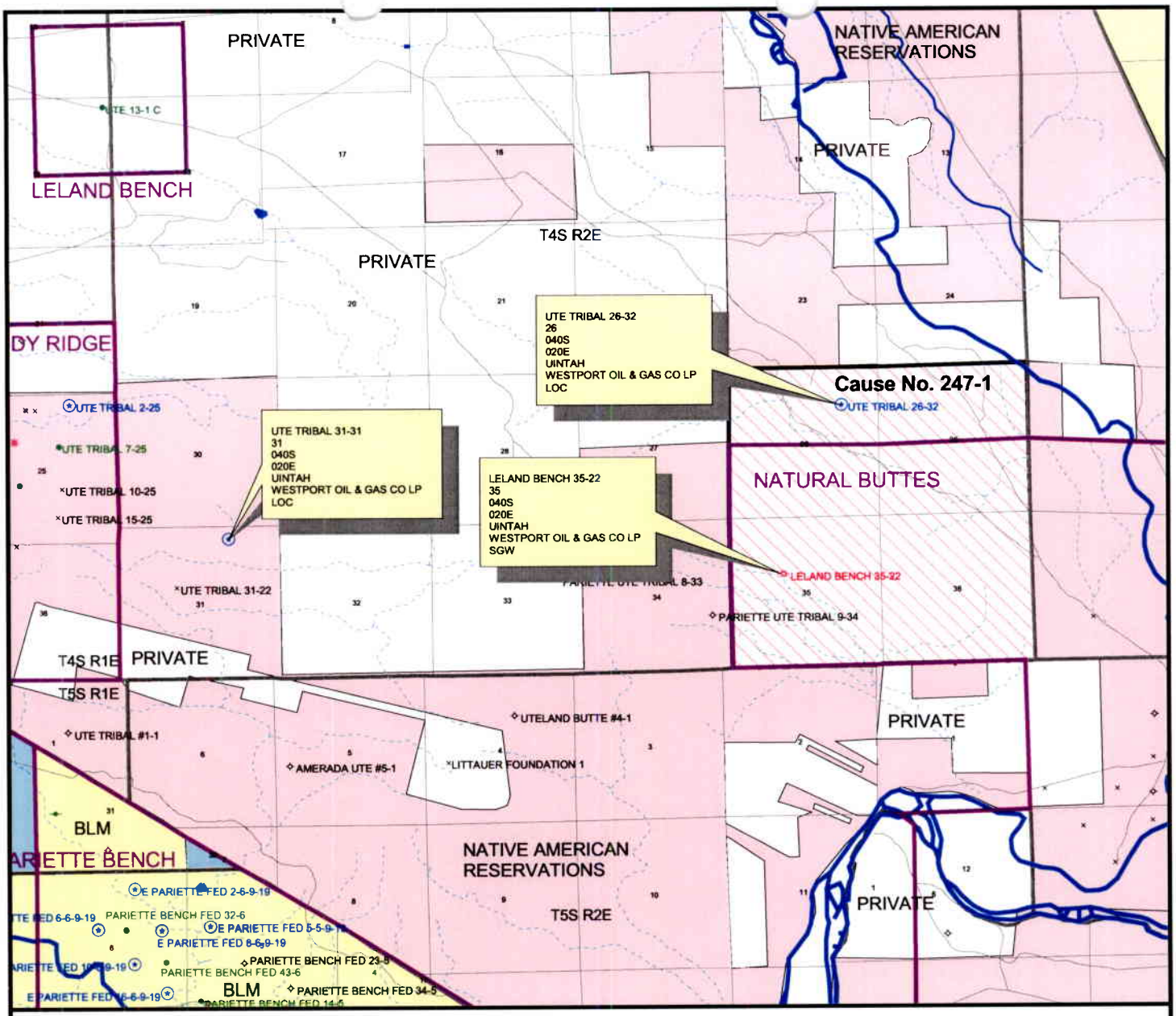
Chronology of Board hearing matter in Docket No. 2001-021, Cause No. 247-01 – El Paso Production Oil & Gas Company requesting 640-acre drilling units for exploratory wells in the Leland Bench area of Uintah County

July 25, 2001	Board held hearing in Roosevelt, Utah. El Paso requested an order from the Board for 640-acre drilling units in four sections of land located in T. 4 South, R. 2 East, Uintah County (see attached map) for the Mesaverde and Mancos formations.
September 7, 2001	Board issued order granting the requested well spacing with the following requirement: "In order to ascertain the accuracy and appropriateness of the geologic and engineering evidence and the conclusions supporting the spacing herein established, El Paso shall within 30 days of the completion of drilling for each well compile all drilling information obtained from the well and meet with the staff of the Division to review such information and to determine what additional production and engineering data are needed and the timetable for obtaining the additional data. In the event the evidence from the wells indicates a different well-spacing is justified than the one established by this Order, El Paso, the Division, interested third parties, or the Board on its own motion may seek a modification of the Order to conform with the newly determined evidence."
November 9, 2001	Deep Mesaverde-Mancos formation development begins as El Paso commences drilling of Leland Bench #35-22 well. Well reaches TD on February 5, 2002.
May 24, 2002	El Paso commences drilling of Ute Tribal #31-31. Well reaches TD on September 9, 2002.
August 21, 2002	El Paso finishes testing of #35-22 well and considers the well to be completed. El Paso files Well Completion Report (WCR) for the well with Division on September 11, 2002.
August 23, 2002	El Paso commences drilling of Ute Tribal #26-32 well. Well reaches TD on November 15, 2002.
December 17, 2002	Effective as of this date, El Paso sells Uinta Basin properties to Westport Oil & Gas Company, L.P.

June 25, 2003	Division performs engineering evaluation of information filed by either El Paso or Westport for the three wells drilled in the area. Division finds that information is lacking upon which to draw conclusions.
July 30, 2003	Division briefs the Board on the status of the deep Mesaverde-Mancos development in the Leland Bench area. Board concurs with Division recommendation to seek additional information from Westport and asks that the Board be kept informed regarding the forthcoming information.
August 22, 2003	Division sends letter to Westport requesting additional information (see copy of letter attached).
January 14, 2003	Representative of Westport's Uinta Basin office meets with the Division and presents staff with information compiled from the drilling of the three deeper wells in the Leland Bench area. All three wells remain shut-in and Westport had not yet developed a plan for disposition of the three wells. The first well to be drilled had been tested and determined capable of production; however, it was shut-in due to lack of gas transportation infrastructure. Two of the wells have not been adequately tested because of the unavailability of gas transportation out of the area; thus, Westport had not yet submitted WCR for two of the wells.
March 26, 2004	Division sends letter to Westport requiring that Westport file WCR and any available testing information for the remaining two wells with the Division.
April 5, 2004	Westport filed WCR for the remaining two wells; however, no test results are available.



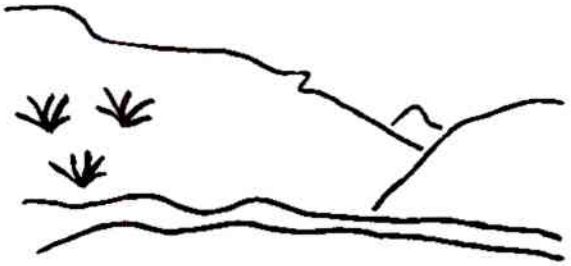
LEGEND

Well Status

- GAS INJECTION
- GAS STORAGE
- LOCATION ABANDONED
- NEW LOCATION
- PLUGGED & ABANDONED
- PRODUCING GAS
- PRODUCING OIL
- SHUT-IN GAS
- SHUT-IN OIL
- TEMP. ABANDONED
- TEST WELL
- WATER INJECTION
- WATER SUPPLY
- WATER DISPOSAL

Land Status

- Private Not Classed
- Forest Service
- BLM
- State Lands
- Native American
- Private
- Military
- National Parks
- State Parks
- State Wilderness
- National Recreation
- US Wildlife
- Wilderness
- Bankhead Jones
- Soveriegn Lands
- Water
- Intermittent Water
- Section Line
- Township Boundary



Utah Oil Gas and Mining

Prepared By: K. Michael Hebertson
Date: April - 2004

State of Utah

Department of
Natural Resources

Division of
Oil, Gas & Mining

ROBERT L. MORGAN
Executive Director

LOWELL P. BRAXTON
Division Director

MICHAEL O. LEAVITT
Governor

OLENE S. WALKER
Lieutenant Governor

March 26, 2004

CERTIFIED MAIL NO. 7002 0510 0003 8602 6426

Mr. Gary D. Davis, Exploration Manager
Westport Oil & Gas Company
1670 Broadway, Suite 2800
Denver, Colorado 80202-2800

Re: Reports Required for Drilling Activity Within the Leland Bench Area, T. 4 South, R. 2 East, Uintah County, Utah

Dear Mr. Davis:

By letter dated August 22, 2003, the Division of Oil, Gas and Mining required Westport Oil & Gas Company to submit information to the Division regarding wells drilled in the referenced township. This information was needed to address conditions of an Order of the Board of Oil, Gas and Mining establishing 640-acre drilling units in Cause No. 247-01, dated September 7, 2001.

During January 2004, Mr. John Conley of your Vernal, Utah office provided a briefing to the staff of the Division regarding well drilling and completion activity in the referenced township. The information showed that El Paso Oil & Gas Production Company drilled three wells in the area in year 2001 and 2002 that were ultimately transferred to Westport during 2003. The three subject wells (all located in T. 4 South, R. 2 East, Uintah County) are:

Leland Bench #35-22, Sec. 35, API No. 43-047-34158
Ute Tribal #31-31, Sec. 31, API No. 43-047-34527
Ute Tribal #26-32, Sec. 26, API No. 43-047-34665

Subsequent to Mr. Conley's discussion, the Division received a final version of the Leland Bench Synopsis on January 29, 2004. Based on Mr. Conley's briefing and the subsequent Synopsis submitted by Westport, the Division will recommend to the Board that no further action be taken regarding the 640-acre well spacing order until such a time as additional information warrants reconsideration of well spacing in the Leland Bench area.

1594 West North Temple, Suite 1210, PO Box 145801, Salt Lake City, UT 84114-5801
telephone (801) 538-5340 • facsimile (801) 359-3940 • TTY (801) 538-7223 • *www.ogm.utah.gov*

Although Westport has provided the Division with adequate information concerning the aforementioned Board matter, there remains an obligation for Westport to provide the Division with certain routine reports for the three wells drilled by El Paso. These routine reports comprise the public record for the wells, but the information is subject to the conditions for confidential status explained in Rule R649-2-11, Confidentiality of Well Log Information. The required reports are described in Rules R649-3-6, Drilling Operations, R649-3-19, Well Testing, and R649-3-21, Well Completion and Filing of Well Logs. In accordance with these rules, the following items must be timely reported to the Division:

Well spud*
Entity Action Form, Form 6*
Monthly drilling status report*
Fresh water encountered, Form 7
Well completion report, Form 8**
All logs run*
Drill stem tests, if run
Well production tests

* - Information has been previously filed by El Paso for all three wells
** - Information has been filed for Leland Bench 35-22 only

Of the three subject wells, the Leland Bench 35-22 is the only well for which El Paso filed a Well Completion Report. Please note that the Division has required additional information from Westport for this well by a letter from Mr. Dustin Doucet dated February 20, 2004. In his letter, Mr. Doucet has outlined certain necessary information to address the long-term shut-in status of the Leland Bench 35-22 well.

Therefore, the Division finds that Westport is deficient in filing certain routine reports for the subject wells, and the Division requires that Westport file all of the required reports that have not been previously submitted (especially the Well Completion Report and all test results) for the referenced wells within 30 days of the date of this letter. If you wish to review this matter with the Division or if you

require further information, please contact either of the following Division representatives; Dustin Doucet at 801-538-5281 or Mike Hebertson at 801-538-5333.

Sincerely,

John R. Baza
Associate Director

cc: D. Doucet
M. Hebertson
D. Staley
John Conley, Westport

State of Utah
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

1594 West North Temple, Suite 1210
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Michael O. Leavitt
Governor
Robert L. Morgan
Executive Director
Lowell P. Braxton
Division Director

August 22, 2003

Mr. Carter Mathies, Vice President, General Manager
Westport Oil and Gas Company, L.P.
1670 Broadway, Suite 2800
Denver, CO 80202

Subject: Information Required by the Division of Oil, Gas and Mining

Dear Mr. Mathies:

On July 30, 2003, the staff of the Division of Oil, Gas and Mining presented a briefing to the Board of Oil, Gas and Mining regarding the status of an Order issued by the Board in Docket No. 2001-021, Cause No. 247-01 on September 7, 2001 (a copy of Order is attached). The Order concerns the establishment of 640-acre well drilling and spacing units for El Paso Production Oil & Gas Company in Sections 25, 26, 35, and 36, Township 4 South, Range 2 East, U.S.M. in Uintah County, Utah. In the area, there are two wells operated by Westport Oil and Gas Company that were transferred from El Paso effective December 17, 2002. Based on the briefing given by the Division staff to the Board, the Division now requires additional information from Westport to comply with the intent of the Board's Order.

The Order of the Board specifically states (Paragraph E, page 8):

"In order to ascertain the accuracy and appropriateness of the geologic and engineering evidence and the conclusions supporting the spacing herein established, El Paso shall within 30 days of the completion of drilling for each well compile all drilling information obtained from the well and meet with the staff of the Division to review such information and to determine what additional production and engineering data are needed and the timetable for obtaining the additional data. In the event the evidence from the wells indicates a different well-spacing is justified than the one established by this Order, El Paso, the Division, interested third parties, or the Board on its own motion may seek a modification of the Order to conform with the newly determined evidence."

Subsequent to the issuance of the Board's Order, El Paso drilled the following two wells in the subject area (Basic Well Data summaries are attached):

Ute Tribal #26-32, Sec. 26, T. 4S, R. 2E, API No. 43-047-34665
Leland Bench #35-22, Sec. 35, T. 4S, R. 2E, API No. 43-047-34158

These same two wells were acquired by Westport in December 2002. Division records do not show that either El Paso or Westport met the conditions of the Board's Order to present technical information to the Division for validation of the 640-acre well spacing order.

