

A.A.P.L. FORM 610 - ~~1989~~2015

MODEL FORM OPERATING AGREEMENT
HORIZONTAL MODIFICATIONS

OPERATING AGREEMENT

DATED

_____, _____, _____,
Year

OPERATOR _____

CONTRACT AREA _____

COUNTY OR PARISH OF _____, STATE OF _____

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TEXAS, ~~76137~~76102, APPROVED FORM.

A.A.P.L. NO. 610 - ~~1989~~(~~Horz.~~)2015

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OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder. An AFE is not a contractual commitment. Rather it is only an estimate, made in good faith.

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

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

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

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

~~F. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser. When used in connection with a Horizontal Well, the term "Deepen" shall mean an operation whereby a Lateral is drilled to a Displacement greater than (i) the Displacement contained in the proposal for such operation approved by the Consenting Parties, or (ii) to the Displacement to which the Lateral was drilled pursuant to a previous proposal. "Deepen" shall not refer or apply to an operation involving the Extension of a Lateral.~~

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

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

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

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

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

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

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

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

N. The term "Lateral" shall mean that portion of a wellbore of a Horizontal Well between the point at which the wellbore initially penetrates the objective Zone and the Terminus that deviates from approximate vertical orientation to approximate horizontal orientation and all wellbore beyond such deviation to Total Measured Depth.

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

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

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

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

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

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

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

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

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

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

8 | ~~W~~Y. The term "Terminus" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction
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1 over the Contract Area, in the absence of which the term shall mean the furthest point drilled in the Lateral.
 2 of ~~ZZ~~. The term "Total Measured Depth," when used in connection with a Horizontal Well, shall mean the distance from the surface
 3 of
 4 the ground to the Terminus, as measured along and including the vertical component of the well and Lateral(s). When the proposed
 5 operation(s) is the drilling of, or operation on, a Horizontal Well, the terms "depth" or "total depth" wherever used in this agreement shall be
 6 deemed to read "Total Measured Depth" insofar as it applies to such well.

7 ~~YA~~. The term "Vertical Well" shall mean a well drilled, Completed or Recompleted other than a Horizontal Well.

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

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

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

13 **ARTICLE II.**
 14 **EXHIBITS**

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

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

- 17 (1) Description of lands subject to this agreement,
- 18 (2) Restrictions, if any, as to depths, formations, or substances,
- 19 (3) Parties to agreement with addresses and telephone numbers for notice purposes,
- 20 (4) Percentages or fractional interests of parties to this agreement,
- 21 (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement.
- 22 (6) Burdens on production.

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

24 C. Exhibit "C," Accounting Procedure.

25 D. Exhibit "D," Insurance.

26 E. Exhibit "E," Gas Balancing Agreement.

27 F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.

28 G. Exhibit "G," Tax Partnership.

29 H. Other: _____

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

32 **ARTICLE III.**
 33 **INTERESTS OF PARTIES**

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

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

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

39 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid,
 40 and all equipment and materials acquired in operations ~~on the Contract Area~~ **conducted under this agreement** shall be owned, by the parties
 41 as their interests are set forth in

42 Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the Contract Area subject, however, to the
 43 payment of royalties and other burdens on production as described hereafter. **Operator shall amend Exhibit "A," from time to time, in
 44 order to correct mistakes therein or to reflect changes in ownership within the Contract Area. Operator's duty to amend Exhibit "A"
 45 shall be subject to the following:**

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

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

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

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

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

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

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

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

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

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

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

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby, and in

1 the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in said Leaseholds shall be
2 deemed separate leasehold interests for the purposes of this agreement.

3 **C. Subsequently Created Interests:**

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

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

TITLES

A. Title Examination:

Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in interest of the ~~Drilling-Consenting~~ Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each ~~Drilling-Consenting~~ Party. Costs incurred by Operator in procuring abstracts, fees paid outside attorneys **and outside landmen** for title examination (including preliminary, supplemental, shut-in opinions and division order title opinions), **title curative**, and other direct charges as provided in Exhibit "C" shall be borne by the ~~Drilling-Consenting~~ Parties in the proportion that the interest of each ~~Drilling-Consenting~~ Party bears to the total interest of all ~~Drilling-Consenting~~ Parties ~~as such interests appear in Exhibit "A."~~

Operator shall make no charge for services rendered by its staff attorneys, **staff landmen** or other personnel in the performance of the above functions.

