

KANSAS CORPORATION COMMISSION
OIL & GAS CONSERVATION DIVISION

Form T-1
April 2019
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: _____

Date: _____

Signature: _____

New Operator's License No. _____

Contact Person: _____

New Operator's Name & Address: _____

Phone: _____

New Operator's Email: _____

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: _____

Additional Surface Owner Information

Hamilton
10 22S 41W

EDDY, DORIS D TRUST
PO BOX 666
SYRACUSE, KS 67878-0666

GOULD MANAGEMENT INC
%JILL SMITH
6961 E FREMONT PLACE
CENTENNIAL, CO 80112

The entire lease assignment for this well can be found as an attachment to the T-1 for the ZOOK B 1 (API 15-075-00128), Section 1, Township 26S, Range 39W, Hamilton County, Kansas.

Exhibit A

To that certain Assignment and Bill of Sale, dated effective July 1, 2019, by and between Riviera Upstream, LLC and Riviera Operating, LLC, collectively as Assignor, and Scout Energy Group V, L.P., as Assignee

Leases

LEASE NO	LESSOR	LESSEE	DATE	TWP	RNG	SEC	BOOK	PAGE	REGISTRY	STATE	COUNTY
L008042000	TROUP H J & THERESA	R. L. FERUGSON	12/3/1956	0225	041W	004	12	443		KANSAS	HAMILTON
L008046000	SHASTID JON BARTON & NATALIE	LEE A. ADAMS	7/7/1953	0225	041W	004	9	43		KANSAS	HAMILTON
L008047000	GOULD A J & MAYME	LEE A. ADAMS	7/8/1953	0225	041W	004	9	46		KANSAS	HAMILTON
L008052000	LEWIS CARL ESTATE	LADD PETROLEUM CORP.	12/13/1977	0225	041W	006	27	119		KANSAS	HAMILTON
L008053000	LEWIS WOODROW ESTATE	LADD PETROLEUM CORPORATION	12/13/1977	0225	041W	006	27	160		KANSAS	HAMILTON
L008052000	LEWIS CARL ESTATE	LADD PETROLEUM CORP.	12/13/1977	0225	041W	007	27	119		KANSAS	HAMILTON
L008052000	GRISSOM CLYDE & BERNICE	ROBERT H. KIRK	3/12/1953	0225	041W	008	8	202		KANSAS	HAMILTON
L000349000	JON BARTON SHASTID ET UX	KANSAS-NEBRASKA NATURAL GAS CO MPANY INC	3/9/1962	0225	041W	010	15	295		KANSAS	HAMILTON
L008078000	HICKLE JOHN G AND STELLA	LADD PETROLEUM CORP.	12/7/1977	0225	041W	010	27	110		KANSAS	HAMILTON
L008079001	CHARLES VAN EDDY ET UX	LADD PETROLEUM CORP.	8/16/1977	0225	041W	010	26	116		KANSAS	HAMILTON
L008079002	SHASTID N KILIANI TRUSTEE	LADD PETROLEUM CORP.	8/16/1977	0225	041W	010	26	195		KANSAS	HAMILTON
L008079003	MOBIL OIL CORPORATION	MARK J. MOURNE OIL & GAS	10/1/1989	0225	041W	010	36	163		KANSAS	HAMILTON
L000347000	AJ GOULD ET UX	KANSAS-NEBRASKA NATURAL GAS CO	9/18/1961	0225	041W	011	15	78		KANSAS	HAMILTON
L000350000	DOROTHY B WILSON ET AL	KANSAS-NEBRASKA NATURAL GAS CO	5/9/1962	0225	041W	012	15	297		KANSAS	HAMILTON