Therefore, the Division now requires Westport to compile all geologic and engineering data that is available for the two aforementioned wells, to develop its technical opinion of the reservoir drainage characteristics of the two wells, to submit such information to the Division for review, and to meet with Division staff in order to further discuss the submitted data. The purpose of reviewing this information will be to determine if the Board's Order is valid as is or if it must be modified based on the submitted data. To schedule a conference with Division staff, you may contact me at telephone no. (801) 538-5334 or via e-mail at JohnBaza@utah.gov. I anticipate that we should schedule the conference within the next 30 days in order to timely address the concerns expressed by the Board during the July 30, 2003 staff briefing.

I look forward to hearing from you in regard to this matter.

Sincerely,

John R. Baza
Associate Director

cc: L. Braxton
D. Doucet
M. Hebertson

BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF EL PASO PRODUCTION OIL & GAS COMPANY FOR AN ORDER ESTABLISHING 640-ACRE DRILLING UNITS FOR LANDS IN THE LELAND BENCH AREA IN TOWNSHIP 4 SOUTH, RANGE 2 EAST, U.S.M., FOR THE PRODUCTION OF OIL AND GAS FROM THE MESAVERDE AND MANCOS FORMATIONS; AND TO FORCE POOL THE INTERESTS OF ALL OWNERS REFUSING OR FAILING TO AGREE TO LEASE THEIR INTERESTS OR OTHERWISE BEAR THEIR PROPORTIONATE SHARE OF THE COSTS OF DRILLING AND PRODUCTION OPERATIONS FOR THE ARMSTRONG NOS. 1 AND 3 WELLS (NOW THE LELAND BENCH NOS. 35-22 AND 26-41 WELLS), AND OTHER WELLS, TO BE DRILLED ON THE LANDS IN UINTAH COUNTY, UTAH	**FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER** **(Forced Pooling)** Docket No. 2001-021 Cause No. 247-01

This cause came regularly for hearing before the Board of Oil, Gas and Mining (the **"Board"**) on Wednesday, August 22, 2001, at 10:00 a.m., in the Hearing Room of the Utah Department of Natural Resources at 1594 West North Temple Street, in Salt Lake City, Utah.

The following Board members present and participating in the hearing were: Chairman Elise L. Erler, W. Allan Mashburn, James Peacock, Kent R. Petersen, Robert J. Bayer, and

Douglas E. Johnson. John R. Baza, Associate Director for Oil and Gas of the Division of Oil, Gas and Mining (the **"Division"**), was present and participated in the hearing.

Phillip Wm. Lear of Snell & Wilmer L.L.P. appeared on behalf of El Paso Production Oil & Gas Company (**"El Paso"**), and Brian L. Haley and John B. Auman appeared as witnesses for El Paso. Charles H. Cameron appeared for the Bureau of Indian Affairs. Ferron Secakuku appeared for the Ute Indian Tribe. Robert A. Henricks, Assad Raffoul, Michael Colthard, and Gerald N. Kenczka appeared on behalf of the Bureau of Land Management.

Kurt E. Seel, Esq., Assistant Attorney General, represented the Board. Thomas A. Mitchell, Esq., represented the Division.

NOW THEREFORE, the Board, having fully considered the testimony adduced and the exhibits received at the hearing, and being fully advised in the premises, makes and enters its Findings of Fact, Conclusions of Law, and Order, as follows:

FINDINGS OF FACT

1. The Board bifurcated its hearings on El Paso's Request for Agency Action, hearing the spacing application on July 25, 2001, and the forced pooling application on August 22, 2001.

2. The Board mailed notice of the hearing to interested parties on July 3, 2001, and caused notice to be published in the *Deseret News* and in the *Salt Lake Tribune* on July 8, 2001, and in the *Vernal Express* on July 4, 2001.

3. El Paso mailed photocopies of the Request for Agency Action on June 11, 2001, to the last known address of all owners having interests in the area to be spaced, by certified mail, return receipt requested.

4. El Paso is a Delaware corporation in good standing having its principal place of business in Houston, Texas. El Paso is authorized to do, and is doing, business in the State of Utah. El Paso is the successor to Coastal Oil & Gas Corporation by virtue of a name change.

5. El Paso owns or controls working interests in the lands and wells which are the subject matter of the Request for Agency Action.

6. The lands and drilling units affected by El Paso's application for forced pooling are situated in Uintah County, Utah, and are more particularly described, as follows:

Township 4 South, Range 2 East, U.S.M.

Section 25: All
Section 26: Lots 1,2,3,4,5,6,7,8,9, 10,11,12, NW¼NE¼, NE¼NW¼, NW¼SW¼, S½SW¼, SW¼SE¼, and patented lode mining claims known as:

Canyon (M.S. 5520)
Ouray No.1 (M.S. 5521)
Ouray No.2 (M.S. 5521)
(All)

Section 35: Lots 1,2,3,4,5,6,7,8,9,10, W½NE¼, NW¼, including surveyed, but unpatented mining claims (All)

(hereinafter **"Pooled Lands).** Lands in Section 36 originally sought to be forced pooled were removed at El Paso's request, as all mineral interests have been leased or otherwise joined for common development.

7. The Pooled Lands are Ute Indian Tribal lands and private (fee) lands comprising agricultural homestead or cash entry patented lands and patented mining claims.

8. By unanimous decision on July 25, 2001, the Board established 640–acre drilling units for the Mesaverde and Mancos formations in the Pooled Lands. The permitted well in each drilling unit is to be as centrally located as practically possible, to be determined by the Division during the administrative processing of submitted Applications for Permit to Drill. The Board entered its written order on the spacing application on September 7, 2001. The spacing order is incorporated herein by reference. However, these Findings of Fact, Conclusions of Law, and Order do not modify the spacing order.

9. There are no wells drilled to or producing from the Mesaverde or the Mancos formations within one mile of the exterior boundaries of the drilling units affecting the Pooled Lands. The closest Mancos well is located in excess of six miles of the Pooled Lands. The closest Mesaverde well is located in excess of four miles from the Pooled Lands.

10. El Paso is the operator of the Leland Bench #35-22 Well (formerly the Armstrong #1 Well) and the Leland Bench #26-41 Well (formerly the Armstrong #2 Well) to be drilled in the SW¼NW¼ of Section 35 and on Section 26 of the Pooled Lands, respectively. The Leland Bench #35-22 and #26-41 Wells are sometimes hereinafter collectively referred to as the "Wells."

11. El Paso conducted an examination of the records of the Utah State Office, Bureau of Land Management, Bureau of Indian Affairs, Uintah & Ouray Agency; and Uintah County Recorder to identify the parties owning mineral rights in the Pooled Lands.

12. Commencing in May 2001 and continuing to the August 22, 2001 hearing, El Paso, through its leasing agents, contacted the persons or companies appearing of record as owning mineral rights in the drilling units in the Pooled Lands to lease their respective interests.

Leasing contact included telephone inquiries, certified mail correspondence transmitting lease packets, and personal visits to negotiate and obtain leases.

13. Several owners of the private (fee) minerals within the drilling units for the Pooled Lands had not as of the date of the hearing on this matter leased or otherwise voluntarily committed their interests to common development. The unleased mineral owners, their undivided interests (expressed in decimals and net mineral acres), and the tracts or lands affected are identified in Appendix "A" to these Findings of Fact, Conclusions of Law, and Order.

14. The unleased mineral owners (hereinafter **"Nonconsenting Owners"**) have neither leased nor otherwise agreed to bear their proportionate share of the costs of the drilling and operation of wells in the Pooled Lands.

15. The average royalties for the drilling units, weighted by net acreage in each tract, are: Section 25—15.4146978% (0.154146978); Section 26—17.4410768% (0.174410768); and Section 35—17.7780623% (0.177780623).

16. The Authorization for Expenditure for the Leland Bench #35-22 Well projects the costs of that well to be $3.3 million. The prorated share of the well costs attributable to the interests of the Nonconsenting Owners in the drilling unit for Section 35 is approximately $271,600.

17. The Leland Bench #35-22 Well is a high risk well due to its total depth target of 14,500 feet in the Mancos formation, its six-mile distance to the closest Mancos well, the fact that no Mancos well has produced in excess of one Bcf when 5.6 Bcf are needed for an economic Mancos well, and the one-in-ten chance of drilling a successful well. Production in paying quantities from the Mesaverde formation presents the same high risk as paying production from

the Mancos formation because of the Mesaverde formation depth, limited production, and distance to the closest producing Mesaverde well.

18. The Leland Bench #26-41 Well and a well to be drilled in Section 25 to test the Mesaverde and Mancos formations are high risk wells for the same reasons identified for the Leland Bench #35-22 Well.

19. The A.A.P.L. Form 610—1982 Model Form Operating Agreement (**"JOA"**) contains provisions appropriate to govern the relationship between the operator and the consenting and Nonconsenting Owners, as to those terms and conditions not inconsistent with these Findings of Fact, Conclusions of Law, and Order. The JOA is attached to these Findings of Fact, Conclusions of Law, and Order as Appendix "B."

20. A 300% risk compensation award (nonconsent penalty) is appropriate for wells to be drilled in the drilling units for the Pooled Lands.

21. Forced pooling of the Nonconsenting Owners' interests in the drilling units for the Pooled Lands will promote the public interest, increase ultimate recovery, prevent waste, and protect the correlative rights of all owners.

CONCLUSIONS OF LAW

1. The Board has jurisdiction of the parties and of the subject matter of the Second Request for Agency Action, as amended, pursuant to Chapter 6 of Title 40 of the *Utah Code Annotated.*

2. The Board gave due and regular notice of the time, place, and purpose of the hearing to all interested parties as required by law and by the rules and regulations of the Board.

3. El Paso properly served all owners entitled to notice by mailing copies of the Request for Agency Action, as amended, to those owners having legally protected interests.

4. There are no written agreements for the pooling of the Nonconsenting Owners' interests in the respective drilling unit.

5. El Paso has fully complied with the Board requirements contained in R649-2-9 of the *Utah Administrative Code* to make good faith offers to the Nonconsenting Owners to lease or otherwise bear their proportionate share of costs of drilling and completing wells in the drilling units on the Pooled Lands prior to force pooling those interest for common development.

6. The wildcat nature of the first well drilled in each drilling unit of the Pooled Lands, together with other evidence, supports the imposition of the risk compensation award (nonconsent penalty) herein provided.

7. The Request for Agency Action and evidence adduced at the hearing establish the need for forced pooling upon terms that are just and reasonable.

8. Pooling the interests of Nonconsenting Owners in this case will prevent waste of the oil and gas resources, maximize the potential for ultimate production of those resources, and protect the correlative rights of all owners, including El Paso, to their just and equitable shares of the pool.

ORDER

IT IS THEREFORE ORDERED that to promote the public interest, to increase the ultimate recovery of the resources, to prevent physical waste of oil, gas, and associated hydrocarbons, and to protect the correlative rights of all owners:

A. El Paso's Request for Agency Action seeking forced pooling of the Nonconsenting Owners' interests in the spaced interval for the Mesaverde and Mancos formations is granted.

B. The lands affected by this order comprise the 640-acre drilling units established by the Board at its regularly scheduled hearing on July 25, 2001, being lands in Uintah County, Utah, more particularly described as follows:

Township 4 South, Range 2 East, U.S.M.

Section 25: All
Section 26: Lots 1,2,3,4,5,6,7,8,9, 10,11, 12, NW¼NE¼, NE¼NW¼, NW¼SW¼, S½SW¼, SW¼SE¼, and patented lode mining claims known as:

Canyon (M.S. 5520)
Ouray No.1 (M.S. 5521)
Ouray No.2 (M.S. 5521)
(All)

Section 35: Lots 1,2,3,4,5,6,7,8,9,10, W½NE¼, NW¼, including surveyed, but unpatented mining claims (All)

C. The Nonconsenting Owners' interests hereby pooled are identified in Appendix "A" to these Findings of Fact, Conclusions of Law, and Order.

D. Drilling operations upon any portion of a drilling unit shall be deemed for all purposes to be the conduct of the operations upon each separately owned tract in the drilling unit.

E. Production allocated to a separately owned tract included in a drilling unit shall, when produced, be deemed for all purposes to have been production from that tract, irrespective of the location of the well within the drilling unit.

F. Each owner shall pay his allocated share of the costs incurred in drilling and operating the Wells, including a well to be drilled in the drilling unit for Section 25. Those costs include, but are not limited to, the costs of drilling, completing, equipping, producing, gathering, transporting, processing, marketing, and storage facilities; reasonable charges for administration and supervision of operations; and other costs customarily incurred in the industry. Each Nonconsenting Owner's interest shall be deemed relinquished to the consenting owners during the period of payout for the drilling unit well, as provided in *Utah Code Ann.* § 40-6-6.5(8). The relinquishment does not constitute a defeasance of title to the Nonconsenting Owner's interest in the mineral estate, but rather the relinquishment of the revenue stream attributable to the Nonconsenting Owner's allocated share during the period of payout, after payment of the royalty provided herein.

G. A Nonconsenting Owner shall be entitled to receive, subject to the royalty specified herein, the share of the production of the well applicable to his interest in the drilling unit after the consenting owners have recovered the following from the Nonconsenting Owner's share of production: (1) 100% of the Nonconsenting Owner's share of the cost of surface equipment beyond the wellhead connections, including stock tanks, separators, treaters, pumping equipment, and piping; (2) 100% of the Nonconsenting Owner's share of the estimated costs of plugging and abandoning the well; (3) 100% of the Nonconsenting Owner's share of the cost of operation of the well commencing with first production to payout; and (4) 300% of the

Nonconsenting Owner's share of the costs of staking the location, wellsite preparation, rights-of-way, rigging up, drilling, reworking, recompleting, deepening or plugging back, testing, and completing, and the cost of equipment in the well to and including the wellhead connections, as such costs are delineated in *Utah Code Ann.* § 40-6-6.5(4)(d). The Nonconsenting Owner's share of costs is that interest that would have been chargeable to the Nonconsenting Owner had he initially agreed to pay his share of the costs of the well from the commencement of operations.