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

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

B. Loss or Failure of Title:

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

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

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the Lease or Interest which has failed, but the interests of the parties contained on Exhibit "A" shall be revised on an acreage basis, as of the time it is 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 Contract Area by the amount of the Lease or Interest failed;

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

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

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

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

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

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, or other payment necessary to maintain all or a portion of an Oil and Gas Lease or interest is not paid or is erroneously paid, and as a result a Lease or Interest terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new Lease or Interest covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., **and subject to the provisions of Article VII.E with respect to shut-in payments**, the interests of the parties reflected on Exhibit "A" shall be revised on an acreage basis, effective as of the date of termination of the Lease or Interest involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the Lease or Interest which has terminated. If the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of Oil and Gas attributable to the lost Lease or Interest, calculated on an

1 acreage basis, for the development and operating costs previously paid on account of such Lease or Interest, it shall be reimbursed for
2 unrecovered actual costs previously paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously
3 abandoned) from so much of the following as is necessary to effect reimbursement:

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

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

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

10 3. Other Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles
 11 IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on Exhibit "A."
~~Plus Losses included in this Article IV.B.3.~~

12 shall include but not be limited to the loss of any Lease or Interest ^{covenants} (or portion thereof) through failure to develop or because express or
 13 implied ^{have} not been performed (other than performance which requires only the payment of money **which is addressed in IV.B.2. above**), **operation of**
 14 **an express of an express term in the Lease or Interest, ~~and~~ or** the loss of any Lease by expiration at the end of
 15 its primary term if it is not renewed or extended **as provided in Article VIII.B.** There shall be no readjustment of interests in the remaining
 16 portion of the Contract Area on
 17 account of any joint loss.

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

22 **ARTICLE V.**
 23 **OPERATOR**

24 **A. Designation and Responsibilities of Operator:**

25 _____ shall be the Operator of the Contract Area, and shall conduct and direct
 26 and have full control of all operations ~~on the Contract Area~~ **conducted under this agreement** as permitted and required by, and within the
 27 limits of this agreement. **Operatorship is neither assignable nor forfeited except in accordance with the provisions of this Article V.** In
 28 its
 29 performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction
 30 of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this
 31 agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or
 32 liability assumed or incurred by Operator as to any third party, **except that Non-Operators hereby designate and appoint Operator as**
 33 **their agent and attorney-in-fact for the sole purpose of executing, filing for approval by a governmental agency as required under**
 34 **applicable law or regulation, and recording a declaration of pooling or communitization agreement to effectuate the pooling or**
 35 **communitization of the Oil and Gas Leases (to the extent legally allowed under their respective terms and conditions) and/or Oil and**
 36 **Gas Interests to conform with a spacing order of a governmental agency having jurisdiction over any portion of the Contract Area.**
 37 **However, said agency authority shall only be exercised by Operator after providing written notice including a copy of the proposed**
 38 **pooling declaration or communitization agreement to Non-Operators, and shall be binding upon any Non-Operator failing to provide**
 39 **to Operator a written objection within ten (10) days after receipt of such notice.** Operator shall conduct its activities under this agreement
 40 as a reasonably
 41 prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in
 42 compliance with applicable law and regulation. ~~but~~. **However**, in no event shall it have any liability as Operator to the other parties for losses
 43 sustained
 44 or
 45 liabilities incurred **in connection with authorized or approved operations under this agreement** except such as may result from gross
 46 negligence or willful misconduct.