L000352000	ZENO A GOULD ET UX	KANSAS-NEBRASKA NATURAL GAS CO	9/18/1961	0225	041W	013	15	71		KANSAS	HAMILTON
L047627000	ST COLUMBANS FOREIGN MISSION SOCIETY	HADSON OIL & GAS CO	6/20/1962	0225	041W	013	15	309		KANSAS	HAMILTON
L000351000	FLOYD STRATE ET UX	KANSAS-NEBRASKA NATURAL GAS CO	10/20/1961	0225	041W	014	15	133		KANSAS	HAMILTON
L000351000	FLOYD STRATE ET UX	KANSAS-NEBRASKA NATURAL GAS CO	10/20/1961	0225	041W	015	15	133		KANSAS	HAMILTON
L008098000	STRATE FLOYD & VERA	KANSAS-NEBRASKA NATURAL GAS	10/20/1961	0225	041W	015	15	133		KANSAS	HAMILTON
L008099000	GRISSOM PATTERSON	LEE A. ADAMS	7/8/1953	0225	041W	015	9	100		KANSAS	HAMILTON
L008100000	HOCKETT E ELMER & MARY	SUN OIL COMPANY	3/19/1964	0225	041W	015	16	404		KANSAS	HAMILTON
L007913000	TAPSCOTT D W AND VIRGINIA	P.C. FRAZEE	1/22/1954	0225	041W	016	11	55		KANSAS	HAMILTON
L007914001	FERTIG A F AND FRIEDA	P.C. FRAZEE	3/28/1955	0225	041W	016	11	260		KANSAS	HAMILTON
L007915001	BURNETT ETHEL ET AL	P.C. FRAZEE	3/28/1955	0225	041W	016	11	316		KANSAS	HAMILTON
L007915002	ROSS FLOSSIE AND GLENN	P.C. FRAZEE	1/22/1954	0225	041W	016	11	214		KANSAS	HAMILTON
L007960000	SHASTID NATALIE K AND ION	TEXACO INC	7/3/1963	0225	041W	016	16	250		KANSAS	HAMILTON
L007961000	EATON KENNETH M AND AVIS	LEE A ADAMS	7/7/1953	0225	041W	016	9	55		KANSAS	HAMILTON
L007982001	ZYGNER S J & ETHEL	HAMILTON BROTHERS, LTD.	9/30/1960	0225	041W	016	14	249		KANSAS	HAMILTON
L007982002	SMALLEY JOHN L & ALICE	LADD PETROLEUM CORPORATION	8/15/1978	0225	041W	018	27	142		KANSAS	HAMILTON
L007983000	FERTIG WENDELL W & PATTY	ED PENDLETON	7/27/1978	0225	041W	018	27	144		KANSAS	HAMILTON
L007984000	NEGLEY PAUL W & THELMA	LADD PETROLEUM CORPORATION	7/24/1978	0225	041W	018	27	141		KANSAS	HAMILTON
L037610003	JOHN L SMALLEY ET UX	ED PENDLETON	9/20/1978	0225	041W	018	27	143		KANSAS	HAMILTON
L046250001	S J ZYGNER ET UX	LADD PETROLEUM CORP	7/27/1978	0225	041W	018	15	191		KANSAS	HAMILTON
L007990001	NEGLEY PAUL W AND THELMA	LADD PETROLEUM CORP	8/15/1978	0225	041W	018	27	142		KANSAS	HAMILTON
L007990002	ARMIT LILLIAN J AND JOHN	LEE A ADAMS	7/9/1953	0225	041W	020	9	382		KANSAS	HAMILTON
L007992000	SPAR BERTHA ET AL	KANSAS-NEBRASKA NATURAL GAS	1/15/1962	0225	041W	021	15	230		KANSAS	HAMILTON
L000353000	S F FOTOPOULOS ET UX	LEE A ADAMS	7/8/1953	0225	041W	021	12	85		KANSAS	HAMILTON
L037617002	H C WEAR ET UX	HAMILTON BROTHERS LTD	4/23/1962	0225	041W	022	15	272		KANSAS	HAMILTON
L000354000	PAUL REIFEL ET AL	KANSAS-NEBRASKA NATURAL GAS CO	8/30/1961	0225	041W	023	15	41		KANSAS	HAMILTON