H. A Nonconsenting Owner shall receive as a royalty the average landowner's royalty attributable to each tract within the drilling unit, as follows: Section 25—15.4146978% (0.154146978); Section 26—17.4410768% (0.174410768); and Section 35—17.7780623% (0.177780623). When calculating the division of interest for each Nonconsenting Owner, the average landowner's royalty shall be proportionately reduced in the ratio that the Nonconsenting Owner's interest bears to (1) the total interest in the tract and (2) then further reduced in the ratio that the tract acres bear to the total acreage in the drilling unit. The landowner's royalty shall survive payout and shall continue for the life of the respective wells. Both the royalty and the relinquished interest shall be subject to the recoupment provisions of *Utah Code Ann.* § 40-6-6.5.

I. El Paso shall furnish each Nonconsenting Owner with a monthly statement conforming to the requirements of *Utah Code Ann.* § 40-6-6.5(7).

J. Upon payout of a well on the drilling unit, the Nonconsenting Owner's relinquished interest shall automatically revert to him, and the Nonconsenting Owner shall from that time forward own the same interest in the well and the production from it, and shall be liable for the further costs of operation, as if he had participated in the initial drilling and completion

operations. Costs of operations after payout attributable to a Nonconsenting Owner shall be paid out of production.

K. Payout occurs when the consenting owners who participate in the costs of drilling and completing a well in a drilling unit recoup from the Nonconsenting Owners the costs and expenses of drilling and completing the well, together with the risk compensation award (nonconsent penalty) provided for herein.

L. In any circumstance when the Nonconsenting Owner has relinquished his share of production to consenting owners or at any time fails to take his share of production in-kind when he is entitled to do so, the Nonconsenting Owner is entitled to an accounting of the oil and gas proceeds applicable to his relinquished share of production; and payment of the oil and gas proceeds applicable to that share of production not taken in-kind, net of costs.

M. The terms and conditions of the JOA (Appendix "B") shall control the relationship of the parties as to all matters not expressly identified in this order and to the extent not inconsistent with this order. In the event any terms of the JOA shall conflict with the terms of this order or *Utah Code Ann.* § 40-6-6.5, the terms of the statute or this order, as applicable, shall control.

N. This order is made and entered upon terms and conditions that are just and reasonable.

O. The Board has considered and decided this matter as a formal adjudication, pursuant to the Utah Administrative Procedures Act, Utah Code Ann. §§ 63–46b–6 through –10 (1993), and of the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641 (2001).

P. This Findings of Fact, Conclusions of Law, and Order (**"Order"**) is based exclusively upon evidence of record in this proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, as required by the Utah Administrative Procedures Act, Utah Code Ann. § 63–46b–10 (1997), and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641–109 (2001); and constitutes a final agency action as defined in the Utah Administrative Procedures Act and Board rules.

Q. **Notice of Right of Judicial Review by the Supreme Court of the State of Utah.** The Board hereby notifies all parties to this proceeding that they have the right to seek judicial review of this Order by filing an appeal with the Supreme Court of the State of Utah within 30 days after the date this Order is entered. Utah Code Ann. § 63–46b–10(f) (1997).

R. **Notice of Right to Petition for Reconsideration.** As an alternative, but not as a prerequisite to judicial review, the Board hereby notifies all parties to this proceeding that they may apply for reconsideration of this Order. Utah Code Ann. § 63–46b–10(e) (1997). The Utah Administrative Procedures Act provides:

> (1) (a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63–46b–12 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.
> (b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.
> (2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.
> (3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

> (b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Utah Code Ann. § 63–46b–13 (1997).

The Rules of Practice and Procedure before the Board of Oil, Gas and Mining entitled "Rehearing and Modification of Existing Orders" state:

> Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of that month.

Utah Admin. Code R641–110–100 (2001).

The Board hereby rules that should there be any conflict between the deadlines provided in the Utah Administrative Procedures Act and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the aggrieved party may seek judicial review of the order by perfecting an appeal with the Utah Supreme Court within 30 days thereafter.

S. The Board retains exclusive and continuing jurisdiction of all matters covered by this Order and of all parties affected thereby; and specifically, the Board retains and reserves exclusive and continuing jurisdiction to make further orders as appropriate and authorized by statute and applicable regulations.

T. The Chairman's signature on a facsimile copy of this Order shall be deemed the equivalent of a signed original for all purposes.

ENTERED this 6th day of November, 2001.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

Elise L. Erler, Chairman

APPENDIX "A"

UNLEASED MINERAL OWNERS
Uintah County, Utah
Pooling and Spacing Hearing
August 22, 2001

Replacement

Tract #	Description	Mineral Owner	Address	Gross Acres	Interest	Net Mineral Acres	Last Lease	Comments
2	T 4 S, R 2 E, USM Section 25: W/2	Forest Oil Corporation,a Delaware corporation, successor by merger to Forcenergy, Inc., and apparent successor by merger to Forcenergy Gas Exploration, Inc. and Forcenergy Partners, LP	1600 Broadway, Suite 2200 Denver, CO 80202	320.00	0.02209	7.06736	Appears Open	Mailed lease dated May 24, 2001 with lease terms of $100/acre, 1/6th royalty, 5 year term July 5, 2001 Joe Teets spoke with Chuck Rasey, Landman for Forest and was told that they wanted to participate in the well.
2	T 4 S, R 2 E, USM Section 25: W/2	Mark A. Chapman	P.O. Box 450 Sealy, TX 77474	320.00	0.01709	5.46778	Appears Open	June 22, 2001 Mailed Lease Package by Certified Return Receipt Mail, $100/acre, 20% royalty and 3 year term
2	T 4 S, R 2 E, USM Section 25: W/2	Dusty Sanderson	6405 Kingsbury Amarillo, TX 79109	320.00	0.00854	2.73386	Appears Open	June 22, 2001 Mailed Lease Package by Certified Return Receipt Mail, $100/acre, 20% royalty and 3 year term June 22, 2001 Shane Sanderson signed for package
2	T 4 S, R 2 E, USM Section 25: W/2	C.D. LaSusa	P.O. Box 1808 Corsicana, TX 75151	320.00	0.00854	2.73222	Appears Open	June 22, 2001 Mailed Lease Package by Certified Return Receipt Mail, $100/acre, 20% royalty, 3 year term June 25, 2001 Di Ann Wylie signed for package
5	T4 S, R 2 E, USM Section 26: Lots 7,8,12, S/2SW/4, NW/4SW/4	J. Hiram Moore, Ltd.	310 W. Wall St. #404 Midland, TX 79701	175.90	0.11250	19.78875	Appears Open	June 22, 2001 Mailed Lease Package Certified Return Receipt Mail, $100/acre, 20% royalty and 3 year term
5	T4 S, R 2 E, USM Section 26: Lots 7,8,12, S/2SW/4, NW/4SW/4	Forest Oil Corporation,a Delaware corporation, successor by merger to Forcenergy, Inc., and apparent successor by merger to Forcenergy Gas Exploration, Inc. and Forcenergy Partners, LP	1600 Broadway, Suite 2200 Denver, CO 80202	175.90	0.01347	2.36881	Appears Open	Mailed lease dated May 24, 2001, $100/acre, 1/6th royalty and 5 year term July 5, 2001 Joe Teets spoke with Chuck Rasey, Landman for Forest and was told that they wanted to participate in the well.
5	T4 S, R 2 E, USM Section 26: Lots 7,8,12, S/2SW/4, NW/4SW/4	Mark A. Chapman	P.O. Box 450 Sealy, TX 77474	175.90	0.01042	1.83265	Appears Open	June 22, 2001 Mailed Lease Package by Certified Return Receipt Mail, $100/acre, 20% royalty and 3 year term

El Paso Production Oil & Gas Company
Docket No. 2001—021
Cause No. 247—01
Exhibit "4B"

UNLEASED MINERAL OWNERS
Uintah County, Utah
Pooling and Spacing Hearing
August 22, 2001

Replacement

Tract #	Description	Mineral Owner	Address	Gross Acres	Interest	Net Mineral Acres	Last Lease	Comments
5	T4 S, R 2 E, USM Section 26: Lots 7,8,12, S/2SW/4, NW/4SW/4	C.D. LaSusa	P.O. Box 1808 Corsicana, TX 75751	175.90	0.00521	0.91609	Appears Open	June 22, 2001 Mailed Lease Package by Certified Return Receipt Mail, $100/acre, 20% royalty, 3 year term June 25, 2001 Di Ann Wylie signed for package
5	T4 S, R 2 E, USM Section 26: Lots 7,8,12, S/2SW/4, NW/4SW/4	Dusty Sanderson	6405 Kingsbury Amarillo, TX 79109	175.90	0.00521	0.91618	Appears Open	June 22, 2001 Mailed Lease Package by Certified Return Receipt Mail, $100/acre, 20% royalty and 3 ye: term June 22, 2001 Shane Sanderson signed for package
5	T4 S, R 2 E, USM Section 26: Lots 7,8,12, S/2SW/4, NW/4SW/4	John E. Hansen (Virginia R. Hanson)	Virginia R. Hansen 2510 Frontier Drive Midland, TX 79705	175.90	0.00209	0.36675	Appears Open	John E. Hansen has executed a lease with Petroglyph, but his ex wife has not. Virginia R. Hansen has been sent a lease for $100/acre, 20% and 3 years
6	T 4 S, R 2 E, USM Section 26: Lots 3,4,11, SW/4SE/4	J. Hiram Moore, Ltd.	310 W. Wall St. #404 Midland, TX 79701	144.33	0.11250	16.23713	Appears Open	June 22, 2001 Mailed Lease Package Certified Return Receipt Mail, $100/acre, 20% royalty and 3 year term
6	T 4 S, R 2 E, USM Section 26: Lots 3,4,11, SW/4SE/4	John E. Hansen (Virginia R. Hanson)	Virginia R. Hansen 2510 Frontier Drive Midland, TX 79705	144.33	0.00209	0.30093	Appears Open	John E. Hansen has executed a lease with Petroglyph, but his ex wife has not. Virginia R. Hansen has been sent a lease for $100/acre, 20% and 3 years
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, E/2NE/4, NW/4 (aka N/2)	J. Hiram Moore, Ltd.	310 W. Wall St. #404 Midland, TX 79701	314.15	0.11250	35.34188	Appears Open	June 22, 2001 Mailed Lease Package Certified Return Receipt Mail, $100/acre, 20% royalty and 3 year term AFE sent 8/8/01
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, E/2NE/4, NW/4 (aka N/2)	Forest Oil Corporation,a Delaware corporation, successor by merger to Forcenergy, Inc., and apparent successor by merger to Forcenergy Gas Exploration, Inc. and Forcenergy Partners, LP	1600 Broadway, Suite 2200 Denver, CO 80202	314.15	0.01347	4.23060	Appears Open	Mailed lease dated May 24, 2001 July 5, 2001 Joe Teets spoke with Chuck Rasey, Landman for Forest and was told that they wanted to participate in the well. AFE sent 8/8/01
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	Mark A. Chapman	P.O. Box 450 Sealy, TX 77474	314.15	0.01042	3.27256	Appears Open	June 22, 2001 Mailed Lease Package by Certified Return Receipt Mail, $100/acre, 20% royalty and 3 year term AFE sent 8/8/01

UNLEASED MINERAL OWNERS
Uintah County, Utah
Pooling and Spacing Hearing
August 22, 2001

Replacement

Tract #	Description	Mineral Owner	Address	Gross Acres	Interest	Net Mineral Acres	Last Lease	Comments
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	Sharon Eskelson Boren, Life Estate Remainderman: Becky Jo Gebhart Jackson	c/o Becky Jo Gebhart Jackson P.O. Box 477 Vernal, UT 84078	314.15	0.00667	2.09434	Appears Open	June 16, 2001 Jim Klassen met with Ms. Boren about leasing her property and on June 17, 2001 delivered a lease for Ms. Boren to execute. June 29 & 30, 2001 Jim Klassen went to see Kent Stringham and was told that he negotiated for all the Stringhams, Catherine Hatch and Sharon Eskelson Boren. Mr Stringham said he would sign the lease for a 20% royalty, but he wants changes made to the lease form, including $25/acre shut in rentals. 7/16/01 Mailed Lease Package by Certified Return Receipt Mail in c/o Becky Jo Jackson and no return card has been sent back as of this date. The lease was for $100/acre, 20% royalty and a 5 year term. AFE sent 8/8/01
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	Dusty Sanderson	6405 Kingsbury Amarillo, TX 79109	314.15	0.00521	1.63603	Appears Open	June 22, 2001 Mailed Lease Package by Certified Return Receipt Mail, $100/acre, 20% royalty and 3 year term June 22, 2001 Shane Sanderson signed for package AFE sent 8/8/01
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	C.D. LaSusa	P.O. Box 1808 Corsicana, TX 75151	314.15	0.00521	1.63603	Appears Open	June 22, 2001 Mailed Lease Package by Certified Return Receipt Mail, $100/acre, 20% royalty, 3 year term June 25, 2001 Di Ann Wylie signed for package AFE sent 8/8/01
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	John E. Hansen (Virginia R. Hanson)	Virginia R. Hansen 2510 Frontier Drive Midland, TX 79705	314.15	0.00209	0.65500	Appears Open	John E. Hansen has executed a lease with Petroglyph. but his ex wife has not. Virginia R. Hansen has been sent a lease for $100/acre, 20% and 3 years AFE sent 8/8/01

UNLEASED MINERAL OWNERS
Uintah County, Utah
Pooling and Spacing Hearing
August 22, 2001