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

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

- 46 1. **Voluntary Resignation of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators.**
- 47 2. **Events Deemed Resignation of Operator: If, after the effective date of this agreement, Operator (i) terminates its legal**
 48 **existence, (ii) sells, transfers or has a loss of title to more than of its interest in the Contract Area as shown on Exhibit "A," or (iii) is**
 49 **no longer capable of serving as Operator, then Operator shall be deemed to have resigned without any action by Non-Operators,**
 50 **except for the selection of a successor Operator. A change of a corporate name or type of business entity of Operator shall not be**
 51 **deemed resignation of Operator.**
- 52 3. **Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have**
 53 **resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy**
 54 **laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators**
 55 **and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement**
 56 **pursuant to the Bankruptcy Code, and an election to reject this agreement by Operator as a debtor in possession, or by a trustee in**
 57 **bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators, except the selection of a successor.**
 58 **During the period of time the operating committee controls operations, all actions shall require the approval of two (2) or more**
 59 **parties owning a majority interest based on ownership as shown on Exhibit "A." In the event there are only two (2) parties to this**
 60 **agreement, during the period of time the operating committee controls operations, a third party acceptable to Operator, Non-**
 61 **Operator and the federal bankruptcy court shall be selected as a member of the operating committee, and all actions shall require the**
 62 **approval of two (2) members of the operating committee without regard for their interest in the Contract Area based on Exhibit "A."**
- 63 4. **Removal of Operator: Except as provided in Article V.B.5, an Operator that has not voluntarily resigned and is not**
 64 **deemed to have resigned may be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest**
 65 **based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such vote shall not be**
 66 **effective until a written notice has been delivered to Operator by a Non-Operator detailing the alleged default and Operator has failed**
 67 **to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted,**
 68 **within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall include, but not be limited to**
 69 **Operator's (i) gross negligence or willful misconduct; (ii) the material breach of or inability to meet the standards of operation**
 70 **contained in Article V.A. or (iii) material failure or inability to perform its obligations or duties under this agreement.**
- 71 5. **Non-Owning Operator: Unless the parties have otherwise agreed, a non-owning Operator may be removed at any time,**
 72 **with or without cause, by the affirmative vote of parties owning a majority interest based on ownership as shown on Exhibit "A."**
Moreover, if good cause for removal of such non-owning Operator, as defined in Article V.B.4., exists, the non-owning Operator may
be removed by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A"
remaining after excluding the voting interest of any non-operator who is an Affiliate of non-owning Operator following the procedure
set out in Article V.B.4.
6. **Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a**
successor Operator shall be selected by the parties. The successor Operator shall be selected by the affirmative vote of one (1) or more
parties owning a majority interest based on ownership as shown on Exhibit "A" including the vote(s) of the former Operator and/or
any transferee(s) of the former Operator's interest, to the extent that they are owners within the contract area; provided, however, if
an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator
shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit
"A" remaining after excluding the voting interest of the Operator that was removed or resigned. In the event that such vote results in a
tie, the candidate supported by the former Operator or the majority of its transferee(s), shall become the successor Operator. The
former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the
former Operator to the extent such records and data are not already in the possession of the successor Operator. Any cost of
obtaining or copying the former Operator's records and data shall be charged to the joint account.
7. **Effective Date and Time of Resignation or Removal of Operator: In the event of the resignation or removal of Operator,**
pursuant to any of Articles V.B.1-B.5, such resignation or removal shall become effective on the earlier of:
 - (a) **The time and date that a successor Operator has been selected pursuant to Article V.B.6, and assumes the duties**
of Operator; or
 - (b) **7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the**
giving of notice of resignation by Operator, the event deemed to be Operator's resignation or action by the Non-
Operators to remove Operator.

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

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

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

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

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

38 **C. Employees and Contractors:**

39 The number of employees or contractors used by Operator in conducting operations hereunder, their selection, and the
40 hours of labor and the compensation for services performed shall be determined by the Operator, and all such employees or contractors shall
41 be the
42 employees or contractors of Operator.
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D. Rights and Duties of Operator:

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

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

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

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

5. Access to Contract Area and Records:

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

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

(c) Any

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

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

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

(a) Operator will **use reasonable efforts to** promptly advise Non-Operators of the date on which ~~the well is spudded, or the date on~~ **which** drilling operations are commenced.

