at the prevailing rates and prices in the area.

10. Notwithstanding any other provision hereof, all Owners shall be deemed to have consented to any proposed operation which is required or necessary to satisfy conditions or covenants of the lease(s) necessary to keep same in effect or which is required or necessary to satisfy or discharge duties imposed by law or regulation.

(C) OPERATIONS AND ACCOUNTING

1. A joint operating account shall be established and maintained by Operator for the purpose of receiving all payments due from and paid by Owners and for the payment of expenses and charges attributable to the lease(s).

2. Operator shall account monthly to each Owner for such Owner's pro-rata receipts and disbursements in respect to the operating account; provided, however, that Operator is authorized to maintain an operating account balance of \$ 500 _____ for anticipated expenses, and to include in the monthly billing statements to Owners a charge for the purpose of maintaining such balance.

3. Operator shall charge the operating account for all the reasonable and necessary costs and expenses of authorized operations conducted the lease(s), including but not necessarily limited to contract services, labor, materials,

under the terms of the lease(s), taxes, legal expenses, and any other expenditures reasonably and properly incurred by Operator in the conduct of lease operations.

4. As compensation for administrative, supervision and office services, Operator shall charge the joint account at the following rates: (a) drilling well rate \$ 1500 per day; (b) active well rate \$ 150 per month per well. The charge 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 or more consecutive calendar days. Charges for wells undergoing any type of workover or recompletion for a period of five or more consecutive work days 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 unit release, except that no charge shall be made during suspension of operations for fifteen or more consecutive calendar days. An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month. 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 sales outlet. 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 the drilling well rate applies. The well rates shall be adjusted annually by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics. The overhead rates provided for in this paragraph may be amended from time to time only by mutual agreement between the parties if, in practice, the rates are found to be insufficient or excessive.

5. Each Owner grants to Operator a lien upon his working interest oil and gas rights in the lease(s) and a security interest in his working interest share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expenses and charges, together with interest thereon at the rate of fifteen (15%) per annum. Operator shall be entitled to exercise the rights and remedies available to a secured party under the Uniform Commercial Code. Operator shall have the right to collect from the purchaser the proceeds from the sale of Owner's share of oil and/or gas until the amount owed by such Owner, plus interest, has been paid. Any purchaser shall be entitled to rely upon Operator's written statement directing payment to Operator. If any Owner fails or is unable to pay its share of expenses within forty-five (45) days after rendition of a statement therefor by Operator, the non-defaulting Owners shall, upon demand by Operator, pay the unpaid amount in the proportion that the interest of each such Owner bears to the interest of all such Owners; and each Owner so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights herein described. The provisions hereof do not apply to royalty or overriding royalty interests, if any, of Owners.

6. In the event that the proceeds and operating account balance shall be insufficient to pay and discharge all proper expenses within a monthly accounting period, Operator shall remit a statement to each Owner for his pro-rata share of the deficiency, and any additional amount deemed necessary by Operator to meet the estimated expenses in the next succeeding period. Each Owner shall pay such statement within fifteen (15) days after receipt. Owners shall have the right to inspect, upon reasonable notice and at reasonable times, the books of account, ledgers and records kept and maintained by Operator in respect to lease operations.

7. The liability of the Owners shall be several, not joint or collective. Each Owner shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the lease(s). Accordingly, the liens and provisions for payment of a defaulting Owner's share as hereinabove provided are provided to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this Agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

8. Each Owner reserves the right to take in kind or separately dispose of its proportionate share of all oil and gas produced, exclusive of production used in lease operations; and shall execute such division orders and contracts as may be necessary for the sale of its interest in production and, except as provided at Section B, Paragraph 3, or at Paragraph 5 above, shall be entitled to receive payment directly from the purchaser thereof for his share of production. Provided, however, that each Owner hereby gives Operator the right, subject to revocation at will, but not the obligation, to purchase such production or sell it to others for the account of each Owner, but only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one year. Insofar as consistent with the provisions hereof, Operator shall have the right to market the oil and gas that may be produced from the lease(s); to collect and receive all money that may be due as a consequence of the sale of oil and/or gas; and to execute oil and/or gas purchase contracts on behalf of Owners.

9. Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \$5,000.00 except in connection with a well the drilling, reworking, deepening, completing, recompleting or plugging back of which has been previously authorized by or pursuant to this Agreement; provided, however, that in case of explosion, fire, flood, accident, casualty or other sudden emergency Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties.

10. Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed \$5,000.00 and if the payment is in complete settlement of such claim or suit. If the amount required for the settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this Agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

D. REMOVAL OR RESIGNATION OF OPERATOR

The Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership. Such removal shall take effect thirty (30) days after written notice thereof to Operator, unless such removal is for willful violation of the terms of this Agreement, in which event such removal may be made effective upon receipt of written notice. The Operator may resign at any time effective thirty (30) days after giving written notice of resignation to Owners. In the event of removal or resignation of Operator, a successor Operator shall be selected by the Owners representing more than fifty percent (50%) of the working interest.

E. LEASE OWNERSHIP AND INTERESTS

1. The lease(s) covered by this Agreement shall not be released or surrendered in whole or in part unless all parties consent thereto.

2. To the extent permitted by the laws of the state in which the lease is located, each party hereto owning an undivided interest in said lease waives any and all rights to partition and have set aside in severalty such party's undivided interest therein.

3. If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest, or if such burden existed prior to this Agreement and is not set forth in Exhibit A, or was not disclosed in writing to all other parties prior to the execution of this Agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties; and, if the burdened party is required under this Agreement to assign or relinquish to any other party or parties all or a portion of its working interest and/or the production attributable thereto, said other party or parties shall receive said assignment and/or production free and clear of said burden and the burdened party shall indemnify and save said other party or parties harmless from any and all claims and demands for payment asserted by any owner of such burdening interest.

4. Should any Owner desire to dispose of (whether by sale, gift, or other transfer or assignment, but not including the grant of a mortgage or security interest to a bona fide lender for value) all or any part of his interest in the lease(s) or production therefrom to any party who is not then an Owner and a party to this Agreement, he shall promptly give written notice to Operator, with full information concerning the proposed disposition, which shall include the name and address of the proposed transferee, the purchase price or other terms of transfer, and all other terms of the offer. Operator shall then have the exclusive prior right, for a period of thirty (30) days after receipt of the notice, to acquire on the same terms and conditions the interest which the Owner proposes to transfer. Further, no disposition shall operate to discharge the Owner making such disposition from any duty, liability or obligation under this Agreement, unless such disposition and release from liability are expressly consented to in writing by Operator. The interest conveyed by virtue of any such disposition shall remain subject to the provisions of this Agreement, and all provisions hereof shall be binding upon the assignee thereof.

5. Unless Operator has heretofore warranted to Owners the validity of the lease(s) and title thereto, Owners agree to indemnify and hold Operator harmless from any and all claims, demands, damages, actions and causes of action by any person arising from or incidental to invalidity of the lease(s), or defect in or loss of title thereto.

F. INTERNAL REVENUE CODE ELECTION

This Agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. If, for federal income tax purposes, this Agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, and any amendments thereto, as permitted and authorized by Section 761 of the Code and regulations promulgated thereunder. Operator is authorized to execute, on behalf of each party hereby affected, such evidence of this election as may be required by the Internal Revenue Service, including any of the returns, statements and data required by Regulation 1.761. In making the foregoing election, each such party states and represents that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

G. MISCELLANEOUS

1. This Agreement, and all matters pertaining hereto, shall be interpreted, governed and determined under the laws of the State of Kansas. The parties irrevocably consent that jurisdiction of any and all matters arising hereunder shall rest exclusively in a District Court of the State of Kansas. This Agreement shall be subject to the conservation laws of the state in which operations are conducted and to the rules, regulations and orders of any duly constituted regulatory body of said state; and to all other federal, state and local laws, ordinances, rules, regulations and orders. Owners agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of such laws, rules, regulations, orders and ordinances to the extent such interpretation was made in good faith.