Replacement

Tract #	Description	Mineral Owner	Address	Gross Acres	Interest	Net Mineral Acres	Last Lease	Comments
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	Verlie A. Stringham (widow of Kenneth R. Stringham)	c/o Stephen B. Stringham 269 West 300 South Vernal, UT 84078	314.15	0.00042	0.13091	Appears Open	May 16, 2001 Scott Weirich spoke with Kent Stringham and he said he wanted at least 18.75% royalty. June 29 & 30, 2001 Jim Klassen went to see Kent Stringham and was told that he negotiated for all the Stringhams, Catherine Hatch and Sharon Eskelson Boren. Mr Stringham said he would sign the lease for a 20% royalty, but wants changes in the lease including $25/acre shut in rentals. May 16, 2001 Scott Weirich spoke with Kent Stringham and he said he wanted at least 18.75% royalty. June 29 & 30, 2001 Jim Klassen went to see Kent Stringham and was told that he negotiated for all the Stringhams, Catherine Hatch and Sharon Eskelson Boren. Mr Stringham said he would sign the lease for a 20% royalty, but wants changes in the lease including $25/acre shut in rentals. 7/12/2001 A lease was sent to Ms. Verlie A. Stringham McCarrel by certified mail and on 7/14/2001 was signed for by Verlie McCarrel. The lease was for a lump sum of $50, 20% royalty, 5 yrs. AFE sent 8/8/01

UNLEASED MINERAL OWNERS
Uintah County, Utah
Pooling and Spacing Hearing
August 22, 2001

Replacement

Tract #	Description	Mineral Owner	Address	Gross Acres	Interest	Net Mineral Acres	Last Lease	Comments
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	Catherine S. Hatch	c/o Stephen B. Stringham 269 West 300 South Vernal, UT 84078	314.15	0.00042	0.13091	Appears Open	May 16, 2001 Scott Weirich spoke with Kent Stringham and he said he wanted at least 18.75% royalty. June 29 & 30, 2001 Jim Klassen went to see Kent Stringham and was told that he negotiated for all the Stringhams, Catherine Hatch and Sharon Eskelson Boren. Mr Stringham said he would sign the lease for a 20% royalty, but wants changes in the lease including $25/acre shut in rentals. May 16, 2001 Scott Weirich spoke with Kent Stringham and he said he wanted at least 18.75% royalty. June 29 & 30, 2001 Jim Klassen went to see Kent Stringham and was told that he negotiated for all the Stringhams, Catherine Hatch and Sharon Eskelson Boren. Mr Stringham said he would sign the lease for a 20% royalty, but wants changes in the lease including $25/acre shut in rentals. 7/12/2001 A lease was sent to Catherine S. Hatch by certified mail and on 7/14/2001 was signed for by Stephen B. Stringham. The lease was for a lump sum of $50, 20% royalty and 5 years. AFE sent 8/8/01
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	Dorothy Stringham Searle Memorial Trust	c/o Paul Searle 956 South 500 West Vernal, UT 84078	314.15	0.00042	0.13091	Appears Open	May 16, 2001 Scott Weirich spoke with Kent Stringham and he said he wanted at least 18.75% royalty. June 29 & 30, 2001 Jim Klassen went to see Kent Stringham and was told that he negotiated for all the Stringhams, Catherine Hatch and Sharon Eskelson Boren. Mr Stringham said he would sign the lease for a 20% royalty, but wants changes in the lease including $25/acre shut in rentals. 7/16/2001 A lease was sent to Paul M. Searle and Catherine S. Hatch, Trustees by certified mail and on 7/17/2001 was signed for by Nancy Searle. The lease was for a lump sum of $50, 20% royalty and 5 year term. AFE sent 8/8/01

UNLEASED MINERAL OWNERS
Uintah County, Utah
Pooling and Spacing Hearing
August 22, 2001

Replacement

Tract #	Description	Mineral Owner	Address	Gross Acres	Interest	Net Mineral Acres	Last Lease	Comments
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	Paul G. Stringham	1775 South 2935 West Vernal, UT 84078	314.15	0.00042	0.13087	Appears Open	May 16, 2001 Scott Weirich spoke with Kent Stringham and he said he wanted at least 18.75% royalty. June 29 & 30, 2001 Jim Klassen went to see Kent Stringham and was told that he negotiated for all the Stringhams, Catherine Hatch and Sharon Eskelson Boren. Mr Stringham said he would sign the lease for a 20% royalty, but wants changes in the lease including $25/acre shut in rentals. 7/16/2001 A lease was sent to Paul G. Stringham by certified mail and on 7/18/2001 was signed for by Paul Stringham (the signature is hard to read). The lease was for a lump sum of $50, 20% royalty and a 5 year term. AFE sent 8/8/01
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	Florence N. Streeper and/or Nedene S. Jacobsen Family Trust	Florence N. Streeper 1350 Delphic Way Pocatello, ID 83201	314.15	0.00042	0.13087	Appears Open	May 16, 2001 Scott Weirich spoke with Kent Stringham and he said he wanted at least 18.75% royalty. June 29 & 30, 2001 Jim Klassen went to see Kent Stringham and was told that he negotiated for all the Stringhams, Catherine Hatch and Sharon Eskelson Boren. Mr Stringham said he would sign the lease for a 20% royalty, but wants changes in the lease including $25/acre shut in rentals 7/19/2001 A lease was sent to Florence N. Streeper and Nedene S. Jacobson by certified mail and was signed for on 7/21/2001 by Florence N. Streeper. The lease was for a lump sum of $50, 20% royalty and a 5 year term AFE sent 8/8/01

UNLEASED MINERAL OWNERS
Uintah County, Utah
Pooling and Spacing Hearing
August 22, 2001

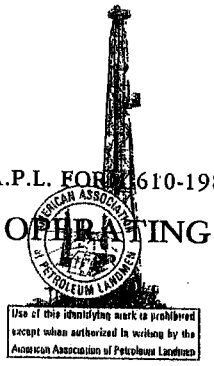
Replacement

Tract #	Description	Mineral Owner	Address	Gross Acres	Interest	Net Mineral Acres	Last Lease	Comments
9	T 4 S, R 2 E, USM Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	Loma Stringham, as Trustee of the Stephen B. Stringham Family Trust	c/o Stephen B. Stringham 269 West 300 South Vernal, UT 84078	314.15	0.00021	0.06544	Appears Open	May 16, 2001 Scott Weirich spoke with Kent Stringham and he said he wanted at least 18.75% royalty. June 29 & 30, 2001 Jim Klassen went to see Kent Stringham and was told that he negotiated for all the Stringhams, Catherine Hatch and Sharon Eskelson Boren. Mr Stringham said he would sign the lease for a 20% royalty, but wants changes in the lease including $25/acre shut in rentals. 7/16/2001 A lease was sent to Ms. Loma Stringham, Trustee by certified mail and was signed for on 7/17/2001 by Loma Stringham. The lease was for a lump sum of $50, 20% royalty and a 5 year term. AFE sent 8/8/01
9	T 4 S, R 2 E, USM . Section 35: Lots 1,2, W/2NE/4, NW/4 (N/2, less mining claim)	Stephen B. Stringham, as Trustee of the Loma Stringham Family Trust	269 West 300 South Vernal, UT 84078	314.15	0.00021	0.06544	Appears Open	May 16, 2001 Scott Weirich spoke with Kent Stringham and he said he wanted at least 18.75% royalty. June 29 & 30, 2001 Jim Klassen went to see Kent Stringham and was told that he negotiated for all the Stringhams, Catherine Hatch and Sharon Eskelson Boren. Mr Stringham said he would sign the lease for a 20% royalty, but wants changes in the lease including $25/acre shut in rentals. 7/16/2001 A lease was sent to Stephen B. Stringham, Trustee by certified mail. The lease was signed for on 7/17/2001 by Stephen Stringham. The lease was for a lump sum of $50, 20% and 5 yrs. AFE sent 8/8/01

APPENDIX "B"

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

AUGUST 22, 2001 ,

OPERATOR EL PASO PRODUCTION OIL & GAS

CONTRACT AREA LELAND BENCH EXTENSION

COUNTY OR PARISH OF UINTAH STATE OF UTAH

El Paso Production Oil & Gas Company
Docket No. 2001-021
Cause No. 247-01
Exhibit "18"

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Coastal Oil & Gas Corporation, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein 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 "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. 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 or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

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

L. **The Term "Holiday" shall mean holidays observed by national banking association in Houston, Texas**

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

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

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

(1) Identification of lands subject to this agreement,

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

(3) Percentages or fractional interests of parties to this agreement,

(4) Oil and gas leases and/or oil and gas interests subject to this agreement,

(5) Addresses of parties for notice purposes.

(6) **Exhibit "A", Plat**

☑ B. Exhibit "B", ~~Form of Lease~~/ **Schedule of Leases**

☑ C. Exhibit "C", Accounting Procedure.

☑ D. Exhibit "D", Insurance.

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

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

☑ ~~G. Exhibit "G", Tax Partnership~~. *** See Exhibit H.**

If any provision of any exhibit, except Exhibits "E" and ~~"G"~~/ **"H"**, is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

* **H. Exhibit "H", Notice of Memorandum of Operating Agreement and Financing Statement.**

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of existing burdens which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulatedhereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party 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.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to beinclud-ed, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, 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 party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ ~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part ofthe administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

ARTICLE IV
continued

☐ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each 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. Operator shall be responsible for the preparation and recording of pooling designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit 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 parties who are to participate in the drilling of the well.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest 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 whose oil and gas lease or interest is affected by the title failure 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 theretofore 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 interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost;

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

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, 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 third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

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, is not paid or is erroneously paid, and as a result a lease or interest therein 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 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., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease 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. In the event 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 interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and,

(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 interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

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

D. Drilling Contracts:

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.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the_____day of_____, 19____, Operator shall commence the drilling of a well for oil and gas at the following location:

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

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

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

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, recomplete, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then capable of producing in paying quantities, the party desiring to drill, rework, recomplete, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the party wishing 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, recomplete, plug back or drill deeper 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 receiving such notice 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 notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible 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 at the risk and expense of all parties hereto; 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. Notwithstanding the forcemajeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties inaccordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1.or VII.D.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, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible 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: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. 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 the Consenting 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 receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

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, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, recompleted, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,

ARTICLE VI
continued

and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, completing, recompleting / deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 300% / ____ % of that portion of the costs and expenses of drilling, reworking, recompleting / deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 100% % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion 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 Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during therecoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during suchrecoupment period, the provisions of this Article VI.B. shall beapplicable as between said Consenting Parties in said well.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted byArticle III.D.*

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

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the totalsreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

* Gas production attributable to any Non-Consenting Party's relinquished interest shall be sold at the election of the Consenting Party to either the Consenting Party's purchaser under its gas sales contract, or to the Non-Consenting Party's purchaser (and if to the Non-Consenting Party's purchaser), such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Party until the amounts provided for in this Article arerecoverd from the Non-Consenting Party's relinquished interest.

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

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, completing, recompleting, deepening and plugging back of such initial well after if has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, recompleting, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein call "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

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

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand by costs shall be allocated between the parties taking additional time to respond on a day-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 the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the 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.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the production ~~/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 at the best price / ~~obtainable in the area for such production.~~ Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of production 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.

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 sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with the gas balancing agreement between the parties hereto, ~~whether such an agreement is~~ attached as Exhibit "E" ~~, or is a separate agreement~~.

D. Access to Contract Area and Information:

Each Consenting Party / ~~party shall~~ have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs and tests / , tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the Information.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened 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. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt 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 shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B. ***

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 well which has been completed as a producer shall 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. If, within thirty (30) days after receipt 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 interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign 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 well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. ~~If the interest of the abandoning party is or includes an 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 interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit~~

* If not otherwise informed, to purchase such party's share of production

** reasonably obtainable under the circumstances, but never below the price Operator is receiving for its share of such production,

*** 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 such well (including restoration of the surface for which the abandoning parties shall remain proportionately liable.

"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. There shall be no readjustment of interests in the remaining portion 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 interval or intervals 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 agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned ~~or leased~~, the assignor ~~or lessor~~ shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E. *

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. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or a joint venture or agency relationship to / ~~to~~ render the parties liable as partners, co-venturers, or principals.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator 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 Operator 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 Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) 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. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security ~~r~~ights described in the foregoing paragraph.

C. Payments and Accounting:

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.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the 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 within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

* As to any well excepted from Article VI. E. 1 or VI. E. 2, the Consenting Parties shall plug and abandon the portion of the well to which the Non-Consenting operation applied, at their sole cost, risk and expense.

☐ ~~Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.~~

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2.of this agreement. Consent to the reworking or plugging back of a well shall include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of fifty thousand Dollars ($ 50,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood 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 authority for expenditure (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 twenty thousand Dollars ($ 20,000.00) but less than the amount first set forth above in this paragraph.

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

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment 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 Article IV.B/ 3, 2.

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

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for advalorem 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 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in advalorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, 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 in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint 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 provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's 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 to and made a part hereof. Operator shall require all contractors engaged and subcontractors in work on or for the Contract Area to comply with the workmen's 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 public 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 VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. ~~If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".~~ Upon such assignment ~~or lease~~, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned ~~or leased~~ and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned ~~or leased~~ premises and its equipment and production other than 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~~ the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned ~~or leased~~ acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment ~~or lease~~ is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, ~~lease~~ or surrender made under this provision shall not reduce or change the assignor's, ~~lessor's~~ or surrendering party's interest as it was immediately before the assignment, ~~lease~~ or surrender in the balance of the Contract Area; and the acreage assigned, ~~leased~~ or surrendered, and subsequent operations thereon, shall ~~not thereafter~~ be subject to the terms and provisions of this agreement as set forth below in Article VII. D.

B. Renewal or Extension of Leases:

If any party secures a renewal or extension or option of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of ~~thirty (30)~~ fifteen (15) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

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

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

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

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party receives ~~contracts~~ for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions parties participating in the costs of all operations required to earn the contribution actually paid for. * provided however, the response period shall be limited to forty-eight (48) hours inclusive of Saturdays, Sundays and legal banking holidays in the event a well is drilling on the Contract Area

~~said Drilling Parties shared the cost of drilling the well.~~ /-Such acreage shall become a separate Contract Area and, to the extent possible, be 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 a well drilled inside the Contract Area. The right to participate in any optional rights earned shall belong only to those parties who participated in all operations to drill the well earning such optional rights.