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

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

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

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

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

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

**ARTICLE VI.
DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before the _____ day of _____, _____, Operator shall commence the drilling of the Initial Well

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at the following location (if a Horizontal Well, surface and Terminus/Termini of the Lateral(s)):

and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to

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

B. Subsequent Operations:

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

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

2. Operations by Less Than All Parties:

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

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

(b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. 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, then subject to Articles VI.B.6. and VI.F.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall

1 pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs
2 were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened,
3 Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying
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1 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
 2 over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the expense and for the account of the
 3 Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, Recompleting, Deepening or Plugging
 4 Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed
 5 to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective
 6 interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking,
 7 Sidetracking, Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-
 8 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate.
 9 Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or market value thereof if such
 10 share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other
 11 interests not excepted by Article III.C. payable out of or measured by the production from such well accruing with respect to such interest
 12 until it reverts), shall equal the total of the following:

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

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

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

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

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

46 In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening operation, the Consenting Parties shall
 47 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
 48 unchanged; and upon abandonment of a well after such Reworking, Sidetracking, Plugging Back, Recompleting or Deepening, the
 49 Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in
 50 value, less cost of salvage.

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

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

71 3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have been
 72 completed and the results thereof furnished to the parties, or when operations on the well have been otherwise terminated pursuant to

1 Article VI.FG., stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting,
 2 Plugging Back, ~~or~~ Completing or Extension operation in such a well (including the period required under Article VI.B.67. to resolve
 3 competing proposals)
 4 shall be charged and borne as part of the drilling or Deepening operation just completed. Stand-by costs subsequent to all parties
 5 responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of
 6 all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as
 7 part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall
 8 be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total
 9 interest as shown on Exhibit "A" of all Consenting Parties.

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

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

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

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

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

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

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

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

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

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

60 ~~This Article VI.B.5, "Sidetracking," shall not apply to operations in an existing Lateral of a Horizontal Well.~~

61 6. Extension: If, in the event that during actual drilling operations on the Lateral and prior to reaching the Displacement
 62 specified in an approved proposal for a Horizontal Well (the "Approved Displacement"), Operator desires an Extension of the Lateral
 63 more than % (measured in feet) beyond the Approved Displacement, Operator shall give the Consenting Parties written notice of
 64 such intent to Extend, together with the estimated costs, not less than 24 hours before Operator estimates reaching the Approved
 65 Displacement. Unless at least % interest of the Consenting Parties provide written notice of their consent to the Extension within
 66 48 hours of receipt of such notice, Operator shall not Extend the Lateral beyond the Approved Displacement and will proceed with
 67 Completion in accordance with the latest approved proposal and applicable terms and conditions of this agreement. Failure of a
 68 Consenting Party to respond to such notice shall be deemed a rejection. If % interest of the Consenting Parties or more consent,
 69 the Extension shall be deemed approved and binding upon all Consenting Parties.

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

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

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

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

9 **910. Spudder Rigs:**

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

14 (b) Not Within Approved Horizontal Well proposals. If an approved Horizontal Well proposal does not provide that a Spudder
15 Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to the
16 ~~Drilling~~ Consenting Parties (which notice shall include a Horizontal Rig Move-On Period) and the affirmative vote of not less than ____ % in
17 interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On Period may be requested by Operator in the same manner as
18 provided in Article VI.B. ~~910.~~(a) immediately above.

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

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

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

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

31 (d) Commencement of Operations. For purposes of Article VI.B., and subject to the provisions of this sub-section ~~910,~~ the date
32 a Spudder Rig commences actual drilling operations shall be considered the commencement of drilling operations of the proposed well.

33 ~~1011.~~ **Multi-well Pads:** If multiple Horizontal Wells are drilled or proposed to be drilled from a single pad or location, the costs of
34 such pad or location shall be allocated, and/or reallocated as necessary, to the Consenting Parties of each of the wells thereon.