AMENDED AND RESTATED FARMOUT AGREEMENT

THIS AMENDED AND RESTATED FARMOUT AGREEMENT (this "Agreement") is made and entered into as of March 31, 2021 (the "Effective Date"), by and between Scout Energy Group V, LP, Scout Energy Partners V-A, LP, Scout Energy Group Co-Invest V, LP, Scout Energy Partners Co-Invest V-A, LP (collectively, "Farmor"), with an address at 4901 LBJ Freeway, Suite 300, Dallas, Texas 75244 and Brooks Energy Company ("Farmee"), with an address at 50 South Steele Street, Suite 600, Denver, Colorado, 80209.

RECITALS

A. Farmor and Farmee are parties to a Farmout Agreement made and entered into effective July 1, 2020 ("Original Farmout"). The parties desire to amend, revise, restate and replace the Original Farmout with this Agreement, effective as of March 31, 2021.

B. Farmor is the owner of leasehold interests in certain oil and gas leases located within the polygon outline encompassing _____ sections, more or less, shown on Exhibit A attached hereto (to the extent an interest is owned by Farmor, the "Leases") or other interests in the lands (the "Lands") within the polygon shown on Exhibit A, located in Hamilton County, Kansas

C. Farmor and Farmee desire to redefine their respective rights, interests and obligations with respect to conducting exploration, development and producing operations on the Farmout Lands (defined below).

AGREEMENT

For and in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the parties hereto agree as follows:

ARTICLE I FARMOUT

1.1 Farmout Lands. The "Farmout Lands" are defined as all rights, titles, and interests from the surface to the _____ in all acreage located within the polygon outline shown on Exhibit A, limited to the Leases and the Lands as to such depths; provided, however, that notwithstanding anything to the contrary herein, the definitions of Lands, Leases and Farmout Lands shall not include any acreage or any rights in any depths within (i) any existing unplugged wellbore in which Farmor currently owns an interest and the required setback spacing around such wellbore (collectively, an "Existing Well"), if such well is not listed by

the completion or termination of this Agreement and any payment made on Farmor's ORRI. Records to be reviewed may include, but are not limited to costs of drilling, Re-Entry, Completion, Connection, remediation or royalty payments and shut-in royalty payments to lessors under the Leases to Farmor, and any and all other costs of payments requested for review by Farmor covered by this Agreement. The audit may include all books, records, correspondence, instructions and other supporting data reasonably required to validate production volumes.

Farmee and Farmor have executed this document effective as of the first date written above.

FARMOR:

Scout Energy Group V, LP

by Scout Energy Group V GP, LLC
its general partner

By:  _____

Name: Jon Piot

Title: Managing Director

Scout Energy Partners V-A, LP

by Scout Energy Group V, LP
its general partner

by Scout Energy Group V GP, LLC
its general partner

By:  _____

Name: Jon Piot

Title: Managing Director

Scout Energy Group Co-Invest V, LP

by Scout Energy Group V GP, LLC
its general partner

By:  _____

Name: Jon Piot

Title: Managing Director

Scout Energy Partners Co-Invest V-A, LP

by Scout Energy Group Co-Invest V, LP

its general partner

by Scout Energy Group V GP, LLC
its general partner

By:  _____

Name: Jon Piot
Title: Managing Director

FARMEE:

Brooks Energy Company

By:  _____

Name: Robert B. Price
Title: President

LEASE NO	LESSOR	LESSEE	DATE	TWP	RNG	SEC	BOOK	PAGE	REGISTRY	STATE	COUNTY	DEVELOPED
L000349000	JON BARTON SHASTID ET UX	KANSAS-NEBRASKA NATURAL GAS CO Mpany IN	3/9/1962	022S	041W	010	15	295		KANSAS	HAMILTON	UNIT
L008078000	HICKLE JOHN G AND STELLA	LADD PETROLEUM CORP.	12/7/1977	022S	041W	010	27	110		KANSAS	HAMILTON	UNIT
L008079001	CHARLES VAN EDDY ET UX	LADD PETROLEUM CORP	8/16/1977	022S	041W	010	26	116		KANSAS	HAMILTON	UNIT
L008079002	SHASTID N KILIANI TRUSTEE	LADD PETROLEUM CORP.	8/16/1977	022S	041W	010	26	195		KANSAS	HAMILTON	UNIT
L008079003	MOBIL OIL CORPORATION	MARK J. MOURNE OIL & GAS	10/1/1989	022S	041W	010	36	163		KANSAS	HAMILTON	UNIT

The above list of leases was prepared by Scout Energy Management, LLC for that certain Farmout Agreement between Scout Energy Group V, LP, Scout Energy Partners V-A, LP, Scout Energy Group Co-Invest V, LP, Scout Energy Partners Co-Invest V-A, LP, as Farmor and Brooks Energy Company, as Farmee, to be used as a resource only and does not represent in anyway the accuracy of the actual leases, ownership, interest, depths, rights held by Farmor in the leases as Farmor may own more or less leasehold interest than what is described in the above list of leases.

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956
Non-Federal Lands

OPERATING AGREEMENT

DATED

January 15, 1979,

FOR UNIT AREA IN TOWNSHIP 22 South, RANGE 41 West

Hamilton COUNTY, STATE OF Kansas

SECTION 10

UNIT 1021-B

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

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A.A.P.L. FORM 610

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 15th day of January, 1979, between
LADD PETROLEUM CORPORATION

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- (6) The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

~~There shall be no examination of title to leases, or to oil and gas interests, except that title to the lease covering the land upon which the exploratory well is to be drilled in accordance with Section 7, shall be examined on a complete abstract record by Operator's attorney, and the title to both the oil and gas lease and to the fee title of the lessors must be approved by the examining attorney, and accepted by all parties. A copy of the examining attorney's opinion shall be sent to each party immediately after the opinion is written, and, also, each party shall be given, as they are written, a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy the examining attorney's requirements shall be made by the party owning the lease covering the drillsite.~~

~~If title to the proposed drillsite is not approved by the examining attorney or the lease is not acceptable for a material reason, and all the parties do not accept the title, the parties shall select a new drillsite for the first exploratory well; provided, if the parties are unable to agree upon another drillsite, this agreement shall, in that case, come to an end and all parties shall then forfeit their rights and be relieved of obligations hereunder. If a new drillsite is selected, title to the oil and gas lease covering it and to the fee title of the lessor shall be examined, and title shall be approved or accepted or rejected in like manner as provided above concerning the drillsite first selected. If title to the oil and gas lease covering the second choice drillsite is not approved or accepted, other drillsites shall be successively selected and title examined, until a drillsite is chosen~~

A.A.P.L. FORM 610

Operator will examine title and bill non-operators for their proportionate part thereof.

~~to which title is approved or accepted, or until the parties fail to select another drillsite. As in the case of the drillsite first selected, so also with successive choices if the time comes that the parties have not approved title and are unable to agree upon an alternate drillsite, the contract shall, in that case and at that time, come to an end and all parties shall forfeit their rights and be relieved of obligations under this contract.~~

~~No well other than the first test shall be drilled in the Unit Area until after (1) the title to the lease covering the lands upon which such well is to be located has been examined by Operator's attorney, and (2) the title has been approved by the examining attorney and the title has been accepted by all of the parties who are to participate in the drilling of the well.~~

B. Failure of Title:

Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall nevertheless, continue in force as to all remaining leases and interests, and

- (1) The party whose lease or interest is affected by the title failure shall bear alone the entire loss and shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and
- (2) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Unit Area by the amount of the interest lost; and
- (3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled in the Unit Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and
- (4) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, or equipment previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and
- (5) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production.