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. Maintenance of Uniform Interests:

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

~~1. the entire interest of the party in all leases and equipment and production; or~~

~~2. an equal undivided interest in all leases and equipment and production in the Contract Area.~~

~~Every such~~ /Any 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.~~

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:~~

~~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 sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, 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 receipt of the notice, to purchase 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 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, 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 Federal Regulations 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 Internal Revenue Code of 1986, 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.

* Any such acreage outside the Contract Area in which the interests earned by the parties is not in the same proportions as set forth in Exhibit "A"

** of oil and gas leasehold interests covered by this agreement or in any well(s) equipment or production within or attributable to the Contract Area made by any party shall be expressly subject to this agreement and shall be made without prejudice to the right of the other parties, and shall not be effective as to the other parties until written acceptance of the terms hereof by the acquiring party has been provided to the other Parties. In the event that a disposition or acquisition of interest within the Contract Area should

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed twenty-five thousand ($ 25,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. Dollars

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

All notices / authorized or required **requests, consents and statements** between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex ortelecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex ortelecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

☒ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal, or otherwise.*

☐ ~~Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of _____ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within _____ days from the date of abandonment of said well.~~

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

*and shall continue in force thereafter until all material, equipment, supplies, and property affected thereby have been salvaged or disposed of and until final settlement of accounts has been made by the parties.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

~~Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications orother information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.~~

ARTICLE XV.
OTHER PROVISIONS

A. BILLING ADDITIONAL INTERESTS.

Notwithstanding anything to the contrary contained in this Operating Agreement, the parties agree that in no event shall Operator be required to make more than one billing per billing period for the entire interest credited to each party in Exhibit A. If any party hereto (the Selling party) disposes of part of the interest credited to it in Exhibit A, it shall remain primarily liable to the other parties for the interest or interests assigned and shall make prompt payment to Operator for the entire amount of statements and billings rendered to it. Such Selling party shall be solely responsible for billing its assignee or assignees. If a Selling party disposes of all of its interest as set out in Exhibit A, Operator shall continue to issue statements and billings to the Selling party for the interest conveyed until such time as Selling party has qualified a single assignee (whether the assignment is to one or several assignees) to receive the billing for the entire interest. To qualify as assignee to receive and assume primary liability for the billing for the entire interest credited to Selling party in Exhibit A , Selling party shall furnish to Operator the following:

(1) Written notice of the conveyance and copies of the assignments by which the transfer was made;

(2) The name and address of the assignee to be billed; and

(3) A written statement signed by such assignee in which it consents to be bound by the terms and provisions of the Operating Agreement and agrees to receive and assume primary liability for statements and billings for the entire interest credited to Selling party together with such party's agreement to handle any sub-billings made necessary by any division of the interest credited to Selling party in Exhibit A.

B. OPERATIONS NECESSARY TO MAINTAIN LEASE

Notwithstanding the provisions of Article VI of this Operating Agreement, if any proposed operations are necessary to maintain in full force and effect either a lease or an agreement to earn an interest in a lease that would otherwise expire within six (6) months, any party that elects not to participate in such operations (the "Non-Consenting Party") shall not be penalized pursuant to Article VI.B.2 (a) and (b) of this Operating Agreement, but shall assign all of its right in and to such lease(s) to each party that elects to participate in such operations (the "Consenting Party"), in the proportion that each Consenting Party's interest bears to the total interest of all Consenting Parties, all of such Non-Consenting Party's right, title, and interest in and to the acreage covered by the lease or agreement that otherwise would be lost if such operations are not conducted. Thereafter, such acreage shall not be subject to

the terms of this Operating Agreement, but shall be deemed to be subject to an operating agreement identical hereto, modified only to reflect the ownership of the Consenting Parties and their respective percentage interests.

C. PAYMENT OF ROYALTIES

Operator shall act as paying agent on behalf of Non-Operators for the payment of all royalties, overriding royalties, and other burdens upon or payable out of production from the Contract Area to the extent that such burdens are in existence as of the effective date of this Operating Agreement (the "Existing Burdens"), and shall submit evidence of each payment to the Non-Operators as soon after the date of such payment as is practicable. The amounts of such payments shall be charged by Operator to the joint account of the parties. Operator shall diligently attempt to make proper payment, but Operator shall not be liable in damages to Non-Operators for the loss of any lease or interest therein or otherwise if, through mistake or oversight, such payments are not paid or are erroneously paid. The loss of any lease or interest therein that results from the failure to pay or an erroneous payment of any lessor's royalty payable with respect to production from the Contract Area shall be a joint loss borne by the parties in accordance with the interests shown on Exhibit "A", and there shall be no readjustment of interests in the remaining portion of the Contract Area. If any party secures a new lease covering the terminated interests, such acquisition shall be subject to the provisions of Article VIII.B of this Operating Agreement. Subject to the provisions of Article III.D hereof, if the interest of any party in any lease covered by this Operating Agreement becomes subject to a "Subsequently Created Interest", as that term is defined in Article III.D, the burdened party shall assume and alone bear all such obligations and shall account for, or cause to be accounted for, such interest to the owners thereof. No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

D. PAYMENT OF DELAY RENTALS, SHUT-IN ROYALTY, AND MINIMUM ROYALTY

Operator shall act as the paying agent on behalf of Non-Operators for the payment of all delay rentals, shut-in well payments, and minimum royalties that may be required under the terms of the leases and subject evidence of each payment to the other parties. Each party shall notify the others, in writing, at least thirty (30) days prior to the date any rental payment is due in the event that such party elects not to participate in the payment thereof. In the event, any party elects not to participate in a rental payment, and the other parties elect to participate therein, then the party desiring not to participate shall promptly execute and deliver to the parties desiring to participate in such rental payment an assignment of such non-participating party's right, title and interest in and to such lease or leases (but free of any lease burdens and/or encumbrances placed on such lease or leases by such party), and if the assignment is in favor of more than one party the assigned interest shall beowned by the participating parties in the proportions that the interest of each bears to the interest of such non-participating party unless otherwise agreed to in writing. Thereafter, such acreage covered by said assignment shall no longer be subject tothis agreement, but shall be deemed to be subject to an agreement identical to this agreement, changed only to reflect the proper owners, lands covered and ownership percentages. The amount of such payment, as well as all costs incurred by Operator in making such payments, shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Contract Area. Operator shall diligently attempt to make, or cause to be made, proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental, shut-in well payment, or minimum royalty is not paid or is erroneously paid. The loss of any lease or interest therein that results from failure to pay or an erroneous payment of rental, shut-in well payments, or minimum royalties shall be a joint loss borne by the parties in accordance with the interests shown on Exhibit "A", and there shall be no readjustment of interests in the remaining portion of the Contract Area. If any party secures a new lease covering the terminated interests, such acquisition shall be subject to the provisions of Article VIII.B of this Operating Agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Contract Area is shut-in and the reasons therefor.

E. SEQUENCE OF FURTHER OPERATIONS

Notwithstanding anything to the contrary contained in this Operating Agreement, in the event a well drilled under the terms hereof has achieved the authorized depth or objective formation an the parties participating in such well cannot agree on the sequence and timing of further operations regarding such well, the following elections shall control in the order enumerated below:

(1) an election to conduct additional logging, coring or testing operations;

(2) an election to attempt to complete the well at the thus authorized depth or objective formation;

(3) an election to plug back and attempt to complete the well at a depth above the authorized depth or objective formation;

(4) an election to deepen the well;

(5) an election to sidetrack the well; and

(6)an election to plug the well.

It is provided, however, that if at any time while the participating parties are considering the above elections the hole is in such a condition that, in the opinion of the Operator (in accordance with the standards of a reasonable and prudent operator), that the Operator should decline to conduct the operations contemplated by the particular election for fear of placing the hole in jeopardy or losing the hole prior to completing the well at the authorized depth or objective formation, such election shall not be given the priority here in above set forth. In such event, the operation that is less likely to jeopardize the condition of the hole, in the opinion of a majority of interests of the participating parties, will be conducted. If a clear majority of interests of the participating parties cannot agree as to whether or not such operations may jeopardize the hole, then the Operator's opinion shall prevail.

F. TAXES ON PRODUCTION TAKEN IN KIND OR PURCHASED BY OPERATOR

At and during such time or times as any Non-Operator is exercising the right to take in kind or separately dispose of such Non-Operator's proportionate share of the production set forth in Article VI.C., above, such Non-Operator shall pay or arrange for the payment of all production, severance, gathering and other taxes imposed upon or with respect to such production. At and during such time or times as Operator is purchasing or selling such Non-Operator's proportionate share of the production as set forth in Article VI.C. above, Operator shall pay or arrange for the payment of all production, severance, gathering and other taxes imposed upon or with respect to such production.

G. LIMITATION ON EFFECTIVENESS OF SUBSEQUENTLY CREATED INTERESTS

If the owner of an interest from which a subsequently created interest (as defined in Article III.D) is derived fails to pay, when due, its share of expenses chargeable hereunder, the lien and security interest granted the other parties hereto under the provisions of Article VII.B. shall cover and affect such subsequently created interest and the rights of the parties hereto shall be the same as if such subsequently created interest had not been created.

If the owner of the interest from which a subsequently created interest is derived elects to abandon a well under the provisions of Article VI.E. hereof or elects to surrender a lease (or portion thereof) under the provisions of Article VIII.A. hereof, and, as a result thereof, becomes obligated to assign all or a portion of such interest to one or more of the other parties hereto, such assignment shall be free and clear of such subsequently created interest.

The owner creating any subsequently created interest shall indemnify and hold the other parties hereto harmless from any claim or cause of action by the owner of such subsequently created interest arising as a result of such other parties becoming entitled to the production attributable to such subsequently acquired interests under the provisions of this agreement.

H. SALE OR ASSIGNMENT OF INTEREST

The terms, covenants, provisions, and conditions of this Operating Agreement shall be covenants running with the lands and leasehold estates included within the Contract Area and covered hereby. Any assignment of an interest in the Contract Area covered hereby shall expressly be made subject to all of the terms, covenants, provisions, and conditions of this Operating Agreement, and any parties so assigning such interests in the Contract Area shall promptly give notice of such an assignment to Operator. No such assignment shall be binding on any other party hereto until thirty (30) days after the assigning party shall have furnished to all parties hereto a certified copy of the recorded instrument or instruments evidencing the same. A sale or assignment of interest by any party will not relieve or release such party of its obligations hereunder which were incurred prior to the effective date of such conveyance, including, without limitation, payment of all monies due and accounts accruing out of the development and operation of the lease(s) subject hereto.

I. CONFLICT

In the event of a conflict between the provisions of this Article XV and any other provision of this Operating Agreement, the provisions of this Article XV shall control and prevail.

J. LAW

In the event this Agreement or any provision hereof is or the operations contemplated hereby are found to be inconsistent with or contrary to any law, rule, regulation or order, the latter shall be deemed to control and this Agreement shall be regarded as modified accordingly, and as so modified, to continue in full force and effect. Operator shall prepare and furnish to any duly constituted authority having jurisdiction in the premises through its proper agency or department any and all reports, statements and information that may be requested when such reports are required to be filed by Operator.

K. INFORMATION

Operator shall inform Non-Operators of its recommendation for drilling, completing, testing, equipping, including building of facilities, in enough time to allow Non-Operators to provide their input regarding these operations. Operator shall, throughout the course of all operations conducted hereunder, keep Non-Operators fully informed with respect thereto, and shall furnish to all parties participating in the operations involved in such well copies of all daily drilling reports, well logs, State and Federal reports, and samples of cores and cuttings taken from such well (to be delivered at the well in containers furnished by the party requesting same. If multiple copies of any such material are requested by a participating party, Operator may charge the cost thereof directly to the requesting party. Non-Operators shall be notified in sufficient time prior to logging, coring or testing in order to have the opportunity of having their representatives present. Non-Operators and its duly authorized agents, employees, and representatives, at such party's sole risk, liability and expense, shall have access to the derrick floor of each well in which such party is participating in such operations.

L. PAYMENT OF TAXES

To the extent allowed by law, Operator shall pay or cause to be paid all taxes, either State or Federal, except Windfall Profits Taxes, owning or which may be payable on production from the Contract Area, whether in the form of a severance or production tax; provided, however, if at any time any party is taking its share of production in kind or separately disposing of its share of production, such party shall pay or cause to be paid said taxes as to such production.

M. DEFAULT NON-CONSENT PROVISIONS

If any party (including Operator) fails to pay its share of costs and expenses on or before one hundred and twenty (120) days following the date that the payment is due, the Operator (or any Non-Operator if Operator is the delinquent party) may deliver a written notice of default. If such default continues for a period of twenty (20) days following delivery of such notice of default, then any party not in default may deliver a Notice of Relinquishment to the defaulting party to the following effect:

a. If the default involves the drilling of a new well or the plugging back, reworking or deepening (including sidetracking) of a well which is to be or has been plugged as a dry hole or for the sidetracking, testing, completion, recompletion or equipping of any well, the defaulting party will be deemed to have elected not to participate in the operation and to be a non-consenting party with respect thereto under Article VI (to the extent of the costs and expenses subsequent to the Notice of Relinquishment), notwithstanding any election to participate theretofore made. Such non-consenting party shall also be deemed to have relinquished to the consenting parties (without right of reversion) any interest which was to be earned by performance of the contemplated or ongoing operation.

b. The defaulting party shall be relieved of the obligation to share further expenses for the operation subsequent to the date of the Notice of Relinquishment; however, the delivery of such Notice of Relinquishment to the defaulting party shall not terminate the rights of the non-defaulting party to exercise any other remedy available to them for such default including, without limitation, a suit for recovery of the amount in default and for the recovery of consequential damages caused by such default. During the period of such default and until such time as a recovery of the amount in default is obtained by the non-defaulting party, the non-defaulting party may suspend the defaulting party's right to receive well information, the right to receive notices of and to participate in acquisitions within the Contract Area and the right to receive notices of future operations. The non-defaulting party may also suspend the defaulting party's right to access as described in Article XV. O.

c. Any interest relinquished pursuant to this Article XV. S., shall be owned by the non-defaulting party and the non-defaulting party shall assume the defaulting party's share of the ownership and obligations in proportion to their interest.

d. Notwithstanding anything to the contrary contained in this Article XV. S., in the event any party hereto disputes in good faith an invoice or statement that is the subject of a default and notice has been given pursuant to the provisions hereof, such party may avoid the imposition of the remedies for such default contained in the Operating Agreement by paying the undisputed amount to the Operator and paying the disputed amount into an account at a bank requiring the signatures of both such party and the Operator (or, if the Operator is the party in default, a Non-Operator designated by the Non-Operators) in order to release such funds. Such funds, or portions thereof, shall be released to the party entitled thereof upon the resolution of the issue raised by the objecting party.