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

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

39 **Option No. 1:** All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completion and equipping
40 of the Well, including tankage and/or surface facilities.

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

67 Notwithstanding anything to the contrary, including the selection of Option 2 above, or anything else in this agreement, Option
68 1 shall apply to all Horizontal Wells.

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

D. Other Operations:

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of _____ Dollars (\$ _____) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that 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 to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of _____ Dollars (\$ _____). Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform ~~repair work~~ **a Workover operation** or undertake the installation of artificial lift equipment or ~~ancillary~~ **production facilities such as salt water disposal wells or** to conduct additional work with respect to a well drilled hereunder or other similar project ~~(but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties)~~ reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively ~~be~~ **by** those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least _____% of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal. **Facilities other than those exclusively servicing and benefiting the Contract Area shall be governed by separate agreement.**

E. Deviations from Approved Proposals:

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

F. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled, ~~or~~ **Deepened or Sidetracked** pursuant to Article VI.B.2, any well which has been drilled, ~~or~~ **Deepened or Sidetracked** under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties **owning an interest in the well at the time of the dry hole completion proposal.** Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within **thirty (30) days or, if a drilling rig is on location, within** forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to plugging and abandoning such well by notice delivered to Operator within **thirty (30) days or** forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays), **whichever is applicable**, after delivery of notice of the proposed plugging shall take over the well as of the end of such **thirty (30) day or** forty-eight (48) hour notice period, **whichever is applicable**, and conduct further operations in search of Oil and/or Gas subject to the provisions of Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well.

The party taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.

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

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

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the Zone then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this

1 agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed
2 abandonment of the producing Zone assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the
3 well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

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

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FG. Termination of Operations:

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

GH. Taking Production in Kind:

Option No. 1: Gas Balancing Agreement Attached

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

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

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

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

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

In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total Gas production available for sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing

agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

Option No. 2: No Gas Balancing Agreement:

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

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

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

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

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

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**ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES**

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

B. Liens and Security Interests:

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

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

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

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

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

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

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

C. Advances:

Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other parties payment in advance of their respective shares of the estimated amount of the expense 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 expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate

1 within ~~fifteen (15)~~ **thirty (30)** days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said
 2 time, the
 3 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual
 4 expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

5 **D. Defaults and Remedies:**

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

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

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

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

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

42 **Notwithstanding the foregoing, to the extent that all or any part of the risk penalty to be recovered pursuant to Article**
 43 **VI.B. or Article VI.C. as the case may be, in connection with the provisions of this Article VII.B.3, is determined to constitute interest**
 44 **on a debt, such interest shall not exceed the maximum amount of non-usurious interest that may be contracted for, taken, reserved,**
 45 **charged, or received under law. Any interest in excess of that maximum amount will be credited on the principal of such debt or if**
 46 **that has been paid, refunded. This provision overrides any conflicting provisions in this agreement.**

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

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

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

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

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

72 **F. Taxes:**

Beginning with the first calendar year after the effective date hereof, 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. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be

1 limited to, royalties, overriding royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator.
2 If the assessed valuation of any Lease is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or
3 production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease,
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1 and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based
 2 in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges
 3 to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest.
 4 Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

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

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

15 **ARTICLE VIII.**

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

17 **A. Surrender of Leases:**

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

20 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written
 21 notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after delivery of
 22 the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such
 23 notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases described in the notice. If all
 24 parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its
 25 interest in such Lease, or portion thereof, and any well, material and equipment ~~which may be located thereon and~~ **acquired by the parties**
 26 **under this agreement and used exclusively for the lease being surrendered and** any rights in production
 27 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an Oil and Gas Interest,
 28 the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such Oil
 29 and Gas Interest for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the land covered thereby **or lands pooled**
 30 **therewith,** such lease to

31 be on the form attached hereto as Exhibit "B." Upon such assignment or lease, the assigning party shall be relieved from all obligations
 32 thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable
 33 thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than
 34 the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor
 35 the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased
 36 acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the
 37 estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less than such
 38 costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the assignment or lease is in
 39 favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest
 40 of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth, then the interest assigned
 41 shall similarly reflect such variances.