C. Loss of Leases for Causes Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as "Exhibit B" and for the primary term therein stated. As to such interests, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If the interest of any party in any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth (1/8) royalty, such party shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

LADD PETROLEUM CORPORATION shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained, or liabilities incurred, except such as may result from gross negligence or from breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL

On or before the 15th day of February, 1979, Operator shall commence the drilling of a well for oil and gas in the following location:

Center of the NW/4 SE/4 of Section 10-22S-41W,
Hamilton County, Kansas

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to properly test the Winfield formation at approximately 2,800 feet,

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ~~ten~~ ^{twelve} percent ~~(10%)~~ ^(12%) per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. 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.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Five Thousand and No/100 Dollars (\$ 5,000.00) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other 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 deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$ 5,000.00.

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties 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 parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefit of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (A) ~~200%~~ ^{100%} of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) ~~200%~~ ^{300%} of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and ~~200%~~ of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties 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 parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefit of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- ~~200%~~ ^{100%} *to R*
- (A) ~~100%~~ of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- 300%
- (B) ~~200%~~ of that portion of the costs and expenses of drilling, reworking, deepening or plugging back testing and completing, after deducting any cash contributions received under Section 25, and ~~200%~~ of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof with each party receiving its proportionate part in kind or in value.

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it and from and after such reversion such Non-Consenting Party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto and the production therefrom as such Non-Consenting Party would have owned had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the accounting procedure schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall ^{have the right to} take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

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In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

20. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit Area and in wells, equipment and production unless such disposition covers either:

- (1) the entire interest of the party in all leases and equipment and production; or
- (2) an equal undivided interest in all leases and equipment and production in the Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties.

If at any time the interest of any party is divided among and owned by four or more co-owners, Operator may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay 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 interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of no less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

22. LIABILITY OF PARTIES

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 for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is given 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 them liable as partners.

23. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this section shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this section.

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.

24. SURRENDER OF LEASES

The leases covered by this agreement, in so far as they embrace acreage in the Unit Area, shall not be surrendered in whole or in part unless all parties consent.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C" less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportion that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignors' or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Unit Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

26. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

27. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen' Compensation Law of the State where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attache to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit Are to comply with the Workmen's Compensation Law of the State where the operations are being conducted an to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently re ceives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such in surance for operator's fully owned automotive equipment.

28. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Uni Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this con tract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing th parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint con sent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharg any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shal be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counse is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator anc charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of thi paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint ac count of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shal be within the discretion of Operator so long as the amount paid in settlement of any one claim does not excee one thousand (\$1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

29. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations unde this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all possible diligence to remove the force majeure as quickly as possible.

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

The term "force majeure" as here employed shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, gov- ernmental restraint, unavailability of equipment, and any other cause, whether of the kind specifically enum- erated above or otherwise, which is not reasonably within the control of the party claiming suspension.

30. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

A.A.P.L. FORM 610

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. 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.

31. OTHER CONDITIONS, IF ANY, ARE:

- A. If any party hereto hereinafter shall create any overriding royalty, production payment or other burden against his working interest production, and if any other party or parties should conduct operations pursuant to Article 12 of this Agreement and, as a result, become entitled to receive the working interest production otherwise belonging to the nonparticipating party, the party or parties entitled to receive the working interest production of the nonparticipating party shall receive such production free and clear of burdens against such production that may have been created subsequent to this Agreement; and the nonparticipating party creating such subsequent burden shall save the participating party or parties harmless with respect to the receipt of such working interest. Nothing contained in this sub-paragraph shall be construed as relieving any party hereto of its obligations under Section 4 hereof with respect to presently existing excess royalties, overriding royalties, production payments, or other burdens.