N. BANKRUPTCY

If, following the granting of relief under Bankruptcy Code to any party hereto as debtor thereunder, this Operating Agreement should be held to be an executory contract within the meaning of 11 U.S.C. Section 365, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party, shall be entitled to a determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code as to the rejection or assumption of this Operating Agreement. If this Operating Agreement is assumed by the debtor, the other party shall be entitled to:

a. a prompt cure of the debtor's default,

b. adequate assurances as to the future performance of the debtor's obligations pursuant to this Operating Agreement and

c. adequate assurances as to the protection of the interest of the other party to this Operating Agreement.

O. CONFIDENTIALITY

Not withstanding anything contained herein to the contrary, all well information shall be the property of the participating parties to such operation from which such information is derived. For a period of one (1) year from the date of rig release from such well, the participating parties agree to keep such information confidential and the information shall not be sold, traded, disclosed described or copied for or by any third party without the unanimous consent of the participating parties during such one (1) year

period. The non-participating parties to such operation shall not be entitled to receive any information from the non-consented operation and shall not have access to the derrick floor of the drilling rig as previously provided herein.

The parties agree that any and all jointly acquired proprietary and trade seismic , geological and geophysical data, including but not limited to, work product derived from such data, with respect to the Contract Area acquired during the term of this Operating Agreement shall be treated as confidential. During such term, such data shall not be shown, conveyed, furnished, given or sold to third parties without the prior written consent of all participating parties, provided however, that these restrictions shall not apply to information which:

(1) the parties specifically agree to be excluded from this provision;
(2) is required to be furnished by any governmental laws or regulations or governmental agency;
(3) is furnished to a lender by a party arranging for financing from such a lender;
(4) is available to the public
(5) is required to be furnished to Lessors pursuant to the terms and conditions of an oil and gas lease subject to the Contract Area;
(6) was in the possession of a party prior to the proposed acquisition of such information hereunder.

With respect to information required to be kept confidential hereunder, each party shall require lenders to whom such information is furnished to agree in writing to maintain such information confidential. Each party shall take all reasonable steps to require its authorized agents, employees and representatives to be bound by the provisions of this Article XV. U., in the same manner it is bound hereunder.

P. FINANCING STATEMENT

The parties hereto agree to simultaneously with the execution of this Operating Agreement execute inrecordable form an original Memorandum of Operating Agreement and Financing Statement, said document to be in substantially the form attached hereto as Exhibit "H". Operator shall place of record in the appropriate county an original of such Memorandum and promptly provide all non-operators with a copy ofsame. The parties shall have a continuing obligation to execute additional memoranda of the Operating Agreement to accurately reflect the then current properties covered by such agreement and the current working interest of the parties.

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19_____.

OPERATOR

_____ _____

NON-OPERATORS

_____ _____

_____ _____

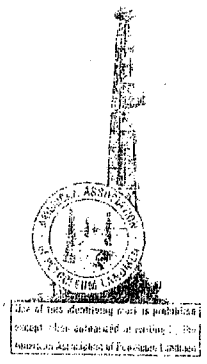


EXHIBIT "C"

Attached to and made a part of ~~the Unit Operating Agreement for the Kennedy Wash Unit Area, Uintah County, Utah~~

ACCOUNTING PROCEDURE

JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

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

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

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within ~~fifteen~~thirty (~~15~~30) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within ~~fifteen~~thirty (~~15~~30) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Citibank, New York, New York on the first day of the month in which delinquency occurs plus ~~1~~2% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. **Audits**

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. **Approval By Non-Operators**

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Ecological and Environmental**

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

2. **Rentals and Royalties**

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

3. **Labor**

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation or the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

4. **Employee Benefits**

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

5. Material

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

6. Transportation

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

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is $400 or less excluding accessorial charges. The $400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

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

8. Equipment and Facilities Furnished By Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

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

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. Taxes

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 7300
(Prorated for less than a full month)

Producing Well Rate $ 730

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

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

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

(b) Producing Well Rates

(1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

_____Percent (_____%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

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

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

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

2. **Overhead - Major Construction**

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

Account for overhead based on the following rates for any Major Construction project in excess of $ 25,000.00 :

A. 5_____ % of first $100,000 or total cost if less, plus

B. 3_____ % of costs in excess of $100,000 but less than $1,000,000, plus

C. 2_____ % of costs in excess of $1,000,000.

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

3. Catastrophe Overhead

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

A. 5_____ % of total costs through $100,000; plus

B. 3_____ % of total costs in excess of $100,000 but less than $1,000,000; plus

C. 2_____ % of total costs in excess of $1,000,000.

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

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line Pipe movements (except size 24 inch OD) and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

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

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

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

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

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

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

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

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

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. **Premium Prices**

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

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

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

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

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

2. **Reconciliation and Adjustment of Inventories**

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. **Special Inventories**

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

4. **Expense of Conducting Inventories**

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

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

During the term of this Agreement, as same may be amended from time to time, Operator shall maintain insurance covering operations on the Contract Area, as follows:

A. Worker's Compensation, including Occupational Disease Insurance and (where applicable) protection for liability under the Federal Longshoremen's and Harbor Workers' Compensation Act, as amended, including protection with respect to the extension of this Act under the Outer Continental Shelf Lands Act, in accordance with the statutory requirements of the state(s) in which all work is to be performed hereunder, the state(s) in which Operator's employees reside, and the state(s) in which Operator is domiciled.

Employer's Liability Insurance, and where applicable, coverage for liability under the Jones Act, Death on the High Seas Act and the General Maritime Law, with limits of not less than $500,000 each person/each accident and shall cover the location of all work places involved.

B. Comprehensive General Liability insurance with minimum limits of at least $1,000,000 combined single limit per occurrence for bodily injury and property damage. This policy shall be endorsed to provide blanket contractual liability, products and completed operations, owner's and contractor's protective liability, pollution liability, broad form property damage and deletion of the "X", "C", and "U" exclusions. This policy shall contain a severability of interest clause or a standard cross-liability endorsement, and shall be endorsed to name Non-operator as an additional named insured.

C. Automobile Public Liability and Property Damage Insurance, including owned, hired, rented or non-owned automotive equipment, with combined single limit each occurrence of $1,000,000.

Any party hereto may elect to carry its own insurance coverage at its own expense, and be excluded from the coverage described in B and C above. Such an election may be made by presenting to Operator proof of insurance coverage, or a letter of self insurance.

As respect to the coverages specified in items A and C above, Operator reserves the right, at its sole option, to elect to maintain insurance policies providing for retrospective premiums or insurance policies requiring periodic advance premium payments and Operator's election hereunder may be exercised at any time and from time to time as long as such policies contain the above specified limits.

As respect to the coverage in item B above, such coverage maintained by Operator for the benefit of the parties not electing to carry their own insurance has a $100,000. deductible, which may be amended at any time at the discretion of the Operator.

All premiums and expenses of the insurance of the types hereinabove described which is procured, carried, and maintained by Operator, for the benefit of parties not electing to carry their own insurance shall be charged to the Joint Account, including any retrospective premiums charged to the Operator, for any reason, at any time, notwithstanding the prior termination of the agreement to which this Exhibit "D" is attached. Operator may, at its sole discretion, elect not to charge the Joint Account any retrospective premium without prejudice to its rights to make a contrary election at any time and from time to time thereafter.

Except for such insurance as is required hereinabove, Operator shall not carry any other insurance for the benefit of the Non-Operator(s). Each party hereto shall be responsible for insuring their interest in any jointly owned property and for any losses not covered by the hereinabove described insurance.

Operator shall require all contractors and subcontractors to maintain insurance of types and with limits deemed appropriate by Operator to the work to be performed.

END OF EXHIBIT "D"

NOTE: Instructions For Use of Gas Balancing Agreement MUST be reviewed before finalizing this document.

EXHIBIT "E"
GAS BALANCING AGREEMENT ("AGREEMENT")
ATTACHED TO AND MADE PART OF THAT CERTAIN
OPERATING AGREEMENT DATED

1. DEFINITIONS

The following definitions shall apply to this Agreement:

1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are representative of prices and delivery conditions existing under other similar agreements in the area between unaffiliated parties at the same time for natural gas of comparable quality and quantity.

1.02 "Balancing Area" shall mean (select one):

☒ each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a single well is completed in two or more producing intervals, each producing interval from which the Gas production is not commingled in the wellbore shall be considered a separate well.

☐ ~~all of the acreage and depths subject to the Operating Agreement.~~

☐ _____

1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced from the Balancing Area during each month.

1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel, recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic foot of space at a standard pressure base and at a standard temperature base.

1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.

1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the event this Agreement is not employed in connection with an operating agreement, the individual or entity designated as the operator of the well(s) located in the Balancing Area.

1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than the Percentage interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors, transferees and assigns.

1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the Balancing Area pursuant to the Operating Agreement covering the Balancing Area.

1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding royalties, production payments or similar interests.

1.14 "Underproduced Party", shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

~~1.16 ☐ (Optional) "Winter Period" shall mean the month(s) of _____ in one calendar year and the month(s) of _____ in the succeeding calendar year.~~

2. BALANCING AREA

2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in ~~(Alternative 1) ☐ Mcfs or~~ (Alternative 2) ☒ MMBtus.

2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

3. RIGHT OF PARTIES TO TAKE GAS

3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other

requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this Agreement.

3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production.

3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the Balancing Area bear to the total Percentage Interests of such Parties.

3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party.

3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum Monthly Availability; provided, however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof 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 year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party.

4. IN-KIND BALANCING

4.1 Effective the first day of any calendar month following atleast fifteen (15) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying fifty percent (50 %) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than fifty percent (50 %) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

~~4.2 ☐ (Optional - Seasonal Limitation on Makeup - Option 1) Notwithstanding the provisions of Section 4.1, the average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the _____ (_____) months immediately preceding the Winter Period.~~

~~4.2 ☐ (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than _____ percent (_____%) of its Full Share of Current Production for Makeup Gas during the Winter Period.~~

~~4.3 ☐ (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to _____ percent (_____%) of such Overproduced Party's Full Share of Current Production.~~

5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within forty-five (45) days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No.24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

5.2 If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the required data.

6. PAYMENTS ON PRODUCTION

6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas actually taken by such Party.

~~6.2 ☐ (Alternative 1 - Entitlements) Each Party shall pay or cause to be paid all Royalty due with respect to Royalty~~

owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of Current Production.

6.2.1 ☐ (Optional - For use only with Section 6.2 - Alternative 1 - Entitlement) Upon written request of a Party taking less than its Full Share of Current Production in a given month ("Current Underproducer"), any Party taking more than its Full Share of Current Production in such month ("Current Overproducer") will pay to such Current Underproducer an amount each month equal to the Royalty percentage of the proceeds received by the Current Overproducer for that portion of the Current Underproducer's Full Share of Current Production taken by the Current Overproducer; provided, however, that such payment will not exceed the Royalty percentage that is common to all Royalty burdens in the Balancing Area. Payments made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners for purposes of Section 7.5.

6.2 ☑ **(Alternative 2 - Sales)** Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to whom it is accountable based on the volume of Gas actually taken for its account.

6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date required by such governmental authority, and the method provided for herein shall be thereby superseded.

7. CASH SETTLEMENTS

7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology set out in Section 7.4.

7.3 ☐ (Alternative 1 - Direct Party to Party Settlement) Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash settlement, accompanied by appropriate accounting detail. At the time of payment, the Overproduced Party will notify the Operator of the Gas imbalance settled by the Overproduced Party's payment.

7.3 ☑ **(Alternative 2 - Settlement Through Operator)** Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will send its cash settlement, accompanied by appropriate accounting detail, to the Operator. The Operator will distribute the monies so received, along with any settlement owed by the Operator as an Overproduced Party, to each Underproduced Party to whom settlement is due within ninety (90) days after issuance of the Final Gas Settlement Statement. In the event that any Overproduced Party fails to pay any settlement due hereunder, the Operator may turn over responsibility for the collection of such settlement to the Party to whom it is owed, and the Operator will have no further responsibility with regard to such settlement.

7.3.1 ☐ (Optional - For use only with Section 7.3, Alternative 2 - Settlement Through Operator) Any Party shall have the right at any time upon thirty (30) days' prior written notice to all other Parties to demand that any settlements due such Party for Overproduction be paid directly to such Party by the Overproduced Party, rather than being paid through the Operator. In the event that an Overproduced Party pays the Operator any sums due to an Underproduced Party at any time after thirty (30) days following the receipt of the notice provided for herein, the Overproduced Party will continue to be liable to such Underproduced Party for any sums so paid, until payment is actually received by the Underproduced Party.

7.4 ☑ **(Alternative 1 - Historical Sales Basis)** The amount of the cash settlement will be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the Overproduced Party in excess of the Overproduced Party's Full Share of Current Production. Any Makeup Gas taken by the Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the order of accrual.