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

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

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

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

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

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

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

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

72 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
 operation ~~on the Contract Area~~ **under this agreement,** such contribution shall be paid to the party who conducted the drilling or other
 operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the

1 | contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the ~~Drilling-Consenting~~ Parties in the
proportions
2 | said ~~Drilling-Consenting~~ Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent
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governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of well drilled inside the Contract Area.

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

D. Assignment; Maintenance of Uniform Interest:

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

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

Every 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 right of the other parties, and any transferee of an ownership interest in any Oil and Gas Lease or Interest shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after ~~they have~~ **Operator has** received a copy of the instrument of transfer or other satisfactory evidence thereof

in writing from the transferor or transferee. **Except as otherwise provided herein, any transfer by a party shall relieve the transferor from liability for the cost and expense of operations attributable to the transferred interest which are conducted after the expiration of the 30-day period above provided; provided that, No-no** assignment or other disposition of interest by a party shall relieve such party of obligations

previously incurred by such party hereunder with respect to the interest transferred, including without limitation the obligation of a party to pay all costs **and expenses** attributable to an **approved** operation conducted hereunder, in which such party has agreed to participate ~~prior to such making~~ **assignment**, and the lien and security interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations. **The transferee shall be jointly and severally liable with its transferor for payment of its share of all costs and expenses attributable to an approved operation conducted hereunder in which its transferor had agreed to participate.**

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-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 interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the Oil and Gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

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

F. Preferential Right to Purchase:

(Optional: Check if applicable)

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

ARTICLE IX.

INTERNAL REVENUE CODE ELECTION

If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income. **For federal income tax purposes the parties agree that any gas imbalances will be reported under the cumulative gas balancing method as defined in Treasury Regulations § 1.761-2(d)(3).**

ARTICLE X.

CLAIMS AND LAWSUITS

Operator may settle any single **or related aggregate** uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed _____ Dollars (\$ _____) and if

the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, **Operator shall promptly give notice to Non-Operators and Operator shall assume and handle the claim or suit on behalf of all parties unless, within 14 days after receipt of such notice, a party gives notice to Operator and the other parties of its affirmative election to assume and**

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handle the claim or suit on its own behalf, which assumption and handling shall be done at said party's own expense and over and above said party's proportionate share chargeable to the joint account as hereinafter provided~~the parties~~
~~hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator.~~ All costs and expenses of handling settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party

1 shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

2 **ARTICLE XI.**
3 **FORCE MAJEURE**

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

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

16 **ARTICLE XII.**
17 **NOTICES**

18 All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically
19 provided, shall be in writing and delivered in person or by United States mail, courier service, ~~telegram, telex, telecopier or any other form~~
20 ~~of~~ **facsimile, each of which may also be delivered by attachment to electronic mail ("Email Notice")**, postage or charges prepaid, **if**
21 **applicable**, and addressed to such parties at the addresses listed on Exhibit "A." All telephone or oral notices
22 permitted by this agreement shall be confirmed immediately thereafter by written notice. The originating notice given under any provision
23 hereof shall be deemed delivered only when received by the party to whom such notice is directed, and the time for such party to deliver
24 any notice in response thereto shall run from the date the originating notice is received. "Receipt" for purposes of this agreement with
25 respect to written notice delivered hereunder shall be actual delivery of the notice to the address of the party to be notified specified in
26 accordance with this agreement, or to the ~~telecopy, facsimile or telex~~ machine **or email address** of such party. The second or any responsive
27 notice shall be deemed delivered when deposited in the United States mail or at the office of the courier or ~~telegraph service, or upon transmittal by telex,~~
28 ~~telecopy or~~ facsimile, or when personally delivered to the party to be notified, provided, that when response is required within 24 or 48
29 hours, such response shall be given orally or by telephone, ~~telex, telecopy~~ **or email address** within such period. Each party
30 shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties. If a party is not available
31 to receive notice orally or by telephone when a party attempts to deliver a notice required to be delivered within 24 or 48 hours, the notice
32 may be delivered in writing by any other method specified herein and shall be deemed delivered in the same manner provided above for
33 any responsive notice. **Each Email Notice shall clearly state that it is a notice or response to a notice under this agreement. An Email**
34 **Notice shall be deemed delivered only when affirmatively acknowledged by email reply from the receiving party. Automatic delivery**
35 **receipts issued, without direct acknowledgment of the Email Notice, are not evidence of Receipt for purposes of this agreement. If the**
36 **receiving party fails or declines to affirmatively acknowledge an Email Notice, then Receipt of the notice shall only be deemed to have**
37 **occurred when received by the party as otherwise provided above.**