- B. Notwithstanding any provision to the contrary contained herein, consent to the drilling of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this Agreement has reached its authorized depth (all logs having been run and received by the parties hereto), Operator shall so notify non-operators by telephone or telegram and shall state in such notice whether or not Operator desires to attempt a completion. Non-operators shall have 48 hours (exclusive of Saturday, Sunday and holidays) after receipt of logs and notification by Operator in the manner aforesaid to elect whether or not it will participate in such completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of all parties. If one or more, but less than all of the parties, elect to set pipe and attempt a completion, the penalty provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties and to costs incurred in such operations, including plugging and abandonment, if dry.

A.A.P.L. FORM 610

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

ATTEST:

John Reid Jr.
John Reid Jr.
Assistant Secretary

LADD PETROLEUM CORPORATION

By: *Ronald G. Spence*
Ronald G. Spence
Senior Vice President

OPERATOR

MOBIL OIL CORPORATION

ATTEST:

By: _____

ATTEST:

A.A.P.L. FORM 610

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

LADD PETROLEUM CORPORATION

ATTEST:

John Reid Jr.
John Reid Jr.
Assistant Secretary

By:

Ronald G. Spence
Ronald G. Spence
Senior Vice President

OPERATOR

MOBIL OIL CORPORATION

ATTEST:

By:

P. Moody
Attorney-in-Fact

APPROVED	
Prod	<u>AMS</u>
Cont	
Engr	
Gas	
Land	<u>SPS</u>
Legal	

ATTEST:

CO 881

State of Colorado,
COUNTY OF DENVER

ss. On September 7

before me, the undersigned, a Notary Public in and for said County and
sonally appeared P. Moody
known to me to be the person whose name is subscribed to the within
an attorney in fact of MOBIL OIL CORPORATION, and acknowledged
subscribed the name of MOBIL OIL CORPORATION, thereto as pri
own name as attorney in fact.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed
the day and year in this certificate first above written.
Rafaela Kelly
Notary Public in and for said County

My Commission Expires 4-26-82

EXHIBIT "A"

Attached to and made a part of Operating Agreement
dated January 15, 1979, covering HCU 1021-B.

Lands Subject to Agreement:

All of Section 10-22S-41W, Hamilton County, Kansas, containing 640
acres, more or less.

Interest of Parties:

Ladd Petroleum Corporation	87.5%
Mobil Oil Corporation	12.5%

Addresses of Parties to Which Notices Should Be Sent:

Ladd Petroleum Corporation
830 Denver Club Building
Denver, Colorado 80202

Mobil Oil Corporation
P. O. Box 5444
Denver, Colorado 80217

EXHIBIT "B"

Form 88—(Prod. Pooling)(Oklahoma)(640-Shut) Burkhart Printing & Stationery Co., Tulsa, Okla.

OIL AND GAS LEASE

AGREEMENT, Made and entered into this _____ day of _____, 19____

by and between _____

_____ Party of the first part, hereinafter called lessor (whether one or more) and _____ part _____ of the second part, hereinafter called lessee

WITNESSETH, That the said lessor, for and in consideration of _____ DOLLAR cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on the part of lessee to be paid, kept performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto the said lessee, for the sole and only purpose exploring by geophysical and other methods, mining and operating for oil and gas and laying pipe lines, and building tanks, powers, stations and structures thereon, to produce, save and take care of said products, all that certain tract of land situated in the County of _____, State of Oklahoma, described as follows, to-wit: _____

_____ of Section _____, Township _____, Range _____, and containing _____ acres, more or less

It is agreed that this lease shall remain in force for a term of _____ years from date, and as long thereafter as oil or gas, or either of them is produced from said land by the lessee.

In consideration of the premises the said lessee covenants and agrees:

1st. To deliver to the credit of lessor free of cost, in the pipe lines to which he may connect his wells, the equal one-eighth (1/8) part of all oil produced and saved from leased premises.