7.4 ☐ (Alternative 2 - Most Recent Sales Basis) The amount of the cash settlement will be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the volume of Gas that constituted Overproduction by the Overproduced Party from the Balancing Area. For the purpose of implementing the cash settlement provision of the Section 7, an Overproduced Party will not be considered to have produced any of an Underproduced Party's share of Gas until the Overproduced Party has produced cumulatively all of its Percentage Interest share of the Gas ultimately produced from the Balancing Area.

7.5 The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the Gas by the Overproduced Party, calculated at the Balancing Area, after deducting any production or severance taxes paid and any Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of the Overproduction.

7.5.1 ☐ (Optional - For Valuation Under Percentage of Proceeds Contracts) For Overproduction sold under a gas purchase contract providing for payment based on a percentage of the proceeds obtained by the purchaser upon resale of residue gas and liquid hydrocarbons extracted at a gas processing plant, the values used for calculating cash settlement will include proceeds received by the Overproduced Party for both the liquid hydrocarbons and the residue gas attributable to the Overproduction.

7.5.2 ☐ (Optional - Valuation for Processed Gas - Option 1) For Overproduction processed for the account of the Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the full quantity of the Overproduction will be valued for purposes of cash settlement at the prices received by the Overproduced Party for the sale of the residue gas attributable to the Overproduction without regard to proceeds attributable to liquid hydrocarbons which may have been extracted from the Overproduction.

7.5.2 ☐ (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash settlement will include the proceeds received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from the Overproduction, less the actual reasonable costs incurred by the Overproduced Party to process the Overproduction and to transport, fractionate and handle the liquid hydrocarbons extracted therefrom prior to sale.

7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the

Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be based on the spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing bulletin.

7.7 Interest compounded at the rate of zero percent (0 %) per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1 beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.

7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.

~~7.9 ☐ (Optional – For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental authority.~~

~~7.10 ☐ (Optional – Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30) days after the settlement is made.~~

8. TESTING

Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only after thirty (30) days' prior written notice to the Operator and shall last no longer than seventy-two (72) hours.

9. OPERATING COSTS

Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in proportion to its Percentage Interest in the Balancing Area.

10. LIQUIDS

The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated for the joint account in accordance with their Percentage Interests in the Balancing Area.

11. AUDIT RIGHTS

Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not limited to information regarding Btu-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

12. MISCELLANEOUS

12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the Operating Agreement, the provisions of this Agreement shall govern.

12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party, (other than Operator) to pay any amounts owed pursuant to the terms hereof.

12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives

and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

12.6 In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a typed, printed or handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be made concerning the intent of the Parties in such event. In the event that any "Alternative" provision of this Agreement is not so adopted by the Parties, Alternative 1 in each such instance shall be deemed to have been adopted by the Parties as a result of any such omission. In those cases where it is indicated that an Optional provision may be used only if a specific Alternative is selected: (i) an election to include said Optional provision shall not be effective unless the Alternative in question is selected; and (ii) the election to include said Optional provision must be expressly indicated hereon, it being understood that the selection of an Alternative either expressly or by default as provided herein shall not, in and of itself, constitute an election to include an associated Optional provision.

12.7 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any such person or entity.

12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the Balancing Area.

~~12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all Parties, each Party agrees to compute and report income to the Internal Revenue Service (select one) ☐ as if such Party were taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same relate to entitlement method tax computations; or ☐ based on the quantity of Gas taken for its account in accordance with such regulations, insofar as same relate to sales method tax computations.~~ SEE SECTION 14.2 BELOW

13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

13.1 Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall cause its assignee or other transferee to assume its obligations hereunder.

~~13.2 ☐ (Optional — Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement (including but not limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are Parties hereto in such Balancing Area of such fact at least _____ (_____) days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within _____ (_____) days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60) days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance with the provisions of Section 13.1 hereof.~~

13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

14. OTHER PROVISIONS

14.1 By the signing of the Operating Agreement to which this Exhibit "E" is attached, it is the intent of each party of the signatory parties hereto, to be bound by the terms and provisions of this Gas Balancing Agreement.

14.2 In accordance with IRS Regulation Section 1.761-2 (d) (2) (I), all Parties agree to use the cummulative ga balancing method as described in Internal Revenue Service Regulation Section 1.761-2 (d) (3) to compute and report taxable income.

14.3 In the event there is nay conflict between the provisions of the Operating Agreement and the provisios of this Gas Balancing Agreement attached as Exhibit "E" thereto, the provisions of this Gas Balancing Agreement shall control and prevail.

14.4 This Gas Balancing Agreement shall cover the leases set forth in Exhibit "B" to the Operating Agreement.

15. COUNTERPARTS

This Agreement may be executed in counterparts, each of which when taken with all other counterparts shall constitute a binding agreement between the Parties hereto; provided, however, that if a Party or Parties owning a Percentage Interest in the Balancing Area equal to or greater than a _____ percent (_____%) therein fail(s) to execute this Agreement on or before _____, this Agreement shall not be binding upon any Party and shall be of no further force and effect.

IN WITNESS WHEREOF, this Agreement shall be effective as of the _____ day of _____, _____.

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. _____

ACKNOWLEDGMENTS

Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual acknowledgment:

State of _____)

) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

Acknowledgment in representative capacity:

State of _____)

) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____ as

_____ of _____.

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN JOINT OPERATING AGREEMENT DATED FEBRUARY 14, 2001, AND ATTACHED AS EXHIBIT "I" TO THAT CERTAIN EXPLORATION AGREEMENT BY AND BETWEEN COASTAL OIL & GAS CORPORATION, AS OPERATOR, AND ARMSTRONG RESOURCES, LLC AND MILLER, DYER & COMPANY, LLC, AS NON-OPERATORS.

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

If this is attached to an Operating Agreement, the term Contractor shall refer to the Operator thereunder. If this is attached to a Farmin or Farmout Agreement the term Contractor shall refer to the Farmee thereunder.

A. Equal Opportunity Clause (41 CFR 60-1.4)

During the performance of this Agreement, Contractor agrees as follows:

(1) Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training including apprenticeship. Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this non-discrimination clause.

(2) Contractor will, in all solicitations or advertisements for employees places by or on behalf of Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

(3) Contractor will send to each labor union or representative or workers with which Contractor has a collective bargaining agreement or other contract or understanding, a notice advising the labor union or workers' representatives of Contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) Contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) Contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the Secretary of Labor and his representatives for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of Contractor's non-compliance with the non-discrimination clauses of this Agreement or with any of the such rules, regulations, or orders, this Agreement may be cancelled, terminated or suspended in whole or in part and Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) Contractor will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including the sanctions for non-compliance; provided, however, that in the event Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, Contractor may request the United Sates to enter into such litigation to protect the interests of the United States.

B. Employee Information Reports(41 CFR 601.7)

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within 30 days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file

such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder.

C. Affirmative Action Programs (41 CFR 60-1.40)

Operator further acknowledges that Operator may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Company with a copy of such program if so requests.

D. Certification of Nonsegregated Facilities (41 CFR 60-1.8)

Contractor certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause in this Agreement. As used in this certification, the term "segregated facilities" means, any waiting room, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom, or otherwise. Contractor's policies and practices must assure appropriate physical facilities to both sexes. It further agrees that (except where Operator has obtained identical certifications from proposed contractors and subcontractors for specific time periods) it will obtain identical certifications from proposed contractors and subcontractors prior to the award of contracts or subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed contractors and subcontractors (except where the proposed contractors or subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certificate of Nonsegregated Facilities as required by the May 21, 1968, order on Elimination of Segregated Facilities by the Secretary of Labor (33 Fed.Reg.7804, May 28, 1968) must be submitted prior to the award of a contract or subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each contract and subcontract or for all contracts and subcontracts during a period (i.e., quarterly, semiannually, or annually). (Note: The penalty for making false statement in offers is prescribed in 18 U.S.C.1001.)

E. Listing of Employment Openings (41 CFR 50-250)

Contractor agrees to comply with the rules and regulations of the Department of Labor concerning the listing of employment openings, including the contract clause set forth in 41 CFR 50-250.2, which clause is incorporated herein by reference. Operator also agrees to place the foregoing provision in any subcontract directly under this Agreement.

F. Employment of Handicapped Individuals

In employing persons to carry out this Agreement, Contractor will take affirmative action to employ and advance in employment qualified handicapped individuals as defined in Section 7(6) of the Federal Rehabilitation Act of 1973.

END OF EXHIBIT "F"

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

If this is attached to an Operating Agreement, the term Contractor shall refer to the Operator thereunder. If this is attached to a Farmin or Farmout Agreement the term Contractor shall refer to the Farmee thereunder.

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(2) Contractor will, in all solicitations or advertisements for employees places by or on behalf of Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

(3) Contractor will send to each labor union or representative or workers with which Contractor has a collective bargaining agreement or other contract or understanding, a notice advising the labor union or workers' representatives of Contractor's commitments under Section .202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

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(5) Contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the Secretary of Labor and his representatives for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of Contractor's non-compliance with the non-discrimination clauses of this Agreement or with any of the such rules, regulations, or orders, this Agreement may be cancelled, terminated or suspended in whole or in part and Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

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such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder.

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F. Employment of Handicapped Individuals

In employing persons to carry out this Agreement, Contractor will take affirmative action to employ and advance in employment qualified handicapped individuals as defined in Section 7(6) of the Federal Rehabilitation Act of 1973.

END OF EXHIBIT "F"

CERTIFICATE OF MAILING

I hereby certify that I caused a true and correct copy of the foregoing "Findings of Fact, Conclusions of Law, and Order" for Forced Pooling in Docket No. 2001-021, Cause No. 247-01 to be mailed with postage prepaid, this 9th day of November, 2001, to the following:

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Ute Indian Tribe
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Attn: Robert A. Henricks
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Salt Lake City, UT 84109

Kale R. Webster
P. O. Box 61227
San Angelo, TX 76906

David J. Callister and Jennifer Callister,
or their successors as Trustees of the
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Salt Lake City, UT 84109

Karl Wallace
1035 East 5625 South
Ogden, UT 84405

Diana C. Peterson
1078 Oak Hills Way
Salt Lake City, UT 84108

Loma Stringham, Trustee of the
Stephen B. Stringham Family Trust
c/o Stephen B. Stringham
269 West 300 South
Vernal, UT 84078

Dorothy Stringham Searle Memorial Trust
c/o Paul Searle
956 South 500 West
Vernal, UT 84078

Mark A. Chapman
P. O. Box 450
Sealy, TX 77474

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338 East Shamrock Drive
Murray, UT 84107

Paul G. Stringham
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Duane J. Magee, aka Duane Magee
Main Street
Hospers, IA 51238

William D. Callister, Jr.
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Salt Lake City, UT 84109

Petroglyph Operating Company
aka Petroglyph Gas Partners, L.P.
aka Petroglyph Energy, Inc.
410 17th Street, Suite 1230
Denver, CO 80202

Wells Fargo Bank, Trustee (Undeliverable)
Thomas E. Jeremy Family Trust
Attn: Trust Department
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Salt Lake City, UT 84111

Ronald E. Slover
3614 Royal Road
Amarillo, TX 79109

Earl Ray West
3107 Metz Drive
Midland, TX 79705

Wesley Chalfant
P. O. Box 3123
Midland, TX 79702

Florence N. Streeper Family Trust
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Pocatello, ID 83201

Sharon Eskelson Boren
P. O. Box 477
Vernal, UT 84078

Forest Oil Corporation
1600 Broadway, Suite 2200
Denver, CO 80202

Stanley J. Callister
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George G. Staley
500 West Illinois Avenue, Suite 100
Midland, TX 79701

Stephen B. Stringham, Trustee of the
Loma Stringham Family Trust
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Vernal, UT 84078

Genevieve J. Callister
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Salt Lake City, UT 84109

T. B. O'Brien
2 Lazy Wood Lane
Midland, TX 79705

H. James Gordon, as Trustee FBO the
Rose Anne C. Gordon Testamentary Trust
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Rexburg, ID 83440

Theodore M. Fergeson,
aka Ted M. Fergeson
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Midland, TX 79702

Hope W. Loftis,
aka Hope W. Hoover (Undeliverable)
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Verlie A. Stringham
c/o Stephen B. Stringham
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J. Hiram Moore, Ltd.
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Midland, TX 79702

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Trustees of the Verna B. Melville Trust
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Beckley, WV 25801

W. F. Roden
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Jimmy Raffoul
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P.O. Box 45155
Salt Lake City, UT 84145-0155

Diane Holland

BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF EL PASO PRODUCTION OIL & GAS COMPANY FOR AN ORDER ESTABLISHING 640-ACRE DRILLING UNITS FOR LANDS IN THE LELAND BENCH AREA IN TOWNSHIP 4 SOUTH, RANGE 2 EAST, U.S.M., FOR THE PRODUCTION OF OIL AND GAS FROM THE MESA VERDE AND MANCOS FORMATIONS; AND TO FORCE POOL THE INTERESTS OF ALL OWNERS REFUSING OR FAILING TO AGREE TO LEASE THEIR INTERESTS OR OTHERWISE BEAR THEIR PROPORTIONATE SHARE OF THE COSTS OF DRILLING AND PRODUCTION OPERATIONS FOR THE LELAND BENCH #35-12 WELL AND UTE TRIBAL #26-41 WELL (FORMERLY KNOWN AS THE ARMSTRONG NOS. 1 AND 3 WELLS), AND OTHER WELLS, TO BE DRILLED ON THE LANDS IN UINTAH COUNTY, UTAH

FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER

Docket No. 2001-021

Cause No. 247-01

This cause came on regularly for hearing before the Board of Oil, Gas and Mining (the "**Board**") on Wednesday, July 25, 2001, at 11:00 a.m., in the Council Chambers of the Roosevelt Municipal Building, at 255 South State Street, Roosevelt, Utah.

The following Board members present and participating in the hearing were: Chairman Elise L. Erler, W. Allan Mashburn, James Peacock, Kent R. Petersen, Robert J. Bayer, and

Douglas E. Johnson. John R. Baza, Associate Director for Oil and Gas of the Division of Oil, Gas and Mining (the "**Division**") was present and participated in the hearing.