37 **ARTICLE XIII.**
38 **TERM OF AGREEMENT**

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

- 42 **Option No. 1:** So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part
43 of the Contract Area, whether by production, extension, renewal or otherwise
- 44 **Option No. 2:** In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this
45 agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this
46 agreement shall continue in force so long as any such well is capable of production, and for an additional period of _____
47 days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are
48 engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a
49 well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production
50 results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or
51 any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the
52 Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re- completing, Plugging
53 Back or Reworking operations are commenced within _____ days from the date of abandonment of said well. "Abandonment"
54 for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the
55 elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

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

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

62 **ARTICLE XIV.**
63 **COMPLIANCE WITH LAWS AND REGULATIONS**

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

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

68 **B. Governing Law:**

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

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights,

1 privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated
2 under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting
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1 or adjacent to the Contract Area.

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

12 **ARTICLE XV.**
13 **MISCELLANEOUS**

14 **A. Execution:**

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

29 **Option No. 1:**

30 Operator shall indemnify executing Non-Operators with respect to all costs incurred for the well which would
31 have been charged to each such person under this agreement as if such person had executed the same and Operator shall receive
32 all revenues which would have been received by each such person under this agreement as if such person had executed the same.

33 **Option No. 2:**

34 The Operator shall advise all parties of the total interest of the parties that have executed this agreement. Each
35 party executing this agreement, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery
36 of such notice, shall advise the Operator of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or
37 (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interest of all
38 parties executing this agreement) of non-executing persons' interests, or (iii) carry its proportionate part (determined as provided
39 in (ii)) of non-executing persons' interests together with all or a portion of its proportionate part of any non-executing persons
40 interests that any executing party did not elect to take. Any interest of non-executing persons that is not carried by an executing
41 party shall be deemed to be carried by the Operator. Failure to advise the Operator within the time required shall be deemed an
42 election under (i).

43 **B. Successors and Assigns:**

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

47 **C. Counterparts:**

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

49 **D. Severability:**

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

53 **E. Conflict of Terms:**

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

ARTICLE XVI.
OTHER PROVISIONS

A. Conflict of Terms:

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

B. Operator's Duty:

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

C. Priority of Operations—Horizontal Wells:

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

- ~~First: Testing, coring or logging;~~
- ~~Second: Complete drilling operations of all proposed Laterals;~~
- ~~Third: Extend or Deepen a Lateral;~~
- ~~Fourth: Kick out and drill an additional Lateral in the same Zone;~~
- ~~Fifth: Plug Back the well to a Zone above the Zone in which a Lateral was drilled; if there is more than one proposal to Plug Back, the proposal to Plug Back to the next deepest prospective Zone shall have priority over a proposal to Plug Back to a shallower prospective Zone;~~
- ~~Sixth: Sidetrack; and~~
- ~~Seventh: Plug and abandon as provided for in Article VI.E~~

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

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IN WITNESS WHEREOF, this agreement shall be effective as of the _____ day of _____, _____, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-~~1989~~-2015 Model Form Operating Agreement, as published in computerized form by ~~Forms On A Disk, Inc~~AAPL. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles _____, have been made to the form.

ATTEST OR WITNESS:

OPERATOR

By _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

NON-OPERATORS

By _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

By _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

By _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