2nd. To pay lessor for gas of whatsoever nature and kind produced and sold or used off the premises, or used in the manufacture of any products therefrom, one-eighth (1/8) at market price at the well for the gas sold, used off the premises, or in the manufacture of products therefrom, said payments to be made monthly. Where gas from a well producing only is not sold or used, lessee may pay or tender a royalty of One Dollar (\$1.00) per year per net royalty acre retained hereunder, such payment or tender to be made on or before anniversary date of this lease next ensuing after the expiration of ninety (90) days from the date such well is shut in and thereafter on the anniversary date of this lease during period such well is shut in, to the royalty owners or to the royalty owner's credit in the rental depository bank hereinafter designated. If such payment or tender is made it will be considered that gas is being produced within the meaning of the preceding paragraph.

3rd. To pay lessor for gas produced from any oil well and used off the premises, or for the manufacture of casing-head gasoline or dry commercial gas, one-eighth (1/8) of proceeds, at the mouth of the well, at the prevailing market rate for the gas during which time such gas shall be used, said payments to be made monthly.

If no well be commenced on said land on or before the _____ day of _____, 19____, this lease shall terminate as to both parties, unless the lessee on or before that date shall pay or tender to the lessor or to the lessor's credit in the _____ at _____ or its successors, which shall continue as the depository regardless of changes in the ownership of land, the sum of _____ DOLLARS

which shall operate as rental and cover the privilege of deferring the commencement of a well for _____ months from said date. The payment herein referred to may be made in currency, draft, or lessee's check at the option of the lessee, and tender thereof may be made either to lessor in person or by mailing the same to lessor at his last known address, or to said depository bank on or before the date on which said rental is due hereunder. In like manner and upon like payments or tenders the commencement of a well be further deferred for periods of the same number of months successively. And it is understood and agreed that the consideration first recited herein, the down payment, covers only the privilege granted to the date when said first rental is payable, as aforesaid, but also the lessee's option of extending that period as aforesaid, and any and all other rights conferred.

Should the first well drilled on the above described land, or on acreage pooled therewith, be a dry hole, then and in that event, if a second well is not commenced on said land or on acreage pooled therewith, within twelve months from the expiration of the last rental period for which rental has been paid, this lease shall terminate as to both parties, on the expiration of or before the expiration of said twelve months shall resume the payment of rentals, in the same amount and in the same manner as hereinbefore provided. And it is agreed that upon the resumption of the payment of rentals as above provided, that the provisions, heretofore governing the payment of rentals and the effect thereof, shall continue in force as though there had been no interruption in the rental payments. If the lessee shall commence to drill a well within the term of this lease or any extension thereof, or on acreage pooled therewith, the lessee shall have the right to drill such well to completion with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in such 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.

Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease or any portion thereof with other land, lease or leases in immediate vicinity thereof, when in lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said lease premises so as to promote the conservation of all oil and gas in and under and that may be produced from said premises, such pooling to be of tracts contiguous to one another and to be into a unit or units not exceeding 40 acres in the event of an oil well, or into a unit or units not exceeding 640 acres each in the event of a gas well. Lessee shall execute in writing and record in the conveyance record of the county in which the land herein leased is situated an instrument identifying and describing the pooled acreage. The entire acreage so pooled into a tract or unit shall be treated for all purposes except the payment of royalties on production from the pooled unit, as if it were included in this lease. If production is found on the pooled acreage, it shall be treated as if production is had from this lease, whether the well or wells be located on the premises covered by this lease or not. In lieu of the royalties elsewhere herein specified lessor shall receive on production from a unit so pooled only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest thereon on an acreage basis bears to the total acreage so pooled in the particular unit involved.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid to the lessor only in the proportion which his interest bears to the whole and undivided fee.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells of lessor.

When requested by the lessor, lessee shall bury his pipe lines below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor.