Phillip Wm. Lear, of Snell & Wilmer L.L.P. appeared on behalf of El Paso Production Oil & Gas Company (**"El Paso"**), and Brian L. Haley, Curtis P. Conrad, and John B. Auman appeared as witnesses for El Paso. Charles H. Cameron, appeared for the Bureau of Indian Affairs. Ferron Secakuku appeared for of the Ute Indian Tribe. Chris H. Denver appeared on behalf of the Ute Distribution Corporation. Assad Raffoul, Michael Colthard, and Edwin I. Forsman appeared on behalf of the Bureau of Land Management. Steven A. Malnar and Mark B. Oberhansly appeared pro se.

Kurt E. Seel, Esq., Assistant Attorney General, represented the Board.

NOW THEREFORE, the Board, having fully considered the testimony adduced and the exhibits received at the hearing, and being fully advised in the premises, makes and enters its Findings of Fact, Conclusions of Law, and Order, as follows:

FINDINGS OF FACT

1. The Board mailed notice of the hearing to interested parties on July 3, 2001, and caused notice to be published in the *Deseret News* and in the *Salt Lake Tribune* on July 8, 2001, and in the *Vernal Express* on July 4, 2001.

2. El Paso mailed photocopies of the Request for Agency Action on June 11, 2001, to the last known address of all owners having interests in the area to be spaced, by certified mail, return receipt requested.

3. El Paso is a Delaware corporation in good standing having its principal place of business in Houston, Texas. El Paso is authorized to do, and is doing, business in the State of Utah. El Paso is the successor to Coastal Oil & Gas Corporation by virtue of a name change.

4. At the hearing the Board granted El Paso's Motion to Bifurcate the matter and to continue until the regularly scheduled August 2001 hearing that portion of the Request for Agency Action pertaining to the forced pooling application.

5. El Paso is the operator of wells currently drilling, permitted, or proposed on lands that are the subject matter of the Request for Agency Action.

6. El Paso owns or control working interests in the lands and wells which are the subject matter of the Request for Agency Action.

7. The lands sought to be spaced are situated in Uintah County, Utah, and are more particularly described, as follows:

Township 4 South, Range 2 East, U.S.M.

Section 25: All
Section 26: Lots 1,2,3,4,5,6,7,8,9, 10,11,12, NW¼NE¼, NE¼NW¼, NW¼SW¼, S½SW¼, SW¼SE¼, and patented lode mining claims known as:

Canyon (M.S. 5520)
Ouray No.1 (M.S. 5521)
Ouray No.2 (M.S. 5521)
(All)

Section 35: Lots 1,2,3,4,5,6,7,8,9,10, W½NE¼, NW¼, including surveyed, but unpatented mining claims (All)

Section 36: Lots 1,2,3,4,5,6,7,8, NE¼NE¼, S½NE¼, E½NW¼, NW¼NW¼ SE¼, and patented lode mining claims known as:

Little Boy No. 1 (M.S. 6245)
Little Boy No. 2 (M.S. 6249)
Big Gem (M.S. 5541)
Little Seam #1 (M.S. 5959)
Little Seam #2 (M.S. 6243)
(All)

(hereinafter **"Subject Lands).**

8. The Subject Lands are Ute Indian Tribal lands and private (fee) lands comprising agricultural homestead or cash entry patented lands and patented mining claims.

9. The Subject Lands are currently governed by the general well-location and siting rules set forth in the Utah Administrative Code R649-3-2(1) (2001), authorizing a well to be drilled for production in the center of a 40 acre public land survey quarter-quarter section or equivalent lot with a tolerance of 200 feet in any direction from the center location.

10. No wells have been drilled to or currently produce from the interval to be spaced.

11. El Paso brought this application in advance of drilling a discovery well to prevent the inequities occasioned by non-consenting and unleased owners refusing to pay their prorata share of costs of wells and operations drilled and conducted in advance of formal spacing.

12. The Subject Lands are underlain by the Mesa Verde and Mancos formations, customarily known in the area to contain a common source of supply from which oil and natural gas can be produced.

13. The interval sought to be spaced comprises the Mesa Verde and Mancos formations, easily-identifiable stratigraphic horizons throughout the Uinta Basin (**"Spaced Interval"**).

14. Spacing patterns for the Spaced Interval in the Subject Lands should comprise 640–acre drilling units conforming to public land survey sections or equivalent lands adjusted for declination, survey errors, or patented lode mining claims.

15. Wells drilled on the Subject Lands to produce from the Spaced Interval should be as centrally located within each governmental section as practically possible, to be determined by the Division during the administrative processing of submitted Applications for Permit to Drill.

16. The maximum area that can be efficiently and economically drained by one well from the Spaced Interval underlying the Subject Lands is 640 acres.

17. Only one well producing from the Spaced Interval should be permitted for each drilling unit.

18. Production of oil, gas, and associated hydrocarbons from the Spaced Interval in the Subject Lands will promote the public interest, increase ultimate recovery, prevent waste, and protect the correlative rights of all owners.

CONCLUSIONS OF LAW

1. The Board has jurisdiction of the parties and of the subject matter of the Second Request for Agency Action, as amended, pursuant to Chapter 6 of Title 40 of the *Utah Code Annotated.*

2. The Division gave due and regular notice of the time, place, and purpose of the hearing to all interested parties as required by law and by the rules and regulations of the Board.

3. El Paso properly served all owners entitled to notice by mailing copies of the Request for Agency Action, as amended, to those owners having legally protected interests.

4. The Subject Lands are currently governed by the general well-location and siting rules set forth in the Utah Administrative Code Rule R649-3-2(1) (2001), authorizing a well to be drilled for production of oil and gas in the center of a 40 acre public land survey quarter-quarter section or equivalent lot with a tolerance of 200 feet in any direction from the center location.

5. Entry of a spacing order in advance of a discovery well in the Spaced Interval in the Subject Lands is appropriate under the circumstances of this case, which is the potential of non-consenting owners, primarily unleased joint tenants, to obtain an unjust and unreasonably large benefit of production from a successful well without bearing their just and reasonable share of the costs and of the exploration risks of a successful well.

6. Six hundred forty-acre drilling units are not smaller than the maximum area within the Subject Lands that can be efficiently and economically drained by one production well from the Spaced Interval.

7. Six hundred forty–acre drilling units are of a uniform size and shape across the Subject Lands.

8. The reasons for seeking a spacing order and the terms and conditions sought by El Paso's Request for Agency Action are just and reasonable.

9. An order establishing drilling units on 640-acre patterns for the production of oil, gas, and associated hydrocarbons from the Spaced Interval in the Subject Lands will promote the

public interest, increase ultimate recovery, prevent waste, and protect the correlative rights of all owners, including El Paso.

ORDER

IT IS THEREFORE ORDERED that to promote the public interest, to increase the ultimate recovery of the resources, to prevent physical waste of oil, gas, and associated hydrocarbons, and to protect the correlative rights of all owners:

A. El Paso's Request for Agency Action is granted as to that portion of the Request for Agency Action seeking spacing of the Mesa Verde and Mancos formations in the following described lands in Uintah County, Utah:

Township 4 South, Range 2 East, U.S.M.

Section 25: All
Section 26: Lots 1,2,3,4,5,6,7,8,9, 10,11,12, NW¼NE¼, NE¼NW¼, NW¼SW¼, S½SW¼, SW¼SE¼, and patented lode mining claims known as:

Canyon (M.S. 5520)
Ouray No.1 (M.S. 5521)
Ouray No.2 (M.S. 5521)
(All)

Section 35: Lots 1,2,3,4,5,6,7,8,9,10, W½NE¼, NW¼, including surveyed, but unpatented mining claims (All)

Section 36: Lots 1,2,3,4,5,6,7,8, NE¼NE¼, S½NE¼, E½NW¼, NW¼NW¼ SE¼, and patented lode mining claims known as:

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Little Boy No. 2 (M.S. 6249)
Big Gem (M.S. 5541)
Little Seam #1 (M.S. 5959)
Little Seam #2 (M.S. 6243)
(All)

B. Drilling units shall comprise 640-acre public land survey sections or an equivalent combination of lots or mining claims, for the lands and intervals so spaced.

C. The permitted well within each drilling unit shall be as centrally located within each governmental section as practically possible, to be determined by the Division during the administrative processing of submitted Applications for Permit to Drill.

D. Administrative approval may be granted for exception well locations for topographic, environmental, and archaeological considerations and when "no surface occupancy" stipulations imposed by the landowners (lessors) prohibit drilling at a legal location, without the necessity of a full hearing before the Board.

E. In order to ascertain the accuracy and appropriateness of the geologic and engineering evidence and the conclusions supporting the spacing herein established, El Paso shall within 30 days of the completion of drilling for each well compile all drilling information obtained from the well and meet with the staff of the Division to review such information and to determine what additional production and engineering data are needed and the timetable for obtaining the additional data. In the event the evidence from the wells indicates a different well-spacing is justified than the one established by this Order, El Paso, the Division, interested third parties, or the Board on its own motion may seek a modification of the Order to conform with the newly determined evidence.

F. The Board has considered and decided this matter as a formal adjudication, pursuant to the Utah Administrative Procedures Act, Utah Code Ann. §§ 63–46b–6 through –10 (1993), and of the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641 (2001).

G. This Findings of Fact, Conclusions of Law, and Order (**"Order"**) is based exclusively upon evidence of record in this proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, as required by the Utah Administrative Procedures Act, Utah Code Ann. § 63–46b–10 (1997), and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641–109 (2001); and constitutes a final agency action as defined in the Utah Administrative Procedures Act and Board rules.

H. **Notice of Right of Judicial Review by the Supreme Court of the State of Utah.** The Board hereby notifies all parties to this proceeding that they have the right to seek judicial review of this Order by filing an appeal with the Supreme Court of the State of Utah within 30 days after the date this Order is entered. Utah Code Ann. § 63–46b–10(f) (1997).

I. **Notice of Right to Petition for Reconsideration.** As an alternative, but not as a prerequisite to judicial review, the Board hereby notifies all parties to this proceeding that they may apply for reconsideration of this Order. Utah Code Ann. § 63–46b–10(e) (1997). The Utah Administrative Procedures Act provides:

> (1) (a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63–46b–12 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request

> for reconsideration with the agency, stating the specific grounds upon which relief is requested.
> (b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.
> (2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.
> (3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.
> (b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Utah Code Ann. § 63–46b–13 (1997).

The Rules of Practice and Procedure before the Board of Oil, Gas and Mining entitled "Rehearing and Modification of Existing Orders" state:

> Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of that month.

Utah Admin. Code R641–110–100 (2001).

The Board hereby rules that should there be any conflict between the deadlines provided in the Utah Administrative Procedures Act and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the aggrieved party may seek judicial review of the order by perfecting an appeal with the Utah Supreme Court within 30 days thereafter.

J. The Board retains exclusive and continuing jurisdiction of all matters covered by this Order and of all parties affected thereby; and specifically, the Board retains and reserves exclusive and continuing jurisdiction to make further orders as appropriate and authorized by statute and applicable regulations.

K. The Chairman's signature on a facsimile copy of this Order shall be deemed the equivalent of a signed original for all purposes.

ENTERED this 7th day of September, 2001.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

Elise L. Erler, Chairman

CERTIFICATE OF MAILING

I hereby certify that I caused a true and correct copy of the foregoing "Findings of Fact, Conclusions of Law, and Order" in Docket No. 2001-021, Cause No. 247-01 to be mailed with postage prepaid, this 13 day of September, 2001, to the following:

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Diane Holland

BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH

FILED

AUG 08 2001

SECRETARY, BOARD OF OIL, GAS & MINING

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF EL PASO PRODUCTION OIL & GAS COMPANY FOR AN ORDER ESTABLISHING 640-ACRE DRILLING UNITS FOR LANDS IN THE LELAND BENCH AREA IN TOWNSHIP 4 SOUTH, RANGE 2 EAST, USM, FOR THE PRODUCTION OF OIL AND GAS FROM THE MESA VERDE AND MANCOS FORMATIONS; AND TO FORCE POOL THE INTERESTS OF ALL OWNERS REFUSING OR FAILING TO AGREE TO LEASE THEIR INTERESTS OR OTHERWISE BEAR THEIR PROPORTIONATE SHARE OF THE COSTS OF DRILLING AND PRODUCTION OPERATIONS FOR THE LELAND BENCH #35-12 WELL AND UTE TRIBAL #26-41 WELL, AND OTHER WELLS, TO BE DRILLED ON THE LANDS IN UINTAH COUNTY, UTAH.

ORDER BIFURCATING HEARING AND CONTINUING FORCED POOLING APPLICATION

Docket No. 2001-021

Cause No. 247-01

This matter having come on to be heard at the regularly scheduled July 25, 2001 hearing; the Board of Oil, Gas and Mining having considered the Answer of Unleased Mineral Owner Dusty Sanderson, the oral motion of Bureau of Indian Affairs to continue, and El Paso Production Oil & Gas Company's Motion to Bifurcate filed herein, seeking a continuance of that portion of the hearing pertaining to the forced pooling of interests only; and being fully advised in the premises;

IT IS HEREBY ORDERED that the spacing application of the Request for Agency Action is to be heard on Wednesday, July 25, 2001, as scheduled, and the forced pooling application of the Request for Agency Action will be, and hereby is, continued to the regularly scheduled hearing date on Wednesday, August 22, 2001, at 10:00 a.m. in the Board Room of the Department of Natural Resources, 1594 West North Temple, Suite 1050, Salt Lake City, Utah.

For all purposes, the Chairman's signature on a faxed copy of this Order shall be deemed the equivalent of a signed original.

DATED this 8th day of August, 2001, effective July 25, 2001.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

Elise L. Erler, Chairman

CERTIFICATE OF MAILING

I hereby certify that I caused a true and correct copy of the foregoing "Order Bifurcating Hearing and Continuing Forced Pooling Application" in Docket No. 2001-021, Cause No. 247-01 to be mailed with postage prepaid, this 10 day of August, 2001, to the following:

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