2. This Agreement shall remain in force so long as the lease(s) subject hereto remain(s) in force, whether by production, extension, renewal or otherwise, unless terminated as provided herein. It is agreed, however, that the termination of this Agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

3. All notices authorized or required between the parties and required by any of the provisions of this Agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses given in the counterpart signature page. Notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, or such party's authorized agent or representative; and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

4. This Agreement supersedes any and all prior agreements, written or otherwise, made by the parties or any of them in respect to the drilling, development and operation of the lease(s), except for the Participation Agreement, if any, executed by the parties. This Agreement shall bind, and inure to the benefit of, the parties hereto and their respective successors, assigns, heirs and legal representatives.

5. Execution of this Agreement is evidenced by signature of the parties to a counterpart signature page, to be attached to each party's copy hereof.

6. THE FOLLOWING ATTACHMENTS ARE INCORPORATED HEREIN:

EXHIBIT A – AREA/LEASE/WELL DESCRIPTION

The undersigned agree(s) to the terms of the Operating Agreement and, if applicable the Participation Agreement, together with any exhibits identified therein, and hereby join in and execute the same by authorizing this counterpart signature page to be attached to each party's copy of said Agreement(s).

PARTICIPANT/OWNER

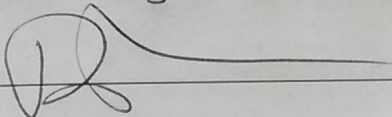
OWNER

Company: Butler Petroleum

Name: Brad Butler

Title: owner

Address: 1246 Hodgins Rd Van Alstyne TX 75495

Signature: 

Date: 7/7/18

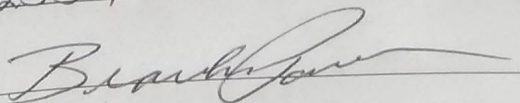
CONTRACTOR

Company: Paradigm Energy

Name: Brandon Parks

Title: Manager

Address: 25509 W 95th Ln Lenexa KS 66227

Signature: 

Date: 7/6/18

EXHIBIT A

Leases included in this operating agreement. See attached assignments.

- 1. Rankin SE/4 Section 9-14S-22E*
- 2. Burks SW/4 Section 27-14S-22E*
- 3. Alma SE/4 Section 20-16S-21E*
- 4. Thoren - NE/4 Section 6-14S-21E*
- 5. Kelco - NE/4 Section 31-13S-31E*
- 6. Circle K - SE/4 Section 31-13S-21E*
- 7. South Grosdidier - NE/4 Section 31-13S-31E*
- 8. Willobough - NE/4 Section 25-13S-20E*
- 9. Peterson - SW/4 Section 19-13S-21E*
- 10. South Peterson - NW/4 Section 30-13S-21E*

EXHIBIT B

ACCOUNTING PROCEDURES 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 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 by Non-Operators

- A. Unless otherwise provided for in the agreement, the Operator may require the 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 6.0% above the prime rate in effect at CitiBank, N.A. on the first day of the month in which delinquency occurs 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 such 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

- 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 twenty-four (24) 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 once each year without prior approval of Operator, except upon 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 180 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. Such 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 employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost

to the Joint Account under Paragraphs 3A and 3B 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 Paragraph 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 charges 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 the maximum per annum rate allowable under the Internal Revenue Code and Regulations promulgated thereunder. Such 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. 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 thereof 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. 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 hereto 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:

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

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

shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate: \$ 500.00 per well (Prorated for less than a full month)

Producing Well Rate: included in \$500.00 monthly fee for all wells

(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 well either produced or injected into for any portion of the month shall be considered as a one-well charge 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 well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent (10 %) 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 (10 %) 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, redrilling, 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 \$ 10,000 :

- A. 7.5 % of first \$100,000 or total cost if less, plus
- B. 5.0 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2.5 % 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. 7.5 % of total costs through \$100,000; plus
- B. 5.0 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2.5 % 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 or 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 $2\frac{3}{4}$ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of 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 cost, using 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 $2\frac{3}{4}$ 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 $\frac{3}{4}$ 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 $\frac{3}{4}$ 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 20 percent, 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 $\frac{3}{4}$ 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)

(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 such 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 such 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 an 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.