Lessee shall pay for all damages caused by its operations to growing crops on said land.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land or assignment of rentals or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer of assignment or a true copy thereof, and it is hereby agreed in the event this lease shall be assigned as to a part or parts of the above described lands and the assignee or assignees of such part or parts shall fail or make default in the payment of the proportionate part of the rentals due from him or them, such default shall operate to default or affect this lease in so far as it covers a part or parts of the lands on which the said lease or any assignee thereof shall make the payment of said rentals. In lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules and Regulations, and this lease shall not be terminable in whole or in part, nor lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or such failure is the result of any such Law, Order, Rule or Regulation.

This lease shall be effective as to each lessor on execution hereof as to his or her interest and shall be binding on those signing, notwithstanding some of the lessors above may not join in the execution hereof.

The undersigned lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all rights of dower and homestead in the premises herein described as said right of dower and homestead may in any way affect the purposes for which this lease is made as recited herein.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor by paying any mortgages, taxes or other liens on the above described lands, in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof.

IN TESTIMONY WHEREOF, we sign this the _____ day of _____, 19____

_____(S)_____
_____(S)_____
_____(S)_____
_____(S)_____

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated
January 15, 1979 between LADD PETROLEUM CORPORATION,
Operator, and MOBIL OIL CORPORATION, Non-Operator,
covering Unit 1021-B, Hamilton County, Kansas.

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 Account Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection & maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Jo 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 dir supervision of other employees and/or contract labor directly employed on the Joint Property in a field oper ing capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or otl professional skills, and whose primary function in Joint Operations is the handling of specific operating con tions 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 Man as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance th share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly bill to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is i made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) p annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Jo Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection w 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 corre ness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during a calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months followi the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator tal written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator sh be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prev adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit O operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) mo period following the end of such calendar year; provided, however, the making of an audit shall not extend t time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of t Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Ope tor. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unles agree to by the Operator.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. 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 excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B 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 2A 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 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. 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 chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. 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 operations and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. 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, recognized barge terminal, or railway receiving point where like material is normally available, 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, recognized barge terminal, or railway receiving point 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, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded Paragraph 9 of Section II and Paragraph 1. ii 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 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.

7. 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, operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. 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 7A 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.

8. 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.

9. 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 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.

10. 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 Parties.

11. 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 Workmen'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 cost not to exceed manual rates.

12. 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 incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

I. 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 off and salaries or wages plus applicable burdens and expenses of all personnel, except those directly charges under Paragraph 2A, 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 consulting services and contract services of technical personnel directly employed on the Joint Property shall () shall not (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 1,352.00
 Producing Well Rate \$ 262.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive 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 may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowance 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 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 Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or 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 (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 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 crew and equipment; 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 BE NEGOTIATED.

~~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 \$ _____:~~

~~A. _____ % of total costs if such costs are more than \$ _____ but less than \$ _____; plus~~

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

~~C. _____ % of total 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 shall be excluded.~~

3. 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 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 the event of Material found to be defective or returned to vendor for any other reason, 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 Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the low published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds 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 where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

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

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section 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 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. 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

All other Material, including junk, shall be priced at a value commensurate with its use or at prevail prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the 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 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 and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, with actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (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, strike or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for 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-Operator to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with 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 or change of interest 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.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "D"

The Operator shall carry for the benefit of the joint account insurance to cover the Operator's operations on the lease acreage covered by this agreement, as follows:

- (a) Workmen's Compensation Insurance, in compliance with the workmen's compensation laws of the applicable state, including \$100,000.00 Employers' Liability.
- (b) Comprehensive General Liability Insurance, including products, providing bodily injury limits of \$200,000.00 each person, \$500,000.00 each occurrence with \$250,000.00 aggregate.
- (c) Automobile Liability Insurance, providing bodily injury limits of \$200,000.00 each person, \$500,000.00 each occurrence, property damage \$100,000.00 each occurrence.

The Operator shall require its contractors and subcontractors working or performing services on the Unit Area covered hereby to comply with the workmen's compensation laws of the applicable state and to carry such other insurance and in such amounts as the Operator shall deem necessary.